Consolidated financial statements

Contents

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

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 2018 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 IFRSs as adopted by the European Union 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.

We have audited the financial statements of Nostrum Oil & Gas PLC which comprise:

Group	**Parent company**
Consolidated statement of financial position as at 31 December 2018	Statement of financial position as at 31 December 2018
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	Statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 16 to the financial statements including a summary of significant accounting policies
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 41 to 44 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 39 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 directors' statement set out on page 118 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
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 45 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.

Overview of our audit approach

Key audit matters	• Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation ('DD&A') and the 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 four components across the United Kingdom, Belgium, and Kazakhstan, and audit procedures on specific balances for a further five components across the United Kingdom, the Netherlands, Russia and Kazakhstan. • The components where we performed full or specified procedures accounted for full coverage of Profit before tax, EBITDA, Revenue and Total assets.
Materiality	• Overall group materiality of $6.7m which represents 3% of EBITDA.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation ('DD&A') and the decommissioning provision Refer to the Audit Committee Report on page 66; the estimates, assumptions and judgements on page 124 and the disclosures in note 7 of the Consolidated Financial Statements (page 134) This was a significant risk due to the subjective nature of reserves estimates and the pervasive impact on the financial statements through impairment, DD&A calculations and the decommissioning provision. Reserves are also considered a fundamental indicator of the future potential of the Group's performance and its ability to continue as a going concern. 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. The risk has increased compared with the prior year.	Our audit procedures have focused on management's estimation process, including whether bias exists in determination of reserves. We assessed 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 enquiry of their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists, to satisfy ourselves that 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 available. 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 the appropriate period, and in compliance with relevant industry standards; and • validated that the updated reserves estimates were included appropriately in the Group's consideration of impairment, in accounting for DD&A and determination of decommissioning dates.	Based on audit procedures performed we consider that the reserves estimations are reasonable for use in impairment testing, management's going concern assessment, calculation of DD&A and the determination of decommissioning dates.
	We performed full scope audit procedures over this risk area in one location (Kazakhstan).	

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td>The risk of impairment of exploration licenses, goodwill and oil & gas development and production fixed assets
Refer to the Audit Committee Report on page 66; the estimates, assumptions and judgements on page 126 and the disclosures in notes 5 to 8 of the Consolidated Financial Statements (pages 133 to 136).
Impairment charge in 2018 of US$150,000 thousand.
At 31 December 2018 the carrying value of goodwill was nil (2017: US$32,425 thousand); exploration licenses: US$50,241 thousand (2017: US$47,828 thousand); oil & gas development and production assets, including non-current advances: US$1,895,431 thousand (2017: US$1,910,752 thousand).
Owing to the continued oil price volatility combined with technical and operational challenges that arose during the year, there is a related risk of impairment.
Accounting standards require management to test goodwill for impairment annually.
We focused on this area due to the significance of the carrying value of the Cash Generating Unit ('CGU') containing goodwill, the current economic environment and the judgement involved in the key assumptions of the future prices of oil, natural gas and related products the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes. Changes to any of these key inputs could lead to a potential impairment.
The risk has increased compared with the prior year.</td><td>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;
• enquired 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; and
• compared the commercial viability of the exploration fields to the cash-flow forecast models.
In addressing the risk of impairment for Goodwill and oil & gas development and production fixed assets we utilised our valuation specialists and evaluated management's impairment assessment by testing 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 above 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; and
• evaluated the appropriateness of the financial statement disclosures.</td><td>We consider that management's estimates are reasonable with the most sensitive assumptions falling within an expected range. 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 long-term oil and gas prices. The pre-tax discount rate is within the range of our expectations.
Based on the results of audit procedures performed, we concluded that the impairment charge was reasonable.
We concluded that the related disclosures provided in the Group's financial statements are appropriate.</td></tr>
<tr><td></td><td>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 full coverage of the risk amount.</td><td></td></tr>
</table>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition Refer to the Audit Committee Report on page 66; The Summary of significant accounting policies in page 132 and the disclosures in note 20 of the Consolidated Financial Statements (page 143) Revenue for the year ended 31 December 2018 amounts to US$389,927 thousand (2017: US$405,533 thousand). Revenue sales include crude oil, gas condensate, dry gas and liquefied petroleum gas (‘LPG’). There is the risk of management manipulation to overstate or understate revenue. This could be achieved by potentially recording sales in an incorrect period. The risk has remained consistent with the prior year.	Our component team in Kazakhstan performed procedures to walkthrough and understand the process and 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 their terms, we also performed procedures that are designed to address the risk of manipulation of accounting records and the ability to override controls. We have: • tested a sample of third party evidence to verify revenue transactions are recorded appropriately, this included inspection of sales contracts with customers and delivery documents. We performed substantive audit procedures on cash accounts to verify cash collection from customers; • analysed the entire population of revenue transactions and identified revenue journals for which the corresponding entry was not posted against trade debtors and trade debtors not cleared through cash. From the outstanding debtor accounts identified, we confirmed the material debtors balances with the relevant counterparties as well as tested that debtors amounts were received subsequent to year-end; • tested the appropriateness of journal entries impacting revenue, using data extracted from the accounting system, as well as other adjustments made in the preparation of the financial statements; • 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; and • evaluated the financial statement disclosures for compliance with the requirements of accounting standards.	We consider that Revenue is recognised consistently with the terms of sales agreements. We also consider the financial statements disclosures with respect to Revenue to fulfil the requirements of the accounting standards.
	We performed full scope audit procedures over this risk area in one location (Kazakhstan). By performing these procedures we obtained full coverage of the risk amount.	
Completeness of related party transactions (“RPT”) and related disclosures Refer to the Audit Committee Report on page 66 and the disclosures of related party transactions in note 30 of the Group Financial Statements (page 150) Transactions with related parties mainly comprise transactions between the subsidiaries of the Company and entities controlled by the shareholders with significant influence over the Group. Given the significant monetary amounts involved we consider RPTs and related disclosures to be a significant risk. The risk has remained consistent with the prior year.	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 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; and • verified the completeness of disclosures in the financial statements.	Based on the procedures performed, we did not detect any undisclosed related party transactions.
	In addressing this risk, audit procedures were performed by the component teams in Kazakhstan and Belgium and the Group engagement team.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
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. We also specifically considered any potential impact on impairment. The risk has remained consistent with the prior 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. Using our analytics tools 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.
	In addressing this risk, audit procedures were performed by the component team in Kazakhstan and the Group engagement team. We tested manual and automated journal entries for four components where we performed full scope audit.	

An overview of the scope of our audit

Tailoring the scope

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. 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.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 10 reporting components of the Group, we selected 9 components covering entities within the Netherlands, Belgium, Russia, United Kingdom and Kazakhstan, which represent the principal business units within the Group.

Of the 9 components selected, we performed an audit of the complete financial information of four components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("specified procedures scope components") we performed procedures on the existence and valuation of cash balances and the completeness and measurement of payroll and general and administrative expenses. The audit scope for specified procedures are those where we perform procedures that address only specific account assertions rather than the account balance as a whole.

The four full scope components account for 100% of the Group's revenue and 102% of the Group's EBITDA. The EBITDA coverage of 112% represents one full scope component having a positive contribution of 112% offset by three full scope components having a negative contribution of 10%. The specified procedures scope locations do not have income generating activities and we audited cash, payroll, general and administrative expenses, and other current liabilities.

The remaining one component has a contribution of less than 1% of the Group's EBITDA. For this component, we performed other procedures, including analytical review, inquiries and testing of consolidation journals and intercompany eliminations to address any residual risk of material misstatement to the Group financial statements.

Changes from the prior year

We changed scope for one entity from specific scope to full due to the size and the risk. The entity has a full year finance cost charge (2017: only half year) and includes a new material derivative financial instrument in 2018.

Also, we changed scope for three entities from specific scope to specified procedures because no overall risk associated with entities was identified; risk is limited to completeness of costs and cash balances.

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 two full scope components in Kazakhstan and Belgium, where the work was performed by component auditors, 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.

During the current year's audit cycle, we held a global audit team event led by the Senior Statutory Auditor, where the primary audit team and the component teams considered the audit risk and strategy. In the course of the year the Senior Statutory Auditor met and communicated at least quarterly with the engagement partner of the component team in Kazakhstan and discussed key audit matters. The primary audit team visited the component team in Kazakhstan to attend the component closing meeting with local management, visited the operating field and the GTU3 construction site and reviewed key working papers. The primary team was ultimately responsible for the scope and direction of the audit process. Video and telephone conference meetings were also held with the component teams in Kazakhstan and Belgium throughout the current year's audit cycle. The primary team interacted regularly with the component teams during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. 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.

