Zhaikmunai LLP
2015 Annual Report

Table of Contents

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. The corporate structure of the Group is continually reviewed and simplifications to the structure are made from time to time, if considered in the best interests of the Group. The structure of the Group as at 31 December 2015 can be found on page 67.

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

We are a simple, sustainable and successful company and, by employing these core values, we aim to become one of the leading independent oil and gas exploration and production companies in the Former Soviet Union (FSU).

We pursue our financial and operational targets in a responsible way, maintaining a track record that 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 shareholder value 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 experienced management team has overseen the investment of more than 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 combined with successful M&A activity.

Our commercial products

Our range of products at Zhaikmunai LLP 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, serving a wide network of destinations and off-takers and helping to ensure we always obtain the best possible prices.

Key statistics

Production – 40,391 boepd
Revenue – US$449m
EBITDA – US$229m
2P Reserves – 470 mboe

Average daily production rates

We have successfully grown our production every year from 2004 – 2013 when full capacity of our processing facilities was achieved. We have since targeted an average daily production of 45,000 boepd and expect to double our production capacity in 2017 to 100,000 boepd. With this increased nameplate capacity we will fortify our competitive advantage in the market and deliver substantial value to our participants.

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. Our location in the north-west of Kazakhstan places us close to our final off-take destinations, including the Black Sea ports and Finland. We are able to process and export both liquids and gas using our wholly-owned treatment facilities and transport links.

Reserves

Ryder Scott completed an update on Zhaikmunai LLP's reserves in December 2015. This report included the reserves at Chinarevskoye and the three additional licences acquired in 2013.
1P – 147 mmboe
2P – 470 mmboe

FY 2015 Product Mix %

Crude oil and condensate – 42%
LPG – 11%
Dry gas – 47%

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 the reserve rich area of north-west Kazakhstan. The front-loaded investment programme has been the foundation upon which strong production growth has been built.

Stable financial platform with strong cash flows and flexibility
Zhaikmunai LLP generated US$153.26m of operating cash flow in 2015. In addition, the Company ended the year with over US$165.56m of cash[1] on its balance sheet. Nostrum announced in January that Zhaikmunai LLP had signed a new hedge of 15,000 bopd for US$49.16 per barrel, with a 24 month tenor. The hedge and cash position give Zhaikmunai LLP the financial flexibility to actively manage the pursuit of our operational goals accordingly as the oil price environment fluctuates. We believe that the prudent management of our liquidity has given us a competitive advantage and leaves us in a strong position despite the challenging oil price environment seen over the last year, reflecting our core values of simplicity and sustainability.

Over 450 million of 2P reserves
With 470 mboe of 2P reserves and production of more than 14 million barrels of oil equivalent per year, we provide a unique combination of significant production and reserve upside along with consistent operational cash flow.

Targeting steady levels of production
2015's average daily production was 40,391 boe, down marginally on last year due to one-off repair work on the pipeline used to transport Zhaikmunai LLP's gas. We will target an average daily production of over 40,000 in 2016 as we continue the construction of our new gas treatment unit.

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.

Simple business case, successful model and sustainable strategy
We have a clear strategy, based on a solid financial foundation and compelling business case. We will deliver near-term production growth, with preparations to double production upon completion of the new gas treatment unit.

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 over the longer-term. This will allow us to maintain production above 100,000 boepd up until the end of the Chinarevskoye licence (2031-2033).

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

We monitor all opportunities for acquisitions both within our operating region of north-west Kazakhstan as well as further afield within the FSU that would enable us to expand our reserve base and facilitate sustained production through to the end of our licence.

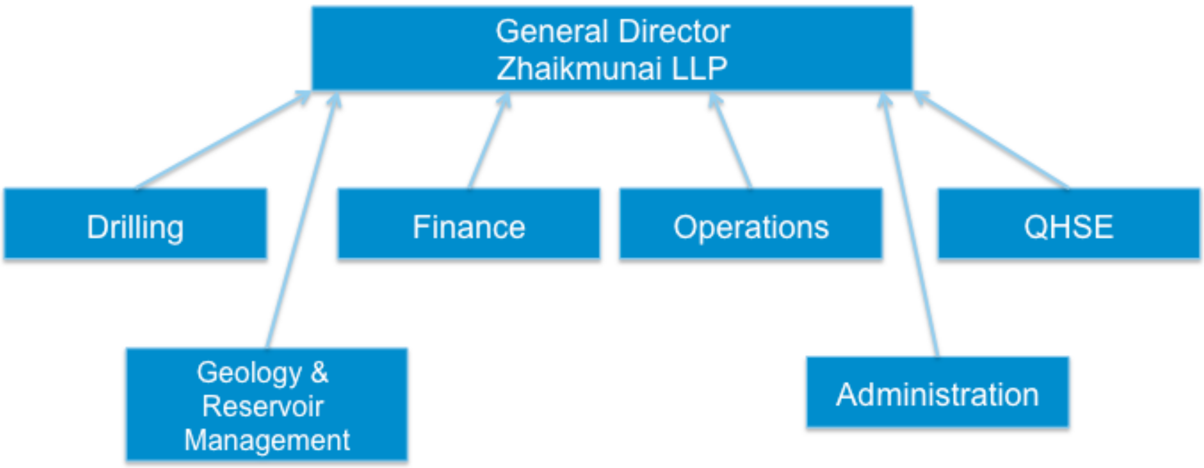
Strong governance and responsibility
We are committed to achieving an excellent standard of corporate governance and social responsibility and are aiming for a positive and lasting contribution to the areas in which we operate, with a focus on delivering sustainable value to holders of our participatory 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. Marketing reports directly to the CEO of Nostrum. All other divisions report to the General Director. There were no developments in this operating structure in 2015. 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 for export to two main buyers, Neste Oil in Finland and SOCAR in Azerbaijan.

Condensate

Condensate is transported through our own oil pipeline from the field site and then 100% is exported by rail to the Russian Black Sea port of Taman.

LPG

LPG is transported on trucks from the field site to the 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 from the Chinarevskoye field through the Company's own 17 km gas pipeline, which connects to the InterGas Central Asia pipeline. 25% of gas produced is sold domestically at this connection point and the remaining 75% is exported.

Expanding for the future
With the preparatory work to double production capacity nearing completion, all of the related infrastructure, upon completion of GTU3, will be able to accommodate increased levels of production.

This will further improve our efficiencies and effective use of existing infrastructure.

Zhaikmunai LLP is continually evaluating the destinations to which we sell in order to achieve the best possible netbacks. At present, however, transportation routes and destinations are expected to remain unchanged.

KEY PERFORMANCE INDICATORS

Resilient financial performance

Zhaikmunai LLP has maintained high operational margins and positive cash flows for the year from our processing facilities despite the volatile oil price environment of 2015. We come to the end of the year in a strong financial position, fully funded to complete GTU3 in 2017, and with over US$130m in cash and cash equivalents on our balance sheet.

Financial KPIs

Revenue: US$449m, -42.6%

2015 – 449m
2014 – 782m
2013 – 895m
2012 – 737m
2011 – 343m

EBITDA: US$249m, -51.6%

2015 – 249m
2014 – 515m
2013 – 577m
2012 – 454m
2011 – 167m

Net income: US$-77m, -141.4%

2015 – (77m)
2014 – 186m
2013 – 228m
2012 – 148m
2011 – 66m

Operating Cash Flow: US$179m, -52.3%

2015 – 179m
2014 – 375m
2013 – 383m
2012 – 314m
2011 – 147m

Opex per barrel: US$4.2, -17.6%

2015 – 4.2
2014 – 5.1
2013 – 5.8
2012 – 7.0
2011 – 8.5

The main factors contributing to the variance between forecast and actual results were the drop in the average Brent oil price by 46% in 2015 and the unforeseen repair work on the third party pipeline used to transport Zhaikmunai LLP's dry gas.

Non-Financial KPIs

In order for Zhaikmunai LLP to achieve sustainability and success in the longer term, we remain conscious that our performance must be measured not only in financial terms, but also with regards to our operational and social output. We therefore target non-financial KPIs to ensure that we maintain our focus in these areas.

Production: 40,391 boepd, -9.0%
2015 – 40,391
2014 – 44,400
2013 – 46,178
2012 – 36,940
2011 – 13,158

2P reserves: 470 mboe, -17.7%
2015 – 470
2014 – 571
2013 – 582
2012 – 506
2011 – 522

Proven reserves: 147mboe, -23.5%
2015 – 147
2014 – 192
2013 – 199
2012 – 195
2011 – 169

Number of man-hours without loss of working hours (in millions): 1.91m, +1.1%
2015 – 1.91
2014 – 1.89
2013 – 1.83
2012 – 1.66
2011 – 1.47

2015 MILESTONES & GOALS FOR 2016

2015 Milestones - Principal developments in the reporting period

Strategic

GTU3 – following the continued fall in the oil price we have taken the decision to phase the payments of GTU3 over 2016 and 2017. Completion will now be during 2017. The phasing of payments will involve no additional cost for Zhaikmunai LLP and the total budget remains at US$500m. The phasing of the payments will now match the new hedge and will allow for a continued preservation of cash on Zhaikmuai LLP's balance sheet over the next 24 months.

Production ramp up – as a result of completion of GTU3 being moved back in to 2017 production guidance has been revised down from 70,000 to a range between 40,000 boepd and 60,000 boepd for 2017.

First appraisal well on Rostoshinskoye field – the first appraisal well on Rostoshinskoye has been started and will be completed during 2016. Rostoshinskoye is the largest of the three fields adjacent to Chinarevskoye. Together, the three fields contain an estimated 87m 2P barrels.

Financial

Hedging – 15,000 barrels of oil per day hedged at US$49.16 until December 2017. The previous hedge value of US$92m was used to purchase put options with a strike price of US$49.16 per barrel in December 2015. The put options are settled in cash on a quarterly basis and mature in December 2017. The options mean that Zhaikmunai LLP is receiving US$49.16 per barrel on at least 1.35m barrels of oil each quarter. This represents over two thirds of its liquids production. There is no cost to Zhaikmunai LLP if the oil price goes above US$49.16 as Zhaikmunai LLP has only bought put options and has not given away any upside with this hedge.

Export gas paid in US Dollars - at the start of 2015 Zhaikmunai LLP entered in to an agreement to sell 75% of its dry gas for export at prices denominated in US$.

A profit distribution of USD 45 million was paid in May 2015.

Operational

Unexpected repair work on export gas pipeline – during October the pipeline Zhaikmunai LLP uses for the sale of export gas was closed by its operator for unforeseen repair work. The result of this unexpected repair work was that the annual average production was lower than initially expected, at 40,391 boepd.

Successful GTU1&2 maintenance – the semi-annual scheduled shutdowns for maintenance was completed within the expected timeframe budgeted for the year. Total shut down time for planned maintenance did not exceed 15 days over 2015.

Producing wells – 21 oil wells and 18 gas wells were producing at the Chinarevskoye field. In 2015 Zhaikmunai LLP had three rigs working at Chinarevskoye and in the second half of

2015 this was reduced to one rig. At the start of 2016 this is scheduled to increase to three rigs.

Eight wells completed – during 2015 eight wells were completed at Chinarevskoye. During 2016 four wells are scheduled at Chinarevskoye plus one to be completed at Rostoshinskoye.

Accomplishment of Priority Goals for 2015

Our performance against our three key objectives for Zhaikmunai LLP in 2015 was as follows:

1. Ensure that the financial position of the Company remains stable:
The financial position of Zhaikmunai LLP remained stable despite the challenging oil price environment and we have ended the year with over US$130m of cash on our balance sheet. Given the severity of the oil price fall we have ensured that Zhaikmunai LLP has the financial security to survive any fall in the oil price during the next 24 months and still complete all its committed capex without the need for additional funding.

2. Ensure construction of the new gas plant remains on track for 2016:
Significant steps have been made in the construction of our next GTU, which will allow us to double our production capacity during 2017. We have spent over US$250m and expect the total cost to be below US$500m. Due to the falling oil price environment we decided in 2015 to phase the remaining payments on GTU3 across 2016 and 2017. This means the scheduled completion date has been pushed back into 2017 as it allows us to preserve the liquidity position of Zhaikmunai LLP and match the hedging payment profile we have put in place. The phasing of payments on GTU3 in this way allows Zhaikmunai LLP to remain fully financed for the next 24 months whilst it completes the gas plant.

