Nostrum Oil & Gas PLC

Consolidated financial statements

For the year ended 31 December 2019

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

Disclaimer of opinion

We were engaged to audit the financial statements of Nostrum Oil & Gas PLC ('the Company') and its subsidiaries ('the Group') for the year ended 31 December 2019 which comprise:

Group	**Parent company**
Consolidated statement of financial position as at 31 December 2019	Statement of financial position as at 31 December 2019
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 35 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.

We do not express an opinion on the accompanying financial statements of the Group and Company. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

As disclosed in note 1 to the financial statements, the financial statements of the Group and Company are prepared on the assumption that the Group and Company will continue as a going concern.

With the outbreak of COVID-19 in the post-balance sheet period, and the uncertain demand for oil, the market price for the Group's products has fallen sharply and the outlook remains highly uncertain. There is a significant uncertainty in relation to the extent and period over which these developments will continue, but they will have a significant impact on the Group and Company's financial position, future cashflows and results of operations.

Management prepared a cash flow forecast to support their assessment that the Group and Company will continue as a going concern, including consideration of plausible downside scenarios. Management's assessment highlighted that the liquidity of the Group and Company is highly exposed to commodity prices. The Group's outstanding bonds, including coupon payments in the going concern period, will need to be restructured in the event conditions reflect commodity prices below management's base case. The prices assumed in management's base case are significantly above current market prices.

The ability of management to restructure the outstanding bonds is a key assumption supporting the Directors' conclusion that it is appropriate to prepare the financial statements of the Group and Company on a going concern basis. The directors were aware that there was a need to restructure the Group's outstanding bonds as it was clear to them that, under all reasonable assumptions, the Group would be unable to meet its US$725 million bond liability falling due in July 2022. This fact is disclosed in the viability statement on page 50 of the annual report. The sharp fall in the market price and demand of the Group's products in the post-balance sheet period, and the estimated impact on the Group's future cashflows, has accelerated the need to negotiate with bondholders and shareholders. A financial advisor has recently been selected; however, engagement with bondholders has not yet commenced. Consequently, we were unable to obtain sufficient appropriate audit evidence to support the assumption that a restructuring of the Group's bonds, including the deferral of associated interest due in the going concern period, is achievable in the necessary timeframe to provide a basis for us to issue an audit opinion on these financial statements.

The financial statements do not reflect any adjustments that would be required should the Group and Company be unable to continue as a going concern.

We are unable to conclude on principal risks, going concern and viability statement

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 significance of the matters described in the Basis for disclaimer of opinion section of our report means that we are unable to form a view on the adequacy or otherwise of:

- the disclosures in the annual report set out on pages 46 to 49 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 44 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 126 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 50 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.

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. In addition to the matter described in the Basis for disclaimer for opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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 72; the estimates, assumptions and judgements on page 133 and the disclosures in note 7 of the Consolidated Financial Statements (page 142) This was a significant risk due to the subjective nature of reserves estimates and the pervasive impact on the financial statements through impairment testing, 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 estimation due to the technical uncertainty in assessing reserves quantities. The estimation is potentially susceptible to management bias, including by recording revisions to estimates in the incorrect period. 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 the 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 oil and gas reserves estimation; • 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 that 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 estimates of reserves were made in the appropriate period, and in compliance with relevant industry standards. Specifically, we understood the circumstances leading to the reduction in reserves to assess whether it was as a result of new information or evidence of management bias in the prior year estimate; and • validated that the updated reserves estimates were appropriately included in the Group's consideration of impairment, the going concern assessment, in accounting for DD&A and the determination of decommissioning dates.	Based on the audit procedures performed we concluded that the reserves estimations are reasonable for use in impairment testing, management's going concern assessment, the calculation of DD&A and the determination of decommissioning dates. We did not identify any indication of management bias in the estimation process and we are satisfied that the reduction in reserves recorded in 2019 has been recorded in the correct period.
	We performed full scope audit procedures over this risk area in one location (Kazakhstan).	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of impairment of exploration licenses and oil & gas development and production fixed assets Refer to the Audit Committee Report on page 72; the estimates, assumptions and judgements on page 134 and the disclosures in notes 6 to 7 of the Consolidated Financial Statements (pages 141 to 143). Impairment charge in 2019 of US$1,354,651 thousand. At 31 December 2019 the carrying value of exploration licenses was nil: (2018: US$50,241 thousand); oil & gas development and production assets, including non-current advances: US$645,460 thousand (2018: US$1,895,431 thousand). Owing to the reduction in the Group's reserves estimates and continued oil price volatility, there is a significant risk of further impairment. We focused on this area due to the significance of the carrying value of the Cash Generating Unit ('CGU'), the current economic environment and the judgements 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. The recoverable amount of the CGU is sensitive to changes in key inputs and assumptions. As a result of the impairment recorded in 2018 here is no headroom in the carrying value of the CGU compared to its recoverable amount. The risk has increased compared with the prior year.	For exploration licenses we have evaluated management's assessment of each impairment trigger as 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 whether 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 whether any further spend on the exploration activities had been included. We discussed the intentions and strategy of the Group with senior management and Directors to confirm our understanding; • assessed whether the Group has the ability to finance future exploration and evaluation activity; and • 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. In addressing the risk of impairment of 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 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 and gas price assumptions to the relevant 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; • assessed whether the outcome of management's impairment assessment fell within the range of expected valuations based on the market value of the Group's equity and debt; • evaluated management's sensitivity analysis 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.	In our view the Group's reserves estimates, forecast costs and discount rate are appropriate and within reasonable ranges. The Group's oil and gas price assumptions are within reasonable ranges except for the Brent oil price in the short-term which is conservative based on the 31 December 2019 market position. However, we concluded that the estimated recoverable amount of the CGU fell within the range of acceptable valuations, including implied valuations based on the market value of the Group's equity and debt. We concluded it is appropriate to impair the Group's exploration and evaluation assets on the basis there is no longer a commercially viable plan to develop the exploration licenses. Based on the results of the audit procedures performed, we concluded that the impairment charge was reasonable and that the related disclosures provided in the Group's financial statements are appropriate.
	In addressing this risk, audit procedures were performed by the component team in Kazakhstan and the Group engagement team. By performing these procedures we obtained full coverage of the related balances.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition Refer to the Audit Committee Report on page 72; The Summary of significant accounting policies on page 140 and the disclosures in note 22 of the Consolidated Financial Statements (page 150) Revenue for the year ended 31 December 2019 amounts to US$322,128 thousand (2018: US$389,927 thousand). Revenue includes sales of 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 performed enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with the contractual terms. We also performed procedures that are designed to address the risk of manipulation of accounting records and the ability of management 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 receivables and where trade receivables were not cleared through cash. We assessed the appropriateness of these journals. Of the outstanding trade receivables due at the year-end, we confirmed the material balances with the relevant counterparties as well as tested that trade receivables were collected 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 analytical review procedures on each revenue stream using disaggregated data, by 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 concluded that revenue is recognised consistently with the terms of sales agreements. We also concluded that the financial statements disclosures with respect to revenue fulfilled 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.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of management override We evaluate the likelihood of management override occurring. We base our assessment on our understanding of the nature and risk of both management's opportunity and incentive to manipulate accounting records, earnings or financial ratios, or to misappropriate assets. We also specifically consider the potential impact on impairment testing. 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 estimates which relate to the risks of estimation of oil and gas reserves, impairment of non-current assets and revenue recognition. as highlighted above. Using our analytics tools, we tested manual and automated journal entries which included a selection of journals, with a focus on those journal entries that may impact the carrying value of the long-term assets and journals, 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 operational personnel 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 three components where we performed full scope audits.	

In the prior year, our auditor's report included a key audit matter in relation to the completeness of related party transactions and disclosures. In the current year, following the completion of the Gas Treatment Facility (GTU) 3 construction, there has been a significant reduction in the monetary amount of transactions between the subsidiaries of the Company and entities controlled by the shareholders with significant influence over the Group. Consequently, the completeness of related party transactions and disclosures no longer represents a key audit matter but remains an area of audit focus.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 109, 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.