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 $6.7 million (2017: $6.5 million), which is 3% (2017: 3%) of EBITDA. EBITDA is a key performance indicator for the Group and is also a key metric used by the Group in the assessment of the performance of management. We also noted that market and analyst commentary on the performance of the Group uses EBITDA as a key metric. We therefore, considered EBITDA to be the most appropriate performance metric on which to base our materiality calculation as we considered that to be the most relevant performance measure to the stakeholders of the Group.

We determined materiality for the parent company to be $1.0 million (2017: $975 thousand), which is 1% (2017: 1%) of total assets.

Performance materiality

The 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.

Based on our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely $3.35m (2017: $3.25m). 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 $1m to $3m (2017: $0.3m to $2.4m).

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 uncorrected audit differences in excess of $0.35m (2017: $0.3m), 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.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 101, including the Strategic Report and Corporate Governance sections, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 101** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 66** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee / the explanation as to why the annual report does not include a section describing the work of the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 54** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 101, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority requirements) and the relevant subsoil use and tax compliance regulations.
- We understood how Nostrum Oil & Gas PLC is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by utilising internal and external information to perform a fraud risk assessment for each of the countries of operation.
- We considered the risk of fraud through management override and, in response, we incorporated data analytics across manual journal entries into our audit approach. Our procedures included testing of transactions back to source information and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on the results of our risk assessment we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business; enquiries of legal counsel and group management.
- If any instance of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures supplemented by audit procedures performed at the group level.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation of the Audit Committee we were re-appointed by the Company's Annual General Meeting (AGM) on 5 June 2018, as auditor of the Company to hold office until the conclusion of the next AGM of the Company, and signed an engagement letter on 17 September 2018. Our total uninterrupted period of engagement is five years covering periods from our appointment through to the period ended 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to Nostrum Oil & Gas PLC or the parent company and we remain independent of Nostrum Oil & Gas PLC and the parent company in conducting the audit.

Our audit opinion is consistent with our additional report to the AC explaining the results of our audit.

Use of our report

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.

Ernst & Young LLP

Richard Addison
(Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London, 25 March 2019

Notes:

1. The maintenance and integrity of the Nostrum Oil & Gas PLC 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 statement of financial position

In thousands of US dollars	Notes	31 December 2018	31 December 2017
NON-CURRENT ASSETS			
Exploration and evaluation assets	6	**50,241**	47,828
Goodwill	5	**-**	32,425
Property, plant and equipment	7	**1,919,662**	1,941,894
Restricted cash	12	**7,021**	6,663
Advances for non-current assets	8	**15,466**	14,598
Total Non-current assets		**1,992,390**	2,043,408
CURRENT ASSETS			
Inventories	9	**29,583**	29,746
Trade receivables	10	**35,732**	34,520
Prepayments and other current assets	11	**20,014**	27,103
Income tax prepayment		**-**	3,380
Cash and cash equivalents	12	**121,753**	126,951
Total Current assets		**207,082**	221,700
TOTAL ASSETS		**2,199,472**	2,265,108
SHARE CAPITAL AND RESERVES	13		
Share capital		**3,203**	3,203
Treasury capital		**(1,660)**	(1,660)
Retained earnings and reserves		**555,456**	668,010
Total Share capital and reserves		**556,999**	669,553
NON-CURRENT LIABILITIES			
Long-term borrowings	15	**1,093,967**	1,056,541
Abandonment and site restoration provision	16	**21,894**	23,590
Due to Government of Kazakhstan	17	**5,280**	5,466
Deferred tax liability	28	**400,981**	381,595
Total Non-current liabilities		**1,522,122**	1,467,192
CURRENT LIABILITIES			
Current portion of long-term borrowings	15	**35,633**	31,337
Employee share option plan liability	26	**55**	2,086
Trade payables	18	**52,876**	56,855
Advances received		**394**	1,279
Income tax payable		**679**	499
Current portion of due to Government of Kazakhstan	17	**1,031**	1,031
Other current liabilities	19	**29,683**	35,276
Total Current liabilities		**120,351**	128,363
TOTAL EQUITY AND LIABILITIES		**2,199,472**	2,265,108

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
Chief Executive Officer

Tom Richardson
Chief Financial Officer

The accounting policies and explanatory notes on pages 116 through 155 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

In thousands of US dollars	Notes	For the year ended 31 December 2018	2017
Revenue			
Revenue from export sales		**296,034**	262,767
Revenue from domestic sales		**93,893**	142,766
	20	**389,927**	405,533
Cost of sales	21	**(165,145)**	(177,246)
Gross profit		**224,782**	228,287
General and administrative expenses	22	**(22,212)**	(33,303)
Selling and transportation expenses	23	**(49,984)**	(66,441)
Taxes other than income tax	24	**(29,702)**	(19,967)
Impairment charge	5,7	**(150,000)**	-
Finance costs	25	**(49,383)**	(59,752)
Employee share options - fair value adjustment	26	**1,320**	2,099
Foreign exchange loss, net		**(978)**	(688)
Loss on derivative financial instruments	29	**(12,387)**	(6,658)
Interest income		**514**	374
Other income		**4,374**	4,071
Other expenses	27	**(8,504)**	(22,055)
(Loss)/profit before income tax		**(92,160)**	25,967
Current income tax expense		**(12,251)**	(13,883)
Deferred income tax expense		**(16,284)**	(35,966)
Income tax expense	28	**(28,535)**	(49,849)
Loss for the year		**(120,695)**	(23,882)
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		**(895)**	825
Other comprehensive (loss)/income for the year		**(895)**	825
Total comprehensive loss for the year		**(121,590)**	(23,057)
Loss for the year attributable to the shareholders (in thousands of US dollars)		**(120,695)**	(23,882)
Weighted average number of shares		**185,234,079**	185,068,917
Basic and diluted earnings per share (in US dollars)		**(0.65)**	(0.13)

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

The accounting policies and explanatory notes on pages 116 through 155 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

In thousands of US dollars	Notes	For the year ended 31 December 2018	2017
Cash flow from operating activities:			
Profit before income tax		**(92,161)**	25,967
Adjustments for:			
Depreciation, depletion and amortisation	21, 22	**117,081**	122,986
Impairment charge	5,7	**150,000**	-
Finance costs	25	**49,383**	59,752
Employee share option plan fair value adjustment		**(2,031)**	(2,099)
Interest income		**(514)**	(374)
Net foreign exchange differences		**34**	(1,541)
Loss on write-off of property, plant and equipment		**1,712**	1,285
Payments under derivative financial instruments	29	**(8,649)**	-
Loss on derivative financial instruments	29	**12,387**	6,658
Provision for doubtful debts		**(116)**	1,756
Accrued expenses		**-**	3,046
Operating profit before working capital changes		**227,126**	217,436
Changes in working capital:			
Change in inventories		**163**	1,561
Change in trade receivables		**(1,212)**	(5,468)
Change in prepayments and other current assets		**7,664**	(5,733)
Change in trade payables		**(3,183)**	(4,555)
Change in advances received		**(886)**	(531)
Change in due to Government of Kazakhstan		**(1,031)**	(1,289)
Change in other current liabilities		**(5,538)**	(1,597)
Payments under Employee share option plan		**-**	(1,162)
Cash generated from operations		**223,103**	198,662
Income tax paid		**(9,062)**	(15,874)
Net cash flows from operating activities		**214,041**	182,788
Cash flow from investing activities:			
Interest received		**514**	374
Purchase of property, plant and equipment		**(168,343)**	(188,060)
Exploration and evaluation works	6	**(2,518)**	(3,482)
Acquisition of subsidiaries		**(1,674)**	-
Placement of bank deposits		**(45,000)**	-
Redemption of bank deposits		**45,000**	-
Loans granted		**-**	(1,223)
Net cash used in investing activities		**(172,021)**	(192,391)
Cash flow from financing activities:			
Finance costs paid		**(81,111)**	(57,013)
Issue of notes		**397,280**	725,000
Repayment of notes		**(353,192)**	(606,808)
Fees and premium paid on arrangement of notes		**(9,496)**	(27,084)
Treasury shares sold		**-**	1,853
Payment of finance lease liabilities		**(132)**	(676)
Transfer to restricted cash		**(358)**	(683)
Net cash (used in) / from financing activities		**(47,009)**	34,589
Effects of exchange rate changes on cash and cash equivalents		**(209)**	831
Net (decrease) / increase in cash and cash equivalents		**(5,198)**	25,817
Cash and cash equivalents at the beginning of the year	12	**126,951**	101,134
Cash and cash equivalents at the end of the year	12	**121,753**	126,951

