Zhaikmunai LLP
2014 Annual Report

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AN INTRODUCTION TO ZHAIKMUNAI

Background

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

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

Subsidiaries

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

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

Group structure and affiliates

In June 2014, the Group underwent a full corporate restructuring. Nostrum Oil & Gas LP, which had been the parent company of the Group, was replaced as parent company of the Group by Nostrum Oil & Gas PLC. This restructuring required a number of steps, including cancellation of the Group’s GDRs and replacing the GDRs with ordinary shares of Nostrum listed on the main board of the London Stock Exchange. There are currently a number of intermediary companies between Zhaikmunai LLP and its parent, Nostrum. This structure is currently being simplified. The structure chart as at the date of this report can be found in additional disclosures.

How we are performing

Zhaikmunai LLP’s simple and sustainable strategy has first allowed us to maintain steady production. We look forward to continuing this whilst we move towards completion of our second gas plant and a doubling of our production capacity.

Who we are

Zhaikmunai LLP is an independent oil and gas limited liability partnership engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin.

We recognise that our financial and operational targets need to be pursued in a responsible way and we believe that our track record clearly demonstrates the successful achievement of our strategic goals.

Whilst we continue to make progress towards our financial and operational goals, we have developed a simple strategy that will allow us to successfully deliver the near term growth we have targeted, combined with long-term, sustainable value creation.

What we do

We focus on creating long-term value for the holders of our participatory interests through the development and discovery of oil and gas reserves, as well as the production and sale of crude oil, stabilised condensate, LPG and dry gas. Our highly skilled management team has managed the investment of over US$1.5 billion in our licence area since 2004 delivering on a number of infrastructure projects as well as significantly expanding the reserve base over the last ten years through our own appraisal work, as well as successful M&A activity.

Our commercial products

Our range of products are crude oil, stabilised liquid condensate, LPG and dry gas. Currently all our production comes from the Chinarevskoye licence. We have invested in developing our own infrastructure to control the transportation of our products until they reach the final off-taker, which serves a wide network of destinations and off-takers, helping to ensure we always obtain the best possible prices.

Key statistics

Production – 44,400 boepd
Revenue – US$782m
EBITDA – US$515.4m
2P Reserves – 571 mboe

Average daily production rates

We have increased production every year from 2004 – 2013 when full capacity of our processing facilities was achieved. The 2014 production from the Chinarevskoye licence of 44,400 boepd will remain broadly steady for 2015 and only represents half of what we are aiming to achieve from the field. We are currently working to increase our processing capacity, allowing us to more than double production.

Market Positioning

We are in a unique position in the market; with our front-loaded investment programme meaning we are now a leader in terms of infrastructure in the region, with the ability to process significant volumes of raw gas via our gas treatment facility. In addition, our advantageous location in north-west Kazakhstan places us closer to our final off-take destinations, such as the Black Sea ports and Finland.

Reserves

Ryder Scott completed a report containing an update on Zhaikmunai LLP's reserves in December 2014. This report included the reserves at Chinarevskoye and the three additional licences acquired in 2013.
1P – 192.2 mmboe
2P – 571.1 mmboe

FY 2014 Product Mix %

Crude oil and condensate – 42%
LPG – 10%
Dry gas – 48%

For more information on reserves, please see our website: www.nog.co.uk

A SIMPLE INVESTMENT CASE

A Simple Investment Case

Zhaikmunai LLP has developed a world-class portfolio of assets in north-west Kazakhstan. The front-loaded investment programme has been the foundation on which strong production growth has been built, allowing Zhaikmunai LLP to enjoy sustainable cash flow during challenging conditions.

Stable financial platform with strong cash flows and flexibility

Zhaikmunai LLP generated US$375.4 of operating cash flow in 2014. In addition, the Group ended the year with over US$386.4 million of cash[1] on its balance sheet and a hedge on 7,500 bopd until February 2016 at US$85 per barrel. This places Zhaikmunai LLP in a strong position within the E&P space as a business with significant cash reserves despite the more challenging oil price environment.

Over half a billion of 2P reserves

With 571.1 million of 2P reserves and production of more than 16 million barrels of oil equivalent per year, we provide a unique combination of significant production and reserve upside along with strong operational cash flow.

Steady levels of production

2014’s average daily production was 44,400 – remaining broadly constant with 2013 levels.

World-Class assets

We have four licence areas, all located in the Pre-Caspian Basin to the northwest of Uralsk. Zhaikmunai LLP’s current producing asset is the Chinarevskoye field and the three additional licences are all located within 60-120km of the field.

<u>Simple business case, successful model and sustainable strategy</u>

We have a clear strategy, based on a solid foundation and compelling business case. We will deliver near term production growth, with preparations to double production capacity by the end of 2016 well underway.

In addition, with our continued appraisal of the existing Chinarevskoye field and our three additional licences we are continually transferring reserves to the 1P category, aiming for 700m boe of proved reserves. This will allow us to maintain production above 100,000 boepd up until the end of the Chinarevskoye licence (2031-2033).

We are also constantly looking at areas to make additional acquisitions that would further expand the reserve base. This would be both within reach of our existing infrastructure and further afield in Kazakhstan.

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[1] *Cash on the balance sheet is defined as cash and cash equivalents including current and non-current investments.*

Strong governance and responsibility

We are committed to achieving the highest possible standard of corporate governance and social responsibility and are aiming for a positive and lasting contribution to the areas in which we operate, with a focus on delivering sustainable value to holders of our participatory interests into the future.

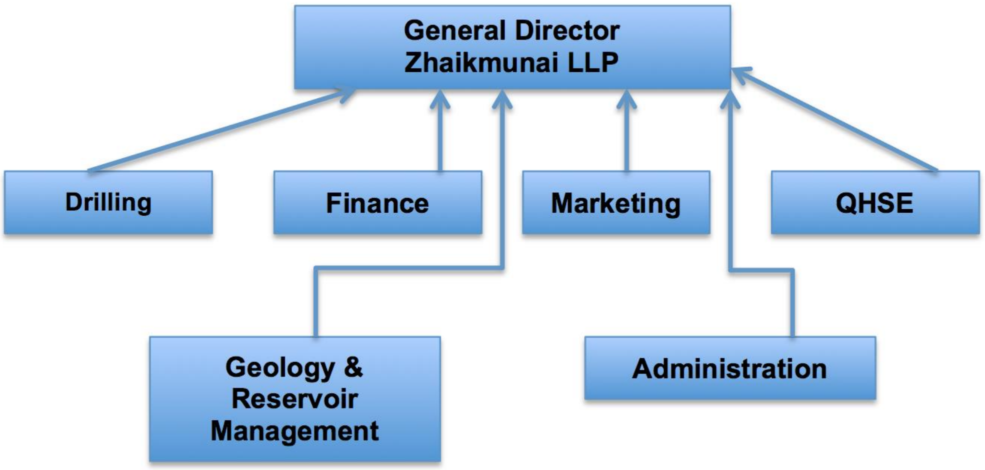
Experienced management team

We are confident in the ability of our experienced and dedicated management team, who have expertise in operating in Kazakhstan, to deliver on our clear strategy.

OPERATING STRUCTURE

Operating structure

The main divisions involved in the operational activity of Zhaikmunai LLP are displayed on the interaction chart below. All divisions report to the General Director. There were no developments in this operating structure in 2014. The key management principles are set out in “Risk Assessment and Management” in the “Risk Management” section.



Where we operate

Our main operational facilities are located at the 274 square kilometre Chinarevskoye field in northwest Kazakhstan. We now have three additional licenses, all within a 120km radius of this location. This advantageous location is core to our business case, allowing us to leverage our existing infrastructure and operating and development teams.

Transportation dynamics and routes

Crude

Crude oil is transported through our own liquids pipeline directly from the field site. 15% is sold domestically and the remainder is sold through our rail terminal to various destinations in Finland and through the Black Sea ports.

Condensate

Condensate is transported through our own liquids pipeline from the field site and then 100% is exported by rail to the Russian Black Sea Port of Taman. We have a long-term off-take agreement with Trafigura for our condensate in place until 2016.

LPG

LPG is transported on trucks from the field site to our rail terminal where it is loaded on to special trains and then transported to the off-taker. The majority of our LPG is sold at Black Sea Ports and distributed by traders to Eastern Europe and Turkey

Dry Gas

Dry gas is transported along our own 17-km pipeline, which connects to the Central Asia gas pipeline – the gas is sold domestically at this connection point.

Expanding for the future

With the preparatory work to double production capacity firmly underway, all of the related infrastructure, upon completion of GTU3, will accommodate the potential increased levels of production.

This will again further improve our efficiencies and effective use of existing infrastructure. Transportation routes and destinations are currently expected to remain unchanged.

Zhaikmunai LLP is continually evaluating the destinations to which we sell in order to achieve the best possible netbacks for Zhaikmunai.

KEY PERFORMANCE INDICATORS

A successful Year

2014 saw continued cash flow generation from our processing facilities along with the first major year of investment in our next growth phase. Despite a challenging oil price environment, at the end of the year Zhaikmunai LLP had ensured it is fully financed to continue with its processing facility expansion by the end of 2016.

Financial KPIs

Revenue: US$782m
-12.6%
2014 – 782m
2013 – 895m
2012 – 737m
2011 – 343m
2010 – 178m

EBITDA: US$515m
-10.7%
2014 – 515m
2013 – 577m
2012 – 454m
2011 – 167m
2010 – 89m

Return on investment
2014 – 10.3%
2013 – 16.6%
2012 – 11.8%
2011 – 6.8%

Net income: US$186m
-18.4%
2014 – 186m
2013 – 228m
2012 – 148m
2011 – 66m
2010 – 15m

Operating Cash Flow: US$375m
-2.1%
2014 – 375m
2013 – 383m
2012 – 314m
2011 – 147m
2010 – 109m

OPEX per Barrel (US$)
2014 – 5.1
2013 – 5.8
2012 – 7.0
2011 – 8.5

The main factor contributing to the variance between forecast and actual results was the drop in the oil price by 47.5% during 2014.

Non-Financial KPIs

Zhaikmunai LLP's strategic goals are spread across both financial performance and also operational and social indicators. We believe that a focus across all these areas is necessary to ensure Zhaikmunai LLP's success in the longer term. Thus, we set ourselves non-financial KPIs to ensure that we maintain our focus in these areas.

Production: boepd
-3.9%
2014 – 44,400
2013 – 46,178
2012 – 36,940
2011 – 13,158
2010 – 7,671
2009 – 7,442

Proven reserves: mboe
-3.5%
2014 – 192
2013 – 199
2012 – 195
2011 – 169
2010 – 144
2009 – 139

2P reserves mboe
-1.9%
2014 – 571
2013 – 582
2012 – 506
2011 – 522
2010 – 539
2009 – 527

Total GHG emissions: (mtCO2e)
+21%
2014 – 264,121.2
2013 – 217,479.4
2012 – 257,154.8
2011 – 437,603.9
2010 – 241,652.2

2014 MILESTONES & GOALS FOR 2015

2014 Milestones - Principal developments in the reporting period

February
US$400m Eurobond – successfully issued in February with a five-year maturity at a fixed coupon of 6.375% per annum with a call option after 3 years.

March
Hedging – equating to production of 7,500 barrels of oil per day. This was put in place with a zero cost capped collar with a floor price of US$85. There were no upfront costs to Zhaikmunai LLP and the option has a two-year maturity, settled annually.

April
Redemption of 2015 bonds – Zhaikmunai LLP exercised its right of optional redemption of its outstanding US$92,505,000 10.5% Senior Notes, which were due in 2015. The redemption price was 105.25 plus accrued and unpaid interest.

July
KSS as contractor – a contract was entered into with JSC “OGCC KazStroyService” for the construction of the third unit of the Group’s gas treatment facility for a consideration of US$150m

September
Annual shutdown of GTU 1 & 2 – The semi-annual planned shutdown for maintenance was completed within 9 days.

December
GTU3 – remains fully funded and on time and on budget for completion during 2016 at a cost of no more than US$500m.

Other
Producing wells - 18 oil wells and 16 gas condensate wells were producing at the Chinarevskoye field, with four drilling rigs and one work-over rig were in operation at the Chinarevskoye field.

Eight wells were drilled – at Chinarevskoye during the 12 months to end-2014.

Accomplishment of Priority Goals for 2014

Our performance against our three key objectives for Zhaikmunai LLP in 2014 was as follows:

1. Ensure construction of the next gas plant remained on track for 2016
During 2014 we have made significant steps towards the construction of our next Gas Plant. The rationale behind the plant is that it will allow faster monetisation of reserves, by increasing treatment capacity by an additional 2.5 bcm of raw gas per year, bringing total capacity to 4.2 bcm of raw gas per annum. Over US$150m has already been invested in the plant and contracts relating to over US$300m in total, for procurement and construction, have been entered into. We remain on track to deliver the plant on time and on budget in the second half of 2016.

2. Continue to grow our Proven reserve base through appraisal of Chinarevskoye and our three additional fields.

Our Proven reserves remained stable as we replaced over 60% of our production since August 2013. Whilst the oil price environment is extremely different from the end of 2013 our strategy remains unchanged. We have made some reductions to our drilling programme but aim to fill the GTU3 by the end of 2017, so as to reach a combined, together with GTU 1 & 2, production of 100,000 boepd. We are well positioned to withstand the low oil price environment as we have a healthy cash balance and low costs of production.

Zhaikmunai has started the appraisal programme on the three additional licences acquired in 2013. We have adopted the same approach with our additional fields that we undertook with Chinarevskoye to fully understand the geology and de-risk the development progamme as much as possible. We have carried out new 3D seismic on each field and have now interpreted it, allowing us to have a much better understanding of where to position our first appraisal wells. We plan to start drilling an appraisal well in the largest field, Rostochinskoye, in 2015. We look forward to developing these fields and to bringing them in to production to utilise our infrastructure development.

3. Ensure that the financial position of Zhaikmunai LLP remains stable.

The financial performance of Zhaikmunai was built on another strong year of operational results. Production of 44,400boepd was extremely close to our target of 45,000 boepd and Zhaikmunai is now enjoying a period of sustained production at levels around 45,000 boepd. This steady production and associated cash flow continues to allow Zhaikmunai to invest in further infrastructure to double our production capacity by the end of 2016 without the need to raise more capital.

<u>Priority Goals for 2015</u>

In 2015 there are three key objectives for Zhaikmunai LLP in order to continue to deliver on our strategy.

1. Ensure our financial position remains stable
2. Ensure construction of the next gas plant remains on track for 2016
3. Optimise the drilling programme to ensure that we can fill the GTU3 as quickly as possible whilst not jeopardising our financial position

KEY HISTORICAL DEVELOPMENTS

First phase of development 2004-2013
Total capex: US$1.5 billion

2008 – Production of 5,095 bopd
2008 – 120 KM crude oil and stabilised condensate pipeline completed (between the Chinarevskoye field and the rail terminal, near Uralsk)
2008 –US$550 m borrowing-based facility in place
2010 – US$450 m bond raised at 10.5%
2011 – 17km dry gas pipeline completed
2011 – Gas Treatment Facility completed
2012 – US$560 m bond issued at 7.125% to refinance part of bond debt and for general corporate purposes
2013 – Annual average production of 46,178 boepd

Second phase of development
2014-2018
Total expected capex: approximately US$1.2billion
2014 – US$400 m bond issued at 6.375% for refinancing and general corporate purposes
2014 – Completion of 3D seismic on 3 additional licences
2014 – Admission of Nostrum to the Main Board of the London Stock Exchange and FTSE 250
2016 – Expansion of processing capacity of GTU3 completed
2017 – Ramp-up of production from GTU3
2018 – Development programme submitted for new fields

MESSAGE FROM THE MANAGMENT

Important events and results over the reporting period

Zhaikmunai's vision is to grow production to over 100,000 boepd and to build a reserve base that allows us to continue to produce at this level far into the future. Our vision of achieving production of100,000 boepd from our existing field in North West Kazakhstan is now only a few years away. As a result, we are also looking to further build Zhaikmunai's reserve base, not only with reserves to prolong the plateau production of 100,000 boepd, but also to increase this through acquisitions outside of our current production hub.

We intend to realise our vision through a clearly defined strategy, balancing organic development with opportunistic expansion through acquisitions.

We continued to perform well in 2014 despite the year ending with a challenging oil price environment. We consistently delivered production of approximately 45,000 boepd and started the appraisal programme on our 3 additional fields. Whilst our financial performance was not as strong as in 2013, as a result of a falling oil price during the second half of the year, we were still able to end the year with US$386.4 million of cash and cash equivalents on our balance sheet. The combination of the US$400m bond we placed in early 2014 and the hedge we put in place from February 2014 means that we are well positioned to be able to sustain a period of prolonged low oil prices and still deliver on our strategy.

Our financial performance was steady as production levels remained broadly similar to 2013. We started more meaningful investment into the second gas treatment facility and raised additional financing in early 2014 to ensure that we were fully financed for this phase of infrastructure building. At the same time we implemented our hedging programme to cover all non-scalable capex for 2014 and 2015. We continue to manage our cash position prudently. We take into account, first and foremost, the liquidity position of the Group. Secondly, we ensure that use of excess cash is carefully considered before deploying it and that we are maximising shareholder returns with each investment we make.

We are entering a changing environment in relation to recruitment, as a falling oil price will inevitably lead to the scaling back of costs in the industry. Zhaikmunai's growth and success revolves around the quality and commitment of our people and we believe we have an excellent team that can deliver our strategy even with a lower oil price. We continued to grow our team during 2014 with a 6% increase in Kazakhstan. We remain committed to developing local content and employed 98% local nationals in Kazakhstan as at the end of 2014. We will continue to develop our employment practices and policies to ensure we can attract and retain the best talent. At the same time we will continue to monitor our cost base and ensure we do not carry unnecessary excess costs into 2015.

Assessment of the potential for implementation of priority tasks in future

2014 was a solid year for Zhaikmunai. For most of the year we had a strong oil price environment, however this rapidly changed in the fourth quarter and we need to be prudent as we enter 2015 to ensure we are ready for a sustained period of low oil prices. In 2015 our main focus is ensuring the timely completion of GTU3 in 2016 and building the feedstock to allow us to double production. We enter this next investment phase with a very solid cash position, low levels of leverage and healthy margins in place. We believe we have the platform to execute our strategic initiatives which gives me confidence in our prospects for 2015 and beyond.

Performance Assessment

2014 was another strong year from an operational perspective. It saw the gas treatment facility continue to operate at full capacity with a complete range of hydrocarbon products being delivered to various destinations outside Kazakhstan. Zhaikmunai is now deep into its second development phase, which will entail the engineering, planning, procurement, construction and commissioning of the new gas plant as well as a scalable drilling programme spanning the next 4-5 years.

Steady production levels

The Chinarevskoye field is now in full production with both the Oil Treatment Facility (OTF) and the Gas Treatment Facility (GTF) being operated at their nameplate capacities. Zhaikmunai expects a daily total production average of at least 45,000 boepd for 2015 and 2016. All products - crude oil, stabilised condensate, LPG and dry gas - are sold at the best possible prices on the world markets, and our operations are running at optimal levels. We remain on target to meet our objective of doubling capacity by the end of 2016.

Future drilling programme at Chinarevskoye

In 2014, we drilled eight wells and we are fortunate to have a scalable drilling programme in front of us. Our ability to quickly scale drilling up or down allows us to react to the current oil price environment smoothly and without jeopardising our non-scalable capex. We are required to complete 6 wells in 2015 to maintain production at current levels, which is comfortably achievable. We are able to maintain production at around 45,000 boepd and complete the GTU3 at substantially lower oil prices than today. Any increase in the oil price above these levels allows us to drill more wells for the purpose of filling the GTU3 and to appraise the new fields.

THE OIL & GAS MARKET IN KAZAKHSTAN[2]

Overview – The larger Caspian Region

To date, Kazakhstan and Azerbaijan are the two significant crude oil producing countries in the Caspian region. It is expected that these countries will continue to lead the region in crude oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields. Turkmenistan and Uzbekistan are the predominant gas producers in the region. Russia plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea, however this part of Russia is not a source of substantial crude.

Economic Growth and Investment in Kazakhstan's Oil and Gas Industry

Since 2000, Kazakhstan has experienced significant economic growth mainly through economic reform and foreign investment. Exports of crude oil have grown significantly and, due to Kazakhstan being landlocked, most of the oil from Kazakhstan is currently delivered to international markets using pipelines, which run through Russia, to shipping points on the Black Sea.

International investment into the Kazakh oil and gas sector has largely taken the form of joint ventures, including cooperation with the state-owned oil and gas company NC KazMunayGas JSC ("NC KMG"), as well as production sharing agreements and direct grants of exploration / production rights to subsoil users. Major projects in Kazakhstan include the Tengiz, Karachaganak and Kashagan fields.