Because of the significance of the matter described in the Basis for disclaimer of opinion section of our report, we have been unable to report as to whether:

- **Fair, balanced and understandable set out on page 109** – 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.

Notwithstanding our disclaimer of opinion on the Group and Company financial statements, we 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:

- **Audit committee reporting set out on page 72** – 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 60** – 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.

Because of the significance of the matter described in the Basis for disclaimer of opinion section of our report, we have been unable to form an opinion, whether, 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

Notwithstanding our disclaimer of an opinion on the financial statements, 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, performed subject to the pervasive limitation described above, 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.

Arising from the limitation of our work referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 109, 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 responsibility is to conduct an audit of the Group and Company's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

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 4 June 2019, as auditor of the Company to hold office until the conclusion of the next AGM of the Company, and signed an engagement letter on 10 January 2020. Our total uninterrupted period of engagement is six years covering periods from our appointment through to the period ended 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company and we remain independent of the Group and the Company in conducting the audit.

Our audit opinion is consistent with our additional report to the Audit Committee 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

William Binns
(Senior statutory auditor)

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

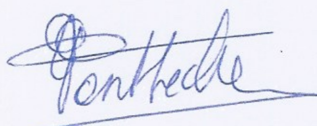
London, 30 April 2020

Consolidated statement of financial position

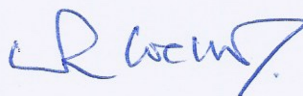
In thousands of US dollars	Notes	31 December 2019	31 December 2018
NON-CURRENT ASSETS			
Exploration and evaluation assets	6	–	50,241
Property, plant and equipment	7	**650,229**	1,919,662
Right-of-use assets	8	**6,875**	–
Restricted cash	13	**7,620**	7,021
Advances for non-current assets	9	**8,412**	15,466
Total Non-current assets		**673,136**	1,992,390
CURRENT ASSETS			
Inventories	10	**35,849**	29,583
Trade receivables	11	**31,239**	35,732
Prepayments and other current assets	12	**12,040**	20,014
Income tax prepayment		**90**	–
Cash and cash equivalents	13	**93,940**	121,753
Total Current assets		**173,158**	207,082
TOTAL ASSETS		**846,294**	2,199,472
	14		
SHARE CAPITAL AND RESERVES			
Share capital		**3,203**	3,203
Treasury capital		**(1,660)**	(1,660)
Retained (deficit) / earnings and reserves		**(433,627)**	555,456
Total Share capital and reserves		**(432,084)**	556,999
NON-CURRENT LIABILITIES			
Long-term borrowings	16	**1,100,453**	1,093,967
Lease liabilities, long-term	17	**641**	–
Abandonment and site restoration provision	18	**27,502**	21,894
Due to Government of Kazakhstan	19	**5,070**	5,280
Deferred tax liability	30	**42,787**	400,981
Total Non-current liabilities		**1,176,453**	1,522,122
CURRENT LIABILITIES			
Current portion of long-term borrowings	16	**35,633**	35,633
Lease liabilities, current portion	17	**6,735**	–
Employee share option plan liability	28	**4**	55
Trade payables	20	**27,638**	52,876
Advances received		**335**	394
Income tax payable		**263**	679
Current portion of due to Government of Kazakhstan	19	**1,031**	1,031
Other current liabilities	21	**30,286**	29,683
Total Current liabilities		**101,925**	120,351
TOTAL EQUITY AND LIABILITIES		**846,294**	2,199,472

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:

Kaat Van Hecke
Chief Executive Officer



Martin Cocker
Chief Financial Officer



The accounting policies and explanatory notes on pages 124 through 163 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 2019	2018
Revenue			
Revenue from export sales		**218,511**	296,034
Revenue from domestic sales		**103,617**	93,893
	22	**322,128**	389,927
Cost of sales	23	**(172,002)**	(165,145)
Gross profit		**150,126**	224,782
General and administrative expenses	24	**(21,399)**	(22,212)
Selling and transportation expenses	25	**(45,875)**	(49,984)
Taxes other than income tax	26	**(22,886)**	(29,702)
Impairment charge	4	**(1,354,651)**	(150,000)
Finance costs	27	**(43,047)**	(49,383)
Employee share options – fair value adjustment	28	**(584)**	1,320
Foreign exchange gain/(loss), net		**361**	(978)
Loss on derivative financial instrument		**–**	(12,387)
Interest income		**86**	514
Other income	29	**7,210**	4,374
Other expenses	29	**(12,490)**	(8,504)
Loss before income tax		**(1,343,149)**	(92,160)
Current income tax expense		**(4,972)**	(12,251)
Deferred income tax benefit/(expense)		**358,194**	(16,284)
Income tax benefit/(expense)	30	**353,222**	(28,535)
Loss for the year		**(989,927)**	(120,695)
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		**211**	(895)
Other comprehensive income/(loss)		**211**	(895)
Total comprehensive loss for the year		**(989,716)**	(121,590)
Loss for the year attributable to the shareholders (in thousands of US dollars)		**(989,927)**	(120,695)
Weighted average number of shares	15	**185,234,079**	185,234,079
Basic and diluted earnings per share (in US dollars)	15	**(5.34)**	(0.65)

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

The accounting policies and explanatory notes on pages 124 through 163 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

		For the year ended 31 December	
In thousands of US dollars	Notes	2019	2018
Cash flow from operating activities:			
Loss before income tax		**(1,343,149)**	(92,160)
Adjustments for:			
Depreciation, depletion and amortisation	23,24,25	**143,291**	117,081
Impairment charge		**1,354,651**	150,000
Finance costs	27	**43,047**	49,383
Employee share option plan fair value adjustment		**584**	(2,031)
Interest income		**(86)**	(514)
Net foreign exchange differences		**160**	33
Loss on disposal of property, plant and equipment		**96**	1,712
Payments under derivative financial instruments		**(3,741)**	(8,649)
Loss on derivative financial instruments		**–**	12,387
Provision for doubtful debts		**–**	(116)
Accrued expenses		**(5,096)**	–
Operating profit before working capital changes		**189,757**	227,126
Changes in working capital:			
Change in inventories		**(6,266)**	163
Change in trade receivables		**4,493**	(1,212)
Change in prepayments and other current assets		**5,494**	7,664
Change in trade payables		**3,949**	(3,183)
Change in advances received		**(59)**	(886)
Change in due to Government of Kazakhstan		**(1,031)**	(1,031)
Change in other current liabilities		**5,977**	(5,538)
Cash generated from operations		**202,314**	223,103
Income tax paid		**(5,477)**	(9,062)
Net cash flows from operating activities		**196,837**	214,041
Cash flow from investing activities:			
Interest received		**86**	514
Purchase of property, plant and equipment		**(114,762)**	(168,343)
Exploration and evaluation works	7	**(984)**	(2,518)
Advances for non-current assets		**(4,731)**	–
Acquisition of subsidiaries		**–**	(1,674)
Placement of bank deposits		**–**	(45,000)
Redemption of bank deposits		**–**	45,000
Net cash used in investing activities		**(120,391)**	(172,021)
Cash flow from financing activities:			
Finance costs paid		**(86,000)**	(81,111)
Issue of notes	16	**–**	397,280
Repayment of notes	16	**–**	(353,192)
Fees and premium paid for early repayment and on arrangement of notes	16	**–**	(9,496)
Payment of lease liabilities	17	**(14,856)**	(132)
Finance charges on lease liabilities	17	**(2,853)**	–
Transfer to restricted cash	13	**(599)**	(358)
Net cash used in financing activities		**(104,308)**	(47,009)
Effects of exchange rate changes on cash and cash equivalents		**49**	(209)
Net decrease in cash and cash equivalents		**(27,813)**	(5,198)
Cash and cash equivalents at the beginning of the year	13	**121,753**	126,951
Cash and cash equivalents at the end of the year	13	**93,940**	121,753

The accounting policies and explanatory notes on pages 124 through 163 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 / (deficit)	Total
As at 1 January 2018		**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	28	–	–	711	–	711
As at 31 December 2018		**3,203**	**(1,660)**	**262,233**	**293,223**	**556,999**
Loss for the year		–	–	–	(989,927)	(989,927)
Other comprehensive income		–	–	211	–	211
Total comprehensive loss for the year		–	–	211	(989,927)	(989,716)
Share based payments under LTIP	28	–	–	633	–	633
As at 31 December 2019		**3,203**	**(1,660)**	**263,077**	**(696,704)**	**(432,084)**

The accounting policies and explanatory notes on pages 124 through 163 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.