The accounting policies and explanatory notes on pages 116 through 155 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

In thousands of US dollars	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
As at 1 January 2017		**3,203**	**(1,846)**	**260,918**	**429,537**	**691,812**
Loss for the year		–	–	–	(23,882)	(23,882)
Other comprehensive income		–	–	825	–	825
Total comprehensive loss for the year		**–**	**–**	**825**	**(23,882)**	**(23,057)**
Sale of treasury capital		–	186	674	–	860
Transaction costs		–	–	–	(62)	(62)
As at 31 December 2017		**3,203**	**(1,660)**	**262,417**	**405,593**	**669,553**
Impact of adopting IFRS 9	3	–	–	–	8,325	8,325
Restated opening balance under IFRS 9		**3,203**	**(1,660)**	**262,417**	**413,918**	**677,878**
Loss for the year		–	–	–	(120,695)	(120,695)
Other comprehensive loss		–	–	(895)	–	(895)
Total comprehensive loss for the year		**–**	**–**	**(895)**	**(120,695)**	**(121,590)**
Share based payments under LTIP		–	–	711	–	711
As at 31 December 2018		**3,203**	**(1,660)**	**262,233**	**293,223**	**556,999**

The accounting policies and explanatory notes on pages 116 through 155 are an integral part of these 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: 9th Floor, 20 Eastbourne Terrace, London, W2 6LG, UK.

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. 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 were authorised for issue by the Board of directors of the Company on 25 March 2019.

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	Registered office	Form of capital	Ownership, %
Nostrum Associated Investments LLP	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC	Liteyniy Prospekt 26 A 191028 St. Petersburg Russian Federation	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A.	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Members' interests	100
Nostrum Oil & Gas BV	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	20 Eastbourne Terrace London W2 6LA United Kingdom	Ordinary shares	100
Nostrum Services Central Asia LLP	Aksai 3a, 75/38 050031 Almaty Republic of Kazakhstan	Participatory interests	100
Nostrum Services N.V.	Kunstlaan 56 1000 Brussels Belgium	Ordinary shares	100
Atom&Co LLP	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	100
Zhaikmunai LLP	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	100

Grandstil LLC was liquidated as of 6 December 2017.

On 28 December 2018, the Group acquired 100% interest in Atom&Co LLP for a cash consideration of US$ 1.7 million for the main purpose to gaining control over the administrative office in Uralsk, which was under finance lease with this entity. This transaction has been accounted for as an asset acquisition (Note 15).

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 2018, the Group employed 820 employees (FY 2017: 989).

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 licence 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. Subsequently the exploration period for the Bobrikovski reservoir was extended to 26 August 2018.

The contract for exploration and production of hydrocarbons from the Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. Subsequently, the exploration period was extended until 8 February 2019. The Group's application for further extension of the exploration period is in process.

The contract for exploration and production of hydrocarbons from the Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2021.

The contract for exploration and production of hydrocarbons from the Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2021.

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 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the 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.

Notes to the consolidated financial statements continued

2. Basis of preparation and consolidation continued

Basis of consolidation

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

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

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

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

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

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 13). 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.

Subsidiaries

Nostrum Oil & Gas UK Ltd. registered and incorporated in the United Kingdom under Companies Number 08071559 is exempt from the requirements of the UK Companies Act 2006 relating to the audit of the individual accounts by virtue of the section 479A of the Act.

3. Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the application of IFRS 9 and IFRS 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

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

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

As of 1 January 2018, the effect of adopting IFRS 9 resulted in the following adjustments to the carrying amounts of the financial instruments, which were previously accounted for under IAS 39, as well as other balances on the consolidated statement of financial position:

In thousands of US dollars	As previously reported	Remeasurement	As adjusted
Property, plant and equipment	1,941,894	2,362	1,944,256
Total non-current assets	**2,043,408**	**2,362**	**2,045,770**
Total assets	**2,265,108**	**2,362**	**2,267,470**
Retained earnings	668,010	8,325	676,335
Total equity	**669,553**	**8,325**	**677,878**
Long-term borrowings	1,056,541	(9,065)	1,047,476
Deferred tax liabilities	381,595	3,102	384,697
Total non-current liabilities	**1,467,192**	**(5,963)**	**1,461,229**
Total equity and liabilities	**2,265,108**	**2,362**	**2,267,470**

The nature of these adjustments is described below:

(a) Classification and measurement

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

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

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

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

The Group performed an assessment of impact of this change in the requirement on the refinancing of the Notes in 2012, 2014 and 2017 as of the date of initial application, 1 January 2018, and then applied the remeasurement retrospectively to the 2012 Notes, the 2014 Notes and the Notes 2017, that were not derecognised as of 1 January 2018.

In accordance with the requirements of IFRS 9, the Group identified the modified part of the Notes on each refinancing and estimated gains and losses on modification, which should have been recognized in profit and loss at the date of each transaction, while the premium paid on early redemption and the transaction costs and fees were assumed to be capitalized under the long-term borrowings. The unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were deemed to be expensed at the date of each refinancing. As a result of these estimations, the Group decreased the carrying values of the 2012 Notes, the 2014 Notes and the 2017 Notes by US$ 99 thousand, US$ 85 thousand and US$ 8,881 thousand, respectively, by increasing the respective capitalized transaction costs.

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

(b) Impairment

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

Notes to the consolidated financial statements continued

3. Changes in accounting policies and disclosures continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

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

(a) Sale of goods

The Group is in the business of production and sale of oil and gas products. All goods are sold in separate identified contracts with customers. For such contracts with customers in which the sale of goods is the only performance obligation, adoption of IFRS 15 had no significant impact on the revenues and profit or loss.

(b) Variable consideration

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Historically, the goods sold by the Group were not returned by customers, neither were there material volume rebates in contracts. Therefore, application of IFRS 15 has not resulted in a different amount of revenue being recognised than under current IFRS.

(c) Advances received from customers

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in IFRS 15, and did not adjust the promised amount of the consideration for the effects of significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group does not account for a financing component. The Group receives only short-term advances from its customers. However, the Group may receive from customers long-term advances in the future. Therefore, close monitoring of the advances from customers will be made to reveal any significant financing component because of the length of time.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

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.

Standards issued, but not yet effective, as at 1 January 2018, have not been adopted early by the Group.

IFRS 16 Leases

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

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

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to apply IFRS 16 retrospectively, with the initial application date of 1 January 2019. However, as permitted by IFRS the Group plans to elect not to restate comparative information for the year ended 31 December 2018, and recognize differences arising from the adoption of IFRS 16 by restating the balances of assets and liabilities as at 1 January 2019.

The Group will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment that are considered of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16 and expects the most significant impact from recognition of right-of-use assets and lease liabilities for leased drilling rigs, rail tank cars and vehicles.

In summary the impact of IFRS 16 adoption on the statement of financial position is expected to be, as follows:

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

Notes to the consolidated financial statements continued

3. Changes in accounting policies and disclosures continued

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

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

These improvements include:

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

4. Summary of significant accounting policies

Exploration expenditure

Costs directly associated with exploration wells are capitalised within exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel used, rig costs, payments made to contractors and asset retirement obligation fees.

Significant estimates and assumptions: Exploration expenditure

If hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

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

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

The Group owns licences in the Western Kazakhstan region, including the Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye fields where the exploration periods will expire or have expired (respectively on 8 February 2019, 31 December 2021 and 31 December 2021). The Group's applications for extension of these exploration periods are under approval by the MOE. The Group remains committed to developing its exploration assets and based on the past history of the Group's ability to obtain extension, therefore, continues to carry the capitalized costs on its balance sheet. For more detailed information in relation to the subsoil use rights terms, please see Note 1.

Significant accounting judgement: Exploration expenditure

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

Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

For more detailed information in relation to exploration and evaluation assets, please see Note 6.

Property, plant and equipment

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligations, 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.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies continued

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 7.

Significant accounting judgment: oil and gas reserves

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

Significant estimates and assumptions: oil and gas reserves

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

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

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A, whereby changes in proved reserves are dealt with prospectively by amortizing the remaining carrying value of the asset over the expected future production. Further downward revision of the proved reserves estimates in the future could lead to relative increase in depreciation expense. Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group. Details on carrying values of oil and gas properties and related depreciation, depletion and amortization are shown in Note 7.