Oil supply & demand

According to BP's Statistical Review of World Energy 2014, as at 31 December 2014, Kazakhstan ranked twelfth in the world by oil reserves and twentieth in the world by gas reserves. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet Republics and has the Caspian region's largest recoverable oil reserves. Kazakhstan's proved oil and gas reserves were 3.9 billion tonnes and 1.5 trillion cubic metres respectively, as at 31 December 2013.

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[2] *This information has, unless otherwise stated, been extracted from documents, websites and other publications released by the President of Kazakhstan, the Statistics Agency of Kazakhstan, the Ministry of Finance of Kazakhstan, the Competent Authority and other public sources.*
Some of the market and competitive position data has been obtained from US government publications and other third-party sources, including publicly available data from the World Bank, the Economist Intelligence Unit, the annual BP Statistical Review of World Energy for 2013, as well as from Kazakh press reports and publications, and edicts and resolutions of the Kazakh government. In the case of statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.
Certain sources are only updated periodically. This means that certain data for current periods cannot be obtained and we cannot assure you that such data has not been revised or will not be subsequently amended.)

The Kazakh government has stated that it expects oil and gas production to increase to 150 million tonnes per year and 79.4 billion cubic meters per year in 2015. Most of this growth is expected to come from the Tengiz, Karachaganak and Kashagan fields.

There are three major refineries in Kazakhstan supplying the northern region (at Pavlodar), the western region (at Atyrau) and the southern region (at Shymkent). All three major refineries are either under the control or joint control of NC KMG.

Oil price outlook
The oil price decline has changed our short term view on oil prices. We believe that the now forward curve is the best benchmark for estimating short term oil prices and therefore see the short term oil price around US$60 per barrel. In the longer term, we also believe that the forward curves reflect our view of the market as they show the longer term price of oil increasing from US$60 per barrel to above US$70 per barrel. Our internal assumption for long term oil remains unchanged with a view that it will average at least US$85 per barrel over the long term.

Gas supply & demand
Increases in Kazakhstan's gas production are expected to come primarily from associated gas at the Tengiz, Karachaganak and Kashagan fields. Most of Kazakhstan's gas reserves are located in the west of the country and over half are located in the Karachaganak field.
Gas production has increased significantly since 2004 when the Parliament passed a law prohibiting the industrial production of oil and gas deposits without the utilization of natural and associated gas.

Transportation
An important aspect of increasing hydrocarbon production in Kazakhstan has been the development of transportation infrastructure, as this in turn has raised Kazakhstan's export capacity.

Crude Oil
Currently over 7,920km of Kazakhstan's 20,238 kms of pipeline are used in oil transportation. The three main pipelines are the Uzen-Atyrau-Samara ("UAS") pipeline, CPC pipeline, and the Kazakhstan-China pipeline.

Other pipeline routes from Kazakhstan are being considered, such as routes through the Caucasus region to Turkey and routes through Iran and Afghanistan.

Natural Gas
Most of the gas pipelines in western Kazakhstan, with the exception of Makat-Atyrau-Astrakhan, are designed to provide gas to CAC. The pipeline has two branches that meet in the south-western Kazakh city of Beyneu before crossing into Russia and connecting with the Russian pipeline system.

The construction of the Beineu-Bozoi-Shymkent gas pipeline designed to transport gas from west Kazakhstan for use in the southern regions of Kazakhstan and export to China, started in 2010.

The Bukhara Urals gas pipeline was initially built to supply gas from Uzbekistan to northeast Kazakhstan and Russia's southeast Ural's region.

Bukhara-Tashkent-Bishkek-Almaty is a transit pipeline that provides gas from Uzbekistan to Kazakhstan's main southern population centre.

Macro economic and micro economic changes during 2014

Macro economic and micro economic changes that occurred in the reporting period and their impact on results

- Export duties have remained at US$80 per tonne of crude oil from 11 March, 2014
- The devaluation of the Tenge against the US Dollar and other major currencies in February 2014 affected Zhaikmunai in two ways. Zhaikmunai recognised a foreign exchange loss as the Group had a net asset position of Tenge denominated accounts around this date, and also an increase in deferred tax expenses due to a significant decrease in the tax base for property, plant and equipment, which is denominated in Tenge.

Regulation in Kazakhstan

Regulation of the oil and gas sector can be divided into three broad areas:

1. Regulation in relation to subsoil use rights
2. Regulation in relation to environmental, health and safety matters
3. Anti-monopoly regulation

Major oil and gas projects in Kazakhstan

TCO

The TCO joint venture was created in 1993 with the aim of developing the Tengiz and Korolev fields that have estimated recoverable reserves of between 5.5bn barrels and 8.1 billion barrels of oil. The participants in the joint venture are Chevron Overseas Company, ExxonMObil, NC KMG and LukArco.

Karachaganak Project

The Karachaganak field is a 280 square kilometre gas condensate field located in north western Kazakhstan which was discovered in 1979. BG Group and ENI are joint operators and each hold a 29.25% interest in the venture. The Karachagank field is Kazakhstan's main gas field, holding an estimated 9 billion barrels of gas condensate and 48 trillion cubic feet of gas.

North Caspian Project

The Kashagan field is located off the northern shore of the Caspian Sea, near to the city of Atyrau. In 1997, a consortium of companies signed a 40-year production sharing agreement covering five structures. The structures consist of 11 offshore blocks over an area of 5,600 square kilometres. The North Caspian Operating Company (NCOC), a consortium that includes ENI SPA, EXXONMOBIL CORPORATION, Shell, Total S.A., INPEX Corporation and NC KMG, owns the project.

BENCHMARKING OF OUR BUSINESS AGAINST PEERS

Strengths

- Advantageous location gives access to multiple transportation routes
- Investment in infrastructure gives us complete control of our liquids transportation
- Investment in gas plant allows us to produce raw gas in north-western Kazakhstan where there is a shortage of processing capacity
- High-quality light sweet crude and condensate

Weaknesses

- We are subject to fluctuations in the market prices for our products, however we do have hedges in place.
- Geological risks are unavoidable in the oil and gas business
- The harsh operating environment means temperatures fluctuate significantly between summer and winter
- Lack of significant population reduces size of skilled workforce

Our business model

A simple, sustainable and successful business model
Our track record of successfully building and financing large infrastructure while developing reserves into commercial production puts us in a unique position.

With our management team's outstanding technical and regional expertise in both oil and gas we can use this platform to deliver future growth of Zhaikmunai LLP.

World-class assets

- Our ½ billion boe 2P reserves
- A strong and growing reserve base in north west Kazakhstan
- State-of-the-art infrastructure

Highest standards of corporate governance

- Experienced team
- Outstanding technical and regional expertise
- Social and economic development
- Continued financial stability of Zhaikmunai

Production, development and exploration

- Expand processing capacity by the end of 2016
- Continue to grow the proven reserve base through the appraisal of Chinarevskoye and the three new fields
- Interpreting new 3D-seismic data of the three additional licences

How we run our business is equally important in enabling us to successfully deliver our business plan and map our growth strategy. Protecting our business, sustaining our good reputation, maintaining our entrepreneurial culture and contributing to social and economic development are the cornerstones on which we are building our business.

Fully funded

- Access to debt and equity markets
- US$1.2bn investment programme in place

- Excellent financial performance

M&A

- Creating economics of scale through the value chain
- Investing in strategic acquisitions
- Establishing a business development team in the region

Returns to holders of our participatory interests

We are a subsidiary within the Group, and the main operating subsidiary within the Group. We therefore make period distributions of profits to the holders of our participatory interests, while ensuring our financial position remains stable.

Our parent company, Nostrum, has an on-going distribution policy with the intention of making an annual distribution of not less than 20 per cent of the Group's consolidated net profit (subject to review in line with the strategic milestones of the Group).

Our profit distributions to the holders of our participatory interests for the last three years were nil in 2012, USD 10 million in 2013 and nil in 2014.

OUR STRATEGY

A sustainable strategy for growth

Strategic Priorities	Our progress in 2014	KPIs aligned to our strategic objectives	Risks associated with strategy	Development plans for 2015-2017
Delivering near-term production growth	Production stable at 44,400 boepd	Production (boe)	GTU3 development project is subject to risks related to delay, non-completion and cost overruns	Expansion plan for GTU3 on track for completion by the end of 2016, allowing the Group to double its production capacity
	Steady production from Chinarevskoye field and consistent performance from existing gas treatment facility			
Appraising and developing near-term projects	Continued to grow proven reserve base through appraisal of Chinarevskoye and three new fields	1P Reserves (boe)	Inaccurate assessments or unsuccessful exploration of the new fields could result in the overstatement of the Group's oil and gas reserves	Further appraisal wells are scheduled to be drilled during 2015 in the Chinarevskoye and Rostoshinskoye fields
	8 wells drilled during 2014, including 2 appraisal wells			
	Cash flow allows the Group to look for compelling acquisitions			
Linking corporate responsibility to the growth of Zhaikmunai	Increased presence in local communities, and reported on well being of employees and working environment	Number of man-hours without loss of working hours (in millions)	Legal framework for environmental protection and operational safety still being developed in Kazakhstan	Focus on expanding QHSE policy to include initiatives that go beyond day-to-day activities, such as contractor HSE management and environmental reporting
	Benefits to all stakeholders through creation of economic growth			

BUILDING A WORLD-CLASS PORTFOLIO OF ASSETS

Chinarevskoye Field
The 274-square-kilometre Chinarevskoyed licence is located in the Batys province of northwestern Kazakhstan, approximately 100 kilometers northeast of Uralsk and near to the Russian border.

2P reserve breakdown for the Chinarevskoye field - %
LPG – 14%
Oil & condensate – 42%
Dry gas – 44%

Annual BOE production
2010 - 2,829,765
2011 – 4,802,553
2012 – 13,483,006
2013 – 16,855,027
2014 – 16,205,641

Stable Business Environment
Exploration and production licence
We were granted an exploration and production licence for the Chinarevskoye field in May 1997, which was extended in 2008, to 2033 for all oil and gas bearing reservoirs and horizons covering 185 square kilometres of the licence area. The licence for the north-eastern Tournaisian reservoir is valid until 2031.

Production Sharing Agreement (PSA)
Zhaikmunai LLP operates under a grandfathered PSA with the Government of Kazakhstan, which sets the parameters for the exploration and development of the Chinarevskoye field, and the respective royalties, profit share and tax liabilities payable to the government.

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

Geology, reserves and drilling
Geology
The Chinarevskoye field is a multi-layer structure with ten reservoirs and 44 compartments spread over three areas: the western area contains 16 compartments; the northern area has 24 compartments and the southern area has four compartments. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian,, Famennian, Mullinski, Ardatovski, and Biski-Afoninski reservoirs.

Reserves
Based on the Ryder Scott report, dated 31 December 2014, the proved and probable reserves for the Chinarevskoye field amount to 473 mmboe. Proven reserves amount to 192.2 mmboe and probable reserves to 280.7 mmboe. Oil and condensate amount to 197.6 mmbbl of proven and probable reserves, LPG to 68.3 mmbbl and gas to 207mmboe.

Drilling
Hydrocarbons were first discovered in the Chinarevskoye reservoirs during the drilling of nine wells in the Soviet era. Between 2004-2014, 69 wells and side-tracks have been drilled under the PSA.

Our drilling target in 2014 was 10-12 wells and side-tracks. This was not met due to the declining oil price during the second half of the year, with 8 wells drilled in total.

During 2015 we plan to complete a total of 8 wells in line with our strategy to move more reserves from the Probable to Proven category.

Onsite Facilities
Location
All our facilities are close to major international railway lines, as well as several major oil and gas pipelines. This advantageous location provides access to flexible transportation links for the off-takers of our products. Our on-site facilities have grown substantially, with our second US$1.2 billion capital investment phase currently underway.

Crude Oil Infrastructure
Our oil infrastructure consists of an oil treatment and gathering facility (OTF), capable of processing 400,000 tonnes of crude oil per year; an 120-kilometre oil pipeline; oil gathering

and transportation lines; an oil-loading facility at the rail terminal; oil storage facilities for up to 30,000 cubic metres of oil and railway cars for the associated crude oil and stabilised liquid condensate.

Oil and stabilised condensate pipeline and railway loading terminal
Our 120-kilometre oil pipeline and railway-loading terminal, at Rostoshi near Uralsk, were successfully completed in 2008. Since 2009, our crude oil has been transported via the pipeline from the Chinarevskoye field site to the railway-loading terminal where it is stored and transported by rail car to final off takers.

Our stabilised liquid condensate is also transported through the same pipeline using a “PIG” system, which separates the crude oil from the stabilised condensate. This protects the product’s quality from being reduced as it would in a multi-purpose pipeline and ensures the ability to command higher export prices.

Our oil pipeline has a maximum throughput of three million tonnes per year. The rail-loading terminal, which receives the crude oil and condensate, has a capacity of 3-4 million tonnes per year.

Our infrastructure also includes crude oil storage tanks on site and at the rail terminal; condensate tanks on site and at the terminal and a loading facility at the railway terminal. The loading terminal allows for 32 railcars to be loaded simultaneously. The facility is also equipped with a vapour recovery unit – the first in Kazakhstan’s history.

All of our infrastructure has the capacity to accommodate the planned increase in throughput, in line with our strategy to double production.

Assessing the potential of our adjacent fields

Rostoshinskoye, Daryinskoye & South Gremyachenskoye Fields
Value accretive acquisitions form part of our strategy to grow. In 2013, we acquired three additional fields within 120-km of Chinarevskoye, to add additional reserves to our portfolio

-60-120km from Chinarevskoye license
-Appraisal programme planned US$85m
-2P reserves of 98.2 mmboe

Rostoshinskoye, Daryinskoye & South-Gremyachenskoye Fields

Subsoil rights acquisition completed

In 2013, Zhaikmunai LLP signed an asset purchase agreement to acquire 100% of the subsoil use rights related to three oil and gas fields in the pre-Caspian basin to the north west of Uralsk. The signing of the supplementary agreements by the Ministry of Oil & Gas became effective from 1 March 2013.

Geology

Exploration activities over the past decades have successfully showed that the three fields contain hydrocarbons suitable for commercial production in several reservoirs of Permo-Carboniferous age. More specifically, the bulk of the hydrocarbon's are located in the Bashkirian stage of the Carboniferous. Significant appraisal of the existing accumulations and exploration of deeper intervals is still required prior to their development.

Appraisal programme

The cost of the appraisal programme for the next 2-3 years is expected to be approximately US$ 85 million. During 2014, we have processed and interpreted the 3D seismic survey of Rostoshinskoye, and completed the re-processing and re-interpretation of Daryinskoye 3D and South Gremyachenskoye 3D seismic surveys. A new reserves report will be prepared after drilling of new appraisal wells. The results of the reserves report will determine the development programme as well as provide greater detail on reservoir size and fluid composition.

Total Combined Reserves

At Zhaikmunai LLP, we have an outstanding track record of converting reserves. An updated reserve report by Ryder Scott, as at 31 December 2014, has shown 571.1 mmboe of proved and probable reserves for the Chinarevskoye and adjacent fields.

In line with our strategy, we are continuing to grow the reserve base and successfully increase production further.

PRODUCTS, PROCESSES AND INFRASTRUCTURE

Products	Quality	Sales	Pricing	Transportation
Crude Oil	Density – 0.815g/cm3 42-43 degrees API Average Sulphur – 0..4% Superior in quality to other primary benchmark crude oils produced in Kazakhstan	85% exported in accordance with the PSA, 15% sold domestically. Destinations include Neste's refinery in Finland	Brent – based pricing for exports. Domestic sales at 50% discount	Shipped through our own 120-km pipeline from the field site to our own rail terminal in Uralsk, from where it is shipped in railcards to off-takers at various destinations.
Stabilised Condensate	Density – 0.750-0.790 g/cm3 Average sulphur <0.2% 56 degrees API	100% exported 30,000 tonnes per month are sold to Trafigura. Destinations include the Russian Black Sea port of Taman	Brent-based pricing	Shipped through the same 120km pipeline to the rail terminal in Uralsk, from where it is shipped in railcars to various destinations
LPG	Field grade quality. No olefins and low sulphur content	85%-100% exported. Destinations include the Russian Black Sea Ports	International Mediterranean LPG price Sonatrach for Black Sea deliveries, or the Brest quotation for Eastern European deliveries	Shipped in special LPG trucks from the field to the rail terminal in Uralsk. From here it is shipped in railcars to end consumers and traders.
Dry Gas		100% domestic market –	Local supply agreements (negotiated annually with the off-takers in a long-term framework agreement)	Shipped through our own 17-km pipeline from the field to the connection point with the Intergas Central Asia gas pipeline, from where it is distributed by the off-taker.

Sales & Pricing Policy

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

The commercial production of dry gas adds significant benefits through the easy off-take of dry gas volumes using straightforward pipeline logistics, the generation of our own power supply, and the partially sponsored supply of dry gas to neighbouring communities.

Marketing

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

Development of Infrastructure

The gas treatment facility uses a gas utilisation concept, and was designed to treat raw gas from gas condensate reservoirs (and the associated gas coming from the OTF) into 3 separate products – stabilised condensate, LPG and dry gas. The GTF associated infrastructure includes a power generation station, an LPG storage tank farm, an LPG loading facility at the rail terminal, LPG railcars and a 17 km dry gas pipeline.

GTU 1 & 2

This included the construction of two gas treatment units, each with the capacity to treat approximately 850m cubic meters of raw gas. The gas treatment facility is now producing at capacity with an average annual production of 44,400 boepd for 2014.

GTU 3

The third unit of the gas treatment facility will add 2.5 billion cubic meters of processing capacity, bringing the total to 4.2bn cubic meters and consequently more than doubling production. GTU3 is due to be completed during 2016.

Power generation plant

The gas-fired power generation plant is linked the gas treatment facility with an output of 15 megawatts and provides the field site with the electricity it requires.

Gas pipeline

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

New field camp facilities

A new employee camp was completed in 2012 at the field site, providing more than 460 beds and modern facilities, as well as a canteen, recreational areas and a health clinic. This ensures comfortable indoor living conditions throughout the year for our field site employees.

Changes in production

The stable production for 2014 shows the facility operating in a steady manner and at full capacity . We expect this to remain unchanged until GTU3 is completed.

A Sustainable Business

Our continuing development as a successful and sustainable E&P business in Kazakhstan has created economic growth and increased our presence in both the local and regional communities. Our approach to corporate social responsibility (CSR) is based on our commitment to make a positive impact on all our stakeholders through our business activities.

We place public interest at the core of our business decision-making process, and through our operations, the management team have developed a thorough understanding of and strong commitment to Kazakhstan.

The sustainability of our business is made possible through the active management of our people, community and QHSE (Quality, Health, Safety and Environment) programmes, and our specific focus on environmental issues such as greenhouse gas (GHG) emissions.

HR MANAGEMENT SYSTEM

A large team of dedicated employees
One of our most significant contributions to Kazakhstan is the wealth generated by hundreds of employees working in our fields and in Uralsk. The number of employees at our operations has more than doubled since 2005, making us one of the largest employers in the Batys province.

Number of full-time equivalent (FTE) employees as at 31. December 2014:

Location	2010	2011	2012	2013	2014
Chinarevskoye field	500	552	631	633	686
Uralsk	144	170	207	274	268
TOTAL	644	722	838	907	954

In 2014, the total workforce in Kazakhstan grew by 6,0% and the staff turnover rate was 5,4%.

Salary package and growth rates
Zhaikmunai LLP offers competitive remuneration packages to its employees and is in full compliance with all regulatory bodies, guidelines and requirements.

Description	2010	2011	2012	2013	2014
Average number of full-time equivalent employees in Kazakhstan as at 31 December 2014	619	722	838	907	961
Change in average monthly salary of employees	9%	16%	28%	6%	21%

Current social protection
We offer effective social guarantees in the following areas:
- Social security
- Pension fund
- Medical assistance and care
- Insurance plans

Training
Under the terms of the PSA with the Government of Kazakhstan, we are required to:
- Adhere to an accrual of 1% per annum of the field development cost relating to the Chinarevskoye field; and
- Develop a an education spending schedule up to an including 2020, for purposes of training of local specialists and educating Kazakh citizens.

For 2014, the Oil Ministry committee approved a training budget of US$1,089 million. The actual training cost for 2014 was US$2,006 million

Total training budget in 2014: US$2,006 million
Total number of training days in 2014: 504 days
Number of employees benefiting from education and training programmes in 2014: 832

Well control programming and monitoring:
Four field employees were selected to follow specialized training in Moscow. This allowed the implementation of a fully automated control process from some 11 condensate wells all the way to the monitoring centre which can now be managed by one operator receiving all of the information from the different wells simultaneously in real-time.

International certificate in technological processes in the oil and gas industry (OPITO PPTC):
In October / November 2014, consultants of the Abiroy Technical center selected candidates at Zhaikmunai for the OPITO PPTC training programme. A total of 60 potential candidates were selected on the basis of various tests and 15 were finally chosen to enter the 10-module certified training programme.

Categories of personnel trained:

Category	Number of people
Operations (field workers)	5
Heads of Departments	31
Engineers and Technicians	796

Categories of training type:

Training Type	People enrolled
Compulsory QHSE training	69%
Special skills training	27%
Professional training	4%

Labour relations
We consider our relations with our employees to be strong, and have not experienced any work stoppages, strikes or similar actions to date. Relations with our employees are a key priority for our business.

Human Rights policy and diversity
The *Code of Conduct* of the Group sets out certain principles that guide business conduct and provides a non-exhaustive outline of what the Group considers permissible conduct by its employees. Violations of this Code of Conduct may result in disciplinary action, including dismissal from employment, or criminal prosecution.

The full details of the Code of Conduct are available on our website: www.nog.co.uk

Our Community

Our community approach
Our approach to community relations places great emphasis on creating an integrated, caring and secure community for its personnel and subcontractors.

Our social infrastructure
Under the terms of the PSA linked to the Chinarevskoye field, as well as the subsoil agreements linked to the additional fields, we spend US$300,000 and US$350,000 per annum respectively to finance social infrastructure. In addition to these PSA social fund obligations, Zhaikmunai LLP also invested in significant social infrastructure projects in 2014, which contribute to the quality of life of employees and the stability of communities.

Significant social infrastructure projects in 2014

Project type	Infrastructure	Beneficiaries	Budget allocated
Roads (repair and maintenance)	Inside and outside license areas	All stakeholders	US$536,000
New camp	Chinarevskoye field site	Rotational personnel	US$258,000
Total			**US$794,000**

Sponsoring activities, charitable work and participation in social projects

Significant projects in 2014

Project type	Definition	Beneficiaries	Budget allocated
KazEnergy	Membership	All stakeholders	US$ 45,000
Regional volleyball team	Sponsorship	Staff and community	US$275,000
Education Support Programme	Contributions	All stakeholders	US$101,000
Public associations	Memberships	Staff and community	US$56,000
Other types of sponsorships	Various events	Staff and community	US$47,000
Zelenovsky area	Assistance to Mayor's Office	All stakeholders	US$31,000
Other sporting events	Sponsorships	Staff and community	US$23,000
Total			**US$579,000**

Liquidation fund

Under the terms of the PSA, Zhaikmunai LLP is building up a liquidation fund of US$12 million to provide funds for the removal of property and equipment at the end of the PSA. In 2014, the required US$813,403 contribution was set aside for this purpose.

QHSE

Our QHSE approach and organisation

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

Centralised function

Our QHSE strategy is demonstrable throughout our organisation thanks to a centralised function with a flexible organisational structure.

This organisational structure encompasses such activities as health & safety (production facilities, drilling, camps and roads), occupational health and hygiene (including environmental and greenhouse gases monitoring), civil defence and emergency response as well overarching safety and engineering best practice implementation.

QHSE policy and priorities

<u>QHSE Policy</u>

Priorities for 2015:
Building on the progress made in 2014, the focus for 2015 will be to expand the QHSE policy to include initiatives that go beyond our day-to-day activities. Specifically:

- HSE leadership and supervision;
- Contractor HSE management;
- Hazard awareness and risk control;
- Driving and transportation safety; and
- Environmental reporting.

Health and Safety
A safe working environment
Health and safety at Kazakh oil and gas companies is subject to state legislation and regulation. Our PSA also requires that our operations meet applicable health and safety requirements.

HSE Code of Conduct
Zhaikmunai LLPs QHSE Policy and associated Code of Conduct stipulate that we must comply with all applicable laws and regulations, as well as best practice with regard to health, safety and environmental issues.

To ensure the well-being of employees Zhaikmunai frequently undertakes the following practices:

- Safety training;
- Implementing a proactive prevention culture; and
- Written plans and policies with regard to the mandatory supply of personal protective equipment including protective clothes, adapted footwear, and special tools.

Standards reached
In 2014, standards have been established around indicators such as as lost time injuries and total recordable injuries and on-going monitoring is done against these standards and reported monthly.

Number of man-hours without loss of working hours (in millions)*
2014: 1.89
2013: 1.83
2012: 1.66
2011: 1.47
2010: 1.23

* Number of man-hours without loss of working hours: Total number of man-hours worked by Zhaikmunai and contractors' personnel without any injuries resulting in a lost working day, while performing activities on Zhaikmunai premises or non-company premises subject to company management controls applied through contractual terms, if the are executed on behalf of Zhaikmunai."

Our Environment

Managing our environmental footprint through our Site Environmental Monitoring Programme

Our approach to environmental protection follows a structured commitment to a series of yearly environmental objectives. These key priorities are in line with strategic, regulatory and communication imperatives and structured in accordance to Kazakh regulations:

- Air pollution control;
- Water resources protection and rational use;
- Land protection;
- Control and sustainable subsurface use;
- Flora and fauna protection;
- Radiological, biological and chemical safety;
- Ecological education and information; and
- Research and development, exploratory development and other works.

In 2014, specific monitoring activities were carried out in these areas in order to establish benchmarks which to be integrated into our environmental targets. These include: atmosphere monitoring, surface water monitoring, soils monitoring, control of pollutant emissions source and sewage water monitoring.

Zhaikmunai LLP has developed a Site Monitoring Programme, managed by the QHSE Department, to organise and monitor our environmental activities, identify any potential operational environmental impact and enable us to take prompt corrective measures in case of any incident.

Programme aims:

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

Programme methods and controls:

- Compulsory criteria to be followed in site monitoring;
- Time, duration and frequency of site monitoring activities and measurements;
- Detailed site monitoring methodologies;
- Sampling points and places of measurement;
- Methods and frequency of data accounting, analysis and reporting;
- Schedule of internal checks and procedures for remedying violations of national environmental laws, including the internal response to any violations;
- Monitoring quality assurance procedures;
- Emergency actions plans;

- Organisational and functional structure of internal employee responsibilities for carrying out site environmental monitoring; and
- Other data on organising and carrying out site environmental monitoring.

Compliance with legislation
The Site Environmental Monitoring Annual Report (2014)[3] is a comprehensive document detailing the content, methodology and results of the environmental efforts at Zhaikmunai LLP.
It shows that the environmental monitoring programme activities were carried out according to the established scope. In addition, its "Conclusions" section, states the following: "From the report it follows that in 2014, as well as previously, the company has not exceeded the established environmental pollution standards for production facilities located in the area."

Industrial Waste Management and Contaminated Soil Reclamation
Zhaikmunai LLP complies with all current Kazakh legislation with regard to industrial waste management and contaminated soil reclamation.

Our greenhouse gas (GHG) reporting

Zhaikmunai LLP has been monitoring and reporting its GHG emissions over the last several years in accordance with the Kazakh regulatory requirements. Starting in 2013, Zhaikmunai LLP developed its GHG reporting in line with the new regulations amending company law requirements in the UK, given the UK incorporation and London Stock Exchange listing of our parent company, Nostrum.

The data is reported from all emission sources, as required under the UK Companies Act 2006 (Strategic Report and Directors' Report) – Regulations 2013. No responsibility is taken for any emission sources, which are not included in the consolidated financial statements. The results of the GHG emissions inventory are presented in the format recommended by the GHG Protocol.

Direct GHG emissions (Scope 1)

The following direct GHG emissions (Scope 1) sources have been identified: flares, heaters, incinerators, boilers, gas turbine plants, electric power stations, compressors and fugitive emissions. 2010 was chosen as the base year for GHGs as per the National Plan for GHG Quota Distribution for 2014, pursuant to the Republic of Kazakhstan government resolution 1588 dated 13 December 2012.

Historically, the major part of stationary combustion emissions was attributed to flaring of associated gas at the Oil Treatment Unit (OUT) and at the Gas Treatment Facility (GTF). The situation has changed considerably since the GTF was completed.

[3] Zhaikmunai LLP 2014 Site Environmental Monitoring Annual Report, General Director – Heinz Wendel

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

Table 1: Scope 1 GHG Emissions Subdivided by Gas Types

GHG Emissions (mtCO2e)	2010	2011	2012	2013	2014
Carbon dioxide (CO2)	240259.4	420992.8	256050.4	188604.0	236556.0
Methane (CH4)	81.4	15419.7	805.2	28693.6	27424.8
Nitrous oxide (N2O)	1308.4	1188.4	283.1	165.7	124.3
Hydrofluorocarbons (HFCs)	3.0	3.0	16.1	16.1	16.1
Perfluorocarbons (PFCs)	-	-	-	-	-
Sulphur hexafluoride (SF6)	-	-	-	-	-
Total	241652.2	437603.9	257154.8	217479.4	264121.2

Table 2: Scope 1 GHG Emissions Subdivided by Source Types

GHG Emissions (mtCO2e)	2010	2011	2012	2013	2014
Stationary Combustion	240383.3	433132.5	252138.9	212612.3	260124.4
Mobile Combustion	1194.3	2086.7	2312.1	2876.3	2135.2
Process Sources	-	-	-	-	-
Fugitive Sources	74.6	2384.7	2703.8	1990.8	1861.6
Agricultural Sources	-	-	-	-	-
Total	241652.2	437603.9	257154.8	217479.4	264121.2

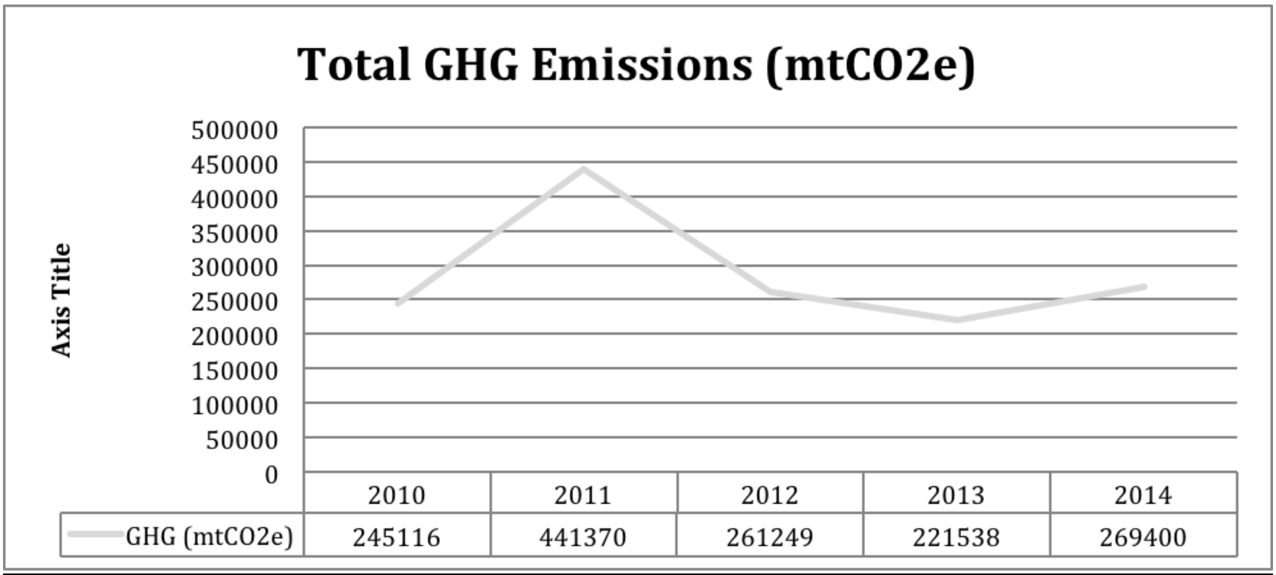
Indirect GHG emissions (Scope 2)

Zhaikmunai LLP does not use purchased steam, heating or cooling. The only purchased power related to indirect GHG emissions is electrical power, which is supplied to Zhaikmunai LLP facilities via the Zelenovskaya distribution network (ZapKazREK JSC) through its subsidiary Batys Energoresursy LLC. The regional emission factor (0.27086 tCO_2/MWh) was calculated using Methodological Guidelines for the Calculation of GHG Emissions from Electrical Power Stations and Boiler Houses (Astana, 2010) and regional net thermal efficiency of Urals Natural Gas Fired Power Plants (73.3%).

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

Table 3: Scope 1, Scope 2, and Total GHG Emissions

GHG Emissions (mtCO2e)	2010	2011	2012	2013	2014
Direct (Scope 1)	241652.2	437603.9	257154.8	217479.4	264121.2
Indirect Energy (Scope 2)	3464.0	3766.5	4094.5	4058.4	5278.6
Total Emissions (mtCO2e)	245116.2	441370.4	261249.3	221537.8	269399.8



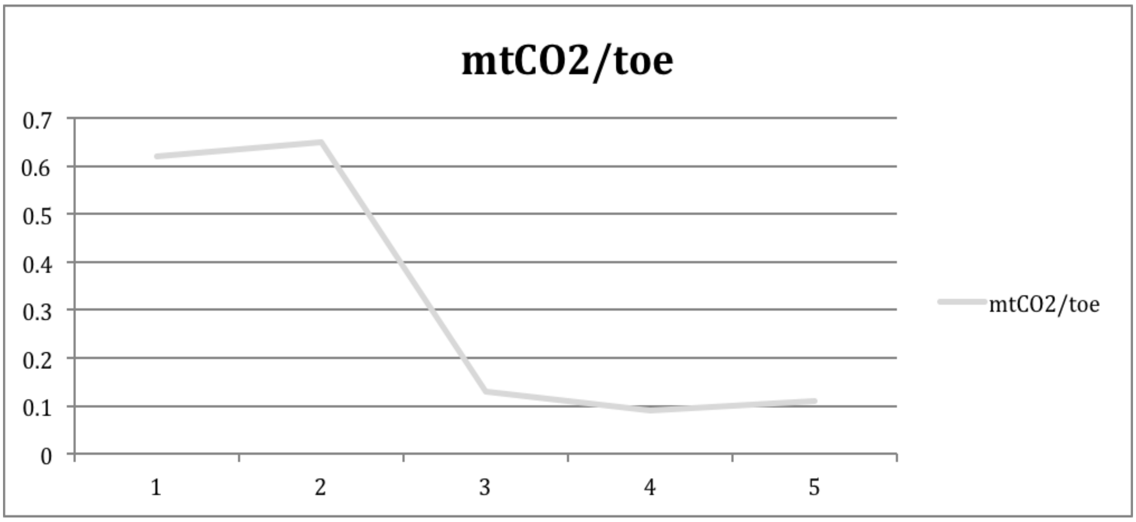
Emissions intensity ratio

Tonnes of CO2 per tonne of output is a recommended intensity ratio for the oil and gas sector, as per Appendix F of the *Defra Environmental Reporting Guidelines (2013).* Taking into account the variety of products of Zhaikmunai LLP – crude oil, stabilised condensate, LPG and dry gas – the chosen intensity ratio is expressed in metric tonnes of Co2e (mtCO2e) per tonne of oil equivalent (mmboe).

Table 4 shows intensity ratios for total GHG emissions (Scope 1 + Scope 2) in the period 2010 to 2014.

Table 4: Emissions Intensity Ratios for Total GHG Emissions

Production - Intensity Ratio	2010	2011	2012	2013	2014
Production, toe	392000	672000	1890000	2307748	2369823
mtCO2/toe	0.63	0.66	1.38	0.1	0.11
Production, mmboe	2.8	4.8	13.5	16.48	16.23
mtCO2/mmboe	87541.50	91952.17	19351.80	13065.07	16598.88



GHG emissions were considerably reduced after the GTF came into operation in 2012. Further operational optimization initiatives have subsequently been carried out in 2013 and 2014 with the aim of further lowering the emissions intensity ratio.

Developing a GHG reduction capacity

According to its GHG emissions reduction strategy, Zhaikmunai LLP evaluates the potential for GHG emissions reductions yearly to plan for the subsequent introduction of energy and resource saving measures. To establish this reduction potential we go through the following steps:

- Create a conceptual framework for our greenhouse gas emissions enterprise management systems (GHG EMS);
- Create a consistent information system for GHG emissions monitoring;
- Perform an energy audit at Zhaikmunai’s production facilities;
- Develop an action plan to improve energy efficiency at industrial sites;
- Develop the concept of transition to low-carbon development;
- Consider the participation of Zhaikmunai in carbon finance activities; and
- Demonstrate the efficiency of Zhaikmunai’s GHG emissions reduction measures.

To meet these ambitious targets, Zhaikmunai LLP plans to strengthen its QHSE department, conduct training for managers and identify contractors that are able to provide effective assistance in improving energy efficiency and reducing GHG emissions.

FINANCIAL REVIEW

Key performance indicators

Net cash from operating activities

In millions of US Dollars

2014	**375.4**
2013	383.3
2012	313.5
2011	146.6

Net cash from operating activities is the net of all cash receipts and payments associated with Zhaikmunai LLP's sales. This indicator reflects our ability to generate cash for investment and financing activities.

Net income

In millions of US Dollars

2014	**186.3**
2013	228.0
2012	147.7
2011	65.8

Income for the period is the total of all the earnings. It is of fundamental importance for a sustainable commercial enterprise.

EBITDA

In millions of US Dollars

2014	**515.4**
2013	576.6
2012	453.5
2011	167.1

EBITDA is defined as profit before tax net of non-recurring expenses, finance costs, foreign exchange loss/gain, ESOP, depreciation, interest income, other income and expenses.

EBITDA margin

In percentages

2014	**65.9%**
2013	64.4%
2012	61.5%
2011	55.6%

EBITDA margin is defined as EBITDA as a percentage of Revenue.

Net cash used in investing activities

In millions of US Dollars

2014	**310.2**
2013	205.6
2012	269.9
2011	102.0

Net cash used in investing activities is capital investment (capital expenditure, exploration expense, new equity and loans in equity-accounted investments and other adjustments), less divestment proceeds.

Production

In mboe	
2014	**16.2**
2013	16.9
2012	13.5
2011	4.8

Production is the sum of all average daily volumes of unrefined oil products (crude oil and stabilized condensate) and gas products (LPG and dry gas) produced for sale. Changes in production have a significant impact on our cash flow.

Proven oil and gas reserves

In mboe	
2014	**192.2**
2013	199.2
2012	194.8
2011	169.1

Proved oil and gas reserves are the total estimated quantities of oil and gas that can, with reasonable certainty, be recovered in future years from known reservoirs, as at December 31, under existing economic and operating conditions. Gas volumes are converted into barrels of oil equivalent (boe). Reserves are crucial to an oil and gas business, since they constitute the source of future production.

Net Debt

In millions of US Dollars	
2014	**663.8**
2013	618.0
2012	708.3
2011	699.1

Net Debt is defined as total debt minus cash and cash equivalents including current and non-current investments.

Return on Investement

In percentages	
2014	**10.3%**
2013	16.6%
2012	11.8%
2011	6.8%

Return on Investment (ROI) is defined as Net Income divided by Invested Capital. Invested Capital equals total debt plus total equity minus non-operating cash and investments.

OPEX per Barrel

In US Dollar	
2014	**4.8**
2013	5.8
2012	7.0
2011	8.5

OPEX per barrel is defined as operating expenditures divided by the total barrel of oil equivalent production

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

Profit is appropriated to strengthen Zhaikmunai LLP's financial position: to finance investment in oil & gas assets, to grow capital, to maintain liquidity, to keep net debt at defined levels and to make profit distributions to the holders of participatory interests in Zhaikmunai LLP. Reference is made to KPI's: Investing Activities and Net Debt.

Analysis of revenue, expenses and results – 2014/2013 comparison

The table below sets forth the line items of Zhaikmunai LLP's consolidated statements of comprehensive income for the year ended 2014 and 2013 in U.S. Dollars and as a percentage of revenue.

In thousands of US Dollars	**2014**	**% of revenue**	**2013**	**% of revenue**
Revenue	**781,878**	**100.0%**	895,014	100.0%
Cost of sales	**(222,649)**	**28.5%**	(286,222)	32.0%
Gross profit	**559,229**	**71.5%**	608,792	68.0%
General and administrative expenses	**(33,341)**	**4.3%**	(30,803)	3.4%
Selling and transportation expenses	**(122,254)**	**15.6%**	(121,674)	13.6%
Finance costs	**(72,098)**	**9.2%**	(64,702)	7.2%
Foreign exchange loss, net	**(3,401)**	**0.4%**	(499)	0.1%
Gain on derivative financial instrument	**60,301**	**7.7%**	–	0.0%
Interest income	**812**	**0.1%**	659	0.1%
Other expenses	**(50,276)**	**6.4%**	(25,593)	2.9%
Other income	**9,301**	**1.2%**	4,263	0.5%
Profit before income tax	**348,273**	**44.5%**	370,443	41.4%
Income tax expense	**(161,965)**	**20.7%**	(142,423)	15.9%
Profit for the year	**186,308**	**23.8%**	228,020	25.5%

For the year ended 31 December 2014 (the "reporting period") realised profit of Zhaikmunai LLP decreased by US$41.7 million to US$186.3 million (year ended 31 December 2013: US$228.0 million). The decrease in realized profit is mainly driven by a decrease in the oil prices during the second half year of 2014, resulting in a decrease in revenue combined with an increase in other operating costs and income tax expenses, partially offset by a gain on derivative financial instruments.

Revenue

Zhaikmunai LLP's revenue decreased by 12.6% to US$781.9 million for the reporting period (year ended 31 December 2013: US$895.0 million). The decrease in Zhaikmunai LLP's revenue was driven primarily by a significant decrease in the overall oil prices during the second half of 2014.

Zhaikmunai LLP's revenue breakdown by products, sales volumes and the commodity price of Brent crude oil for the years ended 31 December 2014 and 2013 is presented below:

In thousands of US Dollars	**2014**	**2013**	**Variance**	**Variance, %**
Oil and gas condensate	**620,165**	709,107	*(88,942)*	*(12.5)%*
Gas and LPG	**161,713**	185,907	*(24,194)*	*(13.0)%*
Total revenue	**781,878**	895,014	*(113,136)*	*(12.6)%*
Sales volumes (boe)	**16,205,641**	16,854,970	*(649,329)*	*(3.9)%*
Average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	**99.6**	108.4		

The following table shows Zhaikmunai LLP's revenue breakdown by export/domestic sales for the years ended 31 December 2014 and 2013 is presented below:

In thousands of US Dollars	**2014**	**2013**	**Variance**	**Variance, %**
Revenue from export sales	**676,064**	765,029	*(88,965)*	*(11.6)%*
Revenue from domestic sales	**105,814**	129,985	*(24,171)*	*(18.6)%*
Total	**781,878**	895,014	*(113,136)*	*(12.6)%*

Cost of sales

Cost of sales decreased by 22.2% to US$222.6 million for the reporting period (year ended 31 December 2013: US$286.2 million). The decrease is primarily explained by a decrease in depreciation, depletion and amortisation, royalties, government profit share, repair, maintenance and other services, materials and supplies expenses, although this is partially offset by an increase in payroll and related taxes, well workover costs and other expenses. On a boe basis, cost of sales decreased by US$3.24 or 19.1% to US$13.74 for the reporting period (year ended 31 December 2013: US$16.98) and cost of sales net of depreciation per boe decreased by US$3.00, or 30.2%, to US$6.92 (year ended 31 December 2013: US$9.92).

Depreciation, depletion and amortisation decreased by 7.1% to US$110.5 million for the reporting period (year ended 31 December 2013: US$119.0 million). The decrease is mainly due to an increase in proved developed reserves starting from 31 August 2013, which was partially offset by an increase of production volumes.

Repair, maintenance and other services decreased by 31.6% to US$35.8 million for the reporting period (year ended 31 December 2013: US$52.4 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of Zhaikmunai LLP, engineering and geophysical study expenses. These costs fluctuate depending on the planned works on certain objects.

Royalties, which are calculated on the basis of production and market prices for the different products, decreased by 38.2% to US$24.3 million for the reporting period (year ended 31 December 2013: US$39.4 million). This decrease resulted from the reversal of royalty expenses from prior periods amounting to US$5.5 million. The reversal was due to the adoption of a new work program for oilfield operations and a change in the coefficients used for converting condensate, sales gas and LPG volumes into natural gas equivalent volumes.

Costs for government profit share decreased by US$26.1 million to US$4.6 million for the reporting period (year ended 31 December 2013: US$30.7 million). The decrease resulted from the adoption of a new work program for oilfield operations and a change in the coefficient of natural gas equivalent which resulted in a reversal of the government profit share expense from prior periods amounting to US$17.8 million.

Materials and supplies expenses decreased by 10.9% to US$10.9 million for the reporting period (year ended 31 December 2013: US$12.3 million). This decrease resulted from less need for spare parts and other materials for repairs and maintenance of the facilities, specifically for the gas treatment facility and wells.

Well workover costs increased by 125.3% to US$6.3 million for the reporting period (year ended 31 December 2013: US$2.8 million). The increase resulted from the scheduled work on several wells.

Management fees increased by 38.3% to US$4.9 million in cost of sales for the reporting period (year ended 31 December 2013: US$3.6 million

General and administrative expenses

General and administrative expenses increased by 8.2% to US$33.3 million for the reporting period (year ended 31 December 2013: US$30.8 million). This was primarily due to an increase in expenses for professional services, payroll and related taxes, which was partially offset by expenses for sponsorship and other expenses.

Selling and transportation expenses

Selling and transportation expenses increased by 0.5% to US$122.3 million for the reporting period (year ended 31 December 2013: US$121.7 million). The significant decrease in transportation costs and increase in loading and storage costs is primarily due to transportation costs including certain loading and storage costs for the prior year. Part of the increase in loading and storage costs was driven by a rise in sales volumes for LPG and condensate.

Finance costs

Finance costs increased by US$7.4 million to US$72.1 million for the reporting period (year ended 31 December 2013: US$64.7 million). The increase in these costs was primarily driven by the expenses relating to the early redemption of the 2010 Notes and the amortization of the remainder of transaction cost, incurred for the issuance of 2010 Notes.

Derivative financial instruments

The “Gain on derivative financial instruments” represents the fair value of the hedge that Zhaikmunai LLP entered into on 3 March 2014 and which runs through 29 February 2016.

Other

Foreign exchange losses amounted to US$3.4 million for the reporting period (year ended 31 December 2013: US$0.5 million). This is explained by the fact that on 11 February 2014 the Tenge was devalued against the US Dollar and other major currencies. The exchange rates before and after devaluation were 155 Tenge/US Dollar and 185 Tenge/US Dollar respectively. Since Zhaikmunai LLP had a net asset position of Tenge denominated accounts around this date, the devaluation of the Tenge resulted in a significant foreign exchange loss recognised in the reporting period.

Other expenses increased by 96.4% to US$50.3 million for the reporting period (year ended 31 December 2013: US$25.6 million). Other expenses mainly represent export duties paid by Zhaikmunai LLP. The export duties represent custom duties for the export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc. Other expenses for the reporting period also include accruals under subsoil use agreements in amount of US$16.1 million, which represent amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

Income tax expense increased by 13.7% to US$162.0 million for the reporting period (year ended 31 December 2013: US$142.4 million). The increase in income tax expense is primarily due to an increased deferred tax for the reporting period. This was driven by the Tenge devaluation in February 2014, which led to a significant decrease in the tax base of property, plant and equipment, which is denominated in Tenge.

The following table shows Zhaikmunai LLP's total corporate income tax split between current income tax, adjustments and deferred income tax for the years ended 31 December 2014 and 2013 is presented below:

In thousands of US Dollars	**2014**	**2013**	**Variance**	**Variance, %**
Current income tax	**115,997**	138,810	*(22,813)*	*(16.4)%*
Adjustment in respect of the current income tax for the prior periods	**(6,785)**	-	*(6,785)*	*n.a.*
Deferred income tax expense/(benefit)	**52,753**	3,613	*49,140*	*1360.1%*
Total	**161,965**	142,423	*19,542*	*13.7%*

Liquidity and Capital Resources – 2014/2013 comparison

General

During the period under review, Zhaikmunai LLP's principal sources of funds were cash from operations and amounts raised under the 2012 Notes and the 2014 Notes. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2012 Notes and the 2014 Notes) and to funding capital expenditures and working capital requirements.

The following table sets forth Zhaikmunai LLP's consolidated cash flow statement data for the years ended 31 December 2014 and 2013.

In thousands of US Dollars	**2014**	**2013**
Cash and equivalents at the beginning of the period	**170,447**	164,979
Net cash flows from operating activities	**375,408**	383,319
Net cash used in investing activities[1]	**(310,155)**	(205,552)
Net cash from / (used in) financing activities	**127,158**	(172,299)
Effects of exchange rate changes on cash and cash equivalents	**(1,508)**	–
Cash and equivalents at the end of the period	**361,350**	170,447

*) excluding deposits and restricted cash.

Net cash flows from operating activities

Net cash flow from operating activities was US$375.4 million for the reporting period (year ended 31 December 2013: US$383.3 million) and was primarily attributable to:

- profit before income tax for the reporting period of US$348.3 million (year ended 31 December 2013: US$370.4 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$111.8 million (year ended 31 December 2013: US$120.3 million), and finance costs of US$72.1 million (year ended 31 December 2013: US$64.7 million).
- a US$21.0 million increase in working capital (year ended 31 December 2013: decrease US$16.5 million) primarily attributable to an increase in trade receivables of US$36.5 million (year ended 31 December 2013: decrease US$12.6 million), a decrease in inventories of US$3.4 million (year ended 31 December 2013: increase of US$2.9 million), a decrease in prepayments and other current assets of US$9.4 million (year ended 31 December 2013: a decrease of US$5.6 million), an decrease in trade payables of US$4.3 million (year ended 31 December 2013: a decrease of US$8.0 million) and an increase in other current liabilities of US$0.0 million (year ended 31 December 2013: US$7.8 million).
- income tax paid of US$116.6 million (year ended 31 December 2013: US$155.0 million).

Net cash used in investing activities

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

Net cash used in investing activities for the reporting period was US$310.2 million (year ended 31 December 2013: US$205.6 million) due primarily to the drilling of new wells (U.S.$108.1 million), costs associated with the third gas treatment unit and Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields, offset by the redemption of U.S.$25.0 million of short-term bank.

Net cash (used in)/provided by financing activities

Net cash provided from financing activities during the reporting period was US$127.2 million, primarily attributable to the issue of the 2014 Notes amounting to US$400.0 million, offset by an early redemption of the 2010 Notes amounting to US$92.5 million, repayment of borrowings amounting to US$104.0 million and the finance costs paid on the 2010 Notes, 2012 Notes and 2014 Notes. Net cash used in financing activities during the year ended 31 December 2013 was US$172.3 million, which was mainly represented by the finance costs paid on the 2010 Notes and 2012 Notes and repayment of borrowings amounting to US$90.0 million.

Analysis of revenue, expenses and results – 2013/2012 comparison

The table below sets forth the line items of Zhaikmunai's consolidated statements of comprehensive income for the year ended 2013 and 2012 in U.S. Dollars and as a percentage of revenue.

	Year ended 31 December 2013	**% of revenue**	**Year ended 31 December 2012**	**% of revenue**
	In thousands of US Dollars		In thousands of US Dollars	
Revenue	895,014	100.0	737,065	1.0
Cost of sales	(286,222)	32.0	(238,224)	32.3
Gross profit	**608,792**	**68.0**	**498,841**	**67.7**
General and administrative expenses	(30,803)	3.4	(44,332)	6.0
Selling and transport expenses	(121,674)	13.6	(103,604)	14.1
Finance costs	(64,702)	7.2	(81,566)	11.1
Foreign exchange (loss)/gain, net	(499)	0.1	899	0.1
Interest income	659	0.1	337	0.0
Other expense	(25,593)	2.9	(6,577)	0.9
Other income	4,263	0.5	3,940	0.5
Profit before income tax	**370,443**	**41.4**	**267,938**	**36.4**
Income tax expense	(142,423)	15.9	(120,289)	16.3
Profit for the year	**228,020**	**25.5**	**147,649**	**20.0**

Revenue increased by U.S.$157.9 million, or 21.4%, to U.S.$895.0 million in the year ended 31 December 2013 from U.S.$737.1 million in the year ended 31 December 2012 primarily due to the increase in output from the gas treatment facility. For the year ended 31 December 2013, revenue from sales to Zhaikmunai's top two customers amounted to U.S.$203.0 million and U.S.$173.4 million, respectively. For the year ended 31 December 2012, revenue from sales to Zhaikmunai's top three customers amounted to U.S.$200.6 million, U.S.$54.0 million and U.S.$118.8 million, respectively.

The following table shows Zhaikmunai's revenue and sales volumes for years ended 31 December 2013 and 2012:

	Year ended 31 December,	
In thousands of US Dollars	**2013**	**2012**
Oil and gas condensate	709,107	587,371
Gas and LPG	185,907	149,694
Total revenue	**895,014**	**737,065**
Sales volumes (boe)	16,854,970	13,629,245

The following table shows Zhaikmunai's revenue breakdown by export/domestic sales for the year ended 31 December 2013 and 2012:

	Year ended 31 December,	
In thousands of US Dollars	**2013**	**2012**
Revenue from export sales	765,029	630,412
Revenue from domestic sales	129,985	106,653
Total	**895,014**	**737,065**

Cost of sales increased by U.S.$48.0 million, or 20.2%, to U.S.$286.2 million in the year ended 31 December 2013 from U.S.$238.2 million in the year ended 31 December 2012 primarily due to an increase in depreciation, depletion and amortisation, royalties, government profit share, materials and supply expenses and changes in stock, partially offset by a decrease in payroll and related taxes, well workover costs and repair and maintenance expenses. The increase of 20% in cost of sales is in line with the increase in revenue in 2013 of 21% compared to 2012. On a boe basis, cost of sales decreased marginally by U.S.$0.5, or 2.86%, to U.S.$16.98 in the year ended 31 December 2013 from U.S.$17.48, and cost of sales net of depreciation per boe decreased by U.S.$0.12, or 1.12%, to U.S.$9.92 in the year ended 31 December 2013 from U.S.$10.04 in the year ended 31 December 2012.

Depreciation, depletion and amortisation increased by 17.3%, or U.S.$17.6 million, in the year ended 31 December 2013 to U.S.$119.0 million from U.S.$101.4 million in the year ended 31 December 2012. The increase is due to an increase of production without a similar increase in proved developed reserves during the period.

Royalty costs are calculated on the basis of production and market prices for the different products. Royalties rose 15.1% to US$ 39.4 million up from US$ 34.2 million in the year ended 31 December 2013, whereas production was up 25% to an average production of 46,178 boepd in 2013 up from 36,940 boepd in 2012. The average brent price for the year was down 0.5% to US$108.41 per bbl from US$ 109.03 per bbl in 2012.

Costs for government profit share increased by U.S.$22.8 million, or 289.3%, to U.S.$30.8 million in the year ended 31 December 2013 from U.S.$7.9 million in the year ended 31 December 2012, mainly due to the fact that the Cost oil balance which had been carried forward from previous years was depleted in August 2013, causing the Government share to substantially rise in the second half of 2013.

Materials and supply expenses, taken together with repair, maintenance and other services and well workover costs increased 8% to US$ 70.5 million in 2013 up from US$ 65.3 million in 2012. The increase of 130% in materials and supplies from US$5.3 in 2012 to US$12.2 million in 2013 is the result of repair and maintenance works in 2013 being focusses on the facilities, specifically the Gas Treatment Facility, and less so on wells.

General and administrative expenses decreased by U.S.$13.5 million, or 30.5%, to U.S.$30.8 million in the year ended 31 December 2013 from U.S.$44.3 million in the year ended 31 December 2012 due primarily to a decrease in social program expenditures of U.S.$21.5 million in the year ended 31 December 2013 from U.S.$21.8 million in the year 31 December 2012. This decrease was related to the completion in 2012 of construction of a 37 kilometer asphalt road accessing the field site with no similar expense incurred in 2013. The decrease in social costs was primarily offset by increased management fees and professional services.

Selling and transportation expenses increased by U.S.$18.1 million, or 17.5%, to U.S.$121.7 million in the year ended 31 December 2013 from U.S.$103.6 million in the year ended 31 December 2012. This was driven primarily by an increase of U.S.$15.4 million in loading and storage costs to U.S.$37.0 million in the year ended 31 December 2013 from U.S.$21.6 million in the year ended 31 December 2012. This increase was primarily driven by the rise in output of LPG and condensate volumes.

Finance costs decreased by U.S.$16.9 million, to U.S.$64.7 million in the year ended 31 December 2013 from U.S.$81.6 million in the year ended 31 December 2012. The decrease in costs was primarily driven by the raise of a new bond in November 2012 with significantly lower interest rate with which the first bond was repaid.

Foreign exchange loss amounted to U.S.$499 thousand in the year ended 31 December 2013 compared to a gain of U.S.$899 thousand in the year ended 31 December 2012.

Other expenses increased to U.S.$25.6 million in the year ended 31 December 2013 from U.S.$6.6 million in the year ended 31 December 2012. The increase in other expenses was due to the increase in export duties paid by Zhaikmunai. The export duties represent custom duties for export of crude oil and customs fees for its services such as processing of declarations, temporary warehousing etc. The Kazakhstan custom authorities, based on their interpretation of CIS free-trade legislation, have imposed custom duties on oil exports from Kazakhstan to Ukraine starting from December 2012.

Profit before income tax amounted to a profit of U.S.$370.4 million in the year ended 31 December 2013 compared to a profit of U.S.$267.9 million in the year ended 31 December 2012. The higher profitability was driven primarily by the increased revenue due to the increase in output of the gas treatment facility.

Income tax expense increased to U.S.$142.4 million in the year ended 31 December 2013 compared to U.S.$120.3 million in the year ended 31 December 2012, a 18.4% increase. The increase in income tax expense was primarily due to the increase in profit before income tax.

Net income amounted to U.S.$228.0 million in the year ended 31 December 2013, an increase of U.S.$80.4 million from U.S.$147.7 million in the year ended 31 December 2012. This higher profitability was driven by increased revenue from increased production of hydrocarbons.

Liquidity and Capital Resources – 2013/2012 comparison

General

During the periods under review, Zhaikmunai LLP's principal sources of funds were cash from operations and amounts raised under the 2010 Notes and the 2012 Notes. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2010 Notes and the 2012 Notes) and to funding capital expenditures and working capital requirements.

Cash Flows

The following table sets forth Zhaikmunai's consolidated cash flow statement data for the years ended 31 December 2013 and 2012.

	Year ended 31 December,	
In thousands of US Dollars	**2013**	**2012**
Net cash flows from operating activities	383,319	313,522
Net cash used in investing activities[1]	(205,552)	(269,948)
Net cash used in financing activities	(172,299)	74,072
Cash and equivalents at the end of the year	170,447	164,979

1) Net cash used in investing activities includes U.S.$30 million of bank deposits that are not included in cash and cash equivalents due to the long-term nature of the deposits, and includes a redemption of U.S.$25 million that are not included in cash and cash equivalents due to short term nature of the deposits, at year-ended 31 December 2013.

Net cash flows from operating activities

Net cash flows from operating activities were U.S.$383.3 million for the year ended 31 December 2013 as compared to U.S.$313.5 million for the year ended 31 December 2012 and were primarily attributable to:

- profit before income tax for the year of U.S.$370.4 million, adjusted by a non-cash charge for depreciation, depletion and amortization of U.S.$120.3 million, and finance costs of U.S.$64.7 million.
- an increase in working capital primarily attributable to (i) an increase in receivables of U.S.$ 12.6 million, (ii) an increase in trade payables of U.S.$8.0 million and (iii) and increase other current liabilities of U.S.$7.8 million.
- income tax paid of U.S.$ 155.0 million.

Net cash flows from operating activities were U.S.$313.5 million for the year ended 31 December 2012 and were primarily attributable to:

- profit before income tax for the period of U.S.$267.9 million, adjusted by a non-cash charge for depreciation, depletion and amortisation of U.S.$102.6 million, and finance costs of U.S.$81.6 million;
- an increase in working capital primarily attributable to (i) an increase in receivables of U.S.$41.4 million, (ii) an increase in inventories of U.S.$10.4 million and (iii) an increase in other current liabilities of U.S.$23.5 million mostly attributable to the tax treatment of the diversified production of the first and second gas treatment units; and
- income tax paid of U.S.$94.2 million.

Net cash used in investing activities

The substantial portion of cash used in investing activities is related to the drilling program and the construction of gas treatment units one, two and three. During the period from 1

January 2010 through 31 December 2013, cash used in the drilling program represented between 43% and 70% of total cash flow from investment activities. During the period from 1 January 2010 through 31 December 2013, cash used in the construction of gas treatment units one, two and three represented between 14% and 40% of total cash flow from investment activities. Together, drilling and the construction of the gas treatment units represented between 57% and 92% of cash used for investment in property, plant and equipment.

Net cash used in investing activities was U.S.$205.5 million for the year ended 31 December 2013 due primarily to the drilling of new wells (U.S.$108.1 million) and costs associated with GTU3 and the Rostoshinskoye, Darinskoye and Yuzhno-Gremyachenskoye fields.

Net cash used in investing activities was U.S.$269.9 million for the year ended 31 December 2012 due primarily to the drilling of new wells (U.S.$116.2 million), investments in the gas treatment facility (U.S.$38.6 million), U.S.$50 million short term bank deposits and costs associated with GTU1 and GTU2 and the Rostoshinskoye, Darinskoye and Yuzhno-Gremyachenskoye fields.

Net cash (used in)/provided by financing activities

Net cash used in financing activities was U.S.$172.3 million for the years ended 31 December 2013, primarily attributable to the repayment of borrowings of U.S.$90.0 million and the interest paid on Zhaikmunai’s 2010 Notes and 2012 Notes.

Net cash provided by financing activities was U.S.$74.1 million for the year ended 31 December 2012, primarily attributable to the receipt of proceeds of the 2012 Notes partially offset by the partial repurchase of the 2010 Notes at a premium.

Five-year summary

In millions of dollars unless stated otherwise	2014	2013	2012	2011	2010
Revenue	781.9	895.0	737.1	300.8	178.2
Cost of sales	(222.6)	(286.2)	(238.2)	(70.8)	(53.9)
Gross profit	**559.3**	**608.8**	**498.9**	**230.0**	**124.3**
General and administrative expenses	(33.3)	(30.8)	(44.3)	(18.9)	(15.5)
Selling and transportation expenses	(122.3)	(121.7)	(103.6)	(35.4)	(17.0)
Finance costs	(72.1)	(64.7)	(81.6)	(38.1)	(38.3)
Foreign exchange loss, net	(3.4)	(0.5)	0.9	(0.3)	(0.7)
Gain on derivative financial instrument	60.3	–	–	–	(0.5)
Interest income	0.8	0.7	0.3	0.3	0.3
Other expenses	(50.3)	(25.6)	(6.6)	(7.9)	(1.1)
Other income	9.3	4.2	4.0	3.4	1.6
Profit before income tax	**348.3**	**370.4**	**268.0**	**133.1**	**53.1**
Income tax expense	(162.0)	(142.4)	(120.3)	(67.3)	(38.0)
Net Income	**186.3**	**228.0**	**147.7**	**65.8**	**15.1**
Non-current assets	1,666.3	1,391.1	1,251.9	1,130.9	972.9
Current assets	494.4	318.3	318.0	101.0	112.2
TOTAL ASSETS	**2,160.7**	**1,709.4**	**1,569.9**	**1,231.9**	**1,085.1**
Equity	781.8	591.3	373.5	225.9	165.1
Non-Current Liabilities	1,267.2	1,003.3	1,081.9	898.7	841.3
Current liabilities	111.7	114.8	114.5	107.3	78.7
TOTAL EQUITY AND LIABILITIES	**2,160.7**	**1,709.4**	**1,569.9**	**1,231.9**	**1,085.1**
Net cash flows from operating activities	375.4	383.3	313.5	146.6	109.2
Net cash used in investing activities[1]	(310.2)	(205.6)	(269.9)	(102.0)	(132.2)
Net cash from / (used in) financing activities	127.2	(172.3)	74.1	(81.8)	(24.7)
Profit margin %	23.8%	25.5%	20.0%	21.9%	8.5%
Equity/assets ratio %	36.2%	34.6%	23.8%	18.3%	15.2%

[1] IFRS term based on indirect cash flow methodology

RISK MANAGEMENT

Identification and assessment of key risks

The management team acknowledges its responsibility for determining the significant risks which may potentially affect Zhaikmunai LLP in achieving its strategic objectives. In addition to risk management at the Zhaikmunai LLP level, a Group-wide risk assessment is performed periodically to identify the nature and extent of risks and determine respective mitigating actions.

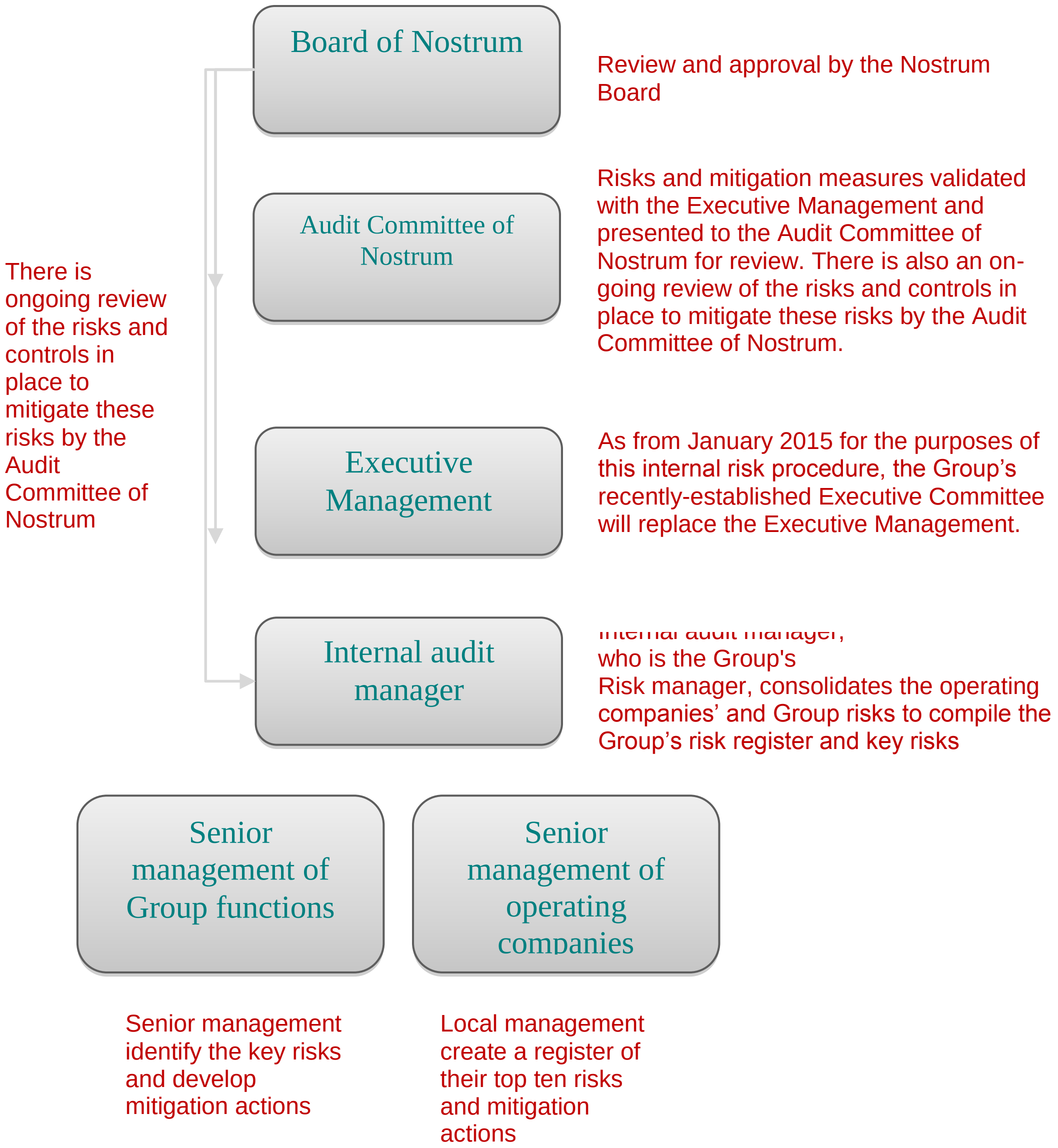
During 2013 the Group formalised risk classification and identification and associated mitigating control activities and future actions. These identified risks were aggregated and categorized into the following risk categories:

- Strategic;
- Operational;
- Financial; and
- Compliance.

Based on this risk register and further analysis and discussions, the executive management of the Group (including the management team of Zhaikmunai LLP) periodically review previously identified significant risks, update their likelihood of occurrence and potential impact, and identify potential new significant risks emerging as a result of the changing environment. In relation to Zhaikmunai LLP, these significant risks are discussed in more detail below in the section “Principal risks and uncertainties”.

Risk assessment and management

The Group has in place risk management processes and procedures and is currently in the process of formalising them into a Risk Management Policy, which will reflect the following key management principles:



The Risk Management Policy will contain a description of the risk management process consisting of the following cycle of coordinated activities:

- Recognition or identification of risks;
- Ranking or evaluation of risks;
- Responding to significant risks:
  - Tolerate, when they are outside the Group's ability to mitigate;
  - Treat by reducing their impact or likelihood of occurrence;
  - Transfer to a third party;
  - Terminate the activity creating them;
- Resourcing controls;
- Reaction planning;
- Reporting and monitoring risk performance; and
- Reviewing the risk management framework.

Risk developments in the reporting period

Two new risks were identified in 2014:

- Estimation of oil and gas reserves – since these may significantly affect the value of the non-current assets of Zhaikmunai LLP and its strategic objectives.
- Risk of non-compliance with anti-bribery legislation due to perceived practices in jurisdiction of operations.

The following three risks assessed and disclosed in 2013 as principal financial risks and uncertainties were removed from the list of significant risks in 2014. However, these are addressed in the note "Financial risk management objectives and policies" of the consolidated financial statements:

- Interest rate risk
- Foreign currency exchange rate risk
- Credit risk

The risk "Gas sales price" assessed and disclosed as principal risks and uncertainties in 2013 was incorporated to another risk from the prior year "Commodity price risk" due to their similar nature.

PRINCIPAL RISKS AND UNCERTAINTIES

STRATEGIC RISKS

Development projects

Description of risk: Our planned development projects, in particular GTU3 and well drilling, are subject to customary risks related to delay, non-completion and cost overruns, which could impact future production.

Risk management: We engaged an experienced international project management firm to assist with its development of GTU3 and is contracting with reputable international equipment suppliers employing proven technologies for the project. The timing and scope of the drilling programme is also tailored taking into account the states of the GTU3 project and the oil price development.

Commodity price risk

Description of risk: We are exposed to the risk that our future earnings may be adversely impacted by changes in the market price of crude oil, given that all sales prices of crude oil and condensate are based on market prices. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals.

We could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which we could otherwise achieve.

Risk management: Our hedging policy is that, upon entering into longer term non-scalable capital expenditure commitments, we will hedge up to a maximum of 70% of our liquids production. Currently, the hedge in place is in the order of 30% of the liquids production. The instrument we have been employing is a zero-cost-capped-collar. Such a contract fixes the floor and ceiling price at a certain predetermined level, with the limitation of the ceiling price at a certain range. We intend to maintain the same hedging policy going forward.

In relation to the gas sales price, based on the terms of its PSA and applicable law we do not believe that such legislation is applicable in its subsoil use of the Chinarevskoye field and we have conveyed such a view to the Kazakh government.

OPERATIONAL RISKS

Single revenue source and business interruption

Description of risk: Our activities in the Chinarevskoye oil and gas condensate field are currently our sole source of revenue.

Risk management: In 2013 we acquired subsurface use rights for three oil and gas fields near the Chinarevskoye field. In 2014 we developed a work programme for the initial drilling of one well in each of these fields before the end of 2015. Due to the depressed oil price, it is currently proposed to drill one of these wells in 2015 and scale back drilling of the other two wells. The Group also has a team of dedicated specialists who assess further possible acquisitions of oil and gas fields and assets.

Estimation of oil and gas reserves

Description of risk: We are subject to the risk that if there are inaccurate assessments and overstatement of the oil and gas reserves our non-current assets and goodwill may be overstated or impaired. This may also be a consequence of unsuccessful exploration of the new fields and may also result in inappropriate decision-making.

Risk management: We have a department of highly skilled geologists, who perform periodic assessment of our oil and gas reserves in accordance with international standards on reserve estimations. The results of the assessments are audited by the Group's independent reserve auditors, Ryder Scott.

COMPLIANCE RISKS

Subsoil use agreements

Description of risk: We may have disagreements with the Kazakh government regarding its subsoil operations or compliance with the terms of its subsoil use agreements.

Risk management: We believe that we are in full compliance with the terms of its subsoil use agreements and maintains an open dialogue with Kazakh governmental authorities in this regard. In the event of any non-compliance we will pay any applicable penalties and fines.

Environmental compliance

Description of risk: The legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that we will not be in full compliance with all such regulations at all times.

Risk management: We strengthened our HSE department over the past 18 months, regularly develop our internal HSE policies and we have performed our first audit of supplier compliance with such policies. We also regularly commissions independent environmental audits to monitor our compliance with best practice in this area.

Perceived risk of non-compliance with anti-bribery legislation

Description of risk: There is a risk that our employees will unintentionally or deliberately take actions prohibited by anti-bribery legislation given the perceived heightened risk in the jurisdiction in which we operate.

Risk management:

As part of the Group, Zhaikmunai LLP has adopted the Group's Anti-bribery and corruption policy, and a provision on this subject is included in the Group's Code of Conduct (to which Zhaikmunai also adheres as a member of the Group). We have conducted training for employees in relation to their obligations in this area.

FINANCIAL RISKS

Tax law uncertainty

Description of risk: The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create a risk of additional payments of tax from assessments which we believe are inapplicable to us.

Risk management: We regularly challenge, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that we believe are inapplicable to us, either pursuant to the terms of our subsoil use agreements or applicable law.

Going concern and liquidity risk

Description of risk: We are subject to the risk of encountering difficulties in raising funds to meet commitments associated with our financial liabilities and respectively inappropriateness of going concern assumptions.

Risk management: Liquidity requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise. The treasury policy requires us to maintain a minimum level of cash of US$50 million.

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

Internal Controls and Audit

In addition to the management team's risk management and monitoring, in 2014 the Group hired an internal audit manager. The internal audit manager is the Group's risk manager, and consolidates the operating companies' (including Zhaikmunai LLP) and Group risks to compile the Group's risk register and key risks.

An internal audit charter has been adopted by the Group, which develops a three-year internal audit plan and sets out the responsibilities of the internal audit function. The primary role of the internal audit function is to help executive management to protect the assets, reputation and sustainability of the Group. This is intended to be achieved through:

- building strong and effective risk awareness within the Group;
- continuously improving risk management and control processes so that they operate effectively and efficiently and reflect leading practice; and
- sharing best practice with regard to risk management and assurance across the Group.

The Group's aim during 2015 is to develop the internal audit function further by hiring additional staff, including an additional internal audit manager at Zhaikmunai LLP, and refining the terms of the internal audit charter to ensure that it is effective and meets the requirements of the Group.

CORPORATE GOVERNANCE FRAMEWORK AND PRINCIPLES

Committed to excellence in our governance
Zhaikmunai LLP is a wholly-owned independent subsidiary of Nostrum, which in 2014 became premium listed on the London Stock Exchange. As a result of the premium listing, all member of the Group, including Zhaikmunai LLP, have been subject to additional obligations to enable Nostrum to comply with the additional regulatory obligations applicable to the Group.

In particular, Nostrum has been required to comply with the UK Corporate Governance Code (the Code) published by the Financial Reporting Council of the United Kingdom. Further explanation of Nostrum's compliance with the Code, and valid justifications for the few areas where Nostrum does not fully comply with the Code are contained in Nostrum's Annual Report and on the governance section of Nostrum's website http://www.nostrumoilandgas.com/en/corporate-governance.

Group policies
In addition to the obligations on Zhaikmunai LLP pursuant to Nostrum's premium listing, Zhaikmunai LLP has adopted the Group Code of Conduct, which requires all Group personnel to act ethically and with integrity, to comply with all applicable laws and regulations and to act appropriately in the areas of personal conduct and equal opportunities. The Code of Conduct addresses conduct in the areas of health, safety and the environment, antitrust and competition, insider trading, maintaining records, controls and audits, conflicts of interest, prohibited payments, gifts and favours, interests in other businesses, activities in other businesses, use of Group assets, confidentiality, communication with outside parties, electronic security, personal data, personal conduct, equal opportunity and controlled substances.

In addition, the Group has adopted a share dealing code, which incorporates the UK's Model Code as published in the UK's Listing Rules and applies to the directors, senior management and other relevant employees of the Group, including the management team of Zhaikmunai LLP.

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

In addition, the Group has adopted a whistle-blowing policy that takes account of the Whistle-blowing Arrangements Code of Practice issued by the British Standards Institute and the UK body, Public Concern at Work. Zhaikmunai LLP has also adopted this Group whistle-blowing policy.

Major transactions in Zhaikmunai LLP's authorised capital and changes to Zhaikmunai LLP's ownership structure in the reporting period
As at 1 January 2014, Zhaikmunai LLP's participatory interests were held by Claydon Industrial Limited (45%) and Condensate-Holding LLP (55%). Claydon Industrial Limited and Condensate-Holding LLP were both wholly-owned subsidiaries of the then parent company of the Group, Nostrum Oil & Gas LP. Claydon Industrial Limited and Condensate-Holding LLP remain wholly-owned (indirect) subsidiaries of the current parent company of the Group, Nostrum Oil & Gas PLC.

As part of the Group corporate reorganisation in 2014, a new entity, Nostrum Oil Coöperatief U.A. (Coop) was established to be an intermediate holding company for the Group. Coop acquired all the assets and liabilities of Nostrum Oil & Gas LP as part of the reorganisation, and also directly acquired the majority participatory interest in Zhaikmunai LLP. The participants in Zhaikmunai LLP after these actions, and as at the date of this annual report are Coop (99.92%), Claydon Industrial Limited (0.036%) and Condensate-Holding LLP (0.044%).

The former parent company of the Group, Nostrum Oil & Gas LP was dissolved, and the new intermediate holding company, Coop, is held as to more than 99.9% by the new parent company, Nostrum Oil & Gas PLC.

A structure chart showing the current group structure as at the date of this Annual Report is set out under additional disclosures

The Group attaches a high priority to good practice in corporate governance, the system by which the Group is directed and managed, and is committed to implementing good corporate governance practices in the interests of all of our stakeholders. Adopting and implementing good corporate governance is a core principle of the Group's relations with investors, employees, customers, suppliers and business partners.

The Group has embraced and addressed the demands of the additional regulatory obligations made applicable to the Group as a result of Nostrum moving to a premium listing on the London Stock Exchange. In particular, as regards the UK Corporate Governance Code published by the Financial Reporting Council, in the few areas where Nostrum does not fully comply with the UK Corporate Governance Code Nostrum has valid reasons for such non-compliance which are explained in this section of the annual report and on the governance section of Nostrum's website http://www.nostrumoilandgas.com/en/corporate-governance.

ZHAIKMUNAI LLP MANAGEMENT

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

Heinz Wendel

- General Director, Zhaikmunai LLP
- **Date of Birth:** 22/08/1953
- **Nationality:** German
- **Positions held (chronological order), spheres of activity:**
  - Appointed as Chief Operating Officer of Zhaikmunai LLP in January 2012, and as General Director of Zhaikmunai LLP in August 2013.
  - 30 years experience in oil & gas exploration and production, primarily as an oil and gas engineer.
  - Served in various managerial and technical capacities in Germany, Poland, Russia and Kazakhstan with GDF Suez E&P, East German Erdöl-Erdgas Gommern (EEG), and others.
  - Graduate of the Oil & Gas Institute of Baku, Azerbaijan.
  - Mr Wendel holds no shares or other interests in Zhaikmunai LLP. He holds 200,000 share options in Nostrum Oil & Gas PLC.

Information on executive management remuneration
Mr Wendel's total compensation for 2014 was **€**366,039 (comprising his basic compensation and performance related bonus).

Mr Wendel's 2014 remuneration was determined on the basis of his performance in 2013.

Zhaikmunai LLP management team

Gudrun Wykrota

- Chief Financial Officer, Zhaikmunai LLP
- **Year of Birth:** 1960
- **Nationality:** German
- **Skills and experience:**
  - Appointed as Chief Financial Officer of Zhaikmunai LLP in April 2010.
  - Prior experience in the energy field: Head of Asset Management Upstream (Gazprom Germania GmbH), Finance and Administration Manager (Gaz de France Produktion Exploration Deutschland GmbH).
  - Holds an MSc (Mining Engineering and Economy) from Moscow Geological Exploration University, and a Certificate in International Accounting from the German Chamber of Industry and Commerce in Berlin, Germany.

Berik Brekeshev

- **Role:** Commercial Director, Zhaikmunai LLP
- **Year of Birth:** 1975
- **Nationality:** Kazakh
- **Skills and experience:**
  - Appointed as Commercial Director of Zhaikmunai LLP in January 2010.
  - More than 10 years extensive experience in the oil and gas industry in Kazakhstan.
  - Previously held senior positions with Starleigh Ltd, Tallahassee Holdings Limited and JSC NNGRE and commercial roles at Nelson Resources, Kazakhoil Aktobe, Buzachi Operating, Atlas Global Investment and Western-Siberian Drilling Company.
  - Holds and MBA (International Marketing) from the Maastricht School of Management.

Jörg Pahl

- **Role:** Drilling Director, Zhaikmunai LLP
- **Year of Birth:** 1969
- **Nationality:** German
- **Skills and experience:**
  - Appointed as Zhaikmunai LLP Drilling Director in 2005.
  - More than 10 years extensive experience in various positions in the Drilling/Workover Technology Department at Erdgas Erdöl GmbH and the Operation and Production Department at the E&P Division of Gaz de France.
  - Holds qualifications from the Technical School for Deep Drilling Techniques, Stralsund and from the Technical University, TU Bergakademie, Freiberg, Germany (Drilling Technology and Fluid Mining).
  -

Gernot Voigtländer

- **Role:** Director of geology and reservoir management
- **Year of Birth:** 1968
- **Nationality:** German
- **Skills and experience:**
  - Appointed as director of geology and reservoir management in 2013.

    - Previously worked at GDF Suez Exploration & Production Deutschland GmbH and gained experience in petroleum geology from 1984.
    - Extensive subsurface experience in the exploration, appraisal, development and production of hydrocarbons.
    - Diploma of Geology from the Technical University of Berlin and degree in Exploration Geology from Moscow Institute of Exploration Geology, Russia.

Amankeldy Sanatov

- **Role:** Acting operations director
- **Year of Birth:** 1975
- **Nationality:** Kazakh
- **Skills and experience:**
    - Appointed as acting operations director in 2013.
    - Diplomas in Operation of Oil and Gas fields and Oil and Gas Geology from Saraov Chernyshevsky State University.
    - Has previously worked in other positions within Zhaikmunai including as site manager, manager of the oil and gas production department and field superintendent for Zhaikmunai LLP.

Zhomart Darkeev

- **Role:** Administrative director
- **Year of Birth:** 1966
- **Nationality:** Kazakh
- **Skills and experience:**
    - Previously worked for Derku Oil & Gas drilling as assistant driller and Kazakhgas State Holding Company as a leading reservoir engineer. At Zhaikmunai LLP, Mr Darkeev has held the positions of Assistant General Director, Chief Administrative Manager, Engineer Manager and Deputy General Manager.
    - Graduate of Furmanov Secondary School with further education completed at the Ivano-Frankivsk Institute of Oil and Gas with a specialization in drilling of oil and gas wells.

Vyascheslav Druzhinin

- **Role:** Government authorities relations director
- **Year of Birth:** 1954
- **Nationality:** Russian
- **Skills and experience:**
    - Qualified mining engineer from the Polytechnical Institute, Tomsk (Russia) and the USSR Ministry of Geology.
    - Completed drilling engineer training at the Hughes Christensen Company, Houston, Texas.
    - Previous experience includes various positions in the Field Development Department of KazakhGaz State Holding Company, State Holding Company "Zharyk" and Volkovgeologia KGGP.

INVESTOR INFORMATION

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

Investor relations
ir@nog.co.uk
+44 203 740 7430

Zhakimunai LLP Registered Office
Zhaikmunai LLP
59/2, Eurasia Prospect
Uralsk, 090002
Republic of Kazakhstan

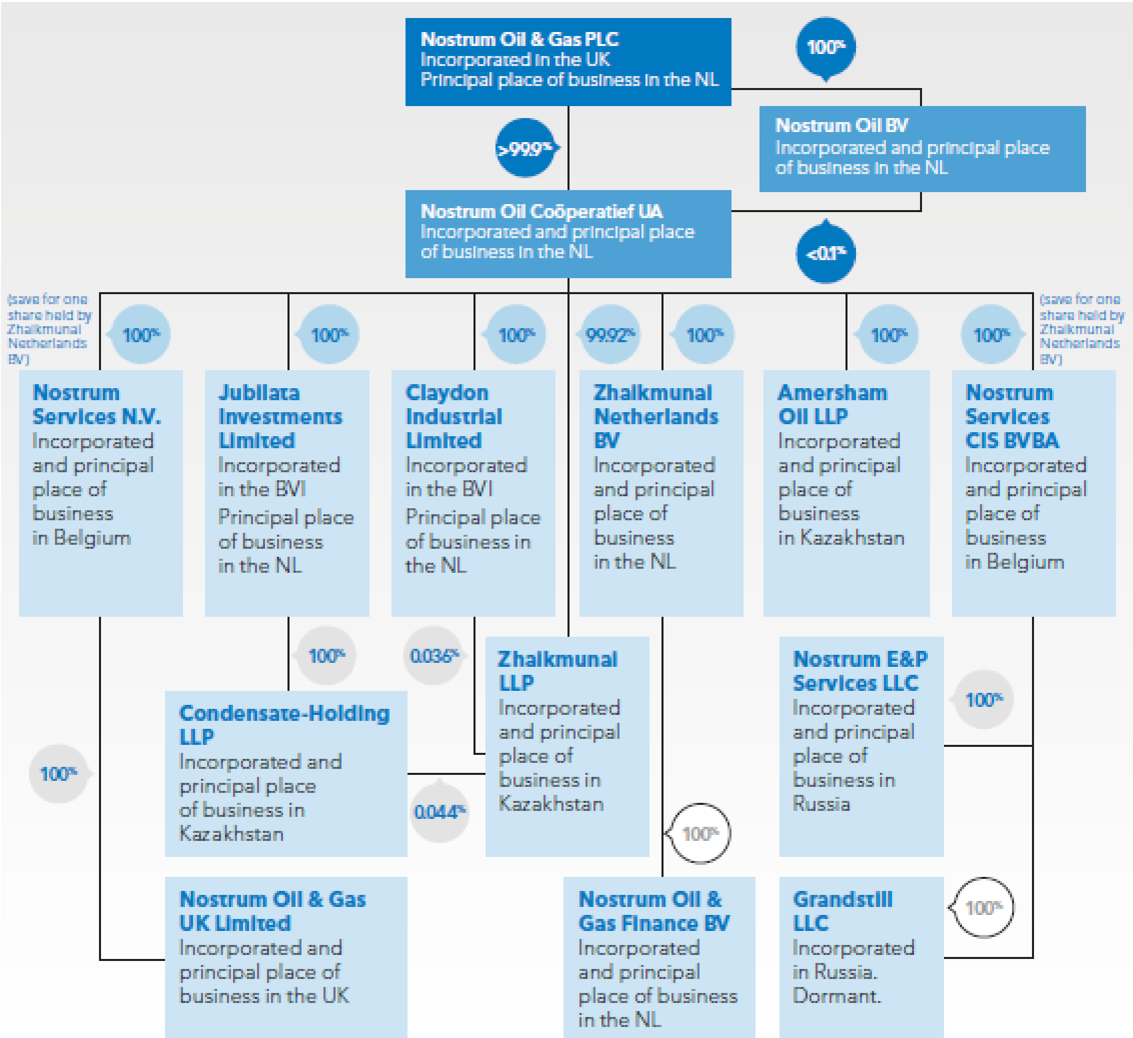
Astana Representative Office
Zhaikmunai LLP
Office 319, 2/2
Kurman Batyr Prospect
Astana, 010000
Republic of Kazakhstan

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

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

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

GROUP STRUCTURE CHART



GLOSSARY

3-D seismic survey	Seismic survey that is acquired, processed and interpreted to yield a three-dimensional picture of the subsurface.
2010 Notes	10.5% notes issued in 2010
2012 Notes	7.125% notes issued in 2012
2014 Notes	6.375% notes issued in 2014
A	
API	American Petroleum Institute.
appraisal well	A well or wells drilled to follow up a discovery and evaluate its commercial potential.
associated gas	Gas, which occurs in crude oil reservoirs in a gaseous state.
Authorised Oil and Gas Agency	The State's authorised agency in the area of oil and gas, acting on the instructions of the President and the Government, currently, the MOE.
B	
barrel / bbl	The standard unit of volume: 1 barrel = 159 litres or 42 US gallons.
basin	A large area holding a thick accumulation of sedentary rock
billion cubic feet	bcf, a billion defined as 1,000,000,000. On average 1 bcf of sales gas = 1.055 petajoules.
boe	Barrels of (crude) oil equivalent, i.e. the factor used by Zhaikmunai to convert volumes of different hydrocarbon production to barrels of oil equivalent.
bopd	Barrels of crude oil per day.
boepd	Barrels of (crude) oil equivalent per day.
C	
CAC	A pipeline with two branches originating in Turkmenistan and meeting in Kazakhstan before crossing into Russia and connecting to the Russian pipeline system, with an annual throughput capacity of 60.2 billion cubic meters
Cash	Cash and cash equivalents including current and non-current investments
Caspian region	Parts of countries adjacent to the Caspian Sea
Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
CO2	Carbon dioxide
Competent Authority	The State's central executive agency, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of

	subsoil use contracts, except for contracts for exploration and production of commonly occurring minerals. This was, until recently, the Ministry of Energy and Mineral Resources of Kazakhstan, which in August 2014 was reorganised into the Ministry of Energy (MOE) with respect to the oil and gas industry.
condensate	Hydrocarbons which are gaseous in a reservoir, but which condense to form a liquid as they rise to the surface where the pressure is much less.
cost oil	Cost oil denotes an amount of crude oil produced in respect of which the market value is equal to Zhaikmunai's monthly expenses that may be deducted pursuant to the PSA (include all operating costs, exploration costs and development costs up to an annual maximum of 90% of the annual gross realised value of hydrocarbon production).
crude oil	A mixture of liquid hydrocarbons of different molecular weights.
D	
development	During development, engineering teams design the most efficient development options to build wells and associated infrastructure to produce hydrocarbons from a gas field within a proven productive reservoir (as defined by exploration and appraisal activities). The three phases of development are exploration and appraisal, development and production.
Development Plans	The development plans approved by the SCFD in March 2009.
dry gas	Dry gas is natural gas (methane and ethane) with no significant content of heavier hydrocarbons. It is gaseous at subsurface and surface conditions.
E	
EBIT	Earnings before interest and tax.
EBITDA	Profit Before Tax non recurring expenses + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation – Interest Income + Other Expenses / (Income)
ethane	Saturated hydrocarbon (alkane) with two carbon atoms in its molecule (C_2H_6). The second member of the paraffin series. A gas under normal conditions. A basic feedstock for petrochemical industries.
Exploration Permit	The geological allotment (Annex to the Licence) issued by the Competent Authority to Zhaikmunai LLP.
exploration	the phase of operations which covers the search for oil or gas by carrying out detailed geological and

	geophysical surveys followed up where appropriate by exploratory drilling.
F	
farmee	Earns a percentage interest in an oil an gas permit by helping the company that holds the permit to deliver the work program required by permit.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition.
FSA	Financial Services Authority of the United Kingdom.
FSMA	The Financial Services and Markets Act 2000 (as amended).
G	
gas	Petroleum that consists principally of light hydrocarbons. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.
gas condensate	The mixture of liquid hydrocarbons that results from condensation of petroleum hydrocarbons existing initially in a gaseous phase in an underground reservoir.
Gas Treatment Facility (GTF)	Facility for the treatment of associated gas and gas condensate resulting in different products (stabilised condensate, LPG and dry gas) for commercial sales. GTU1 means the first unit of the Gas Treatment Facility. GTU2 means the second unit of the Gas Treatment Facility. GTU3 means the third unit of the Gas Treatment Facility.
GDRs	The global depository receipts of Nostrum Oil & Gas LP.
geology	The study of rocks
Government	The government of Kazakhstan.
greenhouse gas	a gas that contributes to the greenhouse effect by absorbing infrared radiation, e.g. carbon dioxide
Group	Nostrum Oil & Gas PLC and, as the context requires, its direct and indirect consolidated subsidiaries.
H	
HSE	Health, safety and environment
hydrocarbons	Compounds formed from the elements hydrogen (H) and carbon (C), which may be in solid, liquid or gaseous form.
hydrocarbon reserves	Hydrocarbon reserves have been proved, and are referred to as 3P, 2P and 1P depending on the likelihood of commercial production from that field.
I	
IFRS	International Financial Reporting Standards

J

joint venture	A joint venture is a set of trading entities who have agreed to act in concert to share the cost and rewards of exploring for and producing oil or gas from a permit.

K

Kazakhstan	The Republic of Kazakhstan.
KazMunaiGas	State-owned oil and gas company of Kazakhstan. production subsidiary of KazMunayGas
km	Kilometre(s)

L

Licence	Licence series MG No. 253-D (Oil) issued to Zhaikmunai LLP by the Government on 26 May 1997, including amendments.
liquids	A sales product in liquid form produced as a result of further processing by the onshore plant; for example, condensate and LPG.
Listing Rules	The listing rules made by the Financial Services Authority (FSA) under section 73A of the FSMA.
London Stock Exchange or LSE	London Stock Exchange.
LPG	Liquefied petroleum gas, the name given to the mix of propane and butane in their liquid state.

M

m	Metre(s)
Man –hours	an hour regarded in terms of the amount of work that can be done by one person within this period.
mbbls	Thousands of barrels of crude oil.
mmbbls	Millions of barrels of oil.
mboe	Thousands of barrels of oil equivalent.
mmboe	Millions of barrels of oil equivalent.
MOE	The Ministry of Energy of Kazakhstan, the State's central executive agency, acting based upon its Regulations approved by the Resolution of the Government, which is currently the Competent Authority in oil and gas and the Authorised Oil and Gas Agency.

N

O

operator	The individual or company responsible for conducting oil and gas exploration, development and production activities on an oil and gas lease or concession on its own behalf and, if applicable, for other working interest owners, generally pursuant to the terms of a joint operating agreement or comparable agreement.

P

petroleum	Hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.
processing	processing of saleable product from hydrocarbons sourced from oil wells and gas wells
Production Permit	The mining allotment (Annex to the Licence), issued by the Competent Authority to Zhaikmunai LLP
Proven Reserves (1P)	Proven or proved reserves (1P) are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.
Probable Reserves	Probable reserves are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Probable Reserves. Proven plus probable reserves are referred to as 2P.
Possible Reserves	Possible reserves are those reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves. Proven, probable and possible reserves are referred to as 3P.
PSA or Production Sharing Agreement	The contract for additional exploration, production and production sharing of crude oil hydrocarbons in the Chinarevskoye oil and gas condensate field in the West-Kazakhstan oblast No. 81, dated October 31, 1997, as amended, between Zhaikmunai LLP and the Competent Authority (currently MOE), representing the State.

Q

QHSE	Quality, Health, Safety and Environment

R

recovery	The second stage of hydrocarbon production during which an external fluid such as water or gas is injected into the reservoir to maintain reservoir pressure and displace hydrocarbons towards the wellbore.
reservoir	A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

royalty	An interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production.
Ryder Scott	Independent petroleum consultants Ryder Scott Company LP, headquartered at 621 Seventeenth Street, Suite 1550, Denver, Colorado, 80293, USA.
Ryder Scott Report 2014	The report prepared by Ryder Scott relating ot the reserves and resources of Zhaikmunai, dated 31 December 2014.

S

sales gas	Natural gas that has been processed by gas plant facilities and meets the required specifications under gas sales agreements.
seismic	The use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures.
social infrastructure:	assets that accommodate social services, i.e. hospitals, schools, community housing etc.
stakeholder	A person or entity who may affect, be affected by or perceive themselves to be affected by an entity's decisions or activities.

T

Tenge or KZT	The lawful currency of the Republic of Kazakhstan.
tonne	Metric tonne.
trillion	10 to the power of 12

U

UK Corporate Governance Code	Set of principles of good corporate governance for listed companies promulgated by the UK Financial Reporting Council
U.S. Dollars or US$	The lawful currency of the United States of America.

W

well	A hole drilled to test an unknown reservoir or to produce from a known reservoir.
workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
work program	A schedule of works agreed between parties (permit holders, farmees and government) contracted to be delivered in a defined time frame.

Z

Zhakmunai	Zhaikmunai LLP

APPENDIX - CONSOLIDATED FINANCIAL STATEMENTS

Zhaikmunai LLP

Consolidated financial statements

For the year ended 31 December 2014
with Independent auditors' report

CONTENTS

«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
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Building a better working world

Independent Auditors' Report

To the participants of Zhaikmunai LLP:

We have audited the accompanying consolidated financial statements of Zhaikmunai LLP and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Zhaikmunai LLP and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Alexandr Nazarkulov
Auditor

Auditor qualification certificate
No. 0000059 dated 6 January 2012

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

31 March 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

In thousands of US dollars	**Notes**	**31 December 2014**	31 December 2013
Assets			
Non-current assets			
Exploration and evaluation assets	5	**24,380**	20,434
Property, plant and equipment	6	**1,442,192**	1,331,386
Restricted cash	12	**5,023**	4,217
Advances for non-current assets	7	**134,355**	10,037
Derivative financial instruments	26	**60,301**	–
Non-current investments	11	**–**	25,000
		1,666,251	1,391,074
Current assets			
Inventories	8	**25,443**	22,085
Trade receivables	9	**30,110**	66,564
Prepayments and other current assets	10	**38,570**	29,168
Income tax prepayment		**13,925**	5,042
Current investments	11	**25,000**	25,000
Cash and cash equivalents	12	**361,350**	170,447
		494,398	318,306
Total assets		**2,160,649**	1,709,380
Equity and liabilities			
Partnership capital and reserves			
Partnership capital	13	**4,112**	4
Other reserves		**32,440**	32,440
Retained earnings		**745,185**	558,877
		781,737	591,321
Non-current liabilities			
Long-term borrowings	14	**1,035,141**	830,854
Abandonment and site restoration provision	15	**20,877**	13,874
Due to Government of Kazakhstan	16	**5,906**	6,021
Deferred tax liability	25	**205,298**	152,545
		1,267,222	1,003,294
Current liabilities			
Current portion of long-term borrowings	14	**15,024**	7,449
Trade payables	17	**48,634**	56,676
Advances received		**2,670**	37
Current portion of Due to Government of Kazakhstan	16	**1,031**	1,031
Other current liabilities	18	**44,331**	49,572
		111,690	114,765
Total equity and liabilities		**2,160,649**	1,709,380

General Director of Zhaikmunai LLP

Heinz Wendel

Chief Financial Officer of Zhaikmunai LLP

Gudrun Wykrota

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 6 through 37 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

In thousands of US dollars	**Notes**	**2014**	2013
Revenue			
Revenue from export sales		**676,064**	765,029
Revenue from domestic sales		**105,814**	129,985
	19	**781,878**	895,014
Cost of sales	20	**(222,649)**	(286,222)
Gross profit		**559,229**	608,792
General and administrative expenses	21	**(33,341)**	(30,803)
Selling and transportation expenses	22	**(122,254)**	(121,674)
Finance costs	23	**(72,098)**	(64,702)
Foreign exchange loss, net		**(3,401)**	(499)
Gain on derivative financial instrument	26	**60,301**	–
Interest income		**812**	659
Other expenses	24	**(50,276)**	(25,593)
Other income		**9,301**	4,263
Profit before income tax		**348,273**	370,443
Income tax expense	25	**(161,965)**	(142,423)
Profit for the year		**186,308**	228,020
Other comprehensive income		**–**	–
Total comprehensive income for the year		**186,308**	228,020

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

In thousands of US dollars	Notes	2014	2013
Cash flow from operating activities			
Profit before income tax		**348,273**	370,443
Adjustments for:			
Depreciation, depletion and amortisation	20, 21	**111,774**	120,266
Finance costs	23	**72,098**	64,702
Interest income		**(812)**	(659)
Foreign exchange (gain)/loss on investing and financing activities		**(565)**	48
Loss on disposal of property, plant and equipment		**514**	–
Gain on derivative financial instruments	26	**(60,301)**	–
Operating profit before working capital changes		**470,981**	554,800
Changes in working capital:			
Change in inventories		**(3,358)**	2,878
Change in trade receivables		**36,454**	(12,562)
Change in prepayments and other current assets		**(9,402)**	(5,557)
Change in trade payables		**(4,272)**	(8,008)
Change in advances received		**2,633**	(24)
Change in Due to Government of Kazakhstan		**(1,032)**	(1,031)
Change in other current liabilities		**20**	7,816
Cash generated from operations		**492,024**	538,312
Income tax paid		**(116,616)**	(154,993)
Net cash flows from operating activities		**375,408**	383,319
Cash flow from investing activities			
Interest received		**812**	659
Purchase of property, plant and equipment		**(325,522)**	(201,166)
Purchase of exploration and evaluation assets		**(10,445)**	(5,045)
Redemption of bank deposits		**25,000**	–
Net cash used in investing activities		**(310,155)**	(205,552)
Cash flow from financing activities			
Finance costs paid		**(73,153)**	(71,734)
Issue of Notes	14	**400,000**	–
Fees paid on arrangement of notes	14	**(6,525)**	–
Repayment of notes		**(92,505)**	–
Disposal of subsidiaries, net of cash disposed		**39**	–
Transfer to restricted cash		**(806)**	(565)
Contributions to the partnership capital	13	**4,108**	–
Distributions paid		**–**	(10,000)
Repayment of borrowings		**(104,000)**	(90,000)
Net cash from/(used in) financing activities		**127,158**	(172,299)
Effects of exchange rate changes on cash and cash equivalents		**(1,508)**	–
Net increase in cash and cash equivalents		**190,903**	5,468
Cash and cash equivalents at the beginning of the year	12	**170,447**	164,979
Cash and cash equivalents at the end of the year	12	**361,350**	170,447

The accounting policies and explanatory notes on pages 6 through 37 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

NON-CASH TRANSACTIONS

The following non-cash transaction has been excluded from the consolidated statement of cash flows:

Offset of Corporate Income Tax with Value Added Tax

During the year ended December 31, 2014, the Partnership offset tax liabilities for the non-cash amount of US$ 9,426 thousand, including Corporate Income Tax liability of US$ 2,480 thousand with Value Added Tax Receivables.

General Director of Zhaikmunai LLP

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Heinz Wendel

Chief Financial Officer of Zhaikmunai LLP

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Gudrun Wykrota

Chief Accountant of Zhaikmunai LLP

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Olga Shoshinova

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

In thousands of US dollars	Notes	Partnership capital	Other reserves	Retained earnings	Total
As at 1 January 2013		4	32,637	340,857	373,498
Profit for the year		–	–	228,020	228,020
Total comprehensive income for the year		–	–	228,020	228,020
Profit distribution	15	–	–	(10,000)	(10,000)
Loss on acquisition of Zhaikmunai International B.V.		–	(197)	–	(197)
As at 31 December 2013		4	32,440	558,877	591,321
Profit for the year		**–**	**–**	**186,308**	**186,308**
Total comprehensive income for the year		**–**	**–**	**186,308**	**186,308**
Increase of the partnership capital (*Note 13*)	15	**4,108**		**–**	**4,108**
As at 31 December 2014		**4,112**	**32,440**	**745,185**	**781,737**

General Director of Zhaikmunai LLP

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL

Overview

Zhaikmunai, a Limited Liability Partnership (the "Partnership" or "Zhaikmunai LLP") was established under the laws of the Republic of Kazakhstan in 1997.

On 28 February 2014 the Partnership acquired in a transaction under common control 1,000 ordinary shares of Nostrum Oil & Gas Finance B.V., representing 100% of its charter capital, from Zhaikmunai Netherlands B.V. (formerly known as Frans van der Schoot B.V.), an entity under control of a common parent. In 2014 the Partnership sold 100% interest in its dormant subsidiaries Zhaikmunai Finance B.V., Zhaikmunai International B.V. and Nostrum Oil & Gas Finance B.V. to Zhaikmunai Netherlands B.V.

The consolidated financial statements include the financial statements of the Partnership and its subsidiaries up to the date of derecognition (jointly the "Group").

The Group's operations comprise of a single operating segment and 3 (three) additional exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

The participants of the Partnership, their shares and changes in the participants' structure are disclosed in *Note 13*. The Partnership does not have an ultimate controlling party.

The registered legal address of the Partnership is: 59/2, Prospect Eurasia, Uralsk, the Republic of Kazakhstan.

These consolidated financial statements were authorised for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on 31 March 2015.

Subsoil use rights terms

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

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

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. The Partnership applied to the MOG for another extension of the exploration period.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision to extend the exploration period until 8 February 2015 and the corresponding supplementary agreement between MOG and the Partnership was signed on 9 August 2013. On 11 March 2015 the Partnership received the written permission on extension of the exploration period to 8 February 2017, however, the supplementary agreement is expected to be signed soon.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. On 21 October 2008 the exploration period was extended for 6 months so as to expire on 28 January 2013. On 27 April 2009 the exploration period was extended until 28 January 2015. On 23 January 2014 the exploration period was further extended until 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. On 27 April 2009 the exploration period was extended until 28 July 2012. On 8 July 2011 the exploration period was further extended until 28 July 2014. On 23 January 2014 the exploration period was further extended until 31 December 2015.

Royalty payments

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

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

Government "profit share"

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

Change in estimates

The volumes of hydrocarbons extracted and the sales prices of the products form the basis of the royalty and government profit share calculations. During the year ended 31 December 2014 the Partnership changed the calculation of the coefficient of natural gas equivalent from density ratio used in the prior periods to compression ratio based on newly received researches on the conversion coefficient conducted by independent consultants.

As a result the Partnership revised the calculations of the royalty and government profit share for the prior periods. This change in estimate was applied prospectively since updated information on composition of the natural gas became available only in 2014.

Also during the year ended 31 December 2014 the Partnership reassessed the government profit share for 2013 following the revision of the work program for the Chinarevskoye oil and gas condensate field operations.

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements for the year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (*Note 4*). The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Partnership and its subsidiaries as at 31 December 2014.Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded at the carrying values reported in the consolidated financial statements of the parent. Any difference between the total book value of net assets and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the controlling entity.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2014:

Amendments to IFRS 10, IFRS12 and IAS 27 – Investment Entities

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

Disclosures on Recoverable Amount for Non-financial Assets – Amendments to IAS 36

These amendments eliminate unintended consequences of IFRS 13 *Fair Value Measurement* in part of information disclosure according to IAS 36 *Asset Impairment*. Besides, these amendments require disclosing the recoverable amount of assets or cash generation unit ("CGU") on which the impairment loss was recognised or recovered during the reporting period. These amendments had no impact on the consolidated financial statements of the Group.

Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of *IFRIC 21* in prior years.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard does not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

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

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

It is not expected that this amendment would have impact on the Group's future consolidated financial statements, since none of the entities within the Group have share-based payment instruments.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). It is not expected that this amendment would have any impact on the Group's future consolidated financial statements.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

These amendments are not expected to have any impact on the Group's financial position or performance.

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

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. These amendments are not expected to have any impact on the Group's future consolidated financial statements considering that the Group's property, plant and equipment are stated at historical cost.

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations

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

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

These amendments are not expected to have impact on the Group's future consolidated financial statements, since the Group has no joint arrangements.

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

These amendments are not expected to have any impact on the Group.

IFRS 15 Revenue from Contracts with Customers

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

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

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

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

Oil and gas reserves

Oil and gas reserves are a material factor in the Partnership's computation of depreciation, depletion and amortisation (the "DD&A"). The Partnership estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under SPE methodology, the Partnership uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

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

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A. The estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Partnership.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (*Note 29*).

Abandonment and site restoration provision

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 adjusted for expected inflation and discounted at applicable rate. The Partnership reviews site restoration provisions at each date of financial position and adjusts it to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimate of discount rate and timing of cash flow. The management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights.

Management of the Partnership believes that the long-term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan shall provide best estimates of applicable risk uncorrected discount rate. The discount rate shall be applied to the nominal risk adjusted amounts the management expects to spend on site restoration in the future. The Partnership estimates future well abandonment cost using current year prices and the average long-term inflation rate.

Due to fact that cash outflows related to abandonment and site restoration cost are mainly denominated in USD, during the year ended 31 December 2014 the Partnership revisited the assumptions used, including abandonment cost, US$ inflation rate and discount rates. All these changes resulted in increase of abandonment and site restoration provision and respective asset in the amount of US$ 4,306 thousand. These changes were accounted for prospectively.

The long term inflation and discount rates used to determine the balance sheet obligation at 31 December 2014 were 3.75% and 4.88%, respectively. Movements in the provision for decommissioning liability are disclosed in *Note 15.*

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax bases of income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Group and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Consolidation of a structured entity

In October 2012 Zhaikmunai International B.V. was established by Zhaikmunai Netherlands B.V., an entity under control of a common parent, specifically to issue the 2012 Notes *(Note 14*). The net proceeds from the 2012 Notes were used to fund the repurchase of part of the 2010 Notes (*Note 14*) and to fund the costs and expenses of the repurchase of the 2010 Notes and the issue of the 2012 Notes. The remaining part of the net proceeds was intended to be used for general corporate purposes.

Based on these facts and circumstances, management concluded that at 31 December 2012 the Group controlled this entity and, therefore, consolidated the entity in its financial statements as at that date. During the year ended 31 December 2013 the Group acquired 100% ownership in the entity, which was sold during the year ended 31 December 2014.

Foreign currency translation

The functional currency of the entity is the United States dollar (the “US dollar” or “US$”).

Transactions and balances denominated in foreign currencies

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

Property, plant and equipment

Exploration expenditure

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

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. The exploration expenditure expensed to profit or loss during 2014 amounted to nil (2013: US$ 3,810 thousand).

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

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

All capitalised costs of oil and gas properties are depleted using the unit-of-production method based on estimated proved developed reserves of the field, except the Partnership depreciates its oil pipeline and oil loading terminal on a straight line basis over the life of the relevant subsoil use rights. In the case of assets that have a useful life shorter than the lifetime of the field the straight line method is applied.

Oil and gas reserves

Proved oil and gas reserves are estimated quantities of commercially viable hydrocarbons which existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.

The Partnership uses the reserve estimates provided by an independent appraiser on an annual basis to assess the oil and gas reserves of its oil and gas fields. These reserve quantities are used for calculating the unit of production depletion rate as it reflects the expected pattern of consumption of future economic benefits by the Partnership.

Advances for non-current assets

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

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

Impairment of non-financial assets

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

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

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

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

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

Borrowing costs

The Group capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalization 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.

Inventories

Inventories are stated at the lower of cost or net realizable 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 realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Provisions

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

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognised in full, on a discounted cash flow basis, when the Partnership has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation 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.

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

a) are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognised immediately in the profit or loss; and

b) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Financial assets

Initial recognition and measurement

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method ("EIR"), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs.

Accounts receivable

Accounts receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as expense (credit) in the period in which they become known.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and borrowings.

Subsequent measurement

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

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

Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

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

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.

The fair value of financial instruments is determined by reference to market values for similar instruments.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the 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.

Taxation

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 comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

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

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

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

Revenue recognition

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

Revenue from the sale of crude oil, gas condensate, gas and LPG is recognised when delivery has taken place and risks and rewards of ownership have passed to the customer.

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

5. EXPLORATION AND EVALUATION ASSETS

During the year ended 31 December 2014 the Group had additions to exploration and evaluation assets of US$ 3,946 thousand which includes capitalised expenditures on geological and geophysical studies (year ended 31 December 2013: US$ 20,434 thousand, mainly represented by capitalised consideration under the acquisition agreements for the Darjinskoye, Rostoshinskoye and Yuzhno-Gremyachinskoye oilfields). Interest was not capitalised in exploration and evaluation assets. During the year ended 31 December 2014 the Group repaid capitalised contingent consideration under the acquisition agreements for the Darjinskoye and Yuzhno-Gremyachinskoye oil and gas fields in the amount of US$ 5,300 thousand.

6. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2014 and 2013 property, plant and equipment comprised the following:

In thousands of US dollars	**31 December 2014**	31 December 2013
Oil and gas properties	**1,402,371**	1,292,556
Other property, plant and equipment	**39,821**	38,830
Total property, plant and equipment	**1,442,192**	1,331,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Oil and gas properties

The movement of oil and gas properties for the years ended 31 December 2014 and 2013 was as follows:

In thousands of US dollars	Working assets	Construction in progress	Total
Balance at 1 January 2013, net of accumulated depreciation and depletion	1,002,602	190,007	1,192,609
Additions	5,108	209,998	215,106
Transfers	197,271	(197,271)	–
Depreciation and depletion charge	(115,159)	–	(115,159)
Balance at 31 December 2013, net of accumulated depreciation and depletion	1,089,822	202,734	1,292,556
Additions	**9,730**	**205,194**	**214,924**
Transfers	**38,640**	**(38,445)**	**195**
Disposals	**(666)**	**–**	**(666)**
Disposals depreciation	**214**	**–**	**214**
Depreciation and depletion charge	**(104,852)**	**–**	**(104,852)**
Balance at 31 December 2014, net of accumulated depreciation and depletion	**1,032,888**	**369,483**	**1,402,371**
As at 31 December 2012			
Cost	1,209,373	190,007	1,399,380
Accumulated depreciation	(206,771)	–	(206,771)
Balance, net of accumulated depreciation and depletion	1,002,602	190,007	1,192,609
As at 31 December 2013			
Cost	1,411,752	202,734	1,614,486
Accumulated depreciation	(321,930)	–	(321,930)
Balance, net of accumulated depreciation and depletion	1,089,822	202,734	1,292,556
As at 31 December 2014			
Cost	**1,459,456**	**369,483**	**1,828,939**
Accumulated depreciation	**(426,568)**	**–**	**(426,568)**
Balance, net of accumulated depreciation and depletion	**1,032,888**	**369,483**	**1,402,371**

The category “Oil and Gas properties” represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The subcategory “Construction in progress” is represented by employee remuneration, materials and fuel used, rig costs, payments made to contractors, and asset retirement obligation fees directly associated with development of wells until the drilling of the well is complete and results have been evaluated.

The depletion rate for oil and gas working assets was 10.02% and 12.14% in 2014 and 2013, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 August 2013. Starting from 1 October 2013 the depletion has been calculated using the unit of production method based on these reserves estimates.

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

The Group incurred borrowing costs including amortization of arrangement fees. Capitalization rate and capitalised borrowing costs were as follows as at 31 December 2014 and 2013:

In thousands of US dollars	**2014**	2013
Borrowing costs including amortization of arrangement fee	**88,044**	77,917
Capitalization rate	**8.19%**	9.07%
Capitalised borrowing costs	**17,061**	14,862

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2014 the Partnership's property, plant and equipment of US$ 309,133 thousand were pledged as security for the loans due to Zhaikmunai Netherlands B.V. (*Note 14*) (31 December 2013: US$ 1,086,250).

Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equipment	Vehicles	Others	Construc-tion in progress	Total
Balance at 1 January 2013, net of accumulated depreciation	5,607	6,496	1,170	4,002	13,096	30,371
Additions	562	3,377	560	1,584	8,901	14,984
Transfers	21,799	–	–	150	(21,949)	–
Disposals	(35)	(1,070)	(50)	(411)	–	(1,566)
Disposals depreciation	16	52	49	30	–	147
Depreciation	(1,653)	(2,378)	(334)	(741)	–	(5,106)
Balance at 31 December 2013, net of accumulated depreciation	26,296	6,477	1,395	4,614	48	38,830
Additions	**584**	**1,502**	**188**	**5,638**	**258**	**8,170**
Transfers	**24**	**309**	**412**	**(940)**	**–**	**(195)**
Disposals	**(6)**	**(24)**	**(85)**	**(244)**	**–**	**(359)**
Disposals depreciation	**5**	**16**	**83**	**193**	**–**	**297**
Depreciation	**(3,136)**	**(2,430)**	**(367)**	**(989)**	**–**	**(6,922)**
Balance at 31 December 2014, net of accumulated depreciation	**23,767**	**5,850**	**1,626**	**8,272**	**306**	**39,821**
As at 31 December 2012						
Cost	8,561	10,977	3,003	5,843	13,096	41,480
Accumulated depreciation	(2,954)	(4,481)	(1,833)	(1,841)	–	(11,109)
Balance, net of accumulated depreciation	5,607	6,496	1,170	4,002	13,096	30,371
As at 31 December 2013						
Cost	30,887	13,284	3,513	7,166	48	54,898
Accumulated depreciation	(4,591)	(6,807)	(2,118)	(2,552)	–	(16,068)
Balance, net of accumulated depreciation	26,296	6,477	1,395	4,614	48	38,830
As at 31 December 2014						
Cost	**31,489**	**15,071**	**4,028**	**11,620**	**306**	**62,514**
Accumulated depreciation	**(7,722)**	**(9,221)**	**(2,402)**	**(3,348)**	**–**	**(22,693)**
Balance, net of accumulated depreciation	**23,767**	**5,850**	**1,626**	**8,272**	**306**	**39,821**

7. ADVANCES FOR NON-CURRENT ASSETS

As at 31 December 2014 and 2013, advances for non-current assets comprised the following:

In thousands of US dollars	**2014**	2013
Advances for pipes and construction materials	**67,465**	6,241
Advances for construction services	**66,884**	3,796
Advances for purchase of software licenses	**6**	–
	134,355	10,037

The Partnership made significant advances for construction services and related materials for the construction of the third unit of the Partnership's gas treatment facility.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INVENTORIES

As at 31 December 2014 and 2013 inventories comprised the following:

In thousands of US dollars	**2014**	2013
Materials and supplies	**20,472**	16,738
Gas condensate	**3,383**	2,986
Crude oil	**1,262**	1,754
LPG	**326**	607
	25,443	22,085

As at 31 December 2014 and 2013 inventories are carried at cost.

9. TRADE RECEIVABLES

As at 31 December 2014 and 2013 trade receivables were not interest bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 31 December 2014 and 2013 the ageing analysis of trade receivables is as follows:

			Past due but not impaired			
In thousands of US dollars	**Total**	**Neither past due nor impaired**	**<30 days**	**60-90 days**	**90-120 days**	**>120 days**
2014	**30,110**	**30,110**	**–**	**–**	**–**	**–**
2013	66,564	66,560	–	–	–	4

See *Note 29* on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

10. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December 2014 and 2013 prepayments and other current assets comprised the following:

In thousands of US dollars	**2014**	2013
VAT receivable	**27,970**	17,192
Advances paid	**9,068**	7,573
Other	**1,532**	4,403
	38,570	29,168

Advances paid consist primarily of prepayments made to service providers.

11. CURRENT AND NON-CURRENT INVESTMENTS

Current investments as at 31 December 2014 were represented by an interest bearing deposit placed on 30 September 2014 for a six-month period with an interest rate of 0.24% per annum. As at 31 December 2014 no non-current investments were placed by the Group.

Current investments as at 31 December 2013 were represented by an interest bearing short-term deposit placed on 30 September 2013 for a six-month period with interest rate of 0.31% per annum. Non-current investments as at 31 December 2013 were represented by an interest bearing deposit placed on 30 September 2013 for a period of more than one year and an interest bearing deposit placed on 4 March 2013 for a two-year period, which was terminated on 23 April 2014.

12. CASH AND CASH EQUIVALENTS

In thousands of US dollars	**2014**	2013
Current accounts in US dollars	**353,159**	140,012
Current accounts in tenge	**8,054**	5,429
Current accounts in other currencies	**132**	–
Petty cash	**5**	6
Bank deposits with maturity less than three months	**–**	25,000
	361,350	170,447

The Group has restricted cash accounts as liquidation fund deposit in the amount of US$ 5,023 thousand with Kazkommertsbank JSC and Sberbank in Kazakhstan (31 December 2013: US$ 4,217 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

13. PARTNERSHIP CAPITAL

The charter capital of the Partnership was formed in Tenge and amounted to Tenge 600 thousand, equivalent to US$ 4 thousand as at 31 December 2013. As at 31 December 2013, the shares of Condensate Holding LLP and Claydon Industrial Ltd in the charter capital of the Partnership constituted 55% and 45%, respectively, equivalent to US$ 2.2 thousand and US$ 1.8 thousand, respectively.

On 23 May 2014, Nostrum Oil Coöperatief U.A. made a contribution to the charter capital of the Partnership in the amount of 749,400 thousand Tenge, equivalent to US$ 4,108 thousand so that the interests of the partners were changed to the following:

	In thousands of Tenge	%
Nostrum Oil Coöperatief U.A.	**749,400**	**99.920**
Condensate Holding LLP	**330**	**0.044**
Claydon Industrial Ltd	**270**	**0.036**

Gain on initial recognition of loans received from Zhaikmunai Netherlands B.V. at the below market interest rates as well as loss on its subsequent substantial modification have been recorded in other reserves.

Partners in the Partnership are allowed to vote based on their participation percentage and are also entitled to participate in any distributions on the same basis.

On 5 July 2013 the Partnership made payments of profit distribution in the amount of US$ 10,000 thousand according to the decision made at the Annual General Meeting of Participants of the Partnership on 28 June 2013.

14. BORROWINGS

Borrowings comprise the following as at 31 December 2014 and 2013:

In thousands of US dollars	**2014**	2013
Notes issued in 2012 and maturing in 2019	**540,115**	534,920
Notes issued in 2014 and maturing in 2019	**404,050**	–
Zhaikmunai Netherlands B.V.	**106,000**	210,186
Notes issued in 2010 and maturing in 2015	**–**	93,197
	1,050,165	838,303
Less amounts due within 12 months	**(15,024)**	(7,449)
Amounts due after 12 months	**1,035,141**	830,854

2010 Notes

On 19 October 2010 Zhaikmunai Finance B.V. (the “2010 Initial Issuer”) issued US$ 450,000 thousand notes (the “2010 Notes”).

On 28 February 2011 Zhaikmunai LLP (the “2010 Issuer”) replaced the 2010 Initial Issuer of the 2010 Notes, whereupon it assumed all of the obligations of the 2010 Initial Issuer under the 2010 Notes.

The 2010 Notes bore interest at the rate of 10.50% per year. Interest on the 2010 Notes was payable on 19 April and 19 October of each year, beginning on 19 April 2011. Prior to 19 October 2013, the 2010 Issuer could, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2010 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 110.50% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2010 Notes (including Additional Notes as defined in the indenture relating to the 2010 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2010 Notes could have been redeemed, in whole or in part, at any time prior to 19 October 2013 at the option of the 2010 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2010 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2010 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2010 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2010 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2010 Note at 19 October 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2010 Note through 19 October 2013 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2010 Note.

The 2010 Notes were jointly and severally guaranteed (the "2010 Guarantees") on a senior basis by Nostrum Oil & Gas LP and all of its subsidiaries other than the 2010 Issuer (the "2010 Guarantors"). The 2010 Notes were the 2010 Issuer's and the 2010 Guarantors' senior obligations and rank equally with all of the 2010 Issuer's and the 2010 Guarantors' other senior indebtedness. The 2010 Notes and the 2010 Guarantees had the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

On 19 October 2012, Zhaikmunai International B.V. commenced a cash tender offer (the "Tender Offer") to purchase any and all of the 2010 Notes. US$ 347,604 thousand aggregate principal amount of the 2010 Notes had been tendered into the Tender Offer, representing approximately 77% of the outstanding 2010 Notes, by the time the Tender Offer for 2010 Notes expired on 19 November 2012. The holders of US$ 200,732 thousand 2010 Notes that accepted the Tender Offer have subscribed to the 2012 Notes of the same amount.

On 14 March 2014 the Group submitted a notice of early redemption on 14 April 2014 of the principal amount of the 2010 Notes plus accrued interest and premium. As at that date the outstanding principal amount of US$ 92,505 thousand was reclassified to the current portion of long-term borrowings and the related unamortised transaction costs were expensed to profit and loss. The Group has also accrued related early redemption premium in the amount of US$ 4,857 thousand. On 14 April 2014 the Partnership repaid the outstanding 2010 Notes including interest and premium.

2012 Notes

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

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

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013. Prior to 13 November 2016, the 2012 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2012 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2012 Notes (including Additional Notes as defined in the indenture relating to the 2012 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering. In addition, the 2012 Notes may be redeemed, in whole or in part, at any time prior to 13 November 2016 at the option of the 2012 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2012 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2012 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2012 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2012 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2012 Note at 13 November 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through 13 November 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2012 Note.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2014 Notes

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

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

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

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

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

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

Covenants contained in the 2010 Notes, the 2012 Notes and the 2014 Notes

The indentures governing the 2010 Notes, the 2012 Notes and the 2014 Notes contain a number of covenants that, among other things, restrict, subject to certain exceptions:

(i) incur or guarantee additional indebtedness and issue certain preferred stock;

(ii) create or incur certain liens;

(iii) make certain payments, including dividends or other distributions;

(iv) prepay or redeem subordinated debt or equity;

(v) make certain investments;

(vi) create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to Nostrum Oil & Gas PLC or any of its restricted subsidiaries;

(vii) sell, lease or transfer certain assets including shares of restricted subsidiaries;

(viii) engage in certain transactions with affiliates;

(ix) enter into unrelated businesses; and

(x) consolidate or merge with other entities.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Loans due to Zhaikmunai Netherlands B.V.

On 1 July 2008 the Partnership signed a loan agreement with Frans van der Schoot B.V. under which the latter provided the Partnership with a US$ 90,276 thousand loan at an annual interest rate of two times LIBOR.

On 15 September 2009 Frans van der Schoot B.V. provided an additional loan of US$ 261,650 thousand at then prevailing interest rate of 2.6% per year. On 22 December 2010, a portion of this loan amounting to US$ 51,926 thousand was repaid.

On 19 October 2010, amendments to the loan agreement were made according to which the interest rate was increased from 2.6% to 10% and the maturity date was moved to 31 December 2015.

On 1 January 2013, amendments to the loan agreement were made according to which the interest rate was decreased from 10% to 6.625%.

The outstanding balance of the loan as at 31 December 2014 has an interest rate of 6.625% (31 December 2013: 6.625%).

In accordance with the decisions of the Annual General Meeting of the Partnership on 28 June 2013 the Partnership on 3 July 2013 made an early repayment of the part of the loan in the amount of US$ 60,000 thousand to Zhaikmunai Netherlands B.V. On 23 December 2013 the Partnership made another early repayment of US$ 30,000 thousand to Zhaikmunai Netherlands B.V. On 19 May 2014 the Partnership made an early repayment of US$ 104,000 thousand.

15. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during years ended 31 December 2014 and 2013 is as follows:

In thousands of US dollars	**2014**	2013
Abandonment and site restoration provision as at 1 January	**13,874**	11,064
Unwinding of discount	**197**	1,034
Additional provision	**2,500**	2,500
Change in estimates	**4,306**	(724)
Abandonment and site restoration provision as at 31 December	**20,877**	13,874

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

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2014 were 3.75 % and 4.88 %, respectively (31 December 2013: 7 % and 10 %). Change in the discount rate resulted in the increase of the provision by US$ 19,068 thousand which was offset by a decrease of the provision by US$14,762 thousand due to change in the inflation rate and other assumptions.

16. 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 May 26, 2031. The liability was discounted at 13%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2014 and 2013 is as follows:

In thousands of US dollars	**2014**	2013
Due to Government of Kazakhstan as at 1 January	**7,052**	7,153
Unwinding of discount	**917**	930
Paid during the year	**(1,032)**	(1,031)
	6,937	7,052
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,906**	6,021

17. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2014 and 2013:

In thousands of US dollars	**2014**	2013
Tenge denominated trade payables	**27,107**	42,950
US dollar denominated trade payables	**17,676**	11,898
Trade payables denominated in other currencies	**3,851**	1,828
	48,634	56,676

18. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 31 December 2014 and 2013:

In thousands of US dollars	**2014**	2013
Taxes payable, other than corporate income tax	**17,223**	32,101
Accruals under subsoil use agreements	**14,435**	–
Training obligations accrual	**9,686**	8,986
Due to employees	**2,157**	1,448
Other current liabilities	**830**	7,037
	44,331	49,572

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

19. REVENUE

In thousands of US dollars	**2014**	2013
Oil and gas condensate	**620,165**	709,107
Gas and LPG	**161,713**	185,907
	781,878	895,014

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

During the year ended 31 December 2014 the revenue from sales to three major customers amounted to US$321,755 thousand, US$ 124,823 thousand and US$ 77,113 thousand, respectively (2013: two major customers: US$ 202,945 thousand and US$ 173,440 thousand, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. COST OF SALES

In thousands of US dollars	**2014**	2013
Depreciation, depletion and amortization	**110,460**	118,957
Repair, maintenance and other services	**35,818**	52,361
Royalties	**24,330**	39,356
Payroll and related taxes	**18,447**	17,240
Materials and supplies	**10,929**	12,262
Well workover costs	**6,296**	2,794
Management fees	**4,920**	3,558
Government profit share	**4,594**	30,747
Other transportation services	**2,929**	4,306
Environmental levies	**1,098**	1,029
Change in stock	**376**	2,490
Other	**2,452**	1,122
	222,649	286,222

The Partnership revised the estimates related to the government profit share and royalties in accordance with the recent supplement to the Chinarevskoye subsoil use rights and change in the coefficient of natural gas equivalent (*Note 1*), which resulted in the total reversal of the government profit share in the amount of US$ 17,846 thousand and in the total reversal of the royalties in the amount of US$ 5,451 thousand related to prior periods.

21. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	**2014**	2013
Payroll and related taxes	**8,957**	7,089
Professional services	**8,207**	5,308
Management fees	**3,802**	3,562
Training	**2,521**	2,736
Sponsorship	**1,826**	2,919
Insurance fees	**1,513**	1,960
Depreciation and amortization	**1,314**	1,309
Other taxes	**914**	592
Communication	**829**	845
Bank charges	**773**	1,075
Materials and supplies	**626**	664
Business travel	**588**	618
Lease payments	**500**	478
Social program	**300**	300
Other	**671**	1,348
	33,341	30,803

22. SELLING AND TRANSPORTATION EXPENSES

In thousands of US dollars	**2014**	2013
Loading and storage costs	**56,351**	36,991
Transportation costs	**54,878**	72,229
Payroll and related taxes	**2,211**	2,486
Management fees	**183**	701
Other	**8,631**	9,267
	122,254	121,674

The transportation costs for the year ended 31 December 2013 also included certain loading and storage costs provided by the transportation companies, which are included in loading and storage costs for the year ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. FINANCE COSTS

In thousands of US dollars	**2014**	2013
Interest expense on borrowings	**70,984**	62,738
Unwinding of discount on amounts Due to Government of Kazakhstan	**917**	930
Unwinding of discount on Abandonment and site restoration liabilities	**197**	1,034
	72,098	64,702

24. OTHER EXPENSES

In thousands of US dollars	**2014**	2013
Export customs duty	**19,733**	12,268
Accruals under subsoil use agreements	**16,083**	–
Compensation	**10,116**	6,387
Other	**4,344**	6,938
	50,276	25,593

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

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

25. INCOME TAX

The income tax expense consisted of the following:

In thousands of US dollars	**2014**	2013
Current income tax expenses	**115,997**	138,810
Adjustment in respect of the current income tax for the prior periods	**(6,785)**	–
Deferred income tax expense	**52,753**	3,613
Total income tax expense	**161,965**	142,423

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

In thousands of US dollars	**2014**	2013
Profit before income tax	**348,273**	370,443
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**104,482**	111,133
Effect of exchange rate on the tax base	**34,533**	2,836
Non-deductible interest expense on borrowings	**23,390**	19,084
Effect of income taxed at different rate	**(5,997)**	31
Adjustment in respect of current income tax of previous years	**(6,785)**	–
Non-deductible penalties	**4,556**	2,037
Non-deductible compensation for gas	**2,813**	1,711
Net foreign exchange loss	**1,020**	1,624
Non-deductible social expenditures	**886**	890
Non-deductible technological losses	**192**	1,850
Other non-deductible expenses	**2,875**	1,227
Income tax expenses reported in the consolidated financial statements	**161,965**	142,423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Deferred tax balances are calculated by applying the Kazakhstani statutory tax rate applicable to the Group's 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	**2014**	2013
Deferred tax asset		
Accounts payable and provisions	**3,617**	2,811
Deferred tax liability		
Property, plant and equipment	**(196,855)**	(155,356)
Derivative financial instruments	**(12,060)**	–
Net deferred tax liability	**(205,298)**	(152,545)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	**2014**	2013
Balance at 1 January	**152,545**	148,932
Current period charge to the consolidated statement of comprehensive income	**52,753**	3,613
Balance at 31 December	**205,298**	152,545

26. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended 31 December 2014 and 2013 the movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US dollars	**2014**	2013
Derivative financial instruments at fair value at 1 January	**–**	–
Gain on derivative financial instruments	**60,301**	–
Derivative financial instruments at fair value at 31 December	**60,301**	–

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

On 3 March 2014, in accordance with its hedging policy, the Group entered, at nil upfront cost, into a long-term complex hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through 29 February 2016. The counterparty to the hedging agreement is Citibank. Based on the hedging contract the Group bought a put at $85/bbl, which protects it against any fall in the price of oil below $85/bbl, i.e. Citibank will compensate the difference in price below $85/bbl. As part of this contract the Group also sold a call at $111.5/bbl and bought a call at $117.5/bbl, under which Zhaikmunai LLP is obliged to compensate the difference in price above $111.5/bbl with an upper limit of $117.5/bbl, i.e up to $6/bbl. If the spot price goes above $117.5/bbl, then Zhaikmunai LLP will be obliged to pay $6/bbl to Citibank.

27. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties as at 31 December 2014 and 2013 consisted of the following:

In thousands of US dollars	**2014**	2013
Trade receivables and advances paid		
With significant influence over Group:		
KazStroyService JSC	**36,915**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Accounts payable to related parties as at 31 December 2014 and 2013 consisted of the following:

In thousands of US dollars	**2014**	2013
Borrowings		
Under common control:		
Zhaikmunai Netherlands B.V.	**106,000**	210,186
Trade payables		
With significant influence over Group:		
KazStroyService JSC	**2,753**	50
Under common control:		
Probel Capital Management N.V.	**46**	109
Prolag B.V.B.A	**–**	240
Amersham Oil LLP	**76**	52

During the years ended 31 December 2014 and 2013 the Group had the following transactions with related parties represented by entities under common control and entity with significant influence over the Group:

Management fees are payable in accordance with the Technical Assistance Agreements signed between members of the Group and Amersham Oil LLP, Prolag BVBA and Probel Capital Management N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 549 thousand for the year ended 31 December 2014 (31 December 2013: US$ 634 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management N.V. and their remuneration forms part of management fees and consulting services above.

On 28 July 2014 the Partnership entered into a contract with JSC "OGCC KazStroyService" (the "Contractor") for the construction of the third unit of the Partnership's gas treatment facility for a consideration of US$150 million.

The Contractor is an affiliate of KazStroyService Global B.V., which as at 31 December 2014 owned approximately 26.6% of the ordinary shares of Nostrum Oil & Gas PLC.

In thousands of US dollars	**2014**	2013
Repayment of borrowing		
Under common control:		
Zhaikmunai Netherlands B.V.	**104,000**	90,000
Interest paid		
Under common control:		
Zhaikmunai Netherlands B.V.	**10,737**	18,371
Purchases		
With significant influence over Group:		
KazStroyService JSC	**6,538**	–
Management fees and consulting services		
Under common control:		
Probel Capital Management N.V.	**8,176**	5,063
Amersham Oil LLP	**1,564**	1,506
Prolag B.V.B.A	**–**	1,253

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2014. As at 31 December 2014 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

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

Capital commitments

As at 31 December 2014 the Group had contractual capital commitments in the amount of US$ 248,644 thousand (31 December 2013: US$ 26,842 thousand) mainly in respect to the Partnership's oil field development activities.

Operating lease

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

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

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

In thousands of US dollars	**31 December 2014**	31 December 2013
No later than one year	**14,788**	12,501
Later than one year and no later than five years	**17,671**	23,846
Later than five years	**–**	–

Lease expenses of railway tank wagons for the year ended 31 December 2014 amounted to US$ 14,622 thousand (year ended 31 December 2013: US$ 12,628 thousand).

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement #9), the Group is obliged to:

(i) spend US$ 300 thousand per annum to finance social infrastructure;

(ii) make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and

(iii) adhere to a spending schedule on education which lasts until (and including) 2020.

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

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 9 August 2013) require the subsurface user to:

(i) spend US$ 1,196 thousand to finance social infrastructure of the region during the exploration stage (including US$ 1,000 thousand for funding of development of Astana city in case of commercial discovery);

(ii) invest at least US$ 16,820 thousand for exploration of the field during the exploration period;

(iii) reimburse historical costs of US$ 372 thousand to the Government of Kazakhstan upon commencement of production stage;

(iv) create a liquidation fund (special deposit account with local bank) equal to US$ 206 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 23 January 2014) require the subsurface user to:

(i) spend at least US$ 52 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 73 thousand to finance social infrastructure of the region;

(iii) invest at least US$ 19,392 thousand for exploration of the field during the exploration period;

(iv) create a liquidation fund (special deposit account with local bank) equal to US$ 208 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 23 January 2014) require the subsurface user to:

(i) spend at least US$ 101 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 74 thousand to finance social infrastructure of the region;

(iii) invest at least US$ 32,298 thousand for exploration of the field during the exploration period;

(iv) create a liquidation fund (special deposit account with local bank) equal to US$ 342 thousand.

Domestic oil sales

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Interest rate risk

The Group is not exposed to interest rate risk in 2014 and 2013 as the Group had no financial instruments with floating-rate as at years ended 31 December 2014 and 2013.

Foreign currency risk

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 dollars exchange rate, with all other variables held constant, of the Group's profit before tax. The impact on equity is the same as the impact on profit before tax.

	Change in Tenge to US dollar exchange rate	Effect on profit before tax
2014		
US dollar thousand	**+ 17.37%**	**(1,168)**
US dollar thousand	**- 17.37%**	**1,168**
2013		
US dollar thousand	+ 30.00%	(3,294)
US dollar thousand	+ 10.00%	(1,098)

During the year ended 31 December 2014 a significant drop in the oil prices and some other non-economical reasons was observed which caused increase in volatility of Tenge exchange rates and overall markets volatility. This process continues in 2015, hence statistics for the year ended 31 December 2014 reflects expected behaviour of market in 2015. The ranges of reasonably possible changes in market risk variables were estimated by analysing annual standard deviations based on the historical market data for the year ended 31 December 2014.

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

As at 31 December 2014	**Tenge**	**Russian roubles**	**Euro**	**Other**	**Total**
Cash and cash equivalents	**8,059**	**–**	**132**	**–**	**8,191**
Trade receivables	**12,331**	**–**	**–**	**–**	**12,331**
Trade payables	**(27,107)**	**(965)**	**(2,886)**	**–**	**(30,958)**
Other current liabilities	**(20,042)**	**–**	**–**	**–**	**(20,042)**
	(26,759)	**(965)**	**(2,754)**	**–**	**(30,478)**

As at 31 December 2013	**Tenge**	**Russian roubles**	**Euro**	**Other**	**Total**
Cash and cash equivalents	5,435	–	–	–	5,435
Trade receivables	27,619	–	–	–	27,619
Trade payables	(42,950)	(372)	(1,456)	–	(44,778)
Other current liabilities	(257)	–	–	–	(257)
	(10,153)	(372)	(1,456)	–	(11,981)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The Group's total outstanding debt consists of US$ 106 million of loan due to Zhaikmunai Netherlands B.V. and two notes: US$ 560 million issued in 2012 and maturing in 2019 and US$ 400 million issued in 2014 and maturing in 2019. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted payments:

As at 31 December 2014	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	**–**	**18,106**	**70,667**	**217,268**	**1,133,665**	**1,439,706**
Trade Payables	**47,110**	**–**	**1,524**	**–**	**–**	**48,634**
Other current liabilities	**11,843**	**–**	**–**	**–**	**–**	**11,843**
Due to the government of Kazakhstan	**–**	**258**	**773**	**4,124**	**11,340**	**16,495**
	58,953	**18,364**	**72,964**	**221,392**	**1,145,005**	**1,516,678**

As at 31 December 2013	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	3,478	60,047	315,552	818,797	1,197,874
Trade Payables	56,676	–	–	–	–	56,676
Other current liabilities	10,434	–	–	–	–	10,434
Due to the government of Kazakhstan	–	258	773	4,124	12,371	17,526
	67,110	3,736	60,820	319,676	831,168	1,282,510

Credit risk

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

The Group places its Tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba3 (stable) from Moody's rating agency and its US dollar denominated cash with BNP Paribas with a credit rating of A1 (negative) and ING with a credit rating of A2 (negative) from Moody's rating agency at 31 December 2014. The Group does not guarantee obligations of other parties.

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

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

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

Fair values of financial instruments

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

	Carrying amount		Fair value	
In thousands of US dollars	**2014**	**2013**	**2014**	**2013**
Financial instruments measured at fair value				
Derivative financial instruments	**60,301**	–	**60,301**	–
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(1,050,165)**	(838,303)	**(1,050,165)**	(896,795)
Total	**(989,864)**	(838,303)	**(989,864)**	(896,795)

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

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until March 2016.

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 31 December 2014 and 2013:

	2014	2013
Future oil price/bbl at the reporting date (US$)	**59.2-67.9**	–
Historical volatility (%)	**16.02-17.73**	–
Risk-free interest rate (%)	**0.25-0.67**	–
Maturity (months)	**3-15**	–

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

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

	Increase in the assumption	**Decrease in the assumption**
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	(4,959)	5,165
Increase/(decrease) in gain on derivative financial instruments due to change in discount rate assumption (+/-2%)	808	(664)

During the years ended 31 December 2014 and 2013 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

In thousands of US dollars	**2014**	2013
Interest bearing borrowings	**1,050,165**	838,303
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(391,373)**	(224,664)
Net debt	**658,792**	613,639
Equity	**781,737**	591,321
Total capital	**781,737**	591,321
Capital and net debt	**1,440,529**	1,204,960
Gearing ratio	**46%**	51%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

30. EVENTS AFTER THE REPORTING PERIOD

On 11 March 2015 the Group received the written permission on extension of the exploration period for the Rostoshinskoye field to 8 February 2017. The supplementary agreement is expected to be signed soon.

The contracts for exploration and production of hydrocarbons from the Darjinskoye field and the Yuzhno-Gremyachinskoye field were both amended on 24 February 2015 to reduce the commitments referred to in Note 28 above in relation to those fields.