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
Zhaikmunai LLP	43/1 Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100

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 2019, the Group employed 636 employees (2018: 781 employees).

Subsoil use rights terms

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

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

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

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. On 16 August 2019, the contract was amended so as to adopt the terms of the current model contract and the exploration period was extended until 16 August 2022.

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 2019 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2019. 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; and
- 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; and
- 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.

Going concern

These consolidated financial statements have been prepared on a going concern basis.

The Group monitors on an ongoing basis its liquidity position, near-term forecasts and key financial ratios to ensure that sufficient funds are available to meet its commitments as they arise. In addition, on a quarterly basis the Group performs sensitivity tests of its liquidity position for changes in crude oil price, production volumes and timing of completion of various ongoing projects. While looking for new opportunities to fill the spare capacity of the Group's infrastructure, the Directors are also focused on a range of actions aimed at improving the liquidity outlook in the near-term. These include further cost optimization to reduce capital, operating and general & administration expenditures.

The base-case scenario of the going concern model has been prepared using a US$45/bbl oil price assumption for throughout 2020 and 2021. The base-case liquidity model shows that the Group will be able to operate as usual and have sufficient financial headroom for the 12 months from the date of approval of the Annual Report and Accounts.

As disclosed in Note 35, subsequent to the year-end the price of oil collapsed following a disagreement between OPEC+ countries on production levels compounded by the perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 ('COVID-19'). Whilst the OPEC+ countries, together with a wider group of producers have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price.

The Directors have also considered any additional risks of COVID-19. Oil and gas production has been classified as an essential business in Kazakhstan and so operations are continuing. Contingency plans have been put in place both to protect the workforce and ensure that there are sufficient personnel to continue operations. Therefore, the Directors have concluded that there is currently no other material impact on the Group's operations and liquidity at the time of publication of the report as a result of COVID-19. However, it is recognized that there is uncertainty around future developments of this matter which may affect the Group's ability to deliver the forecast production over 2020 and early 2021.

As a result of these uncertainties, we also ran a plausible downside scenario at US$30/bbl oil price, reflecting market conditions observed subsequent to the year-end, for the entire period covered by the model. This represents a scenario in which production is as forecast in the base case model but the post year end conditions continue for 12 months.

The results of the plausible downside scenario showed that in the near-term the Group's liquidity position is exposed to such a fall in oil prices. Without mitigating actions, a sustained period of low oil prices at $30/bbl would result in the Group being unable to cover its cash operating and interest costs in 2021. The Group's liquidity position is therefore exposed to events outside of the Group's control.

Therefore, the Group announced on March 31, 2020 that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds. The Group is in the process of selecting a financial advisor to commence negotiations with bondholders. The Group will require amendment in the short term to protect the liquidity of the Group within the going concern period, and restructuring to ensure ongoing viability. The results of any discussions with bond holders and shareholders are uncertain. In the event of sustained low oil prices envisaged in the plausible downside case, the company will require amendment to the payment terms within the bonds to take effect within the going concern period.

The Group is also taking other, prudent mitigating actions that can be executed in the necessary timeframe and which will protect liquidity. These include cancelling uncommitted capital expenditures over the period without having an impact on forecast production in the going concern period of assessment and identifying further reductions in operating costs and general & administration costs.

Therefore, in forming an assessment on the Group's ability to continue as a going concern, the Board has made significant judgements about:

- The forecast cash flow of the Group over the next 12 months from the date of approval of the financial statements depends on the duration of the low oil price environment and the Group's ability to implement the mitigating actions within the Group's control; and
- The Group's ability to successfully engage with its bondholders and shareholders regarding a restructuring of the Group's outstanding bonds.

These represent material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

After careful consideration of these material uncertainties, 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. For these reasons, they continue to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

Subsidiaries

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 Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, 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 16 Leases

IFRS 16 supersedes 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. The standard 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.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 without restating prior year figures. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. As a result, the primary statements are shown on IFRS 16 basis for 2019 and on IAS 17 for 2018, where the lease liability and corresponding right-of-use asset are based on future rentals as determined under the standard, and right of use assets were measured at amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease liabilities.

As previously noted, the Group has not restated comparative disclosures for the impact of IFRS 16. To provide meaningful comparatives, the IFRS 16 results have been split out to aid comparison period on period.

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

In thousands of US dollars	
Total operating lease commitments disclosed at 31 December 2018	10,848
Service agreements contracts reassessed as lease agreements under IFRS 16	27,397
Total lease liabilities before discounting	**38,245**
Discount using incremental borrowing rate	(4,061)
Total lease liability as at 1 January 2019	**34,184**

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The effect of adoption IFRS 16 is as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

In thousands of US dollars	1 January 2019
Right-of-use assets	34,184
Total non-current assets	**34,184**
Total assets	**34,184**
Current portion of long-term liability	17,967
Total current liabilities	17,967
Long-term lease liability	16,217
Total non-current liabilities	16,217
Total equity and liabilities	**34,184**

Impact on the statement of profit or loss (increase/(decrease)) for the year ended 31 December 2019:

In thousands of US Dollars	For the year ended 31 December 2019
Cost of sales	(292)
Gross profit	(292)
General and administrative expenses	369
Selling and transportation expenses	(495)
Finance costs	1,369
Loss before income tax	951
Deferred income tax benefit	(285)
Loss for the period	666

Impact on the statement of cash flows (increase/(decrease)) for the year ended 31 December 2019:

In thousands of US Dollars	For the year ended 31 December 2019
Net cash flows from operating activities	8,132
Net cash used in investing activities	9,577
Net cash used in financing activities	(17,709)

The impact on net cash used in investing activities is represented by the costs of using the drilling rigs, which were previously presented as "purchase of property, plant and equipment" within net cash used in investing activities, and which are now presented as lease payments within net cash used in financing activities with implementation of IFRS 16.

Nature of the effect of adoption of IFRS 16

The Group has contracts including lease components for vehicles, drilling rigs and rail tank cars. Before the adoption of IFRS 16, the Group recognised the expenses classified as lease under IAS 17 at the inception date as either a finance lease or an operating lease.

A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases or service agreements, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application, which was estimated at the rate of 11%.

Under IAS 17, the drilling and transportation contracts were fully recognised as service agreements and therefore not included in operating leasing. Such contracts for lease of drilling rigs and rail-tank cars include various additional services like personnel cost, maintenance, drilling related activities, and other items. Under IFRS 16, the Group has split the lease components and non-lease components and recognised such non-lease components separately. Where the additional services are not separately priced, the consideration paid has been allocated based on the relative stand-alone prices of the lease and non-lease components. The impact of recognition of the lease components of the service agreements amounted to US$28,356 thousand.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- The right-of-use assets were recognised based on the amount equal to the lease liabilities which were recognised based on the present value of the remaining lease payments;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Separation of lease and non-lease components

When contracts for lease (like lease of drilling rigs and rail-tank cars) include various additional services like personnel cost, maintenance, drilling related activities, and other items, the Group splits such non-lease components and recognises them separately. Where the additional services are not separately priced, the consideration paid is allocated based on the relative stand-alone prices of the lease and non-lease components.