In addition, provisions for decommissioning may require revision – where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities (see Decommissioning related significant judgements, estimates and assumptions for further details). Also, the recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

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 property, plant and equipment, exploration and evaluation assets and goodwill

The Group assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the Group's business plans, significant decreases in the market commodity prices, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped into CGU for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.

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 5.

The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information for the determination of value in use. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax rate.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies continued

Significant accounting judgment: identification of cash-generating unit
Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. Management has determined a single cash-generating unit within the Group's non-current assets consisting of all Group's assets related to its Chinarevskoye and exploration fields as well as facilities. This is mainly based on the fact that hydrocarbons extracted from the fields are processed and passed through a combination of various facilities, so it is impracticable to clearly separate assets solely dedicated to each product.

Significant estimates and assumptions: impairment of property, plant and equipment, exploration and evaluation assets and goodwill
Determination as to whether, and by how much, the CGU containing goodwill is impaired involves management's best estimates on highly uncertain matters such as future commodity prices, operating expenses and capital expenditures estimates, discount rate, future production volumes and fiscal regimes.

The recoverable amount is determined by calculation of the value-in-use based on the discounted cash flow model as no recent third-party transactions exist on which a reliable market-based fair value can be established. The value-in-use calculation model takes into consideration cashflows, which are expected to arise until 2032, i.e. during the licence 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 recoverability of exploration assets is covered under Exploration expenditure above.

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

- Oil prices (in real terms): US$67.5/bbl for 2019-2032;
- 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 15.4% (2017: 14.7%);
- Considering mechanical completion of GTU3 in December 2018 and the ongoing commissioning works, the first gas is planned for Q2 2019 and full commissioning of the plant during 2019, which is expected to lead to a gradual increase in the annual production volumes.

Owing to drilling challenges in the western area of the Chinarevskoye field accompanied with reduction of the 2P reserves expected to be recovered from the field over the period of 2019-2032, the Group performed stress-testing of the discounted cashflow model by applying higher sensitivities to oil prices and forecast production profiles while keeping discount rate at the same level. Based on such analysis the Group evaluated the value-in-use of the single CGU and recognized an impairment charge US$150,000 thousand.

In accordance with IFRS requirements the impairment charge was first allocated against goodwill amounting to US$32,425 thousand. This impairment cannot be reversed in future periods in accordance with accounting policy of the Group. The remaining US$117,575 thousand of impairment charge was allocated between working oil & gas assets and construction in progress proportionate to their carrying amounts at 31 December 2018 (US$67,740 thousand and US$49,835 thousand, respectively), resulting in the recoverable amount of property, plant and equipment of US$1,919,662 thousand. Further downgrades of reserves by 5% or decline in oil prices by 5% may result in increase of the impairment charge in future periods by US$125,500 thousand and US$98,700 thousand, respectively. Successful drilling results in the western area, 2P reserves increase, and increase in utilisation of the Group's processing facilities would have the effect of reversal of the impairment partially or in full. Delay in commissioning of GTU3 up to 1-2 years will have no material impact on the VIU model used by management for the purpose of the impairment testing.

More detailed information related to carrying values of oil and gas properties and related depreciation, depletion, amortisation and impairment are shown in Note 7. For information related to goodwill and related impairment, please refer to Note 5.

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 2018 and 2017, please see Note 28.

Significant accounting judgment: taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018.

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

As at 31 December 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see Note 28.

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**
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 Finance BV	US dollar
Nostrum Oil & Gas UK Ltd.	British Pound
Nostrum Services Central Asia LLP	Tenge
Nostrum Services N.V.	Euro
Atom & Co LLP	Tenge
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.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies continued

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 8.

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 7.

Inventories

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

For more information in relation to the breakdown of inventories as at 31 December 2018 and 2017, please see Note 9.

Provisions and contingencies

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

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

The Group does not recognise contingent liabilities but discloses contingent liabilities in Note 32, unless the possibility of an outflow of resources embodying economic benefits is remote.

Decommissioning

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

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

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

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

Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

- 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 abandonment and site restoration provision are disclosed in Note 16.

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

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

Significant estimates and assumptions: provisions and contingencies
The Group holds provision for the future decommissioning of oil and gas properties and site restoration. The estimation of the future dismantlement and site restoration costs involves use of significant estimates and assumptions by management, specifically for determining the timing of the future cash outflows and discount rate.

Management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights. Therefore, the most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows. Management of the Group believes that the long-term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan denominated in US Dollars provides the best estimates of applicable risk uncorrected discount rate. Any changes in the expected future costs are reflected in both the provision and the asset. Moreover, actual decommissioning costs can differ from estimates because of constantly changing decommissioning technologies as well as changes in environmental laws and regulations and public expectations. As a result, there could be significant adjustments to the provisions established which would affect future financial results. For more details on abandonment and site restoration provision please refer to Note 16.

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.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies continued

Financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Financial liabilities

Initial recognition, measurement and derecognition

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, long-term borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of long-term borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, long-term borrowings, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group's financial liability as at fair value through profit or loss include derivative financial instruments.

Long-term borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in 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 fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing borrowings. For more information, refer to Note 15.

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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Significant accounting judgment: modifications of liabilities

When an existing financial liability is replaced by another from the same lender judgement is required to determine whether the terms of the new financial liability are substantially different from the terms of the original liability. As part of its capital management strategy, the Group can repurchase issued Notes ("old Notes") and issue new Notes on different terms.

The holders of the old Notes are given an option to exchange the old Notes for the new Notes. If the terms are not substantially different, the exchange of Notes does not result in derecognition of the financial liability, and the Group recalculates the gross carrying amount of the new Notes taking in consideration the relative proportion of the arrangement fees associated with the Notes being exchanged. In relation to the portion of the Notes which are repurchased rather than exchanged for newly issued Notes, the Group derecognises those Notes along with the relative portion of the unamortised arrangement fees. For more information on the application of judgement in relation to the Group's long-term borrowings please refer to Notes 3 (IFRS 9 Financial Instruments) and 15.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies continued

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 2018 and 2017, please see Note 12.

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. For contracts that contain separate performance obligations the transaction price is allocated to those separate performance obligations by reference to their relative standalone selling prices.

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer. For sales of crude oil, gas condensate and LPG, this generally occurs when the product is physically transferred into a vessel, pipe, railcar, trucks or other delivery mechanism; for sales of gas, it is when the product is physically transferred into a pipe.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods before transferring them to the customer.

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 cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date. 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 cost of equity-settled transactions are measured at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element, which is not remeasured subsequently until the settlement date.

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 26.

5. Goodwill

As at 31 December 2018 and 31 December 2017, goodwill comprised the following due to business combinations:

In thousands of US dollars	2018	2017
Balance as at 1 January	**32,425**	32,425
Goodwill impairment	**(32,425)**	–
Balance as at 31 December	**–**	32,425

The goodwill arises from the purchase of Nostrum Services CIS BVBA and Nostrum Services Central Asia LLP and is annually tested for impairment.

The Group performed annual review of goodwill and oil and gas assets for impairment at the year end, as a result of which impairment of goodwill in the amount of US$ 32,425 thousand was recognized. For information in relation to goodwill impairment testing, please see Note 4.

6. Exploration and evaluation assets

In thousands of US dollars	31 December 2018	31 December 2017
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**34,406**	31,993
	50,241	47,828

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

7. Property, plant and equipment

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

In thousands of US dollars	31 December 2018	31 December 2017
Oil and gas properties	**1,879,965**	1,896,154
Other property, plant and equipment	**39,697**	45,740
	1,919,662	1,941,894

Notes to the consolidated financial statements continued

7. Property, plant and equipment continued

Oil and gas properties

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The movement of oil and gas properties for the years ended 31 December 2018 and 2017 was as follows:

In thousands of US dollars	Working assets	Construction in progress	Total
Balance at 1 January 2017, net of accumulated depreciation and depletion	**1,133,031**	**626,221**	**1,759,252**
Additions	8,580	243,927	252,507
Transfers	104,664	(104,379)	285
Depreciation and depletion charge	(115,890)	–	(115,890)
Balance at 31 December 2017, net of accumulated depreciation and depletion	**1,130,385**	**765,769**	**1,896,154**
Additions	1,145	212,799	213,944
Transfers	131,900	(131,900)	–
Disposals	(2,203)	–	(2,203)
Disposals depreciation	842	–	842
Depreciation and depletion charge	(111,197)	–	(111,197)
Impairment charge	(67,740)	(49,835)	(117,575)
Balance at 31 December 2018, net of accumulated depreciation and depletion	**1,083,132**	**796,833**	**1,879,965**
As at 31 December 2016			
Cost	1,785,127	626,221	2,411,348
Accumulated depreciation and depletion	(652,096)	–	(652,096)
Balance, net of accumulated depreciation and depletion	**1,133,031**	**626,221**	**1,759,252**
As at 31 December 2017			
Cost	1,898,361	765,769	2,664,130
Accumulated depreciation and depletion	(767,976)	–	(767,976)
Balance, net of accumulated depreciation and depletion	**1,130,385**	**765,769**	**1,896,154**
As at 31 December 2018			
Cost	2,029,203	846,668	2,875,871
Accumulated depreciation, depletion and impairment	(946,071)	(49,835)	(995,906)
Balance, net of accumulated depreciation and depletion	**1,083,132**	**796,833**	**1,879,965**

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

The depletion rate for oil and gas working assets was 10.33% and 10.89% in 2018 and 2017, respectively.