3. Optimise the drilling programme to ensure that we can fill GTU3 as quickly as possible whilst not jeopardising Zhaikmunai LLP's financial position: We have closely monitored the drilling schedule during 2015 to ensure it is kept in balance with the falling oil price and corresponding reduction in operating cash flow. We reduced the number of rigs on the Chinarevskoye field in the second half of 2015 to one rig before increasing this to start 2016 with three rigs. We are continually analysing and adjusting the drilling programme to optimise the current drilling capex as well as to maximise the speed of the ramp up once GTU3 is complete. The main driver for the speed of ramp up is the oil price during 2017. The oil price will dictate how many additional wells we can drill over our base case of simply maintaining production during 2017.

Priority Goals for 2016
In 2016 there are four key objectives for Zhaikmunai LLP in order to continue to deliver on our strategy.
1. Ensure that the financial position of Zhaikmunai LLP remains stable
2. Ensure construction of the next gas plant remains on track for 2017
3. Optimise the drilling programme to ensure that we can fill the GTU3 as quickly as possible whilst not jeopardising Zhaikmunai LLP's financial position
4. Implement the cost reduction programme

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
2017 – Expansion of processing capacity of GTU3 completed
2018 – Ramp-up of production from GTU3
2018 – Development programme submitted for new fields

MESSAGE FROM THE MANAGEMENT

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 the Company to continue to produce at this level far into the future. This goal is now less than 24 months away from being realised, with the new gas plant due for delivery in 2017. Our target remains to become one of the leading independent E&P companies in the FSU.

We intend to realise our vision through a clearly defined strategy, balancing organic development with carefully considered expansion through acquisitions. Our main priority remains, as always, to continue to deliver growth and value in a responsible and efficient way.

We delivered a steady performance in 2015 with production averaging over 40,000 boepd for the entire year. The falling oil price meant that Zhaikmunai LLP's financial results for the year were not as strong as in 2014, but with the continuation of our cost reduction programme and an increase in gas revenue from our new export contract for 75% of our gas, we maintained a resilient EBITDA margin of over 50%. We made good progress this year on our new gas plant and look forward to its completion next year, enabling us to double our production capacity to 100,000 boepd. I believe that Zhaikmunai LLP is uniquely placed to not only survive the current fall in oil prices but also to prosper once we have completed our new gas plant. Our ambitions to build one the leading independent E&P companies in the FSU remain as strong as ever and I believe the current environment can provide us with growth opportunities, rather than limitations.

We continue to manage our cash position prudently and have ended the year with over US$130m of cash on our balance sheet. Given the volatile oil price, we also took steps to further protect our liquidity position. A new hedge was entered into that covers Zhaikmunai LLP over 2016 and 2017 and locks in US$49.16 per barrel on 15,000 boepd. The cost of the new hedge was paid for entirely by the proceeds of the previous hedge. In addition we have decided to phase the payments for the construction of our gas plant over the next 24 months to match the cash we will receive under our hedge. This ensures that we can execute our business plan under any oil price over the next 24 months.

With oil prices falling to around US$30 and the devaluation of the Tenge in 2015 we are focusing our efforts to further reduce operating costs as part of our cost reduction programme. Given the low operating costs of our field we can continue to generate positive cashflow even at the current low oil prices. Whilst cost cutting and liquidity management are the short-term focus, we remain committed to creating value through the construction of our new gas plant, the doubling of production capacity and expanding our reserves base.

Assessment of the potential for implementation of priority tasks in future

2015 was a challenging year for Zhaikmunai LLP as we adapted to the falling oil price. We reacted quickly in cutting costs and took steps to protect our financial stability whilst not deviating from our strategy to double our processing capacity and reach a production level in excess of 100,000 boepd in the near future. In 2016 we need to remain vigilant on cost cutting and ensure that each dollar we invest will deliver future returns for participants in the new oil price environment. Whilst the industry is still adapting to the low oil prices we believe at Zhaikmunai LLP we have made quick decisive decisions that will protect our stakeholders under all possible oil price scenarios. With these solid foundations we look forward to completing our near-term initiatives and seeing Zhaikmunai LLP prosper under any recovery in the oil price in the future.

Performance Assessment
2015 was a stable 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 a range of customers and destinations outside Kazakhstan. We suffered an unexpected downtime in October due to unforeseen repair work made to the pipeline through which we export our gas. Outside of this downtime production was stable. Zhaikmunai LLP is now deep into its second development phase, which will entail the construction and commissioning of the new gas plant in combination with a scalable drilling programme in order to ramp up the plant as quickly as possible.

Steady production levels
The Chinarevskoye field is now in stable production with all facilities running smoothly. Zhaikmunai LLP expects a daily total production average of at least 40,000 boepd for 2016 and 2017. 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 stable levels. We are targeting the doubling of production capacity during 2017.

Future drilling programme at Chinarevskoye
In 2015, we completed eight wells, in line with the number we set out to complete at the start of the year. Our drilling programme has always been designed to be scalable and the falling oil prices have resulted in us scaling down the proposed drilling schedule for 2016 as we will only drill three production wells and one appraisal well at Chinarevskoye in addition to completing the appraisal well at Rostoshinskoye. Our current drilling programme allows us to maintain production above 40,000 boepd without jeopardising our liquidity position. We plan to increase drilling as we get closer to GTU3 completion in 2017 so that we can start to ramp up production as we increase our production capacity. The speed of the ramp up will be contingent on oil prices- the higher the oil price the quicker the ramp up.

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 2015, 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 2014.

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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 in 2016 to amount to 77 million tons, followed by an increase in oil output to 92 million tons in 2020. 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 continued volatility and decline in oil prices throughout 2015 has led to Zhaikmunai LLP taking a number of strategic decisions to mitigate the impact of continued volatility and depressed prices. As such, Zhaikmunai LLP is well positioned to withstand continued low oil prices over the short to medium-term and to deliver growth at a US$50.0 / bbl long-term oil price.

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 2015

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

- With effect from 1 January 2016, Kazakhstan reduced export duties for crude oil from US$60 to US$40 per tonne
- With effect from 1 February 2016, Kazakhstan introduced floating rates of export duties for crude oil based on average market prices
- The average price of Brent crude oil for the year ended 31 December 2015 fell to US$53.6 per barrel, 46% lower than the average price the previous year
- In August 2015 the Kazakh Tenge abandoned its peg against the US Dollar allowing the market to set the price. In initial response to the change in policy the Tenge devalued by c.25%. Throughout the remainder of 2015 the currency continued to devalue with the exchange rate at year end being 345.0 per US Dollar (a devaluation since the de-pegging of c.45%)
- The major part of the Group's tax bases of non-monetary assets and liabilities is determined in Kazakh Tenge. Therefore, any change in the US Dollar/Tenge exchange rate results in a change in the temporary difference between the tax bases of non-current assets and their carrying amounts in the financial statements. During the twelve months to 31 December 2015, the devaluation of the Tenge resulted in an increase of the temporary differences on non-current assets which was recognised as a deferred tax expense for the period
- A large proportion of the Company's operating expenses in Kazakhstan are denominated in Tenge, whereas only a small proportion of the Company's revenues are received in Tenge. As such, the Tenge devaluation has brought about some cost savings in US Dollar terms
- Overall, the net cash impact of the Tenge devaluation was broadly neutral

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 to our participants.

World-class assets

- Over 450 mboe 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 LLP

Production, development and exploration

- Expand processing capacity
- 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 capital markets
- US$1.2bn investment programme in place
- Resilient financial performance

M&A

- Creating economics of scale through the value chain
- Investing in strategic acquisitions
- Established 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 USD 10 million in 2013, nil in 2014 and USD 45 million in 2015.

OUR STRATEGY

A sustainable strategy for growth

Strategic Priorities	Our progress in 2015	KPIs aligned to our strategic objectives	Risks associated with strategy	Forecasts, objectives and prospects for 2016-2018
Delivering near-term production growth	GTU3 construction has continued on budget. Payments have been phased into 2017 in order to preserve liquidity in the current oil price environment	Production (boe)	GTU3 development project is subject to risks related to delay, non-completion and cost overruns	GTU3 scheduled for completion in 2017
	Production for the full year was 40,391 boepd, down on 2014 as a result of unforeseen repair work carried out in Q4 on third party pipelines used to transport Zhaikmunai LLP's dry gas. Production in the first three quarters of the year was steady, at around 44,000 boepd	Production (boe)		Production target of 40,000 boepd in 2016, 40,000-60,000 boepd in 2017 and 60,000-90,000 boepd in 2018
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	Completion of Rostoshinskoye appraisal well expected during 2016
	Eight wells drilled during 2015, comprising six production wells and two appraisal wells			Dynamic drilling programme in order to maintain production and ramp-up in line with oil price movements

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 Chinarevskoye 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 – 13%
Oil & condensate – 39%
Dry gas – 48%

Annual BOE production

2010 - 2,829,765
2011 – 4,802,553
2012 – 13,483,006
2013 – 16,855,027
2014 – 16,205,641
2015 – 14,742,614

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 December 2015, the proved and probable reserves for the Chinarevskoye field amount to 383mboe (2014: 473mboe). Proven reserves amount to 147 mboe (2014: 192mboe) and probable reserves to 236mboe (2014: 281 mboe). Oil and condensate amount to 148 mbbl of proven and probable reserves (2014: 198mbbl), LPG to 51 mbbl (2014: 68mbbl) and gas to 184 mboe (2014: 207mboe). The decrease in reserves from 2014 was primarily a result of the fall in oil price, but was also impacted by a number of other factors, including production in 2015 and the deferral of development projects.

Drilling

Hydrocarbons were first discovered in the Chinarevskoye reservoirs during the drilling of nine wells in the Soviet era. Between 2004-2015, 72 wells and side-tracks have been drilled under the PSA.

We completed our drilling 2015 programme, successfully completing six production wells and two appraisal wells.

Our 2016 drilling programme will initially be set targeting the addition of three new production wells and the completion of an appraisal well on the Rostoshinskoye field. This will allow production to be maintained at approximately 40,000 boepd during 2016. The drilling programme is reviewed on a quarterly basis and can be scaled up at short notice.

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
- US$10m Appraisal programme planned for 2016
-2P reserves of 87 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 hydrocarbons 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 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 December 2015, has shown 470 mboe of proved and probable reserves for the Chinarevskoye and adjacent fields.

In line with our strategy, we will continue to look to increase our reserve base and secure production growth.

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 and SOCAR in Azerbaijan	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		75% exported	Export supply agreement negotiated annually. Local supply agreements (negotiated annually with the off-takers in a long-term framework	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.

			agreement)	

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 and sales
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.

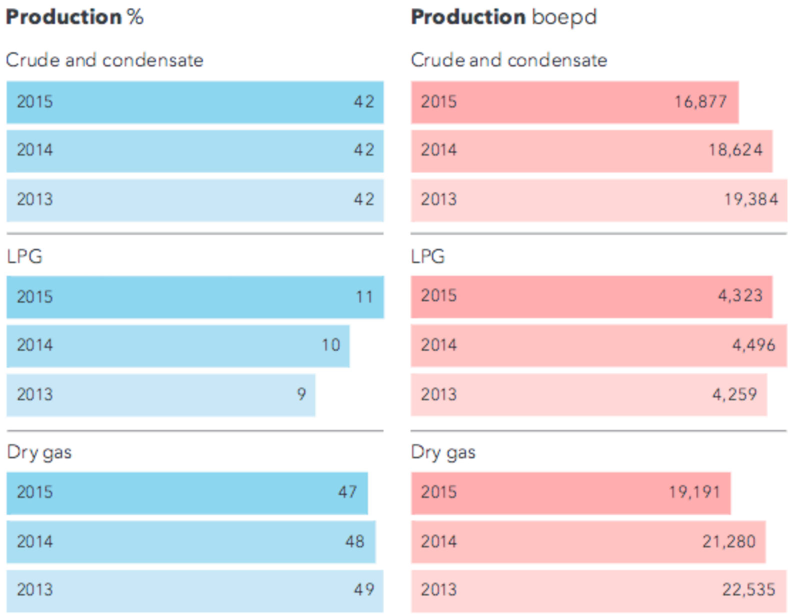
Development of infrastructure
The gas treatment facility uses a gas utilisation concept, and was designed to treat raw gas from gas condensate reservoirs (and the associated gas coming from the OTF) into 3 separate products – stabilised condensate, LPG and dry gas. The GTF associated infrastructure includes 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 850 million cubic meters of raw gas. The gas treatment facility is now producing at capacity with an average annual production of 40,391 boepd for 2015.