Distinguishing fixed and variable lease payment elements

Certain lease contracts include fixed rates for when the asset is in operation, and various alternative rates (like “cold-stack rates” for leases of drilling rigs) for periods where the asset is engaged in specified activities or idle, but still under contract. In general, variability in lease payments under these contracts has its basis in different use and activity levels, and the variable elements have been determined to relate to non-lease components only. Consequently, the lease components of these contractual payments are considered fixed for the purposes of IFRS 16.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below US$ 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgements relating to leases

The application of IFRS 16 requires the Group to make judgements that affect the valuation of the lease liabilities and the related right-of-use assets, which include determining the contracts in scope of IFRS 16, and the interest rate used for discounting the future cash flows.

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option. Where a lease includes the option for the Group to extend or terminate lease, the Group makes a judgement as to whether it is reasonably certain that the option will be taken. This will take into account the length of the time before the option is exercisable, termination fees, and the level and type of planned future capital investments. The judgment is reassessed at each reporting date. A reassessment of the remaining life of the lease could result in a recalculation of the lease liability and a material adjustment to the associated balances.

IFRS 16 requires the Group to determine whether a contract is a lease or contains a lease at the inception of the contract. The assessment of whether a contract is or contains a lease is usually straightforward. However, judgement is required in applying the definition of a lease to certain arrangements. For example, in contracts for rent of drilling rigs that include significant services determining whether the contract conveys the right to direct the use of an identified asset required significant judgment.

The present value of the lease payment is determined using the discount rate representing the incremental borrowing rate calculated on the basis of the government bond applicable for the same tenor, adjusted by the country risk premium and by the average credit spread of the entities with rating similar to the Group’s rating, observed in the period when the lease contract commences or is modified.

More detailed information related to the carrying amounts of the Group’s right-of-use assets and lease liabilities and the movements during the period are shown in Note 8 and Note 17, respectively.

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.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those related to transfer pricing. The Group determined, based on its tax compliance studies, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

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. These amendments had no impact on the consolidated financial statements of the Group.

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

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, and early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group does not expect to pay dividends in the coming reporting period, these amendments had no 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 amendments had no impact on the 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

The exploration expenditure continues to be carried as an asset on the balances sheet if hydrocarbons are found and sufficient/continued progress is made in assessing whether those hydrocarbons can be commercially recovered, subject to further appraisal activity (e.g., the drilling of additional wells).

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 on 16 August 2022, 31 December 2021 and 31 December 2021, respectively. The Group's applications for extension of these exploration periods are under approval by the MOE. For more detailed information in relation to the subsoil use rights terms, please see Note 1.

Significant accounting judgement: Exploration expenditure

Management applied judgement when determining all three exploration fields as a single cash generating unit for the purpose of assessment of their recoverable amounts. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

The probable reserves for Rostoshinskoye and Darinskoye fields in the 31 December 2018 reserves report have been moved into the contingent resource category as of 31 December 2019 pending further appraisal. Taking this into account, the Group recognized an impairment charge for the full cost of exploration and evaluation assets equalling US$50,533 thousand (Note 6) as well as corresponding VAT receivables in the amount of US$2,478 thousand as of 31 December 2019.

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.

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 recoverable amount. 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 recoverable amount, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax rate.

Significant accounting judgment: identification of cash-generating unit

Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. Management has determined a single cash-generating unit within the Group's non-current assets consisting of all Group's assets related to its Chinarevskoye and exploration fields as well as facilities. This is mainly based on the fact that hydrocarbons extracted from the Chinarevskoye field are processed and passed through a combination of various facilities.

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, fiscal regimes, proved and probable reserves and respective future production profiles.

The recoverable amount is determined by taking the higher of the CGUs the value-in-use and fair value less costs of disposal 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. In 2019 the recoverable amount reflected the CGUs fair value less costs of disposal (2018: value in use). The discounted cash flow model takes into consideration cashflows, which are expected to arise until 2032, i.e. during the licence term of the Chinarevskoye field, and is considered a level 3 valuation under the fair value hierarchy. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers. The model does not take into account any cashflows from processing third-party hydrocarbons, since none of these meet the IFRS requirements for inclusion in the assessment of recoverable amount, considering their stage of development at the reporting date.

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$45/bbl for 2020, US$50/bbl for 2021, US$55/bbl for 2022, and US$60/bbl for 2023-2032 (2018: 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
- Post-tax discount rate of 10.5% (2018: pre-tax discount rate of 15.4%);

Considering the results of operational performance and the associated various analytical studies, the Company has decided to halt drilling in 2020 and focus on adding additional third-party gas streams through the gas treatment facility in the future. As per the Ryder Scott reserves report, further drilling is planned to take place on the Chinarevskoye field from late 2021, but this is dependent on Group being able to maintain sufficient liquidity to fund such a programme.

As a result of these changes, and consequential further significant reduction of the 2P reserves expected to be recovered from the Chinarevskoye field over the period of 2020-2032, in addition to oil price trends, the Group identified indicators of impairment. The CGUs recoverable amount was

estimated, and compared to its carrying amount, and a further impairment charge on oil and gas assets in the amount of US$1,301,640 thousand was recorded, in addition to the US$150,000 thousand impairment charge recognized in 2018.

In 2018 the impairment charge was first allocated against goodwill amounting to US$32,425 thousand (Note 5), in accordance with IFRS requirements, which cannot be reversed in future periods in accordance with accounting policy of the Group, and the remaining US$117,575 (Note 7) 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).

Following a consistent approach, the impairment charge in 2019 has been allocated between working oil & gas assets (US$1,169,828 thousand - Note 7), construction in progress (US$106,825 thousand - Note 7) and other property, plant and equipment (US$24,987 thousand - Note 7) proportionate to their carrying amounts at 31 December 2019, resulting in the recoverable amount of property, plant and equipment of US$650,229 thousand (2018: US$1,919,662 thousand), equalling its recoverable amount.

Considering the significant oil price decline subsequent to 31 December 2019 (see Note 35), the Group has analysed the sensitivity of the recoverable amount to a scenario where the oil price assumption is US$40/bbl throughout the license period and noted that this would result in a further impairment charge of US$256,388 thousand. Additionally, further downgrades of reserves by 10%, or an increase in the post-tax discount rate by 2% would lead to US$98,245 thousand and US$68,194 thousand additional impairment charge, respectively, while increase in field development and operating costs by 10% throughout the license period would lead to further impairment charge of US$65,122 thousand.

On the other hand, certain positive development like successful mitigation of reservoir risks in the future and respective changes in the drilling plans and results, with the relevant increase in 2P reserves, or increase in utilisation of the Group's processing facilities, could have the effect of reversing the impairment. Any reversal would be limited so that the carrying amount of the CGU does not exceed the lower of its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment charge been recognised for the CGU in prior years.

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 liabilities, based on reasonable estimates, for possible for possible additional tax charges that may be imposed by the tax authorities of the respective counties in which it operates. The amount of such liabilities 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 liabilities 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 2019 and 2018, please see Note 30.

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. As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate. 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 2019.

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, the Group provides for its best estimate of the amount of tax payable which it is considers probable, based on professional advice and consideration of the nature of current discussions with the tax authority. The Group does not provide for potential tax liabilities that it does not consider are probable to result in an outflow of funds.

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 30.

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
Zhaikmunai LLP	US dollar

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

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

All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

Advances for non-current assets

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

For more detailed information in relation to advances for non-current assets, please refer to Note 9.

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 2019 and 2018, please see Note 10.

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 33, 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 18.

Significant accounting judgment: provisions and contingencies

Provisions and liabilities are recognised 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 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 18.

Increase in inflation rate by 1% may result in increase of abandonment and site restoration provision by US$4,025 thousand and decrease in discount rate by 1% may result in US$4,042 thousand increase in the provision.

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.

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.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 16.

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.

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.

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 2019 and 2018, please see Note 13.

Revenue recognition

The Group sells crude oil, gas condensate and LPG under agreements priced by reference to Platt's and/or Argus' index quotations and adjusted for freight, insurance and quality differentials where applicable. The Group sells gas under agreements at fixed prices.

Revenue from 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 28.