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

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

During the year ended 31 December 2018 the Group has written off two water wells and a power transformer with the carrying value of US$ 1,712 thousand.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (Note 16) in the year ended 31 December 2018 resulted in the decrease of the oil and gas properties by US$ 2,809 thousand (31 December 2017: an increase of US$ 1,391 thousand).

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

In thousands of US dollars	**31 December 2018**	31 December 2017
Borrowing costs including amortisation of arrangement fee	**91,429**	76,395
Capitalisation rate	**8.43%**	6.98%
Capitalised borrowing costs	**50,286**	33,599

Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2017, net of accumulated depreciation	**34,528**	**4,255**	**1,211**	**9,233**	**45**	**49,272**
Additions	1,039	2,530	21	1,308	–	4,898
Transfers	67	22	–	(374)	–	(285)
Disposals	(8)	(452)	(1,223)	(468)	–	(2,151)
Disposals depreciation	7	360	981	276	–	1,624
Depreciation	(4,070)	(1,550)	(194)	(1,830)	–	(7,644)
Translation difference	–	–	–	26	–	26
Balance at 31 December 2017, net of accumulated depreciation	**31,563**	**5,165**	**796**	**8,171**	**45**	**45,740**
Additions	439	335	14	597	–	1,385
Transfers	115	(168)	–	104	–	51
Disposals	(324)	(78)	(48)	(292)	–	(742)
Disposals depreciation	222	76	44	212	–	554
Depreciation	(4,048)	(1,463)	(142)	(1,613)	–	(7,266)
Translation difference	–	–	–	(25)	–	(25)
Balance at 31 December 2018, net of accumulated depreciation	27,967	3,867	664	7,154	45	39,697
As at 31 December 2016						
Cost	49,159	18,094	2,900	15,587	45	85,785
Accumulated depreciation	(14,631)	(13,839)	(1,689)	(6,354)	–	(36,513)
Balance, net of accumulated depreciation	34,528	4,255	1,211	9,233	45	49,272
As at 31 December 2017						
Cost	50,257	20,194	1,710	16,129	45	88,335
Accumulated depreciation	(18,694)	(15,029)	(914)	(7,958)	–	(42,595)
Balance, net of accumulated depreciation	31,563	5,165	796	8,171	45	45,740
As at 31 December 2018						
Cost	50,487	20,283	1,624	16,278	45	88,717
Accumulated depreciation	(22,520)	(16,416)	(960)	(9,124)	–	(49,020)
Balance, net of accumulated depreciation	27,967	3,867	664	7,154	45	39,697

Notes to the consolidated financial statements continued

8. Advances for non-current assets

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

In thousands of US dollars	**31 December 2018**	31 December 2017
Advances for construction services	**13,128**	9,512
Advances for pipes and construction materials	**520**	5,086
Advances for other non-current assets	**1,818**	–
	15,466	14,598

9. Inventories

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

In thousands of US dollars	**31 December 2018**	31 December 2017
Spare parts and other inventories	**23,479**	23,506
Gas condensate	**4,197**	4,063
Crude oil	**1,761**	1,968
LPG	**126**	189
Gas	**20**	20
	29,583	29,746

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

10. Trade receivables

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

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

11. Prepayments and other current assets

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

In thousands of US dollars	**31 December 2018**	31 December 2017
VAT receivable	**11,043**	14,960
Advances paid	**5,057**	6,826
Other taxes receivable	**2,949**	4,279
Other	**965**	1,038
	20,014	27,103

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2018, advances paid in the amount of US$ 1,751 thousand were impaired and fully provided for. Below table provides the movements in in the provision for impairment of advances paid:

In thousands of US dollars	Individually impaired
As at 31 December 2016	**-**
Charge for the year	1,867
As at 31 December 2017	**1,867**
Write-offs for the year	(116)
As at 31 December 2018	**1,751**

12. Cash and cash equivalents

In thousands of US dollars	**31 December 2018**	31 December 2017
Current accounts in US dollars	**118,902**	106,487
Current accounts in tenge	**1,396**	17,342
Current accounts in other currencies	**1,446**	3,110
Petty cash	**9**	12
	121,753	126,951

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

13. Share capital and reserves

As at 31 December 2018 the ownership interests in the Parent consists 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 shares	**In circulation**	**Treasury capital**	**Total**
As at 1 January 2017	**184,903,754**	**3,279,204**	**188,182,958**
Share options exercised	330,325	(330,325)	–
As at 31 December 2017	**185,234,079**	**2,948,879**	**188,182,958**
As at 31 December 2018	**185,234,079**	**2,948,879**	**188,182,958**

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and the Long-term Incentive Plan ("LTIP") and are held by Intertrust Employee Benefit Trustee Limited, which upon request from employees to exercise options, sells shares on the market and settles respective obligations under the ESOP and LTIP. 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 reserves accumulated before 2009, when the functional currency of Zhaikmunai LLP 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 years ended 31 December 2018 and 2017 there were no distributions made.

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 2018 the book value per share amounted to US$2.96 (31 December 2017: US$3.39).

Notes to the consolidated financial statements continued

14. Earnings per share

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of 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.

	For the year ended 31 December	
	2018	2017
Loss for the year attributable to the shareholders (in thousands of US dollars)	**(120,695)**	(23,882)
Weighted average number of shares	**185,234,079**	185,068,917
Basic and diluted earnings per share (in US dollars)	**(0.65)**	(0.13)

15. Borrowings

Borrowings are comprised of the following as at 31 December 2018 and 31 December 2017:

In thousands of US dollars	31 December 2018	31 December 2017
Notes issued in 2012 and maturing in 2019	–	167,731
Notes issued in 2014 and maturing in 2019	–	187,863
Notes issued in 2017 and maturing in 2022	**727,447**	731,474
Notes issued in 2018 and maturing in 2025	**402,153**	–
Finance lease liability	–	810
	1,129,600	1,087,878
Less amounts due within 12 months	**(35,633)**	(31,337)
Amounts due after 12 months	**1,093,967**	1,056,541

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

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

Period	Redemption Price
2016	103.56250%
2017	101.78125%
2018 and thereafter	100.00%

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

2014 Notes

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

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

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

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

Period	Redemption Price
2017	103.1875%
2018 and thereafter	100.00%

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

2017 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2017 Issuer") issued US$ 725,000 thousand notes (the "2017 Notes").

The 2017 Notes bear interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year.

On and after 25 July 2019, the 2017 Issuer shall be entitled at its option to redeem all or a portion of the 2017 Notes upon not less than 30 nor more than 60 days’ notice, at the redemption prices (expressed in percentages of principal amount of the 2017 Note), plus accrued and unpaid interest on the 2017 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on 25 July of the years set forth below:

Period	Redemption Price
2019	106.0%
2020	104.0%
2021 and thereafter	100.0%

The 2017 Notes are jointly and severally guaranteed (the "2017 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2017 Guarantors"). The 2017 Notes are the 2017 Issuer's and the 2017 Guarantors’ senior obligations and rank equally with all of the 2017 Issuer's and the 2017 Guarantors’ other senior indebtedness.

The issue of the 2017 Notes was used primarily to fund the Tender Offer and Consent Solicitation, as described below.

Tender Offer and Consent Solicitation for the 2012 Notes and the 2014 Notes

On 29 June 2017, Nostrum Oil & Gas Finance B.V., a subsidiary of Nostrum Oil & Gas PLC, announced a tender offer and consent solicitation in respect of the 2012 Notes and the 2014 Notes (the "Tender and Consent"). The Tender and Consent closed at 11:59 NY time on 27 July 2017, and was settled on 31 July 2017.