GTU 3
The third unit of the gas treatment facility will add 2.5 billion cubic meters of processing capacity, bringing the total to 4.2 billion cubic meters and consequently more than doubling production. GTU3 is due to be completed in 2017.

Power generation plant
The gas-fired power generation plant is linked to 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.



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, 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 and salary increases as at 31 December 2015:

Location	2010	2011	2012	2013	2014	2015
Chinarevskoye field	500	552	631	633	686	710
Uralsk	144	170	207	274	268	305
TOTAL	644	722	838	907	954	1015
Change in average annual salary	9	16	28	6	21	12

In 2015, the total workforce in Kazakhstan grew by 6,3% 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.

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. We also adhere to training obligations under the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye subsoil use contracts.

The following local personnel training programme has been achieved in 2015:

Categories	**Number**	**%**
Operations (field workers)	6	1%
Heads of departments	36	4%
Engineers and technicians	878	95%
Total	**920**	

Specialised training abroad

a. Brussels, Belgium

In 2015, ten employees were trained in the repair and maintenance service of “Mycom” compressors and oil pumps at the company’s plant in Brussels, Belgium. Employees have mastered skills of disassembly, repair and assembly of the turbine compressor class 3225S and of the Mycom oil pump. Training was held under the guidance of experienced instructors with real equipment and professional tools.

b. Ufa State Oil Technical University, Russia

In October 2015, 5 employees were trained in device diagnostics of PROBE-SCAN pipelines at the Ufa State Oil Technical University, Russia. The training focused on the examination of pipelines and advanced methods for detecting unauthorised tie-in through contactless magnethometric methods.

c. Dubai, United Arab Emirates

In October 2015, two employees received training in project management in Dubai, United Arab Emirates. The training focused on understanding the principles of project management and improving the tendering process in terms of contracts and supplies.

Higher professional education

Twelve employees currently receive higher professional education in universities in:

- Kazakhstan: five employees
- Russia: five employees

- Italy / USA: two workers are majoring in Petroleum Engineering at the Turin Polytechnic University, Italy and at Tulsa University, USA.

In addition, three heads of departments have begun a Master's in Business Administration (MBA) programme in:

- KNOW Almaty Management University, Almaty, Kazakhstan: one employee
- Russian Academy of National Economy and Public Administration, Moscow, Russia: two employees

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 *Group Code of Conduct* 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 and the subsoil use contracts for the Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye fields, we have continued to finance social infrastructure.

Liquidation fund
Under the terms of the PSA and the subsoil use agreements for Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye, US$5,375,000 is held on restricted cash accounts as liquidation fund deposit (2014: US$5,023,000), an increase of US$352,000.

QHSE

Our QHSE approach and organisation

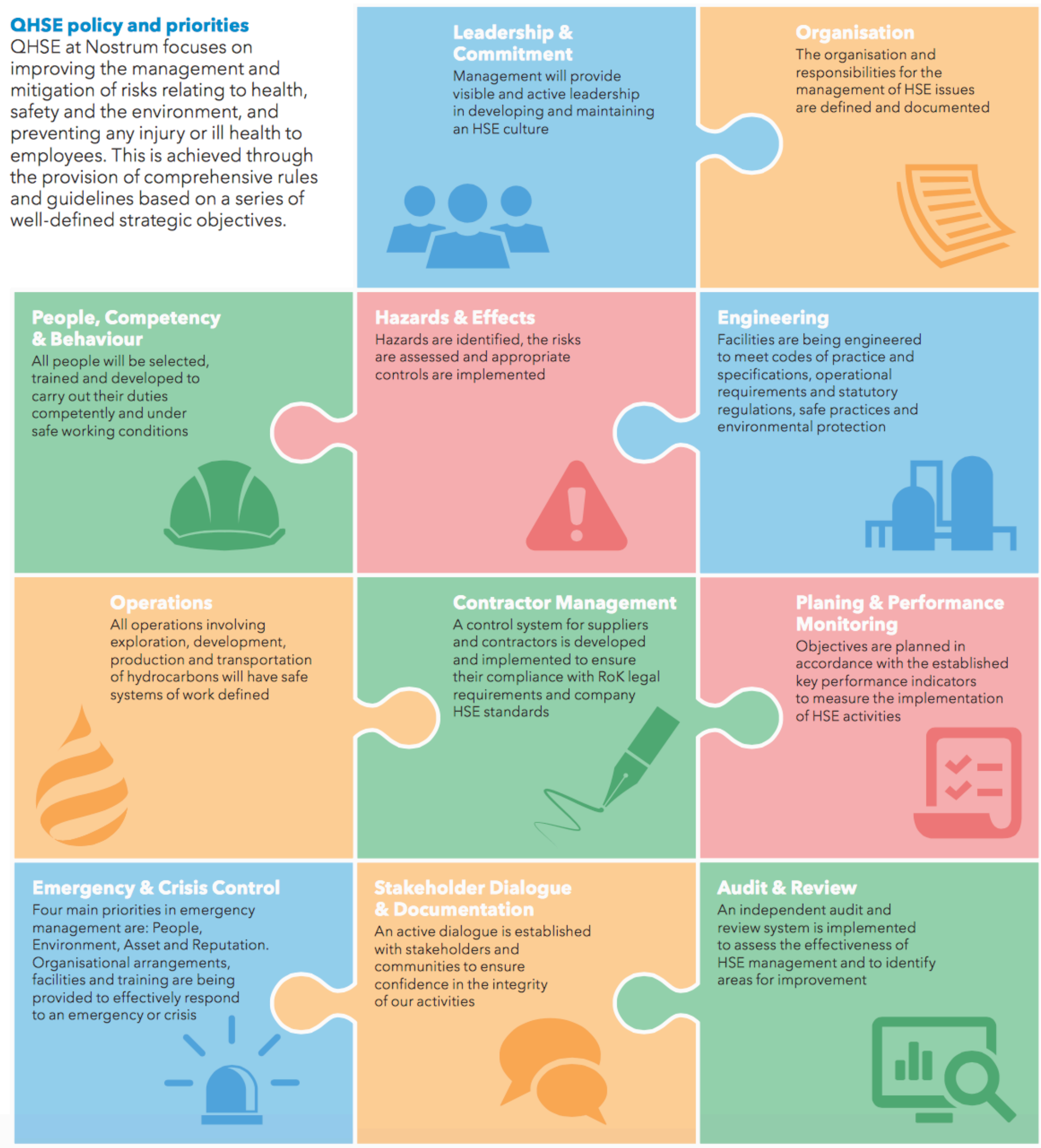
QHSE at Zhakimunai LLP focuses on improving the management and mitigation of risks relating to health, safety and the environment, and preventing any injury or ill health to employees. This is achieved through the provision of comprehensive rules and guidelines based on a series of well-defined strategic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



Priorities for 2016:
Building on the progress made in 2015, the focus for 2016 goes 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 performance 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 and other subsoil use contracts also require 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 2015, standards have been established around indicators such as lost time injuries and total recordable injuries as well as established HSE milestones. Ongoing monitoring is done against these standards and reported monthly.

Number of man-hours without loss of working hours (in millions)*

2011	2012	2013	2014	2015
1.47	1.66	1.83	1.89	1.91

* 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, exploration development and other works.

In 2015, specific monitoring activities were carried out in these areas in order to establish benchmarks which are/will be integrated into our environmental targets. These include the monitoring of the atmosphere, surface water, soil and the control of pollutant emissions sources and sewage works.

Zhaikmunai LLP has developed a Site Monitoring Programme, to 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 "Health, Safety and Environmental Compliance Audit (2015)" submitted by AMEC, an independent auditor, 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.

"Based on the results of the audit the following main conclusions were:

- Production activities of the Zhaikmunai LLP generally comply with high standards of environmental, industrial and occupational safety;
- During 2015 conversion to full self-sufficiency in electric energy supply has been prepared, a gaslift system was introduced, a unit for processing of drilling cuttings into construction materials was installed and main camps were relocated outside the sanitary protection zone of ChOGF. All these greatly improve economic, environmental and safety performance of Zhaikmunai LLP and accord with the sustainability principles;
- At the audited facilities of Zhaikmunai LLP no serious violations of the requirements of legal, regulatory acts and international standards have been observed;
- Recommendations of the previous audit have been largely fulfilled, including improvement of the environmental, health and safety management system;
- At the same time a number of shortcomings have been noted. Their correction will allow even greater improvement of Zhaikmunai LLP's achievements in this 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 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 baseline in the GHG emissions allocation plan was set as the mean value of the total emissions for the years 2011 - 2012 (in carbon dioxide emissions equivalent.) The quota allocated for 2015 is calculated based on commitments to reduce carbon dioxide emissions by 1.5% from this baseline.

The following direct GHG emissions (Scope 1) sources have been identified: flares, heaters, incinerators, boilers, gas turbine plants, electric power stations, compressors and fugitive emissions.

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

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

Table 1: Scope 1 GHG Emissions Subdivided by Gas Types

GHG Emissions (mtCO2e)	2011	2012	2013	2014	2015

Carbon dioxide (CO2)	420,992.8	256,050.4	188,604.0	236,556.0	208,466.2
Methane (CH4)	15,419.7	805.2	28,708.0	27,424.8	13,919.8
Nitrous oxide (N2O)	1,188.4	283.1	165.7	124.3	126.2
Hydrofluorocarbons (HFCs)	3.0	16.1	16.1	16.1	34.0
Perfluorocarbons (PFCs)	-	-	-	-	-
Sulphur hexafluoride (SF6)	-	-	-	-	-
Total	437,603.9	257,154.8	217,479.4	264,121.2	222,546.2

Table 2: Scope 1 GHG Emissions Subdivided by Source Types

GHG Emissions (mtCO2e)	2011	2012	2013	2014	2015
Stationary Combustion	433,132.5	252,138.9	212,612.3	260,124.4	205,701.9
Mobile Combustion	2,086.7	2,312.1	2,876.2	2,135.2	1498.2
Process Sources	-	-	-	-	-
Fugitive Sources	2384.7	2,703.8	1,990.8	1,861.6	15,346.1*
Agricultural Sources	-	-	-	-	-
Total Scope 1	437,603.9	257,154.8	217,479.4	264,121.2	222,546.2

* The reported figure is the result of a new calculation methodology introduced in the rules for reporting greenhouse gas inventories as per the Republic of Kazakhstan's Ministry of Energy Decree No. 502 28.07.2015, in line with "IPCC Guidelines for National Greenhouse Gas Inventories, 2006". Calculations of previous years were based on the RoK methodology of standards for maximum permissible emissions. The main driver in fugitive sources is associated gas (methane).

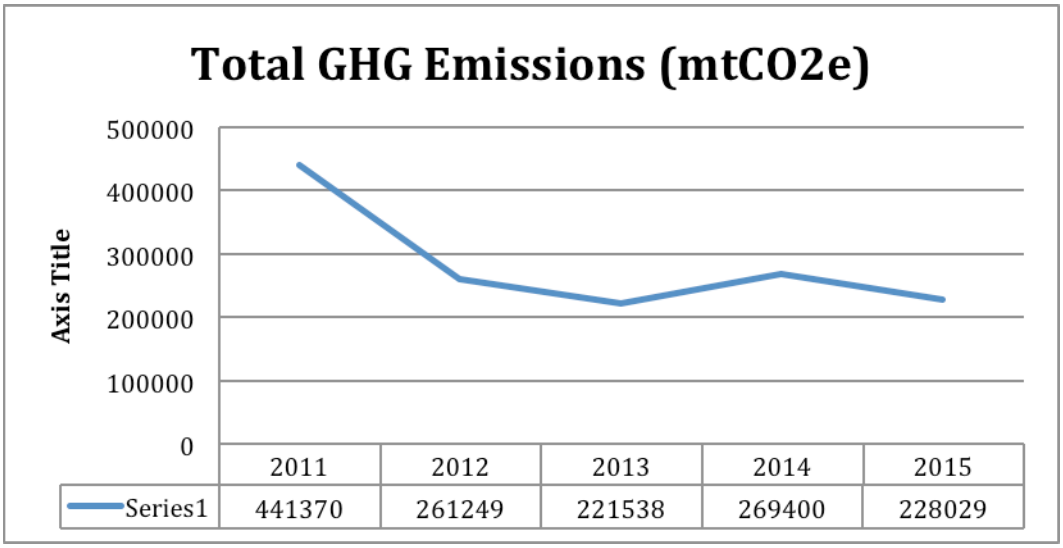
Indirect GHG emissions (Scope 2)

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 tCO2/MWh) was calculated using Methodological Guidelines for the Calculation of GHG Emissions from Electrical Power Stations and Boiler Houses (Astana, 2010) and regional net thermal efficiency of Urals Natural Gas Fired Power Plants (73.3%).