5. Goodwill

As at 31 December 2019 and 31 December 2018, goodwill comprised the following due to business combinations:

In thousands of US dollars	**2019**	2018
Balance as at 1 January	**–**	32,425
Goodwill addition	**–**	(32,425)
Balance as at 31 December	**–**	–

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

As of 31 December 2018, 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 recognised. For information in relation to goodwill impairment testing, please see Note 4.

6. Exploration and evaluation assets

In thousands of US dollars	**31 December 2019**	31 December 2018
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**34,698**	34,406
Impairment of exploration and evaluation assets	**(50,533)**	–
	–	50,241

During the year ended 31 December 2019, the Group had additions to exploration and evaluation assets of US$920 thousand offset with derecognition of the capitalised social expenditures US$628 thousand in the view of the amendments to the subsoil agreement for Rostoshinskoye field (FY 2018: US$2,413 thousand). Interest was not capitalised on exploration and evaluation assets.

For information in relation to impairment testing, please see Note 4.

7. Property, plant and equipment

As at 31 December 2019 and 31 December 2018 property, plant and equipment comprised the following:

In thousands of US dollars	**31 December 2019**	31 December 2018
Oil and gas properties	**637,048**	1,879,965
Other property, plant and equipment	**13,181**	39,697
	650,229	1,919,662

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 2019 and 2018 was as follows:

In thousands of US dollars	Working assets	Construction in progress	Total
Balance at 1 January 2018, 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, depletion and impairment	**1,083,132**	**796,833**	**1,879,965**
Additions	15,044	151,837	166,881
Transfers	839,331	(842,083)	(2,752)
Disposals	(90)	–	(90)
Disposals depreciation	41	–	41
Depreciation and depletion charge	(130,344)	–	(130,344)
Impairment transfers	(43,234)	43,234	–
Impairment charge	(1,169,828)	(106,825)	(1,276,653)
Balance at 31 December 2019, net of accumulated depreciation, depletion and impairment	**594,052**	**42,996**	**637,048**
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, depletion and impairment	**1,083,132**	**796,833**	**1,879,965**
As at 31 December 2019			
Cost	2,883,488	156,422	3,039,910
Accumulated depreciation, depletion and impairment	(2,289,436)	(113,426)	(2,402,862)
Balance, net of accumulated depreciation, depletion and impairment	**594,052**	**42,996**	**637,048**

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 12.02% and 10.33% in 2019 and 2018, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2019. Depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (Note 18) in the year ended 31 December 2019 resulted in the increase of the oil and gas properties by US$4,354 thousand (31 December 2018: an decrease of US$2,809 thousand).The Group incurred borrowing costs including amortisation of arrangement fees.

Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	**31 December 2019**	31 December 2018
Borrowing costs including amortisation of arrangement fee	**92,543**	91,429
Capitalisation rate	**8.62%**	8.43%
Capitalised borrowing costs	**52,144**	50,286

Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2018, 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**
Additions	–	564	–	1,592	–	2,156
Transfers	135	25	–	2,592	–	2,752
Disposals	(33)	(68)	(16)	(482)	–	(599)
Disposals depreciation	33	26	7	463	–	529
Depreciation	(3,867)	(1,087)	(147)	(1,303)	–	(6,404)
Impairment charge	(16,147)	(2,291)	(326)	(6,223)	–	(24,987)
Translation difference	–	–	–	37	–	37
Balance at 31 December 2019, net of accumulated depreciation	**8,088**	**1,036**	**182**	**3,830**	**45**	**13,181**
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	1,676	16,513	45	89,004
Accumulated depreciation	(22,520)	(16,416)	(1,012)	(9,359)	–	(49,307)
Balance, net of accumulated depreciation	**27,967**	**3,867**	**664**	**7,154**	**45**	**39,697**
As at 31 December 2019						
Cost	50,589	20,804	1,660	20,252	45	93,350
Accumulated depreciation	(42,501)	(19,768)	(1,478)	(16,422)	–	(80,169)
Balance, net of accumulated depreciation	**8,088**	**1,036**	**182**	**3,830**	**45**	**13,181**

8. Right-of-use assets

In thousands of US Dollars	Machinery & equipment	Vehicles	Total
Balance at 1 January 2019, net of accumulated depreciation (unaudited)	**26,825**	**7,359**	**34,184**
Modification of lease agreements	(1,467)	(16)	(1,483)
Termination of lease agreements	(10,086)	–	(10,086)
Depreciation	(12,089)	(3,651)	(15,740)
Balance at 31 December 2019, net of accumulated depreciation	**3,183**	**3,692**	**6,875**
As at 31 December 2019			
Cost	7,642	7,339	14,981
Accumulated depreciation	(4,459)	(3,647)	(8,106)
Balance, net of accumulated depreciation	**3,183**	**3,692**	**6,875**

The right-of-use assets and lease liabilities are recognized for leases of vehicles, drilling rigs and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The right-of-use assets were recognised based on the amount equal to the lease liabilities.

As a result of the early termination of the drilling rigs lease agreements the relevant right-of-use assets and respective lease liabilities were derecognized with net result reflected within profit and loss.

See Note 17 for lease liabilities.

9. Advances for non-current assets

As at 31 December 2019 and 31 December 2018 advances for non-current assets comprised the following:

In thousands of US dollars	31 December 2019	31 December 2018
Advances for other non-current assets	**8,038**	1,818
Advances for pipes and construction materials	**274**	520
Advances for construction services	**100**	13,128
	8,412	15,466

Advances for non-current assets mainly comprised prepayments made to suppliers of services as part of the development of new opportunities (2018: primarily services and equipment for construction of a third unit for the Group's gas treatment facility). In the event that the new opportunities do not materialise as currently intended then the amounts will be written off.

10. Inventories

As at 31 December 2019 and 31 December 2018 inventories comprised the following:

In thousands of US dollars	31 December 2019	31 December 2018
Spare parts and other inventories	**23,574**	23,479
Gas condensate	**8,446**	4,197
Crude oil	**3,650**	1,761
LPG	**112**	126
Gas	**67**	20
	35,849	29,583

As at 31 December 2019 and 31 December 2018 inventories are carried at cost.

11. Trade receivables

As at 31 December 2019 and 31 December 2018 trade receivables were not interest-bearing and were mainly denominated in US dollars. Their average collection period is 30 days.

As at 31 December 2019 and 31 December 2018 there were neither past due nor impaired trade receivables. Based on the assessments made, the Group concluded that no provision for expected credit losses should be recognized as at 31 December 2019 and 2018.

12. Prepayments and other current assets

As at 31 December 2019 and 31 December 2018 prepayments and other current assets comprised the following:

In thousands of US dollars	31 December 2019	31 December 2018
VAT receivable	**3,186**	11,043
Advances paid	**6,035**	5,057
Other taxes receivable	**1,716**	2,949
Other	**1,103**	965
	12,040	20,014

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2019, advances paid in the amount of US$1,751 thousand were impaired and fully provided for. Below table provides the movements in the provision for impairment of advances paid:

In thousands of US dollars	Individually impaired
As at 31 December 2017	**1,867**
Charge for the year	(116)
As at 31 December 2018	**1,751**
Write-offs for the year	–
As at 31 December 2019	**1,751**

13. Cash and cash equivalents

In thousands of US dollars	**31 December 2019**	31 December 2018
Current accounts in US dollars	**88,420**	118,902
Current accounts in other currencies	**4,718**	1,445446
Current accounts in tenge	**791**	1,396
Petty cash	**11**	9
	93,940	121,753

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$7,620 thousand, consisting of US$805 thousand with Sberbank in Kazakhstan and US$6,815 thousand with Halyk bank (31 December 2018: US$7,021 thousand, consisting of US$658 thousand and US$6,363 thousand, respectively), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

14. Share capital and reserves

As at 31 December 2019, 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 GBP 0.01.