As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders US$ 390,884 thousand in principal amount of the outstanding 2012 Notes and US$ 215,924 thousand in principal amount of the outstanding 2014 Notes. Total tender consideration was US$ 102.60 per US$ 100 for the outstanding 2012 Notes and US$ 100.60 per US$ 100 for the outstanding 2014 Notes validly tendered during the Early Bird window. In addition, a consent payment of US$ 40c per US$ 100 was paid for all 2012 Notes and 2014 Notes validly tendered during the Early Bird window or if a Consent Only Instruction was received during the Early Bird window. Both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

Notes to the consolidated financial statements continued

15. Borrowings continued

Transaction costs

Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to US$ 12,256 thousand.

For the purposes of the accounting treatment Nostrum considers part of the purchased 2012 Notes and 2014 Notes to be modified and the remainder is treated as extinguished. In 2017 consolidated financial statements unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed (Note 24), and fees and expenses directly attributable to the modified portion of the debt were capitalised under the long-term borrowings. However, with application of IFRS 9 effective from 1 January 2018 the Group has restated the balances of the Notes as of 1 January 2018, whereby for the modified part of the borrowings the Group recognized loss on modification through retained earnings and reserves, while the premium paid on early redemption and the transaction costs and fees were capitalized under the long-term borrowings. For more details please see
Note 3.

2018 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. (the "2018 Issuer") issued US$ 400,000 thousand notes (the "2018 Notes"). The 2018 Notes bear interest at a rate of 7.00% per year, payable on 16 August and 16 February of each year.

On and after 16 February 2021, the 2018 Issuer shall be entitled at its option to redeem all or a portion of the 2018 Notes upon not less than 10 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2018 Note), plus accrued and unpaid interest on the 2018 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on 16 February of the years set forth below:

Period	Redemption Price
2021	105.25%
2022	103.50%
2023	101.75%
2024 and thereafter	100.00%

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

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

Call of the 2012 Notes and the 2014 Notes

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

On 16 February 2018, Nostrum announced that the conditions to the call notices had been satisfied by the issue of the 2018 Notes by Nostrum Oil & Gas Finance B.V. (see above). Therefore, with effect on 17 February 2018 (the "Call Date"), US$ 169,116 thousand in principal amount of the outstanding 2012 Notes and US$ 184,076 thousand in principal amount of the outstanding the 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries were purchased from the bondholders by Nostrum Oil & Gas Finance B.V.

Transaction costs and discounts

For the purpose of the accounting treatment the purchased 2012 Notes and 2014 Notes were treated as extinguished and new liabilities were recognised for issue of the 2018 Notes, since the transaction does not fall under modification guidance under IFRS 9. The unamortised transaction costs and premiums paid on early redemption related to the 2012 Notes and the 2014 Notes amounting to of US$ 3,636 thousand and

US$ 3,012 thousand, respectively, were expensed in profit and loss (Note 20). Fees and expenses of US$ 6,484 thousand directly attributable to the issue of 2018 Notes and discount on issue of the notes amounting to US$ 2,720 thousand were capitalized under the long-term borrowings.

Covenants contained in the 2012 Notes, 2014 Notes, 2017 Notes and 2018 Notes

Following the consent solicitation discussed above, the 2012 Notes, 2014 Notes and 2017 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions, the ability of the 2012 Guarantors, the 2014 Guarantors, the 2017 Guarantors, and certain other members of the Group 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.

In thousands of US dollars	1 January	Impact of IFRS of adaption	Finance charges under finance leases	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Other	31 December
2018								
Long-term borrowings	**1,056,541**	(9,065)	–	397,280	(353,192)	2,403	–	**1,093,967**
Current portion of long-term borrowings	**31,337**	–	135	–	(81,111)	85,539	(267)	**35,633**
2017								
Long-term borrowings	**943,534**	–	–	725,000	(633,892)	21,899	–	**1,056,541**
Current portion of long-term borrowings	**15,518**	–	156	–	(57,013)	71,585	1,091	**31,337**

Finance lease

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

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

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

	31 December 2018		31 December 2017	
In thousands of US dollars	Minimum payments	Present value of payments	Minimum payments	Present value of payments
No later than one year	-	–	**143**	131
Later than one year and no later than five years	-	–	**558**	345
Later than five years	-	–	**1,900**	334
Total minimum lease payments	-	–	**2,601**	810
Less amounts representing finance charges	-		**(1,791)**	
Present value of minimum lease payments	-	–	**810**	810

Notes to the consolidated financial statements continued

16. Abandonment and site restoration provision

The summary of changes in abandonment and site restoration provision during years ended 31 December 2018 and 2017 is as follows:

In thousands of US dollars	2018	2017
Abandonment and site restoration provision as at 1 January	**23,590**	19,635
Unwinding of discount	**321**	225
Additional provision	**792**	2,429
Provision used	**-**	(90)
Change in estimates	**(2,809)**	1,391
Abandonment and site restoration provision as at 31 December	**21,894**	23,590

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

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2018 were 2.30% and 4.33%, respectively (31 December 2017: 2.50% and 3.63%).

The change in the long-term inflation rate and discount rate in the year ended 31 December 2018 resulted in the decrease of the abandonment and site restoration provision by US$ 2,809 thousand (31 December 2017: the increase by US$ 1,391 thousand).

17. Due to government of Kazakhstan

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

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

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2018 and 31 December 2017 is as follows:

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

18. Trade payables

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

In thousands of US dollars	31 December 2018	31 December 2017
US dollar denominated trade payables	**26,951**	22,861
Tenge denominated trade payables	**20,684**	27,153
Euro denominated trade payables	**3,702**	5,395
Russian rouble denominated trade payables	**1,051**	1,098
Trade payables denominated in other currencies	**488**	348
	52,876	56,855

19. Other current liabilities

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

In thousands of US dollars	31 December 2018	31 December 2017
Training obligations accrual	**11,609**	11,592
Accruals under the subsoil use agreements	**7,856**	9,941
Taxes payable, other than corporate income tax	**5,419**	6,278
Due to employees	**2,181**	3,627
Other current liabilities	**2,618**	3,838
	29,683	35,276

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

20. Revenue

The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the year ended 31 December 2018 was US$71.7 (FY 2017: US$54.7)

	For the year ended 31 December	
In thousands of US dollars	**2018**	2017
Oil and gas condensate	**267,815**	261,069
Gas and LPG	**122,112**	144,464
	389,927	405,533

During the year ended 31 December 2018 the revenue from sales to three major customers amounted to US$258,898 thousand, US$80,499 thousand and US$6,987 thousand respectively (FY 2017: US$200,572 thousand, US$102,813 thousand and US$30,871 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia. All revenues of the Group are from contracts with customers.

21. Cost of sales

	For the year ended 31 December	
In thousands of US dollars	**2018**	2017
Depreciation, depletion and amortisation	**115,212**	120,692
Payroll and related taxes	**18,326**	17,652
Repair, maintenance and other services	**16,133**	18,960
Other transportation services	**6,116**	8,335
Materials and supplies	**5,253**	6,333
Well workover costs	**2,767**	4,159
Environmental levies	**367**	375
Change in stock	**134**	297
Other	**837**	443
	165,145	177,246

Notes to the consolidated financial statements continued

22. General and administrative expenses

In thousands of US dollars	For the year ended 31 December 2018	2017
Payroll and related taxes	**11,292**	13,578
Professional services	**4,346**	11,095
Depreciation and amortisation	**1,869**	2,294
Insurance fees	**1,570**	1,640
Lease payments	**846**	797
Business travel	**774**	1,487
Communication	**357**	411
Materials and supplies	**168**	363
Bank charges	**165**	221
Other	**825**	1,417
	22,212	33,303

23. Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December 2018	2017
Loading and storage costs	**18,881**	26,940
Transportation costs	**15,017**	20,160
Marketing services	**10,963**	14,363
Payroll and related taxes	**2,565**	2,033
Other	**2,558**	2,945
	49,984	66,441

24. Taxes other than income tax

In thousands of US dollars	For the year ended 31 December 2018	2017
Royalties	**15,155**	15,724
Export customs duty	**11,233**	3,864
Government profit share	**3,277**	248
Other taxes	**37**	131
	29,702	19,967

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.