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

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

GHG Emissions (mtCO2e)	2011	2012	2013	2014	2015
Direct (Scope 1)	437,603.9	257,154.8	217,479.4	264,121.2	222,546.2
Indirect Energy (Scope 2)	3,766.5	4,094.5	4,058.4	5,278.6	5,482.3
Total Emissions (mtCO2e)	441,370.4	261,249.3	221,537.8	269,399.8	228,028.5

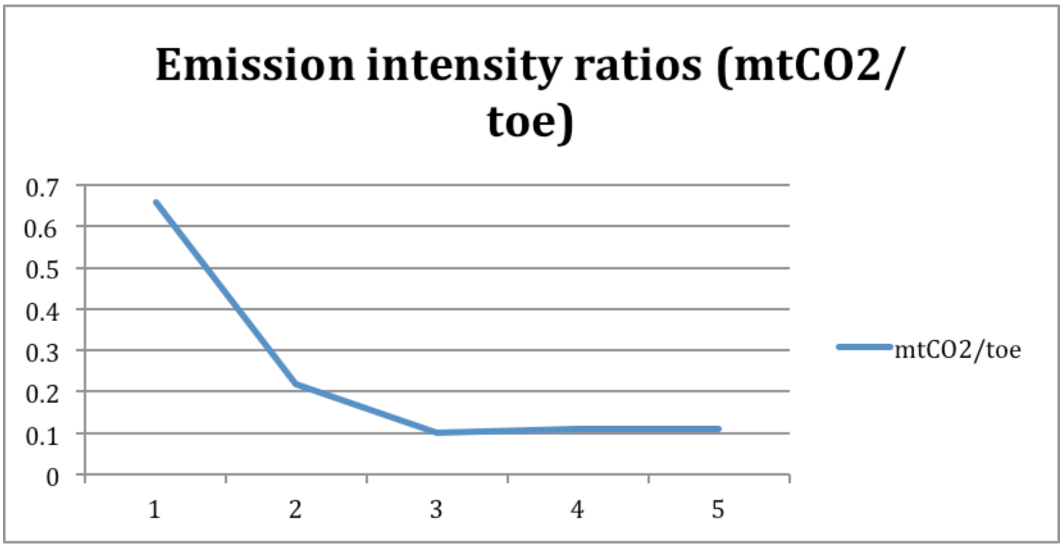


Emissions intensity ratio
Tonnes of CO2 per tonne of output is a recommended intensity ratio for the oil and gas sector, as per Appendix F of the *Defra Environmental Reporting Guidelines (2013).* Taking into account the variety of products of Zhaikmunai LLP – crude oil, stabilised condensate, LPG and 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	2011	2012	2013	2014	2015
Production, toe	672,000	1,189,841	2,307,748	2,369,823	2,152,423
mtCO2/toe	**0.66**	**0.22**	**0.1**	**0.11**	**0.106**
Production, mmboe	4.8	13.5	16.48	16.23	14.74
mtCO2/mmboe	**91,952.17**	**19,351.80**	**13,065.07**	**16,598.88**	**15,467.3**



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 system (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 has developed the commitment of its QHSE department and contractors to provide effective assistance in improving energy efficiency and reducing GHG emissions.

Effect of realized loss on the structure of assets, capital, liquidity and liability
The loss realized is appropriated to equity. The loss does not impair Zhaikmunai LLP's ability to finance its ongoing investment in oil & gas assets. Zhaikmunai LLP at all times maintains an adequate level of liquidity and net debt is kept at defined levels. Reference is made to KPIs on pages 9 and 10.

Results of operations for the years ended 31 December 2015 and 2014

The table below sets forth the line items of Zhaikmunai LLP's interim condensed consolidated statement of comprehensive income for the years ended 31 December 2015 and 2014 in US Dollars and as a percentage of revenue.

In thousands of US Dollars	**2015**	**% of revenue**	**2014**	**% of revenu e**
Revenue	**448,902**	**100.0%**	781,878	100.0%
Cost of sales	**(187,816)**	**41.6%**	(221,649)	28.4%
Gross profit	**261,085**	**58.4%**	559,229	71.6%
General and administrative expenses	**(27,982)**	**6.2%**	(33,341)	4.3%
Selling and transportation expenses	**(92,970)**	**20.7%**	(122,254)	15.6%
Finance costs	**(51,740)**	**11.5%**	(72,098)	9.2%
Foreign exchange loss, net	**(20,023)**	**4.5%**	(3,401)	0.4%
Gain on derivative financial instruments	**37,055**	**8.2%**	60,301	7.7%
Interest income	**314**	**0.1%**	812	0.1%
Other income	**11,409**	**2.5%**	9,301	1.2%
Other expenses	**(30,495)**	**6.8%**	(50,276)	6.4%
Profit before income tax	**86,680**	**19.3%**	348,433	44.6%
Income tax expense	**(164,102)**	**36.6%**	(161,965)	20.7%
Total comprehensive (loss)/income for the year	**(77,422)**	**17.2%**	186,308	23.8%

General note

For the year ended 31 December 2015 (the "reporting period") realised profit decreased by US$263.7 million to a US$77.4 million loss (FY 2014: US$186.3 million profit), which was mainly driven by decrease in Zhaikmunai LLP's revenue.

Revenue

Zhaikmunai LLP's revenue decreased by 42.6% to US$448.9 million for the reporting period (FY 2014: US$781.9 million). This is mainly explained by the decrease in the average Brent crude oil price from 99.7 US$/bbl during 2014 to 53.6 US$/bbl on average during the reporting period. The pricing for all of Zhaikmunai LLP's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil.

Revenues from sales to Zhaikmunai LLP's largest three customers amounted to US$141.4 million, US$105.0 million and US$86.0 million respectively (FY 2014: US$321.8 million, US$124.8 million and US$77.0 million).

Zhaikmunai LLP's revenue breakdown by products and sales volumes for the reporting period and FY 2014 is presented below:

In thousands of US Dollars	**2015**	**2014**	**Variance**	**Variance, %**
Oil and gas condensate	**297,777**	620,164	*(322,387)*	*(52.0)%*
Gas and LPG	**151,125**	161,714	*(10,589)*	*(6.5)%*
Total revenue	**448,902**	781,878	*(332,976)*	*(42.6)%*
Sales volumes (boe)	**14,080,339**	16,205,641	*(2,125,302)*	*(13.1)%*
Average Brent crude oil price (US$/bbl)	**53.6**	99.7		

The following table shows Zhaikmunai LLP's revenue breakdown by export/domestic sales for the reporting period and FY 2014:

In thousands of US Dollars	**2015**	**2014**	**Variance**	**Variance, %**
Revenue from export sales	**426,764**	676,064	*(249,300)*	*(36.9)%*
Revenue from domestic sales	**22,138**	105,814	*(83,676)*	*(79.1)%*
Total	**448,902**	781,878	*(332,976)*	*(42.6)%*

Cost of sales

In thousands of US Dollars	**2015**	**2014**	**Variance**	**Variance, %**
Depreciation, depletion and amortisation	**107,690**	110,460	*(2,782)*	*(2.5)%*
Repair, maintenance and other services	**26,557**	35,818	*(9,261)*	*(25.9)%*
Payroll and related taxes	**17,160**	21,560	*(2,878)*	*(13.3)%*
Royalties	**14,364**	24,330	*(9,966)*	*(41.0)%*
Materials and supplies	**7,838**	10,929	*(3,091)*	*(28.3)%*
Well workover costs	**5,182**	6,296	*(1,114)*	*(17.7)%*
Management fees	**3,519**	4,920	*(1,401)*	*(28.5)%*
Other transportation services	**3,049**	2,929	*120*	*4.1%*
Government profit share	**1,880**	4,594	*(2,714)*	*(59.1)%*
Environmental levies	**1,391**	1,098	*293*	*26.7%*
Change in stock	**(3,613)**	376	*(3,989)*	*(1060.9)%*
Other	**2,799**	3,531	*28*	*0.8%*
Total	**187,816**	221,921	*(35,354)*	*(15.9)%*

Cost of sales decreased by 15.9% to US$187.8 million for the reporting period (FY 2014: US$221.9 million). The decrease is primarily explained by the change in royalties, repair, maintenance and other services and depreciation, depletion and amortization, referred to below. On a boe basis, cost of sales decreased marginally by US$1.0 or 7.6% to US$12.7 for the reporting period (FY 2014: US$13.7) and cost of sales net of depreciation per boe decreased by US$1.5, or 22.2%, to US$5.4 (FY 2014: US$6.9).

Depreciation, depletion and amortisation for the reporting period is in line with prior year. Depreciation is calculated with units of production method. The fact that depreciation is lower in the reporting period when compared to FY 2014 is a consequence of the ratio between the volume produced and the proven developed reserves decrease in the reporting period when compared to prior year.

Repair, maintenance and other services decreased by 25.9% to US$26.6 million for the reporting period (FY 2014: US$35.8 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of the Group, 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 41.0% to US$14.4 million for the reporting period (FY 2014: US$24.3 million). This decrease follows the decline of revenues for sold products.

Materials and supplies expenses decreased by 28.3% to US$7.8 million for the reporting period (FY 2014: US$10.9 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 decreased by 17.7% to US$5.2 million for the reporting period (FY 2014: US$6.3 million). The decrease resulted from adjustments to the drilling and workover programme.

Costs for government profit share decreased by US$2.7 million to US$1.9 million for the reporting period (FY 2014: US$4.6 million). This decrease follows the decline of revenues for sold products.

General and administrative expenses

In thousands of US Dollars	**2015**	**2014**	**Variance**	**Variance, %**
Payroll and related taxes	**8,523**	8,957	*(434)*	*-4.8%*
Professional services	**4,531**	8,207	*(3,676)*	*-44.8%*
Management fees	**3,785**	3,802	*(17)*	*-0.4%*
Training	**3,000**	2,521	*479*	*19.0%*
Depreciation and amortisation	**1,430**	1,314	*116*	*8.8%*
Insurance fees	**1,401**	1,513	*(112)*	*-7.4%*
Sponsorship	**1,314**	1,826	*(512)*	*-28.0%*
Communication	**766**	829	*(63)*	*-7.6%*
Materials and supplies	**635**	626	*9*	*1.4%*
Bank charges	**568**	773	*(205)*	*-26.5%*
Lease payments	**454**	500	*(46)*	*-9.2%*
Business travel	**414**	588	*(174)*	*-29.6%*
Social program	**302**	300	*2*	*0.1%*
Other taxes	**267**	914	*(647)*	*-70.8%*
Other	**592**	671	*(79)*	*-11.7%*
Total	**27,982**	33,341	*(5,359)*	*-16.1%*

General and administrative expenses decreased by 16.1% to US$28.0 million for the reporting period (FY 2014: US$33.3 million). This was primarily due to a decrease in professional services, in particular audit fees, legal services and other consultancy fees, a decrease om other taxed, a decrease in sponsorship and a decrease in training expenses.

Selling and transportation expenses

In thousands of US Dollars	**2015**	**2014**	**Variance**	**Variance,**

				%
Transportation costs	**45,071**	54,878	*(9,807)*	*(17.9)%*
Loading and storage costs	**41,229**	56,351	*(15,122)*	*(26.8)%*
Payroll and related taxes	**1,901**	2,211	*(310)*	*(14.0)%*
Management fees	**159**	183	*(24)*	*(13.1)%*
Other	**4,610**	8,631	*(4,021)*	*(46.6)%*
Total	**92,970**	122,254	*(29,284)*	*(24.0)%*

Selling and transportation expenses decreased by 24.0% to US$93.0 million for the reporting period (FY 2014: US$122.3 million) being combination of lower sales quantities of liquid products in the reporting period, lower rail tariffs and rail tank car (RTC) leasing costs offset, however, by transportation costs incurred in relation to export gas sales in the reporting period under new sales contract.

Finance costs

In thousands of US Dollars	**2015**	**2014**	**Variance**	**Variance, %**
Interest expense on borrowings	**50,412**	70,984	*(20,572)*	*(29.0)%*
Unwinding of discount on amounts due to Government of Kazakhstan	**902**	917	*(15)*	*(1.6)%*
Unwinding of discount on abandonment and site restoration provision	**426**	197	*229*	*116.2%*
Total	**51,740**	72,098	*(20,358)*	*(28.2)%*

Finance costs decreased by 28.2% to US$51.7 million for the reporting period (FY 2014: US$72.1 million). These costs were higher in 2014 due primarily to the expenses relating to the early redemption of the Notes issued in 2010 and the amortisation of the remainder of transaction cost, incurred for the issuance of these Notes.