Number of shares	In circulation	Treasury capital	Total
As at 1 January 2018	**185,234,079**	**2,948,879**	**188,182,958**
Share options exercised	–	–	–
As at 31 December 2018	**185,234,079**	**2,948,879**	**188,182,958**
Share options exercised	–	–	–
As at 31 December 2019	**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 as trustee for the Nostrum Oil & Gas Benefit Trust. In the case of the ESOP, upon request from employees to exercise options, the trustee would sell shares on the market and settle respective obligations under the ESOP, and in the case of share settled LTIP awards, the trustee would transfer shares to the relevant LTIP award holder (although no LTIP awards are currently exercisable). The Nostrum Oil & Gas Benefit Trust constitutes a special purpose entity under IFRS and therefore, the shares held in the trust are recorded as treasury capital of the Company.

Other reserves of the Group include 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 thousand, that arose during the reorganisation of the Group. Also, other reserves include the foreign currency translation reserves in the amount of US$3,437 thousand accumulated before 2009, when the functional currency of Zhaikmunai LLP was Kazakhstani Tenge, as well as foreign currency translation reserves of other subsidiaries of the Group, which have functional currencies other than US Dollar as shown in the Note 4.

Distributions

During the years ended 31 December 2019 and 2018 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 2019 the book value per share amounted to US$2.30 negative (31 December 2018: US$2.96 positive).

15. 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	
	2019	2018
Loss for the year attributable to the shareholders (in thousands of US dollars)	**(989,927)**	(120,695)
Weighted average number of shares	**185,234,079**	185,234,079
Basic and diluted earnings per share (in US dollars)	**(5.34)**	(0.65)

16. Borrowings

Borrowings are comprised of the following as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	**31 December 2019**	31 December 2018
Notes issued in 2017 and maturing in 2022	**732,886**	727,447
Notes issued in 2018 and maturing in 2025	**403,200**	402,153
	1,136,086	1,129,600
Less amounts due within 12 months	**(35,633)**	(35,633)
Amounts due after 12 months	**1,100,453**	1,093,967

2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US$560,000 thousand notes (the "2012 Notes") maturing in 2019. 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 paid interest at a rate of 7.125% per year. Interest on the 2012 Notes was payable on 14 May and 13 November of each year, beginning on 14 May 2013. The 2012 Notes were fully repurchased by the Group through issue of the 2017 Notes and the 2018 Notes as described below.

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") maturing in 2019. 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 paid interest at a rate of 6.375% per annum. Interest on the 2014 Notes was payable on 14 February and 14 August of each year, beginning on 14 August 2014. The 2014 Notes were fully repurchased by the Group through issue of the 2017 Notes and the 2018 Notes as described below.

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 12 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.

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, 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 recognised 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.

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 Notes), 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 the 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 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 27). 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 2017 Notes and 2018 Notes

The 2017 and the 2018 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions and qualifications, the ability of the 2017 Issuer, the 2018 Issuer, the 2017 Guarantors, the 2018 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.

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

Changes in liabilities arising from financing activities

In thousands of US dollars	1 January	Impact of IFRS 9 adoption	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Finance charges under finance leases	Modification and termination of leases	Other	31 December
2019									
Long-term borrowings	**1,093,967**	–	–	–	6,486	–	–	–	**1,100,453**
Current portion of long-term borrowings	**35,633**	–	–	(86,000)	86,000	–	–	–	**35,633**
Lease liabilities, long-term	**16,011**	–	–	–	–	1,351	(11,952)	(4,769)	**641**
Lease liabilities, current portion	**18,173**	–	–	(17,709)	–	1,502	–	4,769	**6,735**
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**	–	–	(81,111)	85,539	135	–	(267)	**35,633**

17. Lease liabilities

In thousands of US Dollars	For the year ended 31 December 2019
Lease liability as at 1 January	**34,184**
Modification of lease agreements	(1,483)
Terminations of lease agreements	(10,469)
Finance charges	2,853
Paid during the period	(17,709)
	7,376
Less: current portion of lease liability	(6,735)
Long-term lease liability as at 31 December	**641**

The lease liabilities are recognized for leases of vehicles, drilling rigs, and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The finance lease was recognised based on the future rentals as determined under IFRS 16. See Note 8 for right-of-use assets.

As a result of the early termination of the drilling rigs lease agreements the relevant right-of-use assets and respective lease liabilities were derecognized with net result reflected within profit and loss.

The total cash outflows in respect of the Group's lease arrangements was US$ 18,431 thousand for the year ended 31 December 2019 (2018: US$6,498 thousand).

18. Abandonment and site restoration provision

The summary of changes in abandonment and site restoration provision during years ended 31 December 2019 and 2018 is as follows:

In thousands of US dollars	2019	2018
Abandonment and site restoration provision as at 1 January	**21,894**	23,590
Unwinding of discount	**164**	321
Additional provision	**1,100**	792
Provision used	**(10)**	–
Change in estimates	**4,354**	(2,809)
Abandonment and site restoration provision as at 31 December	**27,502**	21,894

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 2019 were 1.9% and 2.49%, respectively (31 December 2018: 2.30 % and 4.33 %).

The change in the long-term inflation rate and discount rate in the year ended 31 December 2019 resulted in the increase of the abandonment and site restoration provision by US$4,354 thousand (31 December 2018: the decrease by US$2,809 thousand). See Note 4 for sensitivity analysis.

19. Due to government of Kazakhstan

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

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

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2019 and 31 December 2018 is as follows:

In thousands of US dollars	2019	2018
Due to Government of Kazakhstan as at 1 January	**6,311**	6,497
Unwinding of discount	**821**	845
Paid during the year	**(1,031)**	(1,031)
	6,101	6,311
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,070**	5,280

20. Trade payables

Trade payables comprise the following as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	31 December 2019	31 December 2018
Tenge denominated trade payables	**12,852**	20,684
US dollar denominated trade payables	**9,864**	26,951
Euro denominated trade payables	**4,617**	3,702
Russian rouble denominated trade payables	**170**	1,051
Trade payables denominated in other currencies	**135**	488
	27,638	52,876

21. Other current liabilities

Other current liabilities comprise the following as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	31 December 2019	31 December 2018
Training obligations accrual	**11,325**	11,609
Accruals under the subsoil use agreements	**8,867**	7,856
Taxes payable, other than corporate income tax	**5,564**	5,419
Due to employees	**3,010**	2,181
Other current liabilities	**1,520**	2,618
	30,286	29,683

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.

22. Revenue

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Oil and gas condensate	**196,176**	267,815
Gas and LPG	**125,947**	122,112
Sulphur	**5**	–
	322,128	389,927

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 2019 was US$64.2 (FY 2018: US$71.7).

During the year ended 31 December 2019 the revenue from sales to three major customers amounted to US$190,343 thousand, US$95,064 thousand and US$9,252 thousand respectively (FY 2018: US$258,898 thousand, US$80,499 thousand and US$11,924 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.

23. Cost of sales

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Depreciation, depletion and amortisation	**136,776**	115,212
Payroll and related taxes	**18,465**	18,326
Repair, maintenance and other services	**14,242**	16,133
Materials and supplies	**4,481**	5,253
Other transportation services	**2,129**	6,116
Well workover costs	**1,766**	2,767
Environmental levies	**167**	367
Change in stock	**(6,228)**	134
Other	**204**	837
	172,002	165,145

24. General and administrative expenses

In thousands of US dollars	For the year ended 31 December 2019	2018
Payroll and related taxes	**10,162**	11,292
Professional services	**4,966**	4,346
Depreciation and amortisation	**2,026**	1,869
Insurance fees	**1,256**	1,570
Short-term leases	**722**	846
Business travel	**617**	774
Communication	**276**	357
Materials and supplies	**170**	168
Bank charges	**133**	165
Other	**1,071**	825
	21,399	22,212

25. Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December 2019	2018
Loading and storage costs	**11,783**	18,881
Transportation costs	**12,405**	15,017
Marketing services	**10,554**	10,963
Depreciation	**4,489**	–
Payroll and related taxes	**2,293**	2,565
Other	**4,351**	2,558
	45,875	49,984

Depreciation expense is related to the right-of-use assets recognized under IFRS 16 in respect of the rented rail-tank cars effective from 1 January 2019, the corresponding lease expenses were previously included in transportation costs for the year ended 31 December 2018.