25. Finance costs

In thousands of US dollars	For the year ended 31 December 2018	2017
Interest expense on borrowings	**41,143**	42,797
Transaction costs	**6,648**	15,709
Unwinding of discount on amounts due to Government of Kazakhstan	**845**	866
Unwinding of discount on abandonment and site restoration provision	**399**	225
Other finance costs	**214**	–
Finance charges under finance leases	**134**	155
	49,383	59,752

For more information on the transaction costs please see Note 15.

26. Employees' remuneration

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

	2018	2017
Management and administrative	**201**	246
Technical and operational	**619**	731
	820	977

Their aggregate remuneration comprised:

In thousands of US dollars	2018	2017
Wages and salaries	**35,274**	34,573
Social security costs	**4,537**	5,229
Share-based payments	**727**	1,008
	40,538	40,810

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$33,180 thousand (FY 2017: US$34,927 thousand).

Key management personnel remuneration

In thousands of US dollars	2018	2017
Short-term employee benefits	**3,819**	4,304
Share-based payments	**222**	1,008
	4,041	5,312

Directors' remuneration

In thousands of US dollars	2018	2017
Short-term employees benefits	**2,056**	2,594
Share-based payments	**148**	–
	2,204	2,594

Employee share option plan

The Group's Phantom Option Plan 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, – 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 1,925,974 of SARs at 31 December 2018 is US$ 40 thousand (31 December 2017: 2,211,153 SARs with carrying value of US$ 2,086 thousand). During the year ended 31 December 2018 8,000 SARs were fully vested (FY 2017:205,000).

Notes to the consolidated financial statements continued

26. Employees' remuneration continued

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

	2018		2017	
	No.	**EP,US$**	**No.**	**EP,US$**
Total outstanding at the beginning of the year (with EP of US$ 4)	**946,153**	4	**1,276,478**	4
Total outstanding at the beginning of the year (with EP of US$ 10)	**1,265,000**	10	**1,260,000**	10
Total outstanding at the beginning of the year	**2,211,153**		**2,536,478**	
Share options exercised	**-**	4	**(330,325)**	4
Share options granted	**-**	10	**40,000**	10
Share options lapsed	**(285,179)**	10	**(35,000)**	10
Total outstanding at the end of the year	**1,925,974**		**2,211,153**	
Total exercisable at the end of the year	**1,893,974**		**1,926,153**	

There were no SARs granted during the years ended 31 December 2018 and 2017: 40,000 thousand SARs). The weighted average price at the date of exercise for SARs exercised during the year ended 31 December 2017 amounted to US$ 5.57 per SAR, and there were no SARs exercised during the year ended 31 December 2018.

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 2018 and 2017:

	2018	2017
Price at the reporting date (US$)	**1.03**	4.40
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**44.0%**	41.4%
Risk-free interest rate (%)	**0.8%**	0.7%
Expected life (years)	**10**	10
Option turnover (%)	**10%**	10%
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.

2017 Long-term incentive plan

In 2017 the Group started operating a Long-term incentive plan ("the LTIP"), that was approved by the shareholders of the Company on 26 June 2017 and adopted by the board of directors of the Company on 24 August 2017. The LTIP is a discretionary benefit offered by the Company for the benefit of selected employees. Its main purpose is to increase the interest of the employees in the Company's long-term business goals and performance through share ownership. The LTIP is an incentive for the employees' future performance and commitment to the goals of the Company. The remuneration committee of the board of the Company has the right to decide, in its sole discretion, whether or not further awards will be granted in the future and to which employees those awards will be granted.

Employees (including senior executives and executive directors) of members of the Group or their associates may receive an award, which is a "nominal cost option" over a specified number of ordinary shares in the capital of the Company. The option has an exercise price of 1p per share (but the Company has the discretion to waive this prior to exercise). In addition, under the Rules of the LTIP the Company has discretion to settle awards other than by transfer of shares such as by way of cash settlement. Generally, the awards are classified as equity-settled transactions. The share options are treated as equity-settled since there are no legal limitations expected on issue of shares for these upon vesting, the Group has a choice of settlement and the intention is to settle them in equity. However, in certain jurisdictions due to regulatory requirements the Company may not be able to settle the awards other than by transfer of cash, in which case the awards are classified as cash-settled transactions, and accounted for similar to SARs.

The award ordinarily vests and becomes exercisable as from later of the third anniversary of grant or two years after the date on which the Company determines whether the performance condition has been satisfied, subject to employee's continued service and to the extent to which the performance condition is satisfied, till the end of the contractual life. The contractual life of the share options is ten years.

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 cost of equity-settled transactions are measured 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 equity element of "shares to be issued under LTIP", which is not remeasured subsequently until the settlement date.

The following table summarizes the movement in the number of share options during 2017 and 2018:

	Equity-settled awards	Cash-settled awards	Total awards
Total outstanding as at 1 January 2017	–	–	–
Share options granted	1,139,146	69,697	1,208,843
Share options forfeited	(11,838)	–	(11,838)
Share options lapsed	(5,721)	–	(5,721)
Total outstanding as at 31 December 2017	**1,121,587**	**69,697**	**1,191,284**
Share options granted	1,095,691	67,349	1,163,040
Share options performance adjusted	(580,260)	–	(580,260)
Share options forfeited	(106,235)	–	(106,235)
Share options lapsed	(24,670)	–	(24,670)
Total outstanding as at 31 December 2018	**1,506,113**	**137,046**	**1,643,159**

On 23 March 2018 the remuneration committee of the board of the Company determined the level of performance conditions that were met for the performance conditions set upon issue of the share options granted in 2017. On 28 November 2018 the Company granted further 1,163,040 share options.

As at 31 December 2017 106,713 share options were vested in accordance with the management's best estimate. The fair value of the equity-settled share options at the valuation dates of 28 November 2018 and 23 March 2018 amounted to US$ 2.76 and US$ 1.25 per share option, respectively. 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 valuation of the share options at the grant date:

	28 November 2018	23 March 2018
Price at the valuation date	**1.3**	2.8
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**43.4%**	40.4%
Risk-free interest rate (%)	**1.38%**	1.45%
Expected life (years)	**10**	10
Option turnover (%)	**10%**	10%
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.

Notes to the consolidated financial statements continued

27. Other expenses

In thousands of US dollars	For the year ended 31 December 2018	2017
Other accruals	**2,691**	3,024
Training	**2,440**	2,752
Loss on disposal of property, plant and equipment	**1,709**	1,810
Social program	**300**	316
Sponsorship	**53**	256
Business development	**-**	9,295
Accruals under subsoil use agreements	**-**	587
Inventory write-offs and provisions	**-**	201
Other	**1,311**	3,814
	8,504	22,055

Business Development expenses incurred in relation to potential acquisitions of oil and gas exploration and appraisal assets in Kazakhstan.

28. Income tax

The income tax expense comprised the following:

In thousands of US dollars	For the year ended 31 December 2018	2017
Corporate income tax	**12,490**	12,992
Withholding tax	**612**	424
Deferred income tax (benefit) / expense	**16,284**	35,966
Adjustment in respect of the current income tax for the prior periods	**(851)**	467
Total income tax expense	**28,535**	49,849

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 Kazakh tax rate applicable to the Chinarevskoye subsoil use rights is as follows:

In thousands of US dollars	For the year ended 31 December 2018	2017
(Loss)/profit before income tax	**(92,161)**	25,966
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**(27,648)**	7,790
Effect of exchange rate on the tax base	**18,284**	(194)
Adjustments in respect of current income tax of previous years	**(851)**	466
Effect of loss / (income) taxed at different rate[1]	**473**	1,551
Non-deductible interest expense on borrowings	**23,847**	19,755
Non-deductible goodwill impairment	**9,728**	-
Deferred tax asset not recognised	**3,891**	9,498
Non-deductible penalties	**(204)**	3,222
Net foreign exchange loss	**(1,261)**	588
Non-deductible social expenditures	**203**	256
Non-deductible cost of technological loss	**224**	224
Non-deductible training expenditures	**88**	282
Non-deductible business development costs	**-**	2,787
Other non-deductible expenses	**1,761**	3,624
Income tax expenses reported in the consolidated financial statements	**28,535**	49,849

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 25%.

The Group's effective tax rate for the year ended 31 December 2018 is negative 31.0% (2017: 192.0%). The Group's effective tax rate, excluding effect of movements in exchange rates, non-deductible interest expense on borrowings and non-deductible impairment of goodwill, for the year ended 31 December 2018 is 23.9% (2017: 114.4%).

In addition, the effective tax rate was impacted by the effect of losses and gains taxed at different rates which decreased effective tax rate by 0.5% for the year ended 31 December 2018 (2017: increased by 6.0%).