Other

Foreign exchange losses amounted to US$20.0 million for the reporting period (FY 2014: US$3.4 million). Higher losses in 2015 are explained by the fact that on 20 August 2015 the Tenge was devalued against the US Dollar and other major currencies due to decision of Kazakhstan to switch to free-float, triggering a 23% slide in the Tenge to a record 257,21 Tenge for 1 US Dollar. As per 31 December 2015 the exchange rate made up 340,6 Tenge for 1 US Dollar. Since the Group 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.

Gain on derivative financial instruments amounted to US$37.1 million for the reporting period. Movement in the fair value of the derivative financial instruments is disclosed in the Note 29 of the Consolidated financial statements included in this report.

Other expenses decreased by 39.3% to US$30.5 million for the reporting period (FY 2014: US$50.3 million) mainly due to lower export custom duties, compensation for social gas and expenses for accruals under subsoil use agreement.

Income tax expense increased by 1.3% to US$164.1 million for the reporting period (FY 2014: US$162.0 million). The decrease in income tax expense was primarily driven by lower taxable profit offset by additional deferred tax expenses due to decrease of the tax base due to effect of exchange rates changes.

Liquidity and capital resources

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.

Cash Flows

The following table sets forth Zhaikmunai LLP's consolidated cash flow statement data for the reporting period and FY 2014:

In thousands of US dollars	**2015**	**2014**
Cash and equivalents at the beginning of the period	**361,350**	170,447
Net cash flows from operating activities	**179,103**	375,408
Net cash used in investing activities	**(242,766)**	(310,155)
Net cash from / (used in) financing activities	**(161,121)**	127,158
Effects of exchange rate changes on cash and cash equivalents	**(1,639)**	(1,508)
Cash and equivalents at the end of the period	**134,928**	361,350

Net cash flows from operating activities

Net cash flow from operating activities was US$179.1 million for the reporting period (FY 2014: US$375.4 million) and was primarily attributable to:

- profit before income tax for the reporting period of US$86.7 million (FY 2014: US$348.3 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$109.1 million (FY 2014: US$111.7 million), finance costs of US$51.7 million (FY 2014: US$72.1 million) and gain on derivative financial instruments of US$37.1 million (FY 2014: US$60.3 million).
- a US$8.8 million change in working capital (FY 2014: US$21.0 million) primarily attributable to an increase in trade receivables of US$1.2 million (FY 2014: a decrease of US$36.5 million), a decrease in prepayments and other current assets of US$13.1 million (FY 2014: an increase of US$9.4 million), a decrease in trade payables of US$7.5 million (FY 2014: an decrease of US$4.2 million) and a decrease in other current liabilities of US$3.6 million (FY 2014: an increase of US$0.2 million).
- income tax paid of US$37.1 million (FY 2014: US$116.6 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$242.8 million (FY 2014: US$310.2 million) due primarily to costs associated with the drilling of new wells of US$58.7 million for the reporting period (FY 2014: US$126.8 million), costs associated with the third gas treatment unit of US$112.4 million (FY 2014: US$142.8 million), costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields of US$7.6 million (FY 2014: US$10.4 million) and redemption of US$25.0 million of cash deposits (FY 2014: redemption of US$25.0 million.

Net cash (used in)/provided by financing activities

Net cash used in financing activities during the reporting period was US$161.1 million, and was mainly represented by the payment of US$45.0 million in distributions, the partial repayment of an intercompany loan in the amount of US$45.0 million and the finance costs paid on Zhaikmunai LLP's 2012 Notes and 2014 Notes. Net cash provided by financing activities during FY 2014 was US$127.2 million, which was 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 Zhaikmunai LLP's 2010 Notes, 2012 Notes and 2014 Notes.

Commitments

Liquidity risk is the risk that the Group will encounter difficulty raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management seeks to ensure that sufficient funds are available to meet any commitments as they arise. The table below summarises the maturity profile of Zhaikmunai LLP's financial liabilities as at 31 December 2015 based on contractual undiscounted payments:

	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	17,310	51,931	1,201,307	–	**1,270,548**
Trade Payables	37,149	–	3,529	–	–	**40,678**
Other current financial liabilities	13,984	–	–	–	–	**13,984**
Due to the government of Kazakhstan	–	258	773	4,124	10,567	**15,722**
Total	**51,133**	**17,568**	**56,233**	**1,102,431**	**10,567**	**1,340,932**

Capital commitments

During the reporting period, Zhaikmunai LLP's cash used in capital expenditures for purchase of property, plant and equipment (excluding VAT) was approximately US$256.1 million (FY 2014: US$325.5 million). This reflects drilling costs, field infrastructure development projects and development costs for the oil treatment unit and the gas treatment facility.

Drilling

Drilling expenditures amounted to US$58.7 million for the reporting period (FY 2014: US$126.8 million).

Gas Treatment Facility

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, the Group is constructing a third unit. The construction of GTU3 is important for implementing Zhaikmunai LLP's strategy to increase operating capacity and production of liquid hydrocarbons. Management estimates, based on the production profile of both proved and probable reserves reported in the 2015 Ryder Scott Report and assuming the successful completion of the gas treatment facility in 2017, that the Company's annual production will more than double from the 2015 annual production (with an average of 40,391 boepd in 2015) by the end of 2018.

Total costs for the completion of GTU3 are estimated to be not more than US$500 million, of which US$250 million have been spent as of the end of the reporting period.

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$3.4 million for the reporting period (year ended 31 December 2013: US$ 179,103 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.

Five-year summary

In millions of dollars unless stated otherwise	2015	2014	2013	2012	2011
Revenue	448.9	781.9	895.0	737.1	300.8
Cost of sales	(187.8)	(222.6)	(286.2)	(238.2)	(70.8)
Gross profit	**261.1**	**559.2**	**608.8**	**498.8**	**230.0**
General and administrative expenses	(28.0)	(33.3)	(56.1)	(62.4)	(32.8)
Selling and transportation expenses	(93.0)	(122.3)	(121.7)	(103.6)	(35.4)
Finance costs	(51.7)	(72.1)	(43.6)	(46.8)	(4.7)
Finance costs - reorganisation	–	–	–	–	–
Employee share option plan fair value adjustment	–	–	(4.4)	(2.5)	(3.5)
Foreign exchange loss, net	(20.0)	(3.4)	(0.6)	0.8	(0.4)
Gain on derivative financial instruments	37.1	60.3	–	–	–
Interest income	0.3	0.8	0.8	0.7	0.3
Other income	**11.4**	**9.3**	**(25.6)**	**(6.6)**	**(7.9)**
Other expenses	(30.5)	(50.3)	4.4	4.0	3.4
Profit before income tax	**86.7**	**348.3**	**362.0**	**282.4**	**149.0**
Income tax expense	(164.1)	(162.0)	(142.5)	(120.4)	(67.4)
Total comprehensive (loss)/income for the year	**(77.4)**	**186.3**	**219.5**	**162.0**	**81.6**
Non-current assets	1,821.8	1,666.3	1,426.0	1,251.6	1,126.9
Current assets	301.8	494.4	334.8	351.1	179.3
Total assets	**2,123.5**	**2,160.6**	**1,760.8**	**1,602.7**	**1,306.2**
Equity	659.3	781.7	832.5	695.1	585.2
Non-Current Liabilities	1,366.1	1,267.2	793.6	781.9	599.7
Current liabilities	98.1	111.7	134.7	125.7	121.3
Total equity and liabilities	**2,123.5**	**2,160.6**	**1,760.8**	**1,602.7**	**1,306.2**
Net cash flows from operating activities	179.1	375.4	358.6	291.8	132.2
Net cash used in investing activities[1]	(242.8)	(310.2)	(239.0)	(269.7)	(103.7)
Net cash (used in) / from financing activities	(161.1)	127.2	(132.4)	50.4	(47.4)
Profit margin %	(17.2)%	23.8%	24.5%	22.0%	27.1%
Equity/assets ratio %	31.0%	36.2%	47.3%	43.4%	44.8%

[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 appropriate mitigating actions.

During 2013 the Group formalised its risk register, which identified the risks 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 which are formalised in the Risk Management Policy, reflecting the following key management principles:

The Risk Management Policy contains 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

During 2015 the Board of Nostrum and senior management remained conscious of the same principal risks and uncertainties which were identified and disclosed in the 2014 Annual Report and the related risks assessments did not significantly change. However, particular attention was paid to the following areas:

- commodity price risk in view of the current market oil price environment and related impact on future performance and investments of the Group;
- risks related to GTU3 construction and drilling programme;
- risks related to repair works on gas pipelines used by the Group (similar to the instance which occurred in 2015), which is considered as part of the principal risk of "single revenue source and business interruption";
- the effect of devaluation of the Kazakh Tenge against US Dollar on income taxes and related future cash flows;

In addition, in line with the requirements of the 2014 UK Corporate Governance Code the Board made a robust assessment of the principal risks and uncertainties faced by the Group, including those that would threaten its business model and future performance.

PRINCIPAL RISKS AND UNCERTAINTIES

STRATEGIC RISKS

Development projects

Description of risk*:* Zhaikmunai LLP's 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 and Zhaikmunai LLP's performance.

Risk management: Zhaikmunai LLP has formed an experienced project management team and expects to benefit from the technical expertise and significant experience gained from the construction of GTU1 and GTU2 in the construction of GTU3. The project management team reports on a monthly basis to senior management and the Board on the progress of engineering, procurement and construction.

Zhaikmunai LLP has concluded the majority of the procurement process in relation to GTU3 and monitors logistics, engineering, expedition of materials and equipment on an on-going basis. JSC "OGCC KazStroyService" has been engaged to construct GTU3, having gained experience on similar projects including GTU1 and GTU2 and other large projects in Kazakhstan.

Senior management and the Board constantly monitor the timing, scope and performance of the drilling programme and tailor it taking into account the status of the GTU3 project and current oil prices. For each well a detailed drilling programme is approved by senior management, which is the basis against which the progress of works and costs are reported.

Commodity price risk

Description of risk: Zhaikmunai LLP is exposed to the risk that its future earnings will 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.

Zhaikmunai LLP 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 Zhaikmunai LLP could otherwise achieve.

Risk management: Zhaikmunai LLP's hedging policy is that, upon entering into longer term non-scalable capital expenditure commitments, it will hedge its liquids production.

In January 2016, Zhaikmunai LLP announced that it had rolled its pre-existing hedge into a new hedge of 15,000 bopd with a strike price of US$49.16 per barrel. The cost of the hedge was paid entirely from the sale of Zhaikmunai LLP's previous hedge for US$92m. The new hedge has 24-month tenor, maturing in December 2017, with cash settlement on a quarterly basis.

Senior management and the Board continuously monitor the timing, scope and performance of the drilling programme taking into account the oil price environment.

Additionally, in 2015 Zhaikmunai LLP started exporting the majority of its dry gas under a new contract. The export prices are usually substantially higher than domestic prices.

OPERATIONAL RISKS

Single revenue source and business interruption

Description of risk: Zhaikmunai LLP's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue.

Risk management: Zhaikmunai LLP has a team of dedicated specialists who assess possible acquisitions of oil and gas fields and assets. In 2013 Zhaikmunai LLP acquired subsoil use rights for three oil and gas fields near the Chinarevskoye field. In 2016, the drilling programme will initially be set targeting the addition of three new production wells at Chinarevsoke as well as the completion of an appraisal well on the Rostoshinskoye field. The drilling programme is reviewed on a quarterly basis and can be scaled up at short notice. A supplementary agreement for the Rostoshinskoye field has been signed extending the exploration period until February 2017.

COMPLIANCE RISKS

Subsoil use agreements

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

Risk management: Zhaikmunai LLP believes that it is in full compliance with the terms of its PSA for the Chinarevskoye field and maintains an open dialogue with Kazakh governmental authorities regarding all of its subsoil use agreements. In the event of non-compliance with a provision of any such agreement the Group endeavours to have such term modified and pays any penalties and fines that may apply.

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 Zhaikmunai LLP will not be in full compliance with all such regulations at all times.

Risk management: Zhaikmunai LLP has further strengthened its QHSE department during 2015. Zhaikmunai LLP's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Key indicators such as GHG emissions, lost-time injuries, waste management, etc., as well as progress of work is reported to senior management on a monthly basis. Periodic training on the requirements of policies and regulations are held for employees. Zhaikmunai LLP is working towards obtaining ISO 14001 Environmental Management Systems and ISO 50001 Energy Management Systems certification. Zhaikmunai LLP also regularly commissions independent environmental audits to monitor its compliance and best practice in this area.

Perceived risk of non-compliance with anti-bribery legislation

Description of risk: There is a risk that Zhaikmunai LLP's employees will unintentionally or deliberately take actions prohibited by anti-bribery legislation given the perceived heightened risk in the jurisdiction in which the Group operates.

Risk management: Zhaikmunai LLP has adopted an anti-bribery and corruption policy, and has included a provision on this subject in the Code of Conduct and 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 the Zhaikmunai LLP believes are inapplicable to it.
Risk management: Zhaikmunai LLP regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.

Risk management: Zhaikmunai LLP regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.

Going concern and liquidity risk

Description of risk: Zhaikmunai LLP is subject to the risk of encountering difficulties in raising funds to meet commitments associated with its financial liabilities and respective 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 provides for Zhaikmunai LLP to maintain a minimum level of cash of US$50 million.

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

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. All members of the Group, including Zhaikmunai LLP, promote high standards of corporate governance as a key component of their activities.

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. The Group's share dealing code will be updated to take account of the new market abuse rules, which come into force in the UK in July 2016.

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 2015, Zhaikmunai LLP's participatory interests were held by Nostrum Coöperatief Oil & Gas U.A. ("Coop") (99.92%), Claydon Industrial Limited (0.036%%) and Nostrum Associated Investments LLP (0.044%). Claydon Industrial Limited and Nostrum Associated Investments LLP remain wholly-owned (indirect) subsidiaries of the current parent company of the Group, Nostrum Oil & Gas PLC. There were no changes to the ownership structure in the reporting period.

A structure chart showing the current group structure as at 31 December 2015 is set out on page 67.

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 continues to embrace and address the demands of the additional regulatory obligations that are 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 2015 was **€**362,568 (comprising his basic compensation and performance related bonus).

Mr Wendel's 2015 remuneration was determined on the basis of his performance in 2014.

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.
    -

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:** 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.

Serik Sultanov

- Role: Acting Drilling Director, Zhaikmunai LLP
- Year of Birth: 1961
- Nationality: Kazakh
- Skills and experience:
  - Previously worked for ELF Neftegas Kazakhstan, JV Aktobe Preussag Munay Ltd, Ural Oil & Gas LLP, North Caspian Oil Development LLP and other companies, has experience in drilling since 1986
  - Holds a qualification from the Kazakh Politechnical Institute with a specialisation in drilling of oil and gas wells.

Zhaikmunai LLP

Financial statements

for the year ended 31 December 2015
with independent auditors' report

CONTENTS

Building a better working world

«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» гимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

Independent auditors' report

To the participants of Zhaikmunai LLP:

We have audited the accompanying financial statements of Zhaikmunai LLP, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and 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 financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Building a better
working world

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Zhaikmunai LLP as at 31 December 2015, and its 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. МФ-0000059 dated 6 January 2012

Evgeny Zhemaletdinov
General Director
Ernst and 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

24 March 2016

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

In thousands of US dollars	Notes	31 December 2015	31 December 2014
Assets			
Non-current assets			
Exploration and evaluation assets	5	**36,917**	24,380
Property, plant and equipment	6	**1,605,821**	1,442,192
Restricted cash	12	**5,375**	5,023
Advances for non-current assets	7	**130,660**	134,355
Derivative financial instruments	26	**43,005**	60,301
		1,821,778	1,666,251
Current assets			
Inventories	9	**28,953**	25,443
Trade receivables	11	**31,337**	30,110
Prepayments and other current assets	10	**25,519**	38,570
Derivative financial instruments	26	**54,095**	–
Income tax prepayment		**26,926**	13,925
Current investments	8	**–**	25,000
Cash and cash equivalents	12	**134,928**	361,350
		301,758	494,398
Total assets		**2,123,536**	2,160,649
Equity and liabilities			
Partnership capital		**4,112**	4,112
Other reserves		**32,440**	32,440
Retained earnings		**622,763**	745,185
		659,315	781,737
Non-current liabilities			
Long-term borrowings	14	**996,666**	1,035,141
Abandonment and site restoration provision	15	**15,928**	20,877
Due to Government of Kazakhstan	16	**5,777**	5,906
Deferred tax liability	25	**347,767**	205,298
		1,366,138	1,267,222
Current liabilities			
Current portion of long-term borrowings	14	**15,361**	15,024
Trade payables	17	**40,678**	48,634
Advances received		**245**	2,670
Current portion of due to Government of Kazakhstan	16	**1,031**	1,031
Other current liabilities	18	**40,768**	44,331
		98,083	111,690
Total equity and liabilities		**2,123,536**	2,160,649

General Director of Zhaikmunai LLP — *Heinz Wende*

Chief Financial Officer of Zhaikmunai LLP — *Gudrun Wykrota*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 through 32 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

In thousands of US dollars	Notes	2015	2014
Revenue			
Revenue from export sales		**426,764**	676,064
Revenue from domestic sales		**22,137**	105,814
	19	**448,901**	781,878
Cost of sales	20	**(187,816)**	(222,649)
Gross profit		**261,085**	559,229
General and administrative expenses	21	**(27,982)**	(33,341)
Selling and transportation expenses	22	**(92,970)**	(122,254)
Finance costs	23	**(51,740)**	(72,098)
Foreign exchange loss, net		**(20,023)**	(3,401)
Gain on derivative financial instruments	26	**37,055**	60,301
Interest income		**341**	812
Other income		**11,409**	9,301
Other expenses	24	**(30,495)**	(50,276)
Profit before income tax		**86,680**	348,273
Current income tax expense		**(21,633)**	(109,212)
Deferred income tax expense		**(142,469)**	(52,753)
Income tax expense	25	**(164,102)**	(161,965)
(Loss)/profit for the year		**(77,422)**	186,308
Other comprehensive income		**–**	–
Total comprehensive (loss)/income for the year		**(77,422)**	186,308

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 5 through 32 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

In thousands of US dollars	Notes	2015	2014
Cash flow from operating activities			
Profit before income tax		**86,680**	348,273
Adjustments for:			
Depreciation, depletion and amortisation	20, 21	**109,120**	111,774
Finance costs	23	**51,740**	72,098
Interest income		**(341)**	(812)
Foreign exchange gain on investing and financing activities		**(3,023)**	(565)
Loss on disposal of property, plant and equipment		**39**	514
Proceeds from derivative financial instruments	26	**92,256**	–
Purchase of derivative financial instruments	26	**(92,000)**	–
Gain on derivative financial instruments	26	**(37,055)**	(60,301)
Operating profit before working capital changes		**207,416**	470,981
Changes in working capital			
Change in inventories		**(3,510)**	(3,358)
Change in trade receivables		**(1,227)**	36,454
Change in prepayments and other current assets		**13,051**	(9,402)
Change in trade payables		**7,537**	(4,272)
Change in advances received		**(2,425)**	2,633
Change in due to Government of Kazakhstan		**(1,031)**	(1,032)
Change in other current liabilities		**(3,562)**	20
Cash generated from operations		**216,249**	492,024
Income tax paid		**(37,146)**	(116,616)
Net cash flows from operating activities		**179,103**	375,408
Cash flow from investing activities			
Interest received		**341**	812
Purchase of property, plant and equipment		**(255,707)**	(325,522)
Sale of property, plant and equipment		**543**	–
Exploration and evaluation works	5	**(12,943)**	(10,445)
Redemption of bank deposits		**25,000**	25,000
Net cash used in investing activities		**(242,766)**	(310,155)
Cash flow from financing activities			
Finance costs paid		**(70,768)**	(73,153)
Issue of notes	14	**–**	400,000
Repayment of borrowings	14	**(45,000)**	(104,000)
Repayment of notes	14	**–**	(92,505)
Fees paid on arrangement of borrowings	14	**–**	(6,525)
Transfer to restricted cash		**(352)**	(806)
Contributions to the partnership capital		**–**	4,108
Distributions paid	13	**(45,000)**	–
Disposal of subsidiaries, net of cash disposed		**–**	39
Net cash (used in) / from financing activities		**(161,120)**	127,158
Effects of exchange rate changes on cash and cash equivalents		**(1,639)**	(1,508)
Net (decrease)/increase in cash and cash equivalents		**(226,422)**	190,903
Cash and cash equivalents at the beginning of the year		**361,350**	170,447
Cash and cash equivalents at the end of the year		**134,928**	361,350

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 5 through 32 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

In thousands of US dollars	Notes	Partnership capital	Other reserves	Retained earnings	Total
As at 1 January 2014		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
Issue of share capital	13	4,108	–	–	4,108
As at 31 December 2014		4,112	32,440	745,185	781,737
Loss for the year		–	–	(77,422)	(77,422)
Total comprehensive loss for the year		–	–	(77,422)	(77,422)
Profit distribution	13	–	–	(45,000)	(45,000)
As at 31 December 2015		**4,112**	**32,440**	**622,763**	**659,315**

General Director of Zhaikmunai LLP

Heinz Wendel

Chief Financial Officer of Zhaikmunai LLP

Gudrun Wykrota

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

Overview

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

On 28 February 2014 the Partnership acquired in a transaction under common control 1,000 ordinary shares of Nostrum Oil & Gas Finance B.V., representing 100% of its charter capital, from Nostrum Oil & Gas B.V. (formerly known as Zhaikmunai Netherlands B.V.), an entity under control of a common parent. In 2014 the Partnership sold 100% interest in its dormant subsidiaries Zhaikmunai Finance B.V., Zhaikmunai International B.V. and Nostrum Oil & Gas Finance B.V. to Nostrum Oil & Gas B.V. The Partnership prepared consolidated financial statements for the year ended 31 December 2014 that included the financial statements of the Partnership and its subsidiaries up to the date of derecognition.

The Partnership's operations comprise of a single operating segment and 3 (three) additional exploration concessions 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 financial statements were authorised for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on 24 March 2016.

Subsoil use rights terms

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

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

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. On 28 July 2015 the eleventh supplementary agreement to the Contract was signed extending the exploration period to 26 May 2016. The Partnership's application for further extension of the Chinarevskoye exploration period is under approval at the MOE.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Royalty payments

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

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

Government "profit share"

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

2. BASIS OF PREPARATION

Basis of preparation

These financial statements for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB"). The 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 financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

The preparation of 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 Partnership's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in *Note 4*.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The accounting policies adopted are consistent with those of the previous financial year, except for the below amendments to IFRS effective as at 1 January 2015. The nature and the impact of each new standard or amendment which is applicable to the Partnership's financials statements is described below:

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

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

IAS 24 Related Party Disclosures

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

IFRS 13 Fair Value Measurement

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

Standards issued but not yet effective

The standards and interpretations applicable to the Partnership's financial statements that are issued, but not yet effective, up to the date of issuance of the Partnership's financial statements are disclosed below. The Partnership intends to adopt these standards, 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 Partnership's financial assets and the Partnership's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

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

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalizes their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Partnership is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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

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

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

IFRS 7 Financial Instruments: Disclosures

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

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

IAS 34 Interim Financial Reporting

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

Amendments to IAS 1 Disclosure Initiative

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

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

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

IFRS 16 Leases

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

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

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

a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and

b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

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

Oil and gas reserves

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

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. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under the SPE methodology, the 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. 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

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

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

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

The financial statements for the years ended 31 December 2015 and 2014 include derivative financial instruments recognised at fair value. For more detailed information in relation to the derivative financial instruments, please refer to *Note 26.*

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

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognised in full, 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. Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimates of timing of cash flow and discount rate. The management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights.

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

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

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

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

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

(b) if the adjustment results in an addition to the cost of an asset, the Partnership 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 Partnership tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Movements in the provision for decommissioning liabilities are disclosed in *Note 15*.

Other current liabilities

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

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 Partnership establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authority of the country in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Partnership and the tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the domicile of the Partnership.

Current income tax

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

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

Deferred income tax

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

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

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

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

For more detailed information in current and deferred income tax disclosure as at 31 December 2015 and 2014, please see *Note 25*.

Property, plant and equipment

Exploration expenditure

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

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

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

For more detailed information in relation to exploration and evaluation assets, please see *Note 5.*

Oil and gas properties

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

All capitalised costs of oil and gas properties are depleted using the unit-of-production method based on estimated proved developed reserves of the field, except the 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.

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

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

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

For more detailed information in relation to property plant and equipment, please refer to *Note 6.*

Foreign currency translation

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

Advances for non-current assets

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

For more detailed information in relation to advances for non-current assets, please refer to *Note 7*.

Borrowing costs

The Partnership capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalisation include all assets under construction that are not being depreciated, depleted, or amortised, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Partnership's borrowings that are outstanding during the period. All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

For more detailed information in relation to capitalisation of borrowing costs, please refer to *Note 6*.

Inventories

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

For more information in relation to the breakdown of inventories as at 31 December 2015 and 2014, please see *Note 9*.

Provisions

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

Contingent liabilities

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

The Partnership does not recognise contingent liabilities but discloses contingent liabilities in *Note 28*, unless the possibility of an outflow of resources embodying economic benefits is remote.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Partnership 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 Partnership's financial assets include cash, long-term and short-term deposits, trade and other receivables.

Loans and receivables

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

Derecognition

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

Impairment of financial assets

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

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

Financial assets carried at amortised cost

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

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

Financial liabilities

Initial recognition and measurement

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

Derivative financial instruments and hedging

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

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

For more detailed information in relation to derivative financial instruments, please refer to *Note 26*.

Cash and short-term deposits

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

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

For more detailed information in relation to cash and cash equivalents as at 31 December 2015 and 2014, please see *Note 12*.

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 2015 the Partnership had additions to exploration and evaluation assets of US$ 12,537 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (2014: US$ 3,946 thousand). Interest was not capitalised on exploration and evaluation assets. During the year ended 31 December 2014 the Partnership 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 2015 and 2014 property plant and equipment comprised the following:

In thousands of US dollars	**31 December 2015**	31 December 2014
Oil and gas properties	**1,567,334**	1,402,371
Other property, plant and equipment	**38,487**	39,821
	1,605,821	1,442,192

Oil and gas properties

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The movement of oil and gas properties for the years ended 31 December 2015 and 2014 was as follows:

In thousands of US dollars	Working assets	Construction in progress	Total
Balance at 1 January 2014, net of accumulated depreciation and depletion	1,089,822	202,734	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
Additions	**(1,131)**	**265,676**	**264,545**
Transfers	**101,481**	**(99,369)**	**2,112**
Depreciation and depletion charge	**(101,694)**	**–**	**(101,694)**
Balance at 31 December 2015, net of accumulated depreciation and depletion	**1,031,544**	**535,790**	**1,567,334**
As at 31 December 2013			
Cost	1,411,752	202,734	1,614,486
Accumulated depreciation and depletion	(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 and depletion	(426,568)	–	(426,568)
Balance, net of accumulated depreciation and depletion	1,032,888	369,483	1,402,371
As at 31 December 2015			
Cost	**1,559,806**	**535,790**	**2,095,596**
Accumulated depreciation and depletion	**(528,262)**	**–**	**(528,262)**
Balance, net of accumulated depreciation and depletion and depletion	**1,031,544**	**535,790**	**1,567,334**

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

The depletion rate for oil and gas working assets was 10.2% and 10.02% in 2015 and 2014, respectively.

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

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision *(Note 15)* in the year ended 31 December 2015 resulted in the decrease of the oil and gas properties by US$ 5,622 thousand (31 December 2014: an increase of US$ 4,306 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Partnership incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2015 and 2014:

In thousands of US dollars	**31 December 2015**	31 December 2014
Borrowing costs including amortisation of arrangement fee	**77,630**	88,044
Capitalisation rate	**7.04%**	8.19%
Capitalised borrowing costs	**27,218**	17,061

As at 31 December 2015 the Partnership's property, plant and equipment of US$ 283,448 thousand were pledged as security for the loans due to Nostrum Oil & Gas B.V *(Note 14)* (31 December 2014: US$ 309,133).

Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equip-ment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2014, 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
Additions	**1,102**	**1,698**	**268**	**5,698**	**231**	**8,997**
Transfers	**270**	**912**	**(6)**	**(3,071)**	**(217)**	**(2,112)**
Disposals	**–**	**(24)**	**(1,933)**	**(285)**	**–**	**(2,242)**
Disposals depreciation	**–**	**22**	**1,370**	**57**	**–**	**1,449**
Depreciation	**(3,213)**	**(2,535)**	**(357)**	**(1,321)**	**–**	**(7,426)**
Balance at 31 December 2015, net of accumulated depreciation	**21,926**	**5,923**	**968**	**9,350**	**320**	**38,487**
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
As at 31 December 2015						
Cost	**32,861**	**17,657**	**2,357**	**13,962**	**320**	**67,157**
Accumulated depreciation	**(10,935)**	**(11,734)**	**(1,389)**	**(4,612)**	**–**	**(28,670)**
Balance, net of accumulated depreciation	**21,926**	**5,923**	**968**	**9,350**	**320**	**38,487**

7. ADVANCES FOR NON-CURRENT ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

8. CURRENT INVESTMENTS

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

9. INVENTORIES

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

In thousands of US dollars	**31 December 2015**	31 December 2014
Materials and supplies	**20,369**	20,472
Gas condensate	**5,684**	3,383
Crude oil	**2,528**	1,262
LPG	**372**	326
	28,953	25,443

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

10. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US dollars	**31 December 2015**	31 December 2014
VAT receivable	**18,053**	22,050
Advances paid	**4,040**	9,068
Other taxes receivable	**2,731**	5,920
Other	**695**	1,532
	25,519	38,570

Advances paid consist primarily of prepayments made to service providers.

11. TRADE RECEIVABLES

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

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

12. CASH AND CASH EQUIVALENTS

In thousands of US dollars	**31 December 2015**	31 December 2014
Current accounts in US dollars	**108,026**	353,159
Current accounts in tenge	**1,893**	8,054
Current accounts in other currencies	**–**	132
Petty cash	**9**	5
Bank deposits with maturity less than three months	**25,000**	–
	134,928	361,350

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

In addition to the cash and cash equivalents in the table above, the Partnership has restricted cash accounts as liquidation fund deposit in the amount of US$ 5,375 thousand with Sberbank in Kazakhstan (31 December 2014: US$ 5,023 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Partnership.

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 Nostrum Associated Investments LLP (formerly known as 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 & Gas Coöperatief U.A. (formerly known as 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 & Gas Coöperatief U.A.	749,400	99.920
Nostrum Associated Investments LLP	330	0.044
Claydon Industrial Ltd	270	0.036

Gain on initial recognition of loans received from Nostrum Oil & Gas B.V. in 2008 and 2009 at the below market interest rates as well as loss on its subsequent substantial modification were 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 26 May 2015 the Partnership made payments of profit distribution in the amount of US$ 45,000 thousand according to the decision made at the Annual General Meeting of Participants of the Partnership on 24 April 2015.

14. BORROWINGS

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

In thousands of US dollars	**31 December 2015**	31 December 2014
Notes issued in 2012 and maturing in 2019	**545,309**	540,115
Notes issued in 2014 and maturing in 2019	**405,718**	404,050
Nostrum Oil & Gas B.V.	**61,000**	106,000
	1,012,027	1,050,165
Less amounts due within 12 months	**(15,361)**	(15,024)
Amounts due after 12 months	**996,666**	1,035,141

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 are unsecured. Claims of secured creditors of the 2012 Issuer or the 2012 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2012 Notes.

2014 Notes

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

Covenants contained in the 2012 Notes and the 2014 Notes

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

(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.

Loans due to Nostrum Oil & Gas B.V.

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

On 15 September 2009 Frans van der Schoot B.V. provided an additional loan of US$ 261,650 thousand at then prevailing interest rate of 2.6% per year. 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% and the maturity date was moved to 31 December 2019.

The outstanding balance of the loan as at 31 December 2015 has an interest rate of 6.625% (31 December 2014: 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 Nostrum Oil & Gas B.V. On 23 December 2013 the Partnership made another early repayment of US$ 30,000 thousand to Nostrum Oil & Gas B.V. On 19 May 2014 the Partnership made an early repayment of US$ 104,000 thousand. On 13 May 2015 the Partnership made an early repayment of US$ 45,000 thousand.

15. ABANDONMENT AND SITE RESTORATION PROVISION

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

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

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

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2015 were 2.49% and 5.54%, respectively (31 December 2014: 3.75% and 4.88%).

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

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 Partnership to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US$ 25,000 thousand.

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

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2015 and 2014 is as follows:

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

17. TRADE PAYABLES

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

In thousands of US dollars	31 December 2015	31 December 2014
Tenge denominated trade payables	**22,437**	27,107
US dollar denominated trade payables	**13,956**	17,676
Euro denominated trade payables	**2,437**	2,886
Russian roubles denominated trade payables	**1,848**	965
	40,678	48,634

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. OTHER CURRENT LIABILITIES

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

In thousands of US dollars	**31 December 2015**	31 December 2014
Accruals under the subsoil use agreements	**16,902**	14,435
Training obligations accrual	**11,443**	9,686
Taxes payable, other than corporate income tax	**8,941**	17,223
Due to employees	**2,541**	2,157
Other current liabilities	**941**	830
	40,768	44,331

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. Taking into account performance to date under the work programs and the progress made with the MOE as regards future amendments, the changes made in 2015 to the subsoil use agreements led to a net increase in the accrued liabilities of US$ 2,467 thousand compared to the previous year.

19. REVENUE

In thousands of US dollars	**2015**	2014
Oil and gas condensate	**297,777**	620,165
Gas and LPG	**151,124**	161,713
	448,901	781,878

During the year ended 31 December 2015 the revenue from sales to three major customers amounted to US$ 141,359 thousand, US$ 104,978 thousand and US$ 85,954 thousand respectively (year ended 31 December 2014: three major customers: US$ 321,755 thousand, US$ 124,823 thousand and US$ 77,113 thousand, respectively).

The Partnership's exports are mainly represented by deliveries to Finland, the Black Sea ports of Russia and the United Arab Emirates.

20. COST OF SALES

In thousands of US dollars	**2015**	2014
Depreciation, depletion and amortisation	**107,690**	110,460
Repair, maintenance and other services	**26,557**	35,818
Payroll and related taxes	**17,160**	18,447
Royalties	**14,364**	24,330
Materials and supplies	**7,838**	10,929
Well workover costs	**5,182**	6,296
Management fees	**3,519**	4,920
Other transportation services	**3,049**	2,929
Government profit share	**1,880**	4,594
Environmental levies	**1,391**	1,098
Change in stock	**(3,613)**	376
Other	**2,799**	2,452
	187,816	222,649

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	2015	2014
Payroll and related taxes	**8,523**	8,957
Professional services	**4,531**	8,207
Management fees	**3,785**	3,802
Training	**3,000**	2,521
Depreciation and amortisation	**1,430**	1,314
Insurance fees	**1,401**	1,513
Sponsorship	**1,314**	1,826
Communication	**766**	829
Materials and supplies	**635**	626
Bank charges	**568**	773
Lease payments	**454**	500
Business travel	**414**	588
Social program	**302**	300
Other taxes	**267**	914
Other	**592**	671
	27,982	33,341

22. SELLING AND TRANSPORTATION EXPENSES

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

23. FINANCE COSTS

In thousands of US dollars	2015	2014
Interest expense on borrowings	**50,412**	70,984
Unwinding of discount on amounts due to Government of Kazakhstan	**902**	917
Unwinding of discount on abandonment and site restoration provision	**426**	197
	51,740	72,098

24. OTHER EXPENSES

In thousands of US dollars	2015	2014
Export customs duty	**14,669**	19,733
Accruals under subsoil use agreements	**2,156**	16,083
Compensation	**2,531**	10,116
Other expense	**11,139**	4,344
	30,495	50,276

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

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

25. INCOME TAX

The income tax expense consisted of the following:

In thousands of US dollars	2015	2014
Deferred income tax expense	**142,469**	52,753
Corporate income tax	**22,836**	115,997
Adjustment in respect of the current income tax for the prior periods	**(1,203)**	(6,785)
Total income tax expense	**164,102**	161,965

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

In thousands of US dollars	2015	2014
Profit before income tax	**86,680**	348,273
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**26,004**	104,482
Effect of exchange rate on the tax base	**101,043**	34,533
Adjustments in respect of current income tax of previous years	**(1,203)**	(6,785)
Effect of income taxed at different rate	**(3,634)**	(5,997)
Non-deductible interest expense on borrowings	**20,698**	23,390
Non-deductible penalties	**3,656**	4,556
Non-deductible compensation for gas	**–**	2,813
Net foreign exchange loss	**12,019**	1,020
Non-deductible social expenditures	**1,021**	886
Non-deductible cost of technological loss	**141**	192
Non-deductible training expenditures	**561**	–
Other non-deductible expenses	**3,796**	2,875
Income tax expenses reported in the financial statement	**164,102**	161,965

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

In thousands of US dollars	2015	2014
Deferred tax asset		
Accounts payable and provisions	**4,488**	3,617
Deferred tax liability		
Property, plant and equipment	**(332,835)**	(196,855)
Derivative financial instruments	**(19,420)**	(12,060)
	(347,767)	(205,298)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	2015	2014
Balance as at 1 January	**205,298**	152,545
Current period charge to statement of comprehensive income	**142,469**	52,753
Balance as at 31 December	**347,767**	205,298

26. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

27. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties as at 31 December 2015 and 2014 consisted of the following:

In thousands of US dollars	31 December 2015	31 December 2014
Trade receivables and advances paid		
With significant influence over Partnership:		
KazStroyService JSC	**35,832**	36,915

Accounts payable to related parties as at 31 December 2015 and 2014 consisted of the following:

In thousands of US dollars	31 December 2015	31 December 2014
Borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**61,000**	106,000
Trade payables		
With significant influence over the Partnership:		
KazStroyService JSC	**4,144**	2,753
Nostrum Services N.V.	**217**	46
Nostrum Services Central Asia LLP	**73**	76

During the years ended 31 December 2015 and 2014 the Partnership had the following transactions with related parties:

In thousands of US dollars	2015	2014
Repayment of borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**45,000**	104,000
Interest paid		
Under common control:		
Nostrum Oil & Gas B.V.	**5,705**	10,737
Purchases		
With significant influence over the Partnership:		
KazStroyService JSC	**29,906**	6,538
Management fees and consulting services		
Under common control:		
Nostrum Services Central Asia LLP	**1,787**	1,564
Nostrum Services N.V.	**8,009**	8,176

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, which was amended with effect from 10 August 2015 by a supplementary agreement increasing that consideration to US$ 160 million.

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

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2015 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership and Nostrum Services Central Asia LLP and Nostrum Services N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 518 thousand for the year ended 31 December 2015 (year ended 31 December 2014: US$ 549 thousand). Other key management personnel were employed and paid by Nostrum Services Central Asia LLP and Nostrum Services N.V. and their remuneration forms part of management fees and consulting services above.

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 2015. As at 31 December 2015 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

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

Capital commitments

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

Operating lease

The Partnership 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 2015**	31 December 2014
No later than one year	**12,471**	14,788
Later than one year and no later than five years	**4,623**	17,671
Later than five years	**–**	–

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

Social and education commitments

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

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

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

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

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

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

(i) spend US$ 1,000 thousand for funding of development of Astana city in case of commercial discovery;

(ii) invest at least US$ 5,888 thousand for exploration of the field during the exploration period;

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

(iv) fund liquidation expenses equal to US$ 35 thousand.

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

(i) invest at least US$ 18,976 thousand for exploration of the field during the exploration period;

(ii) fund liquidation expenses equal to US$ 130 thousand.

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

(i) invest at least US$ 30,453 thousand for exploration of the field during the exploration period;

(ii) fund liquidation expenses equal to US$ 154 thousand.

Domestic oil sales

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Partnership'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 Partnership'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 Partnership's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, credit risk and commodity price risk. The Partnership's management reviews and agrees policies for managing each of these risks, which are summarized below.

Commodity price risk

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

Interest rate risk

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

Foreign currency risk

The Partnership's statement of financial position can be affected by movements in the US dollar / tenge exchange rates. The Partnership 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 Partnership's profit before tax. The impact on equity is the same as the impact on profit before tax.

	Change in tenge to US dollar exchange rate	Effect on profit before tax
2015		
US dollar thousand	**60.00%**	**18,350**
US dollar thousand	**(20.00)%**	**(6,117)**
2014		
US dollar thousand	17.37%	(1,168)
US dollar thousand	(17.37)%	1,168

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	Tenge	Russian Roubles	Euro	Other	Total
As at 31 December 2015					
Cash and cash equivalents	**1,902**	**–**	**–**	**–**	**1,902**
Trade receivables	**1,455**	**–**	**–**	**–**	**1,455**
Trade payables	**(22,436)**	**(1,849)**	**(2,437)**	**–**	**(26,722)**
Other current liabilities	**(11,505)**	**–**	**–**	**–**	**(11,505)**
	(30,584)	**(1,849)**	**(2,437)**	**–**	**(34,870)**

	Tenge	Russian Roubles	Euro	Other	Total
As at 31 December 2014					
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)

Liquidity risk

Liquidity risk is the risk that the Partnership 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 Partnership 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 Partnership's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, loans, hedges, export financing and financial leases.

The Partnership'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 Partnership's total outstanding debt consists of US$ 61 million of loan due to Nostrum Oil & Gas 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 Partnership 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 Partnership's financial liabilities at 31 December 2015 and 2014 based on contractual undiscounted payments:

	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
As at 31 December 2015						
Borrowings	**–**	**17,310**	**51,931**	**1,201,307**	**–**	**1,270,548**
Trade payables	**37,149**	**–**	**3,529**	**–**	**–**	**40,678**
Other current liabilities	**13,984**	**–**	**–**	**–**	**–**	**13,984**
Due to Government of Kazakhstan	**–**	**258**	**773**	**4,124**	**10,567**	**15,722**
	51,133	**17,568**	**56,233**	**1,205,431**	**10,567**	**1,340,932**

	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
As at 31 December 2014						
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 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Credit risk

Financial instruments, which potentially subject the Partnership 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 Partnership considers that its maximum exposure is reflected by the amount of trade accounts receivable, cash and cash equivalents and derivative financial instruments.

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

The Partnership sells its products and makes advance payments only to recognized, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Partnership '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 Partnership'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 Partnership does not hold collateral as security. The Partnership evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Fair values of financial instruments

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

	Carrying amount		Fair value	
In thousands of US dollars	**31 December 2015**	31 December 2014	**31 December 2015**	**31 December 2014**
Derivative financial instruments	**97,100**	60,301	**97,100**	60,301
Interest bearing borrowings	**(1,012,027)**	(1,050,165)	**(871,161)**	(1,050,165)
Total	**(914,927)**	(989,864)	**(774,061)**	(989,864)

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

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

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

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

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

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

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

Movement in the derivative financial instruments is disclosed in *Note 26.*

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

Capital management

For the purpose of the Partnership'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 Partnership's capital management is to maximise the shareholder value.

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

The Partnership 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 Partnership may adjust the distribution payment to participants, return capital to participants or increase partnership capital. The Partnership monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Partnership's policy is to keep the gearing ratio between 20% and 40%. The Partnership includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

In thousands of US dollars	**2015**	2014
Interest bearing borrowings	**1,012,027**	1,050,165
Less: cash and cash equivalents, restricted cash and current and n on-current investments	**(140,303)**	(391,373)
Net debt	**871,724**	658,792
Equity	**659,315**	781,737
Total capital	**659,315**	781,737
Capital and net debt	**1,531,039**	1,440,529
Gearing ratio	**57%**	46%

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. EVENTS AFTER THE REPORTING DATE

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

With effect from 1 January 2016 Kazakhstan reduced export duties for crude oil from US$ 60 to US$ 40 per tonne. With effect from 1 February 2016 Kazakhstan introduced floating rates of export duties for crude oil based on average market prices.

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

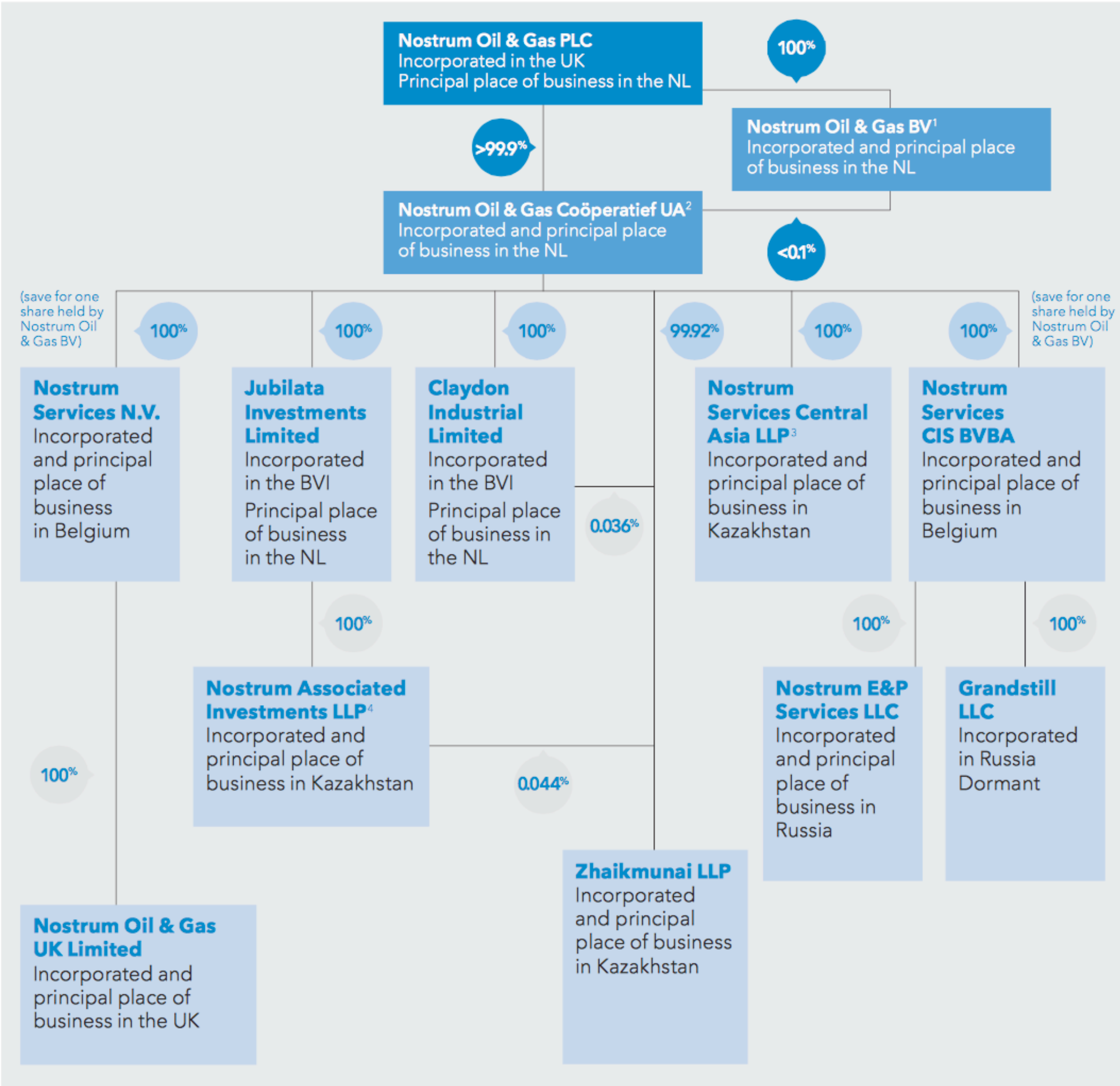
Astana Representative Office
Zhaikmunai LLP
Office 319, 2/2
Kurman Batyr Prospect
Astana, 010000
Republic of Kazakhstan

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



1 During 2015, Nostrum Oil & Gas Finance BV and Nostrum Oil BV were merged into Nostrum Oil & Gas BV.
2 During 2015, Nostrum Oil Coöperatief UA changed its name to Nostrum Oil & Gas Coöperatief UA.
3 During 2015, Amersham Oil LLP changed its name to Nostrum Services Central Asia LLP.
4 During 2015, Condensate-Holding LLP changed its name to Nostrum Associated Investments LLP.

GLOSSARY

3-D seismic survey	Seismic survey that is acquired, processed and interpreted to yield a three-dimensional picture of the subsurface.
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 is 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.
downtime	Downtime is all time during which an operation is postponed, usually due to bad weather or mechanical failure.
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.
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.
joule	Unit of energy used for measuring gas volumes.
•	megajoules = 106
•	gigajoules = 109
•	terrajoules = 1012
•	petajoules = 1015

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
production well	A well that has been drilled for producing oil or gas, or one that is capable of production once the producing structure and characteristics are determined.
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.

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.
State	The Republic of Kazakhstan.

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

Zhaikmunai	Zhaikmunai LLP