26. Taxes other than income tax

In thousands of US dollars	For the year ended 31 December 2019	2018
Royalties	**12,802**	15,155
Export customs duty	**7,281**	11,233
Government profit share	**2,802**	3,277
Other taxes	**1**	37
	22,886	29,702

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.

27. Finance costs

In thousands of US dollars	For the year ended 31 December 2019	2018
Interest expense on borrowings	**40,399**	41,143
Transaction costs	**–**	6,648
Unwinding of discount on lease liabilities	**1,369**	134
Unwinding of discount on amounts due to Government of Kazakhstan	**821**	845
Unwinding of discount on abandonment and site restoration provision	**164**	399
Other finance costs	**294**	214
	43,047	49,383

For more information on the transaction costs please see Note 16.

28. Employees' remuneration

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

	2019	2018
Management and administrative	**177**	182
Technical and operational	**601**	704
	778	886

Their aggregate remuneration comprised:

In thousands of US dollars	2019	2018
Wages and salaries	**33,655**	35,274
Social security costs	**3,692**	4,537
Share-based payments	**584**	727
	37,931	40,538

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$31,784 thousand (FY 2018: US$33,180 thousand).

Key management personnel remuneration

In thousands of US dollars	2019	2018
Short-term employee benefits	**5,210**	3,819
Share-based payments	**155**	222
	5,365	4,041

Directors' remuneration

In thousands of US dollars	2019	2018
Short-term employees benefits	**3,471**	2,056
Share-based payments	**121**	148
	3,592	2,204

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.

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.

During 2008-2015, 4,337,958 equity appreciation rights (SARs) which can only be settled in cash were granted to senior employees and executive directors of members of the Group or their associates. These generally vest over a five year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a trinomial lattice valuation option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting until 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 1,225,000 of SARs at 31 December 2019 is nil (31 December 2018: 1,925,974 of SARs with carrying value of US$40 thousand). During the year ended 31 December 2019 8,000 SARs were fully vested (FY 2018: 8,000 SARs were fully vested). Based on the estimations of the carrying value of the liability, during the year ended 31 December 2019 the Group recognized income from employee share options fair value adjustment in the amount of US$40 thousand (2018: income of US$2,046 thousand).

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

	2019		2018	
	No.	EP,US$	No.	EP,US$
Total outstanding at the beginning of the year (with EP of US$ 4)	**800,974**	**4**	946,153	4
Total outstanding at the beginning of the year (with EP of US$ 10)	**1,125,000**	**10**	1,265,000	10
Total outstanding at the beginning of the year	**1,925,974**		2,211,153	
Share options lapsed	**(700,974)**	**4**	(145,179)	4
Share options lapsed	**–**	**10**	(140,000)	10
Total outstanding at the end of the year	**1,225,000**		1,925,974	
Total exercisable at the end of the year	**1,201,000**		1,893,974	

There were no SARs granted or exercised during the years ended 31 December 2019 and 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 2019 and 2018:

	2019	2018
Price at the reporting date (US$)	**0.2**	1.0
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**53.5%**	44.0%
Risk-free interest rate (%)	**0.3%**	0.8%
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.

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 2018 and 2019:

	Equity-settled awards	Cash-settled awards	Total awards
As at 1 January 2018	**1,121,587**	**69,697**	**1,191,284**
Share options granted	1,095,691	67,349	1,163,040
Share options performance adjusted	(542,120)	(38,140)	(580,260)
Share options forfeited	(106,235)	–	(106,235)
Share options lapsed	(24,670)	–	(24,670)
As at 31 December 2018	**1,544,253**	**98,906**	**1,643,159**
Share options performance adjusted	(1,058,073)	(67,349)	(1,125,422)
Share options forfeited	(19,070)	–	(19,070)
As at 31 December 2019	**467,110**	**31,557**	**498,667**

After adjusting for the nonachievement of performance conditions explained below, 498,667 share options are capable of vesting as of 31 December 2019 and 369,785 share options were vested as of 31 December 2019, in accordance with the management's best estimate. These represent a portion of 1,101,342 share options with a grant date of 10 October 2017, for which 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 a further 1,163,040 share options, however due to the performance conditions not being met none of these share options are capable of vesting.

The carrying value of the liability relating to 31,557 cash-settled share-options at 31 December 2019 is US$4 thousand (31 December 2018: 98,906 share options with carrying value of US$15 thousand). Based on the estimations of the carrying value of the liability, during the year ended 31 December 2019 the Group recognized loss from employee share options fair value adjustment in the amount of US$11 thousand (2018: loss of US$15 thousand).

In accordance with the management's best estimate 369,785 share options were vested as at 31 December 2019. The fair value of the equity-settled share options at the valuation dates of 28 November 2018 and 23 March 2018 amounted to US$ 1.25 and US$ 2.76 per share option, respectively. Based on these estimations, during the year ended 31 December 2019 the Group recognized employee share option expense in the amount of US$633 thousand (2018: US$711 thousand).

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 reporting date	**1.25**	2.76
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 may not necessarily be the actual outcome. The model considers that when share price reaches the level of exercise price multiplied by the price trigger the employees are expected to exercise their options.

29. Other income and expenses

For the year ended 31 December 2019 other income mainly represented income from reversal of accruals under subsoil use agreements and other accruals for the total amount of US$5,007 thousand (2018: US$1,408 thousand) recognized in previous periods, as well as income from sales of electricity in the amount of USD$42 thousand (2018: US$1,348 thousand).

Other expenses comprise the following for the years ended 31 December 2019 and 2018:

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Compensation	**3,576**	–
Accruals under subsoil use agreements	**3,054**	–
Training	**2,808**	2,440
Business development	**1,495**	–
Social program	**313**	300
Sponsorship	**77**	53
Other accruals	**–**	2,691
Loss on disposal of property, plant and equipment	**–**	1,709
Other	**1,167**	1,311
	12,490	8,504

Accruals under subsoil use agreements mainly include net amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields. Compensation includes the costs related to early termination of agreements for use of drilling rigs.

30. Income tax

The income tax expense comprised the following:

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Corporate income tax expense	**4,146**	12,490
Withholding tax expense	**898**	612
Deferred income tax (benefit)/expense	**(358,194)**	16,284
Adjustment in respect of the current income tax for prior periods	**(72)**	(851)
Total income tax (benefit)/expense	**(353,222)**	28,535

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

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Loss before income tax	**(1,343,149)**	(92,160)
Tax rate applicable to the subsoil use rights	**30%**	30%
Expected tax benefit	**(402,945)**	(27,648)
Effect of exchange rate on the tax base	**13,302**	18,284
Adjustments in respect of current income tax of previous years	**(72)**	(851)
Effect of (income)/loss taxed at different rate[1]	**(121)**	473
Non-deductible interest expense on borrowings	**26,210**	23,847
Non-deductible impairment charges	**9,012**	9,728
Deferred tax asset not recognised	**228**	3,891
Non-deductible penalties reversals/(accruals)	**484**	(204)
Net foreign exchange loss	**(109)**	(1,261)
Non-deductible social expenditures	**81**	203
Non-deductible cost of technological loss	**209**	224
Other non-deductible expenses	**499**	1,849
Income tax (benefit)/expense	**(353,222)**	28,535

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 2019 is 26.2% (2018: negative 31.0%). The Group's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2019 is 29.2% (2018: 23.9%).