As at 31 December 2018 the Group has tax losses of US$104,185 thousand (2017: US$90,210 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 2023-2027. 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 2018**	31 December 2017
Deferred tax asset		
Accounts payable and provisions	**4,910**	4,960
Deferred tax liability		
Property, plant and equipment	**(398,115)**	(386,555)
Long-term borrowings	**(7,776)**	–
Net deferred tax liability	**(400,981)**	(381,595)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	**2018**	2017
Balance as at 1 January	**381,595**	345,607
Impact of adopting IFRS 9	**3,102**	–
Restated opening balance under IFRS 9	**384,697**	–
Current period charge to statement of income	**16,284**	35,988
Balance as at 31 December	**400,981**	381,595

29. Derivative financial instruments

The movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US dollars		
As at 1 January 2017	**current**	6,658
	non-current	–
Loss on derivative financial instruments		(6,658)
As at 31 December 2017	**current**	–
	non-current	–
Loss on derivative financial instruments		(12,387)
Payments made under derivative financial instruments		8,649
Reclassification to trade payables upon expiry of the contract		3,738
As at 31 December 2018	**current**	–
	non-current	–

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 to 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.

On 4 January 2018, the Group entered into a hedging contract equating to production of 9,000 barrels of oil per day. The hedging contract is a zero-cost capped collar with a floor price of US$60.0/bbl. The Group has covered the cost of the floor price by selling a number of call options with different strike prices for each quarter: Q1:US$67.5/bbl, Q2:US$64.1/bbl, Q3:US$64.1/bbl, Q4:US$64.1/bbl. The amount of upside given away has been capped through the purchase of a number of call options with different strike prices: Q1:US$71.5/bbl, Q2:US$69.1/bbl, Q3:US$69.6/bbl, Q4:US$69.6/bbl. There were no upfront costs to the Group for the hedging contract. The hedging contract was settled in cash on a quarterly basis and matured on 31 December 2018, hence the balance of US$ 3,738 thousand was reclassified to accounts payable.

Gains and losses on the derivative financial instruments, which do not qualify for hedge accounting, are taken directly to account "Loss on derivative financial instruments" within profit and loss. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 33.

Notes to the consolidated financial statements continued

30. 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 2018 and 31 December 2017 consisted of the following:

In thousands of US dollars	**31 December 2018**	31 December 2017
Trade receivables and advances paid		
JSC OGCC KazStroyService	**11,408**	7,573

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2018 and 31 December 2017 consisted of the following:

In thousands of US dollars	**31 December 2018**	31 December 2017
Trade payables		
JSC OGCC KazStroyService	**11,420**	10,063

During the years ended 31 December 2018 and 2017 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

	For the year ended 31 December	
In thousands of US dollars	**2018**	2017
Purchases		
JSC OGCC KazStroyService	**13,975**	50,350
Management fees and consulting services		
Cervus Business Services	-	948
VWEW Advocaten VOF	-	5

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2018 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

During the year ended 31 December 2018 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 and VWEW Advocaten VOF. Starting from April 2017 these entities ceased to be considered related parties in accordance with IAS 24 definitions.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 3,439 thousand for the year ended 31 December 2018 (FY 2017: US$4,304 thousand). Payments to key management personnel under ESOP for the year ended 31 December 2018 amounted to US$ 151 thousand (FY 2017: no payments under ESOP were made).

31. Audit and non-audit fees

During the years ended 31 December 2018 and 2017 audit and non-audit fees comprise the following:

In thousands of US dollars	2018	2017
Audit of the financial statements	**292**	312
Total audit services	**292**	312
Audit-related assurance services	**190**	155
Services relating to corporate finance transactions	**307**	250
Other non-audit services	**1**	-
Total non-audit services	**498**	405
Total fees	**790**	717

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

32. 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 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018. As at 31 December 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and clean-up evolve, the 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 2018 the Group had contractual capital commitments in the amount of US$131,373 thousand (31 December 2017: US$139,462 thousand) mainly in respect to the Group's oil field exploration and development activities.

Notes to the consolidated financial statements continued

32. Contingent liabilities and commitments continued

Operating lease

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 terminated early either upon mutual agreement of the parties, or unilaterally by one of the parties if the other party does not fulfil its obligations under the contract.

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

In thousands of US dollars	**31 December 2018**	31 December 2017
No later than one year	**5,417**	7,019
Later than one year and no later than five years	**5,431**	14,057

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

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement No. 14), 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 12 April 2018) require the subsurface user to:

- spend US$133 thousand for funding of development of Astana city;
- invest at least US$12,209 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;
- spend US$1,250 thousand to finance social infrastructure.

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

- invest at least US$19,837 thousand for exploration of the field during the exploration period;
- spend US$201 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US$221 thousand to finance social infrastructure;
- fund liquidation expenses equal to US$201 thousand.

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

- invest at least US$20,351 thousand for exploration of the field during the exploration period;
- spend US$176 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US$220 thousand to finance social infrastructure;
- fund liquidation expenses equal to US$176 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.

33. 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 2018 and 2017 as the Group had no financial instruments with floating rates as at years ended 31 December 2018 and 2017.

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
2018		
US dollar thousand	**+ 60.00%**	12,001
US dollar thousand	**- 20.00%**	(4,000)
2017		
US dollar thousand	**+ 60.00%**	12,863
US dollar thousand	**- 20.00%**	(4,288)

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

As at 31 December 2018	**Tenge**	**Russian rouble**	**Euro**	**Other**	**Total**
Cash and cash equivalents	1,430	224	1,163	34	2,851
Trade receivables	16,231	–	–	–	16,231
Trade payables	(20,684)	(1,051)	(3,702)	(410)	(25,847)
Other current liabilities	(16,978)	(104)	(279)	(890)	(18,251)
	(20,001)	**(931)**	**(2,818)**	**(1,266)**	**(25,016)**

As at 31 December 2017	**Tenge**	**Russian rouble**	**Euro**	**Other**	**Total**
Cash and cash equivalents	17,350	23	2,727	364	20,464
Trade receivables	9,228	–	–	–	9,228
Trade payables	(27,153)	(1,098)	(5,394)	(348)	(33,993)
Other current liabilities	(20,864)	(379)	(519)	(2,095)	(23,857)
	(21,439)	**(1,454)**	**(3,186)**	**(2,079)**	**(28,158)**

Notes to the consolidated financial statements continued

33. Financial risk management objectives and policies continued

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 three notes: US$ 169 million issued in 2012 and maturing in 2019, US$ 184 million issued in 2014 and maturing in 2019 and US$ 725 million issued in 2017 and maturing in 2022. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

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

As at 31 December 2018	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	-	43,000	43,000	1,011,000	456,000	**1,553,000**
Trade payables	37,843	-	15,033	-	-	**52,876**
Other current liabilities	29,858	-	-	-	-	**29,858**
Due to Government of Kazakhstan	-	258	773	4,124	7,474	**12,629**
	67,701	**43,258**	**58,806**	**1,015,124**	**463,474**	**1,648,363**

As at 31 December 2017	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	20,482	61,445	1,297,688	1,900	**1,381,515**
Trade payables	43,593	–	13,262	–	–	**56,855**
Other current liabilities	17,274	–	–	–	–	**17,274**
Due to Government of Kazakhstan	–	258	773	4,124	8,505	**13,660**
	60,867	**20,740**	**75,480**	**1,301,812**	**10,405**	**1,469,304**

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 (negative) from Moody's rating agency and ING with a credit rating of P1 (stable) from Moody's rating agency at 31 December 2018. The Group does not guarantee obligations of other parties.

The Group sells its products and makes advance payments only to 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 2018**	31 December 2017	**31 December 2018**	31 December 2017
Financial liabilities measured at amortized cost				
Interest bearing borrowings	**1,129,600**	1,087,068	**722,377**	1,141,803
Finance lease liabilities	**-**	810	**-**	1,267
Total	**1,129,600**	**1,087,878**	**722,377**	**1,143,070**

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.

During the years ended 31 December 2018 and 2017 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 dividend payment to shareholders, return capital to shareholders or increase share capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

	For the year ended 31 December	
In thousands of US dollars	**2018**	2017
Interest bearing borrowings	**1,129,600**	1,087,878
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(128,774)**	(133,614)
Net debt	**1,000,826**	954,264
Equity	**556,999**	669,553
Total capital	**556,999**	669,553
Capital and net debt	**1,557,825**	1,623,817
Gearing ratio	**64%**	59%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

34. Events after the reporting period

There were no significant events between the reporting date and the date of publication.