As at 31 December 2019, the Group has tax losses of US$103,624 thousand (2018: US$104,185 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 2019**	31 December 2018
Deferred tax asset		
Accounts payable and provisions	**8,835**	4,910
Deferred tax liability		
Inventories (change in stock)	**(3,648)**	–
Property, plant and equipment	**(42,761)**	(398,115)
Long-term borrowings	**(5,213)**	(7,776)
Net deferred tax liability	**(42,787)**	(400,981)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	**2019**	2018
Balance as at 1 January	**400,981**	381,595
Impact of adopting IFRS 9	**–**	3,102
Restated opening balance under IFRS 9	**–**	384,697
Current period (benefit)/charge in the statement of income	**(358,194)**	16,284
Balance as at 31 December	**42,787**	400,981

31. 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 2019 and 31 December 2018 consisted of the following:

In thousands of US dollars	**31 December 2019**	31 December 2018
Trade receivables and advances paid		
JSC OGCC KazStroyService	**–**	11,408

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2019 and 31 December 2018 consisted of the following:

In thousands of US dollars	**31 December 2019**	31 December 2018
Trade payables		
JSC OGCC KazStroyService	**430**	11,420

During the years ended 31 December 2019 and 2018, 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	**2019**	2018
Purchases		
JSC OGCC KazStroyService	**11,322**	13,975

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 fourteen supplemental agreements since 28 July 2014, the “Construction Contract”).

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2019 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$5,210 thousand for the year ended 31 December 2019 (FY 2018: US$3,819 thousand). There were not payments to key management personnel under ESOP for the year ended 31 December 2019 (FY 2018: US$151 thousand).

32. Audit and non-audit fees

During the years ended 31 December 2019 and 2018 audit and non-audit fees comprise the following:

In thousands of US dollars	2019	2018
Audit of the financial statements	**491**	292
Total audit services	**491**	292
Audit-related assurance services	**171**	190
Services relating to corporate transactions	**578**	307
Other non-audit services	**4**	1
Total non-audit services	**753**	498
Total fees	**1,244**	790

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

33. 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 2019. As at 31 December 2019 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 2019, the Group had contractual capital commitments in the amount of US$27,552 thousand (31 December 2018: US$131,373 thousand), mainly in respect to the Group's oil field exploration and development activities.

Social and education commitments

As required by the Contract (after its amendment on 2 September 2019), 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 the 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 the Rostoshinskoye field (as amended on 16 August 2019) require the subsurface user to:

- invest at least US$10,982 thousand for exploration of the field during the exploration period;
- create a liquidation fund to cover the Group's asset retirement obligations.

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

- invest at least US$19,443 thousand for exploration of the field during the exploration period;
- spend US$147 thousand to finance social infrastructure;
- fund liquidation expenses equal to US$177 thousand.

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

- invest at least US$20,151 thousand for exploration of the field during the exploration period;
- spend US$146 thousand for the education of personnel engaged to work under the contract during the exploration stage;
- spend US$147 thousand to finance social infrastructure;
- fund liquidation expenses equal to US$202 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.

34. 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 summarised 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 2019 and 2018 as the Group had no financial instruments with floating rates as at years ended 31 December 2019 and 2018.

Foreign currency risk

As a significant portion of the Group's operation is 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, i.e. devaluation of Tenge against US dollar by 60% would lead to decrease in the net Tenge liability position by US$670 as of 31 December 2019 and respective reduction of the loss before income tax for the year ended 31 December 2019. 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
2019		
US dollar thousand	**+ 60.00%**	1,253
US dollar thousand	**– 20.00%**	(835)
2018		
US dollar thousand	**+ 60.00%**	7,500
US dollar thousand	**– 20.00%**	(5,000)

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

As at 31 December 2019	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	797	107	4,003	613	5,520
Trade receivables	24,276	–	–	–	24,276
Trade payables	(12,852)	(170)	(4,617)	(135)	(17,774)
Other current liabilities	(15,561)	(53)	(1,131)	(828)	(17,573)
	(3,340)	**(116)**	**(1,745)**	**(350)**	**(5,551)**

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)**

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 total outstanding debt consists of two notes: US$725 million issued in 2017 and maturing in 2022 and US$400 million issued in 2018 and maturing in 2025. Based on these assessments and other matters considered by the Board through viability assessment, the Board could not reach the conclusion that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022. The Board therefore highlighted that the Viability assessment shows significant risks to the Groups ability to continue in operations and repay its liabilities in 2022. For more information on analysis of the Group's ability to meet its liabilities on repayment of the Notes please see "Viability statement" section on the Annual report on page 50.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 and 31 December 2018 based on contractual undiscounted payments:

As at 31 December 2019	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	43,000	43,000	953,000	414,000	**1,453,000**
Lease liabilities	6,735	641	–	–	–	**7,376**
Trade payables	21,685	–	5,953	–	–	**27,638**
Other current liabilities	30,286	–	–	–	–	**30,286**
Due to Government of Kazakhstan	–	258	773	4,124	6,443	**11,598**
	58,706	**43,899**	**49,726**	**957,124**	**420,443**	**1,529,898**

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	442,000	**1,539,000**
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**	**449,474**	**1,634,363**

Credit risk

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

The Group places its tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba1 (stable) from Moody's rating agency and ING with a credit rating of P1 (stable) from Moody's rating agency at 31 December 2019. 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. Also, the Group's policy is to mitigate the payment risk on its off-takers by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.

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 2019**	31 December 2018	**31 December 2019**	31 December 2018
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**1,136,086**	1,129,600	**526,156**	722,377
Total	**1,136,086**	1,129,600	**526,156**	722,377

Management assessed that cash and cash equivalents, current investments, trade receivables, trade payables, lease liabilities 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 2019 and 2018 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Capital management

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

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

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the 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	**2019**	2018
Interest bearing borrowings	**1,136,086**	1,129,600
Less: cash and cash equivalents, and current and non-current investments	**(93,940)**	(121,753)
Net debt	**1,042,146**	1,007,847
Equity	**(432,084)**	556,999
Total capital	**(432,084)**	556,999
Capital and net debt	**610,062**	1,564,846
Gearing ratio	**171%**	64%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

35. Events after the reporting period

OPEC and non-OPEC allies

On 6 March 2020, OPEC and non-OPEC allies (OPEC+) met to discuss the need to cut oil supply to balance oil markets in the wake of the COVID-19 outbreak which has had a material impact on oil demand. The parties failed to reach agreement on 7 March 2020, and Saudi Aramco aggressively cut its Official Selling Prices (OSP) in an attempt to prioritise market share rather than price stability and effectively started a price war. As a result, on 9 March 2020, Brent oil prices fell by around 20%, and the forward curve for 2020 and 2021 fell to approximately $38/bbl and $43/bbl respectively. This was compounded by a perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 ('COVID-19'). Whilst the OPEC+ countries together with a wider group of producers have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price. These events continue to have an impact on oil price volatility with spot prices for Brent reaching a low of $20/bbl in March 2020. The Group's realised oil prices for January and February 2020 averaged around $55/bbl.

Coronavirus outbreak

The existence of COVID-19 was confirmed in early 2020 and has spread across China and beyond, causing disruptions to businesses and economic activity. Governments in affected countries are imposing travel bans, quarantines and other emergency public safety measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak. Currently, the employees of the European offices of the Group are working from home due to travel restrictions imposed by respective governments. The Group's offices and facilities in Kazakhstan remain open with certain travel restrictions in place, but necessary workers are able to operate and maintain the assets to the high standards. The ultimate severity of the Covid-19 outbreak is uncertain at this time, and therefore the Group cannot reasonably estimate the impact it may have on future operations.

There is a significant uncertainty in relation to the extent and period over which these developments will continue, but they could have a significant impact on the Group's financial position, future cashflows and results of operations. For more details as to how these uncertainties have been considered in preparing these financial statements, please see the 'Viability Statement' and the 'Going Concern' section of the Financial Review (see pages 50 and 54 of the Annual Report).

In addition, the significant estimates and judgements that will be made in preparing future financial statements may also be impacted if the current macro-economic uncertainty continues and estimates of long-term commodity prices decrease. In particular, we expect the impact to be as follows:

- The estimated recoverable amount of our cash generating unit related to the Chinarevskoye field and related facilities would reduce. An additional impairment could be required as the CGU was impaired in 2019 and so is sensitive to changes in commodity prices as described in Note 4; and
- The estimate of oil and gas reserves would be lower if the long-term planning price on which our estimates of reserves are based decreases.

Engagement with bondholders

On 31 March 2020 the Group announced that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds.