Zhaikmunai LLP
Annual Report 2016

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An Introduction to Zhaikmunai

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

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

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

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

Group Structure and affiliates
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 2016 can be found on page XX.

Who we are
Nostrum is an independent oil and gas company engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin with a world-class portfolio of assets.

Nostrum’s vision is to become one of the leading independent oil and gas exploration and production companies in the FSU. In order to achieve our vision, we recognise that our responsibilities need to go beyond our financial and operational targets.

Our successful track record of operations since 2004 demonstrates that we have achieved many of our strategic goals to date, and we are now positioned simultaneously to scale up our production profile and further develop our stakeholder and community engagement in the region.

We have developed a simple, sustainable and scalable strategy that provides a clear route to delivering an average daily production in excess of 100,000 boepd from our existing 2P reserves base. This has the potential to realise significant long-term shareholder value.

Our Investment Case

Positioned for Growth

Stable financial platform with strong cash flow and flexibility

Zhaikmunai is a highly cash flow generative company, recording US$226.7 million of operating cash flow in 2016 and ending the year with over US$85 million of cash on its balance sheet. We have implemented a successful cost cutting programme in response to the decline in oil price, resulting in a reduction in opex by 11% to below US$4/boe. Our hedging strategy has protected Group cash flows during a period of low oil prices, giving us the financial flexibility to actively manage the pursuit of our key operational goals throughout challenging oil price scenarios.

Targeting near-term production growth
Zhaikmunai successfully averaged daily production of over 40,000 boepd in 2016, in line with internal targets. We will target average daily production of over 44,000 boepd in 2017. We expect to reach an average of 100,000 boepd by 2020.

Over 450 million boe of 2P reserves
The Chinarevskoye field has been producing crude oil since 1997 and gas condensate since 2011. Despite the length of production, we have not even appraised and explored over a third of the potential of the field. We have approximately 118 mmboe and 622 billion cubic feet of sales gas of contingent resources, many from existing production reservoirs, and we believe there is excellent scope to further increase our 2P reserves in Chinarevskoye in the future. We are also very excited about the opportunity to start to better understand the full potential of the neighbouring licences. During 2016, we drilled one well in the Rostoshinskoye field and remain optimistic that we will be able to find additional reserves to fill our gas plant long into the future. With current reserves for our neighbouring three licences estimated at 87 mmboe 2P, we believe there is a good possibility to increase this.

World-class assets
We have four licence areas, all located in the pre-Caspian Basin north of Uralsk, Kazakhstan. Zhaikmunai's current producing asset is the Chinarevskoye field, with the three adjacent licences called Darjinskoye, Rostoshinskoye and Yuzhno-Gremyachenskoye. We believe there is the potential to grow reserves across all our licences in the future. We continue expanding our world-class asset base and expect to complete construction of our new Gas Treatment Unit at the Chinarevskoye field site later in 2017.

Strong governance and responsibility
We are committed to achieving best-in-class standards of corporate governance and social responsibility. Our goal is to create a positive and lasting contribution to the areas in which we operate, with a focus on delivering long-term shareholder value for a sustainable future.

Simple business case, successful model and sustainable strategy
We maintain our simple strategy of balancing organic growth with carefully considered expansion through acquisitions. Our main priority remains, as always, to continue to deliver growth and shareholder value in a responsible and sustainable way.

Experienced management team
Zhaikmunai has a world-class management team with each member holding significant experience both in country and in their specific field. The management team has demonstrated that it is not only able to deliver under high oil prices but is also able to deliver on its targets under challenging conditions both operationally and financially.

Key performance Indicators
A solid performance

Financial KPIs

Zhaikmunai continues to operate with high margins and positive cash flows in spite of a prolonged period of low oil prices. As a low cost producer with substantial reserves, processing capacity and routes to export markets, Zhaikmunai is extremely well positioned to execute its growth strategy and deliver shareholder returns following a substantial period of capital investment.

Revenue – US$348 million: -22% from 2015
2012 – 737
2013 – 895
2014 – 782
2015 – 449
2016 – 348

EBITDA (Zhaikmunai LLP) – US$161 million: -36% from 2015
2012 – 455
2013 – 577
2014 – 515
2015 – 249
2016 – 161

Net income (loss) – US-$66.6: -14% from 2015
2012 – 148
2013 – 228
2014 – 186
2015 – (77)
2016 – (67)

Operating cash flow – US$227m: 27% from 2015
2012 – 314
2013 – 383
2014 – 375
2015 – 179
2016 – 227

Opex per boe – US$ 4: -11% from 2015
2012 – 7.0
2013 – 5.8
2014 – 5.1
2015 – 4.3
2016 – 3.9

Non-financial KPIs

In order for Zhaikmunai 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 regard to our operational and social output. We therefore target non-financial KPIs to ensure that we maintain our focus in these areas.

Production – 40,351 boepd
2012 – 36,940
2013 – 46,178
2014 – 44,400
2015 – 40,391
2016 – 40,351

2P reserves – 466 mmboe
2012 – 506
2013 – 582
2014 – 571
2015 – 470
2016 – 466

1P reserves – 147 mmboe
2012 – 195
2013 – 199
2014 – 192
2015 – 147
2016 – 147

Number of man hours without loss of working hours – 1.71m hours
2012 – 1.66
2013 – 1.83
2014 – 1.89
2015 – 1.91
2016 – 1.71

GHG emissions intensity ratio – 14,193 mtCO/mmboe:
2012 – 19,352
2013 – 13,065
2014 – 16,599
2015 – 15,470
2016 – 14,193

Main factors contributing to the variance between forecast and actual results
Falling oil prices resulted in lower revenue, however significant cost reductions led to a healthy EBITDA margin and strong operating cash flows.

Macroeconomic and microeconomic changes

Macroeconomic and microeconomic changes that occurred in the reporting period and their impact on results:

- 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 2016 fell to US$45.1 per barrel, 16% lower than the average price the previous year.
- The average Tenge exchange rate depreciated to 341.9 Tenge per USD in 2016, from an average of 223.2 Tenge per USD in 2015 (the Tenge was unpegged from the USD during 2015).
- The year-end exchange rate was 333.29 Tenge per USD in 2016 versus 340.6 Tenge per USD in 2015.
- A large proportion of the Group's operating expenses in Kazakhstan are denominated in Tenge, whereas only a small proportion of the Group's revenues are received in Tenge. As such, the Tenge depreciation has brought about some cost savings in USD terms.

Overall, the net cash impact of the Tenge depreciation was broadly neutral.

Where we operate

Strategic location of assets

Our main operational facilities are located at the 274 square kilometre Chinarevskoye field in north-west Kazakhstan. We have three additional licences all within a 120 kilometre radius of this location. This advantageous location is central to our business case, allowing us to leverage our existing infrastructure and experienced operating and development teams to drive growth.

Transportation of our products

Crude

Transported through our own liquids pipeline directly from the field site. 85% of production is sold to export markets and the remainder is sold domestically.

Condensate

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

Transported on trucks from the field site to our rail terminal where it is loaded onto special trains and then transported to various off-takers. The LPG is sold to various destinations across central Asia and eastern Europe.

Gas

Transported from the Chinarevskoye field through Zhaikmunai's own pipeline, which connects to the Intergas Central Asia pipeline. All gas is sold at the connection point to Intergas Central Asia.

Imminent growth

With the preparatory work to double production capacity approaching, all of the related infrastructure to accommodate increased levels of production is in place. This will further improve our efficiencies and effective use of existing infrastructure.

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

Message from the management

Laying the foundations for future growth

Zhaikmunai maintained a stable financial footing at all times during 2016. This allowed us to successfully deliver our development programme. We drilled three wells on time and on budget, GTU3 continued to progress with approximately 2/3 of the budget spent, and we reduced our opex to below US$4 per barrel. We remain protected against volatile oil prices whilst still generating significant operating cash flow to maintain a healthy cash position during this significant investment phase. I look forward to driving the business forward in 2017.

How we performed in 2016

Despite 2016 being a challenging year for the oil and gas sector Zhaikmunai has enjoyed a very steady year both operationally and financially. Consistent progress was maintained on the construction of the GTU3 and three production wells were successfully brought online resulting in us achieving our production targets for the year. Operational costs were reduced to below US$4 / boe, our lowest on record. The Group's cash position remained above US$100 million during the year as we continued to generate strong operating cash flows and received cash from our hedge during Q1 and Q2.

Our performance against the four key objectives for Zhaikmunai in 2016 was as follows:

1. Ensure that the financial position of Zhaikmunai remains stable:

The financial position of Zhaikmunai remained stable despite the challenging oil price environment and we have ended the year with over US$85 million of cash on our balance sheet. Despite the severity of the oil price fall in Q1 our strategy to hedge 15,000 boepd for 2016 and 2017 meant that we received cash under our hedge in both Q1 and Q2. We also enjoyed all the upside from the recovery in the oil price in the second half of the year. We will continue to endeavour to deliver Zhaikmunai's growth programme in all oil price environments.

2. Ensure construction of the new Gas Treatment Unit remains on track for 2017:

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 approximately US$380 million to date on the project. Due to the falling oil price environment we decided in December 2015 to phase the remaining GTU3 payments across 2016 and 2017. This means the scheduled project completion date is in 2017 which will allow us to preserve the liquidity position of Zhaikmunai and match the hedging payment profile we have put in place. The phasing of payments on GTU3 in this way will allow Zhaikmunai to remain fully financed to ensure all payments on GTU3 can be made.

3. Optimise the drilling programme to ensure that we can fill the GTU3 as quickly as possible whilst not jeopardising Zhaikmunai's financial position: During 2016 we have focused on preserving cash and therefore targeted a drilling programme that would deliver the highest production against the lowest costs. We added three production wells which enabled us to hit our production targets and enter 2017 with GTU1 & 2 at full capacity. We delivered these wells on budget at approximately US$11 million per well. This gives me great confidence that when we start to ramp up our drilling programme we have both the geological reserves in place to fill it and also a team capable of delivering the drilling programme on time and on budget.

4. Implement a cost reduction programme

In 2016 we adopted a significant cost reduction programme. Whilst this meant some difficult decisions had to be made, it was crucial that Zhaikmunai could demonstrate its ability to manage the cost base during a period of low oil prices.

Steady production levels

The Chinarevskoye field is now in stable production phase with all facilities running smoothly. Zhaikmunai expects a minimum daily total production average of at least 44,000 boepd for 2017. Our 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.

Future drilling programme at Chinarevskoye

In 2016 we completed three 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 resulted in us scaling down the proposed drilling schedule for 2016. During 2017 we plan to drill seven wells and balance adding production with moving some probable reserves into the proven category. This balance will allow us to ramp-up production as quickly as possible once the GTU3 is complete. As we have always stated, our drilling programme is balanced against the oil price and should we see a material increase, then there is always scope to increase drilling and ramp-up more quickly.

Construction of GTU3

During 2016 we have made significant steps towards the construction of GTU3. The rationale behind building the Plant is that it will allow faster monetisation of reserves by increasing treatment capacity by an additional 2.5 bcm of raw gas per year, bringing total capacity to 4.2 bcm of raw gas per annum. Over US$308 million has already been invested into the facility. We are currently on track to deliver the project on time and remain within the Board-approved budget of US$500 million.

Building up further reserves

A key long-term strategic target is to establish a material reserve base around our infrastructure. We have excellent opportunities both for organic growth within Chinarevskoye and the additional licences, as well as through potential acquisitions. We have today approximately 118 mmboe and 622 billion cubic feet of sales gas of contingent resources and an additional 87m 2P reserves in the three additional licences. We will continue to build this reserve base over the coming years.

Key priority tasks for 2017

Our three key objectives for Zhaikmunaiin order to continue to deliver on our strategy are as follows:

1. Ensure that the financial position of Zhaikmunai remains stable and part of the 2019 debt is refinanced to a longer dated maturity.
2. Ensure completion of the construction of the next Gas Treatment Unit remains on track for 2017.
3. Start to grow the potential reserve base to allow for a prolonged production plateau of over 100,000 boepd.

Our Growth Potential

Production

A clear path to doubling production capacity

Completion of our third Gas Treatment Unit (“GTU3”) remains scheduled for 2017 and progress continues to be made toward completion on time and on budget. When the GTU3 project is finalised it will more than double our raw gas processing capacity to 4.2 bcm per annum allowing Zhaikmunai to produce in excess of 100,000 boepd at full capacity.

The production ramp-up process will begin by transferring all existing production wells to GTU3 to take advantage of its enhanced LPG technology. Additional production volumes coming from new well feedstock will then be used to fill remaining plant capacity over the coming months to reach our target average daily production of 100,000 boepd by 2020.

Zhaikmunai has invested over US$2 billion over more than 10 years to create a world-class infrastructure hub in north-west Kazakhstan to unlock the value of the region’s substantial resources. In addition to its advantageous geographical position, Zhaikmunai has extensive storage and transportation infrastructure to accommodate the forthcoming material increase in Zhaikmunai’s production volumes.

Reserves

Underpinning our strong growth potential

Zhaikmunai has a substantial asset base in north-west Kazakhstan with an independently audited 2P reserve base of 466 million barrels of oil equivalent (Ryder Scott 2017). During 2016 the Chinarevskoye asset continued to operate in line with expectations with average daily production of 40,351 boepd and a 1P reserve replacement ratio of 97%. With a 1P reserve base of 147 million barrels of oil equivalent, the core asset base at Chinarevskoye will be sufficient to reach Zhaikmunai’s average daily production target of over 100,000 boepd by 2020.

Having appraised, developed and produced both crude oil and gas condensate in North-western Kazakhstan for over a decade, Zhaikmunai has accumulated a considerable amount of knowledge of both the Chinarevskoye asset and also the surrounding regional geology. Zhaikmunai seeks to leverage this competitive advantage to pursue value accretive transactions which enhance our commercial reserve base and prolong

Zhaikmunai's average daily production plateau above 100,000 boepd until the end of the Chinarevskoye licence period in 2031-2033 (1).

During 2013, Zhaikmunai acquired 87 million barrels of 2P reserves adjacent to the Chinarevskoye licence area (the Trident fields) for a consideration of US$16 million.

Financials

Resilient financial and operational performance

Zhaikmunai is a low-cost producer with steady production volumes, substantial storage and transportation infrastructure and access to multiple export markets. Zhaikmunai's sizeable historical investment programmes have created a business that has demonstrated its durability and ability to generate cash flow during one of the most challenging commodity market environments in recent memory.

A continuation of Zhaikmunai's cost cutting programme during 2016 has protected Zhaikmunai's margins in spite of low oil prices. The completion of a short connection to the KazTransOil international pipeline during H1 2017 will enable us to significantly reduce our crude oil transportation costs and realise further savings. Continued investment throughout the commodity cycle has enhanced Zhaikmunai's financial operating leverage and positions Zhaikmunai extremely well for the next phase of production growth.

Existing cash reserves, operating cash flow and the protection afforded by 15,000 bopd of hedged production ensures that the completion of GTU3 is fully funded under any oil price scenario. Zhaikmunai continues to operate with a conservative financial policy and maintains adequate liquidity on its balance sheet to run the business at all times.

Our business model

<u>Capitals</u>

Financial

We seek to efficiently deploy capital obtained through financing or generated from operations to create value for our stakeholders.

Manufactured

We have invested over US$2 billion over more than 10 years to establish a world-class hydrocarbon processing and transportation infrastructure hub to realise the value of the material resources in north-west Kazakhstan.

Intellectual

Our senior management team has over 152 years of combined experience in exploring, appraising and developing hydrocarbon assets in Kazakhstan with a unique understanding of the regional geology and what is required to realise its potential.

Natural

We have a substantial asset base with over 466 million barrels of Proven and Probable reserves.

Social and relationship

We have established an excellent reputation in Kazakhstan through operating in a responsible and socially conscious manner for over a decade to create value for our stakeholders and the local community.

Business activities

Production
Safely deliver production growth to fully utilise our substantial asset base, processing facilities and transportation infrastructure to generate cash flows and value for our stakeholders.

Development
Increase Zhaikmunai's commercial reserves and leverage existing infrastructure to create value through economies of scale.

Exploration
Maximise our extensive geological expertise and regional knowledge to execute high-impact exploration and appraisal programmes in Kazakhstan.

Portfolio of world-class assets

Underpinned by exemplary corporate governance and social responsibility across all of our business activities
Outputs

Crude oil
- **Brent based pricing for railcar exports**
- **Urals-based pricing for pipeline exports**

Stabilised condensate
- **Brent based pricing**

LPG
- **International Mediterranean LPG price Sonatrach for Black Sea deliveries**
- **Brest quotation for Eastern European deliveries**

Dry gas
- **Price agreed annually**

Outcomes

Value creation for stakeholders and the Republic of Kazakhstan.

A reliable stream of valuable energy resources for regional communities and export markets.

Employment, social investment and opportunities for local communities.

Safe and sustainable operations which actively seek to minimise adverse environmental and social impacts.

Our business strategy

A strategy for progression

Strategic Priorities	Our progress in 2016	KPIs aligned to our strategic objectives	Risks associated with strategy	Forecasts, objectives and prospects for 2017-2019
Delivering near-term production growth	GTU3 construction has continued in line with guidance to complete construction in 2017. As of year-end 2016 it remains within our Board approved budget with approximately US$380 million spent	Production growth in 2018 and beyond (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 over 40,000 boepd, in line with our guidance. This included production from three new wells which came online in Q4 of 2016. We plan to drill seven wells in 2017	Production growth and reserve growth	Drilling can be subject to cost overruns and technical issues preventing successful outcome of the wells	Production target of a minimum of 44,000 boepd in 2017 and 55,000-80,000 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 the Chinarevskoye drilling programme and testing of Rostoshinskoye appraisal well during 2017
	Three wells successfully drilled during 2016 in order to maintain production		Failure to drill the production wells would have resulted in missed production guidance	Dynamic drilling programme in order to maintain production and ramp up in line with oil price movements
Exploration upside	Continuously monitored M&A opportunities in and around	2P Reserves	Future earnings may	Opportunities for acquisitive

through M&A	the Chinarevskoye field, as well as in other strategic areas of Kazakhstan.	(boe)	be adversely impacted by changes in the market	growth will be evaluated on an ongoing and opportunistic basis
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
Focus on delivering shareholder value	Implemented cost cutting programme, scaled back drilling, ensured hedging programme was in place	Opex per boe below US$4, only 3 production wells drilled, US$30m received from hedging programme	The Group's activities in the Chinarevskoye field are currently the Group's sole source of revenue	The Group aims to strike a balance between reinvesting in future growth and returning cash to our shareholders

Strategic objective
To become one of the leading independent oil and gas companies in the FSU

The Oil & Gas Market in Kazakhstan

Kazakhstan is among the world's top countries by size of oil and gas reserves, and is the second largest oil producer in the FSU after Russia.

Economic Growth and Investment in Kazakhstan's oil and gas industry

Since 2000, Kazakhstan has experienced significant economic growth driven by economic reform and foreign investment. Concurrently, exports of crude oil have grown significantly with a majority of the oil produced being delivered to international markets via pipelines which run through Russia to shipping points on the Black Sea.

Major projects in Kazakhstan include the world-class Tengiz, Karachaganak and Kashagan fields. There are three major oil and gas refineries in Kazakhstan supplying the north, west and southern regions, in Pavlodar, Atyrau and Shymkent respectively. All three are either under the control or joint control of KazMunayGas JSC ("NC KMG")..

Oil supply & demand
According to BP's Statistical Review of World Energy 2016, as at 31 December 2015 Kazakhstan ranked twelfth in the world by oil reserves and fifteenth 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 3.0 billion tonnes and 0.9 trillion cubic metres respectively as at 31 December 2015.

The Kazakh government has stated that it expects oil and gas production in 2016 to amount to 77 million tons, increasing to 92 million tons in 2020. Most of this growth is expected to come from the Tengiz, Karachaganak and Kashagan fields.

Oil price outlook
Zhaikmunai has managed its capital expenditure prudently during the period of continued oil price uncertainty and volatility and as such, is well positioned to withstand a continuation in low oil prices over the short to medium term and to deliver growth at a US$50.0/bbl long-term oil price.

Overview – the larger Caspian Region
Kazakhstan and Azerbaijan are the two significant crude oil producing countries in the Caspian region, producing 1.7m bopd and 0.8m bopd in 2015 respectively. It is expected that these countries will continue to lead the region in crude oil production. 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, although this part of Russia is not a substantial source of crude.

(1) 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 2016, 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.

Benchmarking of our business against our peers

Strengths:

- Advantageous location gives access to multiple transportation routes
- Investment in infrastructure gives Zhaikmunai complete control of its liquids transportation
- Investment in gas plant allows Zhaikmunai to produce raw gas in north-west Kazakhstan where there is a shortage of processing capacity
- High quality, light, sweet crude

Weaknesses

- Zhaikmunai is subject to fluctuations in the market prices for its products, however, we do have hedges in place
- Unavoidable geological risks
- Seasonal temperature fluctuations in a harsh operating environment
- Lack of significant population reduces the size of the skilled workforce locally

Performance Review

The Chinarevskoye Field

World-class assets
We have four licence areas all located in the Pre-Caspian Basin, north of Uralsk. Zhaikmunai's current producing asset is the Chinarevskoye field - a 274 square kilometre licence located in the Batys province of north-west Kazakhstan, near to the Russian border.

16 Reservoirs
24 Crude oil production wells
22 Gas condensate production wells

2P reserve breakdown for the Chinarevskoye field - %
LPG – 12%
Crude oil and condensate – 32%
Dry gas – 56%

Annual boe production - 2016
2012 – 13,483,006
2013 – 16,855,027
2014 – 16,205,641
2015 – 14,742,614
2016 - 14,768,296

Maximising the potential of our assets

Chinarevskoye field
Stable Business Environment

Exploration and production licence
We were first granted an exploration and production licence for the Chinarevskoye field in May 1997. The current production licence granted in 2008 covers 185 square kilometers, with validity to 2031 for the north-eastern Tournaisian reservoir, and until 2033 for all other oil and gas bearing reservoirs and horizons.

Production Sharing Agreement (PSA)
A grandfathered PSA exists between Zhaikmunai and the Government of Kazakhstan, which specifies the exploration and development boundaries of the Chinarevskoye field. The PSA also addresses the respective royalties, profit share and tax liabilities payable to the government.

Outlook
The licence and PSA are currently valid until 2031 (with respect to the north-eastern Tournaisian 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 has met all of its capital investment obligations under the PSA.

Geology, reserves and drilling

Geology
The Chinarevskoye field is a multi-layer structure with 16 reservoirs and 52 compartments spread over five areas. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian, Mulinski, Ardatovski, and Biski-Afoninski reservoirs.

Reserves
Based on the Ryder Scott report dated 1 January 2017, the proved and probable reserves for the Chinarevskoye field amount to 379 mmboe (2015: 383 mmboe). Proven reserves amount to 147 mmboe (2015: 147 mmboe) and probable reserves to 232 mmboe (2015: 236 mmboe). Oil and condensate amount to 144 mmbbl of proven and probable reserves (2015: 148 mmbbl), LPG to 56 mmbbl (2015: 51 mmbbl) and gas to 179 mmboe (2015: 184 mmboe).

The production of 14,768,296 mmboe in 2016 was compensated by approximately 75% additional reserves, based on better well performance.

Drilling
Initial hydrocarbon discoveries at the Chinarevskoye field were made during drilling exploration conducted during the Soviet era. Subsequent to this discovery, there have been 76 wells and side-tracks drilled under the PSA from 2004-2016.

Our 2016 drilling programme was successfully completed with 29 oil wells and 16 gas condensate production wells in operation at the Chinarevskoye field. Three production wells were brought online in Q4 2016 after being successfully completed in Q3.

We plan to drill four new production wells, two side-tracks and one appraisal well at Chinarevskoye as part of our 2017 drilling programme. Our 2017 drilling programme should allow us to reach our production guidance of a minimum of 44,000 boepd.

On-site Facilities
Location
Our facilities are located in advantageous geographical positions which encourages flexible transportation links for the off-takers of our products. The proximity to major international railway lines and oil and gas pipelines allows for convenient transport to markets in Central Asia and Eastern Europe.

Zhaikmunai is building a short pipeline to provide access to the KTO pipeline for its exported crude oil transportation. This pipeline will be completed at a total cost of under US$10 million and is expected to be operational by Q2 2017.

Crude oil infrastructure
Our crude oil infrastructure is developing to reflect an increase in our processing capability. Our oil treatment and gathering facility (OTF) is capable of processing 400,000 tonnes of crude oil per year and it is transported through our oil gathering and

transportation lines. These include a 120 kilometer liquids pipeline, an oil-loading facility at the rail terminal and oil storage facilities for up to 30,000 cubic metres of oil.

Oil and stabilised condensate pipeline and railway loading terminal

Since its completion in 2008 and commissioning in 2009, our 120 kilometer liquids pipeline and railway loading terminal located at Rostoshi near Uralsk has been used for the transportation of our crude oil and stabilised condensate. It travels through the pipeline from the Chinarevskoye field site to the railway loading terminal, where it is first stored and then transported by railcar to final off-takers.

The separation between our stabilised liquid condensate and crude oil occurs during transportation through the same pipeline using a “PIG” system. This ensures quality is not compromised as it would be in a multi-purpose pipeline and allows for higher export prices.

The maximum throughput of our oil pipeline is 3 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.

Additional infrastructure in use also includes crude oil storage tanks on site and at the rail terminal, condensate tanks on site and at the terminal, and a railcar loading facility at the railway terminal. This terminal allows for 32 railcars to be loaded simultaneously. The first vapour recovery unit in Kazakhstan’s history can also be found at the facility.

Forecasted increases in throughput, in line with our strategy to double production, will be accommodated by our existing infrastructure.

Advancing our Growth Prospects

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

60-120km from Chinarevskoye licence area
2P reserves as of 1 January 2017 of 87 mmboe

Rostoshinskoye, Darjinskoye & Yuzhno-Gremyachenskoye Fields
Decades of successful exploration activities have shown that the three fields contain hydrocarbons suitable for commercial production.

Subsoil rights acquisition completed
Zhaikmunai has rights to 100% of the subsoil use related to three oil and gas fields in the pre-Caspian Basin to the north-west of Uralsk, acquired under an asset purchase

agreement in 2013. The Ministry of Oil & Gas signed supplementary agreements relating to those rights, which became effective from 1 March 2013.

Geology
Decades of successful exploration activities have shown that the three fields contain hydrocarbons suitable for commercial production. The bulk of the hydrocarbons are located in the Bashkirian stage of the Carboniferous, with reservoirs of Permo-Carboniferous age. Prior to development there will be significant appraisal required to explore existing accumulations and deeper intervals

Appraisal programme
During 2016, we drilled an appraisal well at Rostoshinskoye. This appraisal well changed the geological model of the Rostoshinskoye field and also increased the reserves potential of the Bashkirian section also of the adjacent Darjinskoye field. The test of this well will be completed in 2017 and the reserves will be re-estimated in the 2017 reserves report. Preparations for re-entering an existing well on the Darjinskoye field are also currently underway.

Zhaikmunai's total combined reserves and resources

Total Combined Reserves
At Zhaikmunai, we have an outstanding track record of converting reserves. An updated reserve report by Ryder Scott, as at 1 January 2017, has shown 466 mmboe of proved and probable reserves for the Chinarevskoye and adjacent Trident fields.

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

Contingent resources
In addition to the estimated 2P reserves, contingent resources have been identified in the Chinarevskoye , Rostoshinskoye, Darjinskoye and Yzhno-Gremyachenskoye licence areas. The 1C+2C contingent resources estimated as of 1 January 2017 for the Chinarevskoye area amount to 105.4 million barrels of liquids and 419.5 billion cubic feet of sales gas. For the three additional licences the contingent resources amount to 12.7 million barrels of liquids and 202.5 billion cubic feet of sales gas.

Products, Processes and Infrastructure
Competitive advantage

Products and processes

Products	Quality	Sales	Pricing	Transportation
Crude Oil	• Density – 0.815g/cm3. • API – 42-43	• 85% exported in accordance with the PSA.	• Brent-based pricing for railcar exports.	• Sent through our own 120km

	degrees. • Average Sulphur – 0.4%. • Superior in quality to other primary benchmark crude oils produced in Kazakhstan.	• 15% sold domestically. • Destinations include Neste's refinery in Finland and SOCAR in Azerbaijan. • From Q2 2017 all exported crude oil volumes will be sold through the KTO pipeline.	• Urals-based pricing for pipeline exports. • Domestic sales at c.50% discount.	pipeline from the field site to our own rail loading terminal in Uralsk • From here it is loaded onto railcars and sent to off-takers at various destinations. • From Q2 2017 all exported crude oil volumes will be delivered into the KTO pipeline through an extension to our existing 120km pipeline.
Stabilised Condensate	• Density – 0.750-0.790 g/cm3. • API – 56 degrees • Average sulphur – <0.2%	• 100% exported. • Destinations include the Russian Black Sea port of Taman.	• Brent-based pricing.	• Sent through our own 120km pipeline from the field site to our own rail loading terminal in Uralsk • From here it is loaded onto railcars and sent to various destinations.
LPG	• Field grade quality. • No olefins and low sulphur content.	• 85%-100% exported. • Destinations include the Black Sea	• International Mediterranean LPG price Sonatrach for Black Sea	• Loaded onto LPG trucks from the field site to our rail loading

	ports in Russia.	deliveries. • Brest quotation for Eastern European deliveries.	terminal in Uralsk • From here it is loaded onto railcars and sold to third parties.
Dry Gas	• 100% sold domestically.	• Price agreed annually.	• Sent through our own 17km pipeline from the field site to the connection point with the Intergas Central Asia gas pipeline • Sold at the connection point.

Market share, sales and 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 this ensures.

Dry gas sales provide additional revenue as a by-product from the processing facilities. Dry gas production is also the feedstock for our power generation facilities which in turn provide electricity and power for the field site.

Marketing and sales

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

Infrastructure

Oil treatment unit

Zhaikmunai completed the construction of an oil treatment facility in 2006 ("OTF"). Currently the OTF has a maximum annual throughput capacity of 400,000 million tonnes of crude oil per annum.

Raw gas processing infrastructure

The gas treatment facility ("GTF") 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 three separate sales 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 kilometre dry gas pipeline.

GTU1 & 2
The GTF currently includes two gas treatment units, each with the capacity to treat approximately 850 million cubic metres of raw gas per annum. The GTF is currently operating close to nameplate capacity.

GTU3
The third treatment unit of the GTF will add 2.5 bcm of additional raw gas processing capacity, bringing the combined capacity to 4.2 bcm per annum – more than doubling existing production capacity. GTU3 is in the final stages of construction and 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. The generation capacity from the plant is sufficient to meet the existing and anticipated energy needs of the field site and associated operations as Zhaikmunai grows production towards the average daily production target of over 100,000 boepd.

Gas pipeline
Zhaikmunai has its own 17 kilometre 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.

Liquids pipeline
Zhaikmunai has its own 120 kilometre liquids pipeline that was completed in 2008. The pipeline runs from the field site to Zhaikmunai's rail loading terminal in Uralsk. The pipeline has a maximum annual throughput capacity of over 3 million tonnes.

Rail loading terminal
Zhaikmunai commissioned its own automated rail loading terminal in the city of Uralsk in 2008. The rail loading terminal currently receives all crude oil and condensate produced by Zhaikmunai and has a capacity of approximately 4 million tonnes of crude oil and condensate per annum.

Oil Storage facilities
Zhaikmunai has facilities for up to 30,000 cubic meters of oil and stabilised condensate storage at its field site and rail loading terminal.

KTO pipeline connection

During 2016 Zhaikmunai concluded commercial negotiations and began the construction of a secondary crude oil pipeline to enable export sales via the Atyrau-Samara international export pipeline operated by KazTransOil. The KTO pipeline will substantially reduce Zhaikmunai's crude oil transportation costs and enhance Zhaikmunai's ability to manage crude oil netbacks through the commodity cycle. The total cost of the pipeline will not exceed US$10million and export volumes are expected to begin in Q2 2017.

Operational Structure

The Group has a simple and effective operating structure. The Group has Directors and a Senior Management Team led by the CEO. The Senior Management Team manages all major units involved in operations according to interaction charts and key management principles described on pages 42-53. The team has a breadth of expertise as well as deep sector experience, which has led to the successful oversight of the Group's operations throughout the challenging oil price environment seen over the last year.

Key Historical Developments

Successful Development

First phase of development 2004-2013

2004 – Zhaikmunai LLP is acquired
2008 – Production of 5,095 bopd
2008 – 120 KM crude oil and stabilisied condensate pipeline completed (between the Chinarevskoye field and the rail terminal, near Uralsk)
2011 – 17km dry gas pipeline completed
2011 – Gas Treatment Facility completed
2013 – Annual average production of 46,178 boepd

Second phase of development
2014-2018

2014 – Completion of 3D seismic on three additional licences
2016 – Realised target depth on Zhaikmunai's first appraisal well at Rostoshinskoye
2017 – Expansion of processing capacity of GTU3 completed
2018 – Ramp-up of production from GTU3
2018 – Development programme submitted for new fields

2016 Milestones and Goals for 2017

What we have achieved

Principal developments in the reporting period

Strategic

GTU3

Significant progress has been made during 2016 with construction and engineering work continuing to proceed in line with expectations. The project remains on track to be completed during 2017 for a total cost of US$500 million.

First appraisal well on Rostoshinskoye field
The first appraisal well on Rostoshinskoye was successfully drilled during 2016, reaching target depth of 5050 metres in H1. The well was completed during H2 and is being prepared for testing pending the extension of the licence. Rostoshinskoye is the largest of the three fields adjacent to Chinarevskoye. Together, the three fields contain an estimated 87 million 2P barrels.

KazTransOil pipeline connection ("KTO pipeline")
During 2016 Zhaikmunai concluded commercial negotiations and began construction of a secondary crude oil pipeline to enable export sales via the Atyrau-Samara international export pipeline. The KTO pipeline will substantially reduce Zhaikmunai's crude oil transportation costs and enhance Zhaikmunai's ability to manage crude oil netbacks through the commodity cycle. The total cost of the pipeline will not exceed US$10million and export volumes are expected to begin in Q2 2017.

Financial

Substantial reduction in cost base
Zhaikmunai continued to reduce its cost base throughout the period with operating costs falling from US$4.3 per barrel in 2015 to US$3.9 per barrel in 2016. Zhaikmunai's ongoing cost reduction program, the devaluation of the Tenge and a competitive environment for services all contributed to the reduction. During a prolonged period of low oil prices the business has continued to generate good levels of operating cash flow and protect its margins.

Hedging
Zhaikmunai received US$27.2 million from its hedge during 2016. Zhaikmunai continues to have 15,000 barrels of oil per day hedged at strike price of US$49.16 per barrel. The put options are settled in cash on a quarterly basis and mature in December 2017. There is no cost to Zhaikmunai if the oil price exceeds the strike price of US$49.16 per barrel.

Reduction in export customs duty
Zhaikmunai currently pays export customs duty on its export crude oil volumes. From 1 January 2016 the Republic of Kazakhstan further reduced export customs duty during H1 from US$60 per tonne to US$40 per tonne. During H2 2016 a new oil price linked mechanism was introduced throughout the country to accommodate the increased volatility in oil prices.

Operational

Substantial asset base
Zhaikmunai's substantial reserve base was reaffirmed in this year's Independent Reserve Audit with 2P reserves of 466.5 million boe.

Successful GTU1 & 2 maintenance
The semi-annual scheduled shutdowns for maintenance were completed within the expected timeframe budgeted for the year. Total shutdown time for planned maintenance did not exceed 15 days over 2016.

Successful drilling campaign
In 2016 Zhaikmunai executed a highly effective drilling campaign at Chinarevskoye to maintain existing production during a year of volatile commodity prices and commitments on GTU3. Two new gas condensate producers and one new crude oil well were completed on budget and brought online in Q4. Zhaikmunai plans to drill six production wells and one appraisal well at Chinarevskoye during 2017.

Steady production
The Chinarevskoye asset continues to perofrm in line with expectations with Q4 production of 44,708 boepd and average annual production for the year of 40,351 boepd. At year end, there were 29 oil wells and 16 gas wells producing at Chinarevskoye.

Corporate Social Responsibility, QHSE and HR Management

A sustainable business

Our approach to corporate social responsibility (CSR) is based on our commitment to make a positive long-term 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 Board and management team have developed a thorough understanding of and strong commitment to Kazakhstan.

Our continuing development as a successful and sustainable E&P Grouphas created economic growth and increased our presence in both the local and regional communities.

The sustainability of our business is made possible through the active and ethical management of our people, our community and the environment.

QHSE

Policy and priorities
QHSE at Zhaikmunai 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.

HR Management

Our people

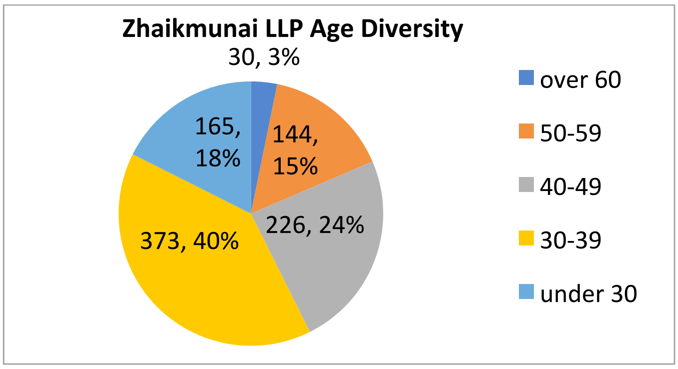
Our skilled workforce

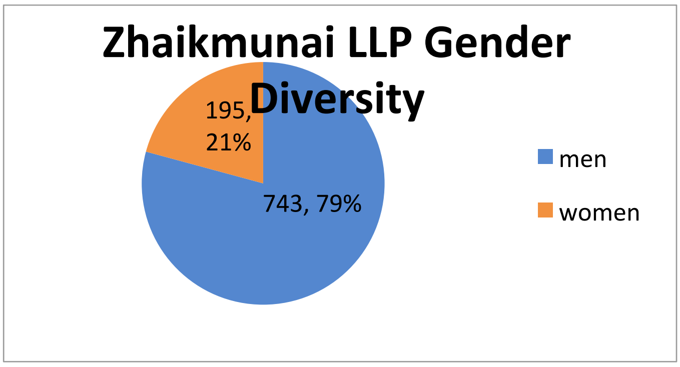
The number of employees working at Zhaikmunai LLP currently totals 938. This makes us one of the largest employers in the Batys province. We are proud to employ a diverse workforce and believe that this contributes to the success and sustainability of our business.

Location	2012	2013	2014	2015	2016
Chinarevskoye Field	631	633	686	710	612
Uralsk	207	274	268	305	322
Other	46	56	51	6	4
Total	884	963	1,005	1021	938

Zhaikmunai LLP nationality diversity

Kazakh	872	92.95%
Russian	39	4.16%
German	18	1.92%
Belgian	1	0.11%
British	1	0.11%
OTHER	7	0.75%



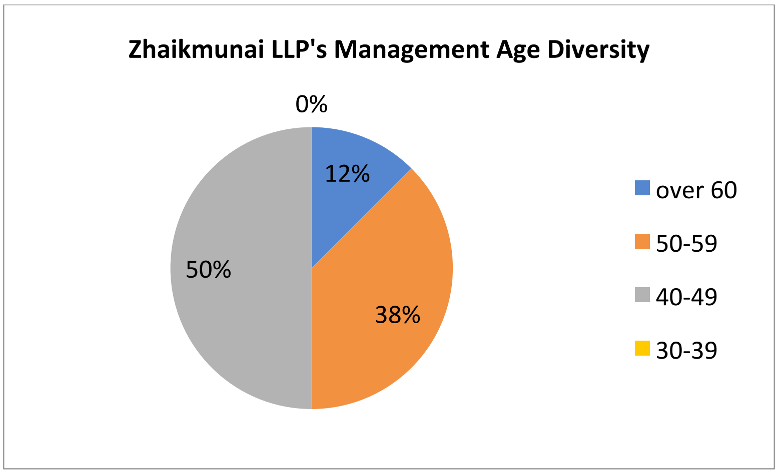


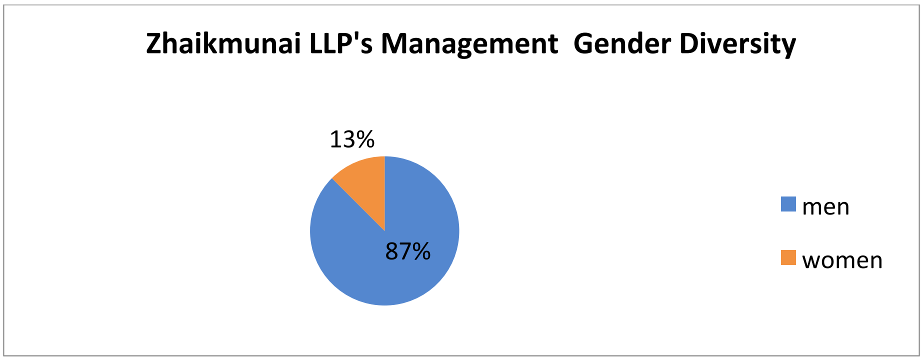
A strong management team
At the helm of the business is a dedicated and experienced Senior Management Team, who bring diversity through age and nationality. They include:

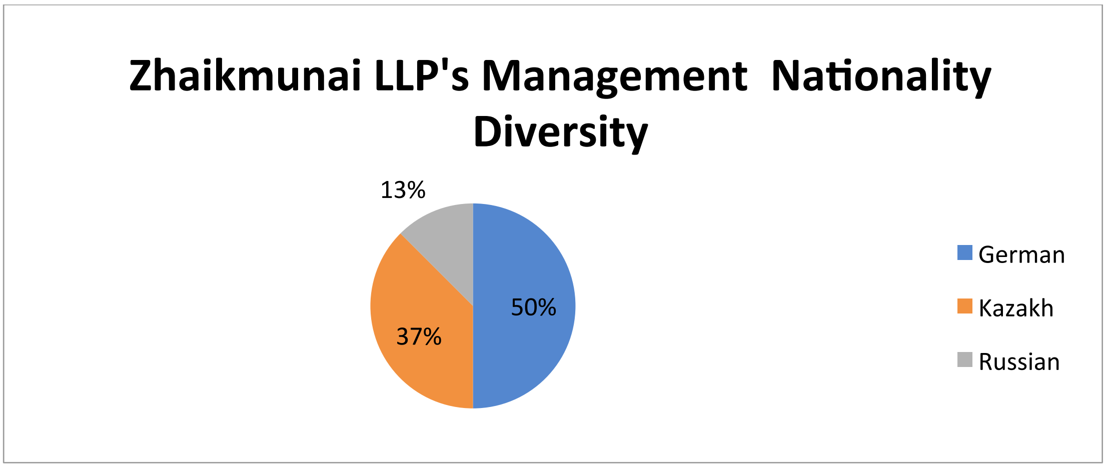
- Frank Monstrey, Executive Chairman[1]
- Kai-Uwe Kessel, Chief Executive Officer
- Thomas Richardson, Chief Financial Officer
- Thomas Hartnett, Chief Legal Officer and Company Secretary
- Berik Brekeshev, Chief Commercial Officer[2]

[1] Mr Monstrey resigned on 17 April 2017.

- Sergey Khafizov, Chief Business Development Officer
- Heinz Wendel, Chief Operations Officer





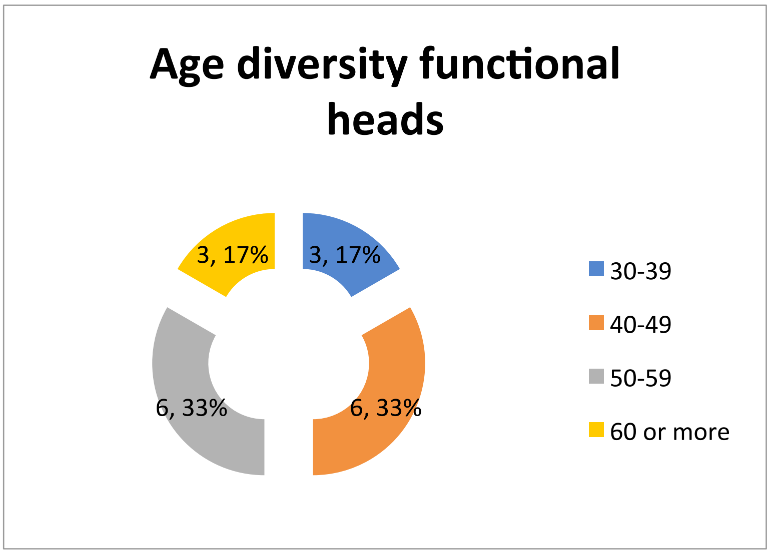


Functional heads

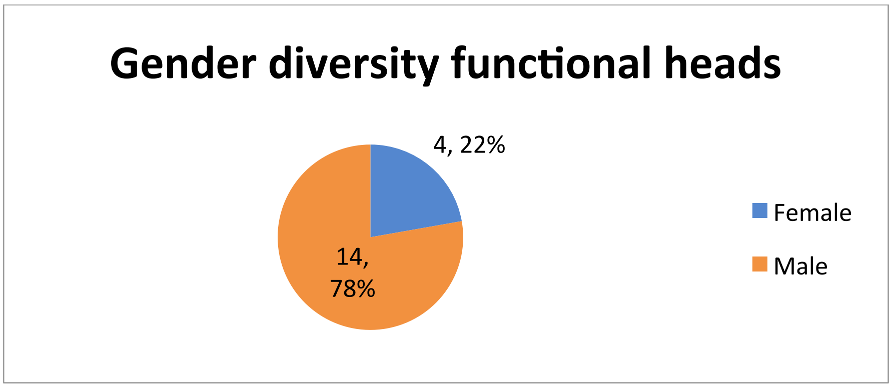
2 Mr Brekeshev resigned as Chief Commercial Officer on 13 January 2017. Arkadi Epifanov has assumed Mr Brekeshev's responsibilities on a temporary basis until a suitable successor is appointed.

The Group's new organisational structure includes 18 functional heads, taking account of each of the distinct functions within the Group's business and reporting into the Senior Management Team.

	Number	%
Age diversity Functional Heads 2016		
30-39	3	16.67%
40-49	6	33.33%
50-59	6	33.33%
60 or more	3	16.67%
	18	100%

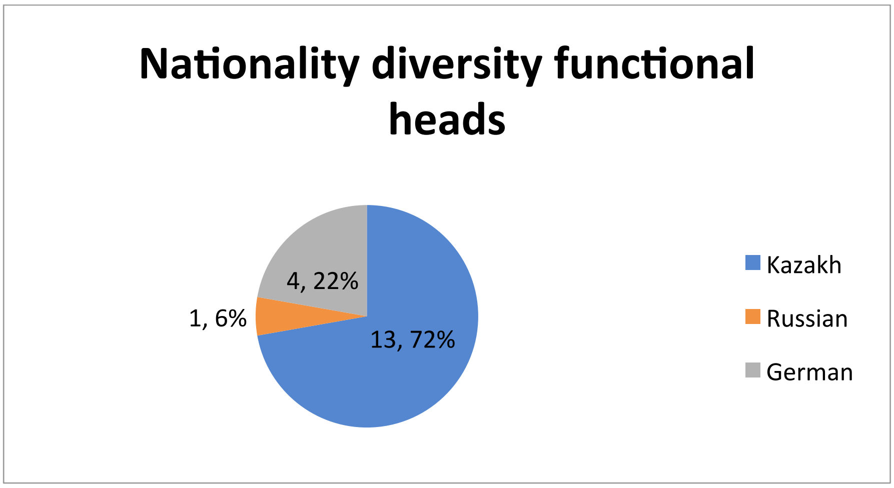


	Number	%
Gender diversity Functional Heads 2016		
Male	14	77.8%
Female	4	22.2%
	18	100%



	Number	%

Nationality diversity Functional Heads 2016		
Kazakh	13	72.22%
German	4	22.22%
Russian	1	5.56%
	18	100%



Diversity
Zhaikmunai is committed to promoting diversity in its workforce at all levels. It is our belief that diversity in age, nationality and gender is key to Zhaikmunai's success and sustainability. We are encouraged by the gender diversity in the newly created team of divisional heads and hope that this will support ambitions for greater gender diversity within the senior management team which, following a restructuring earlier this year, is now all male.

Remuneration and growth rate in salary
Zhaikmunai offers competitive remuneration packages to its employees and operates in full compliance with all regulatory bodies, guidelines and requirements.

	2012	**2013**	**2014**	**2015**	**2016**
Average number of full-time equivalent employees in Kazakhstan	838	907	961	1021	938
Change in average monthly salary of employees in Kazakhstan %	28%	6%	21%	12%	26%

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

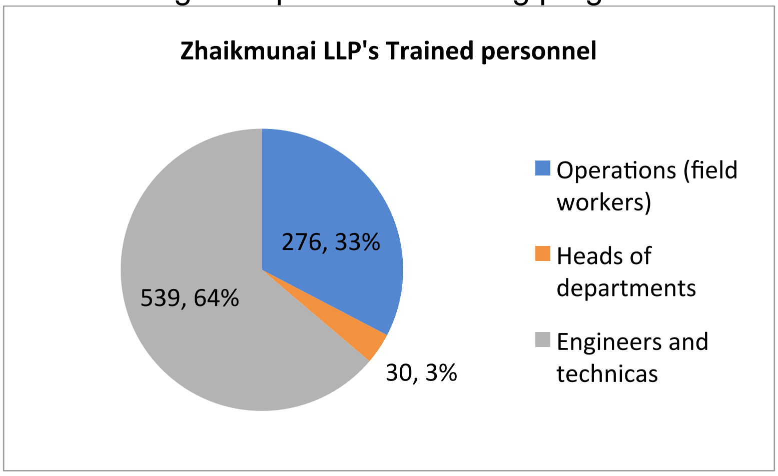
KPIs

- Total training cost in 2016: US$ 2.2m
- Total number of training days in 2016: 17,488 days
- Number of employees benefitting from education and training programmes in 2016: 845 individuals

Case Study - scholarships

Zhaikmunai provides educational grants and financial support to assist employees and their children to attend university and college. Higher educational assistance is available on a preferential basis to students who have received academic awards and those who have successfully passed their admission exams to educational institutions. Zhaikmunai can also award educational fellowships on a discretionary basis.

The following local personnel training programme has been achieved in 2016.



Employee relations and social guarantees

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

We offer effective social guarantees in the following areas:

- Social security
- Pension fund
- Medical assistance and care
- Insurance plans

Code of Conduct and Human Rights

The Group is committed to maintaining a Group-wide culture that recognises international standards of human rights. Meeting our responsibility to respect human rights is critical to the growth and sustainability of the Group.

The Group Code of Conduct sets out certain principles that guide business conduct and provide a non- exhaustive outline of what the Group considers permissible conduct by its employees. These principles include provisions relating to human rights and diversity in the workplace. Violations of this Code of Conduct may result in disciplinary action, including dismissal from employment, or criminal prosecution.

A copy of our Code of Conduct is available on the Group's intranet in both Russian and English and can be downloaded from our website: www.nog.co.uk

Modern Slavery Act
Following the coming into force of the UK Modern Slavery Act 2015, the Group conducted a review of the terms of our operational supply contracts entered into Zhaikmunai LLP and updated them to include a provision requiring all suppliers to comply with the Code, incorporating provisions relating to the Act. All such suppliers are provided with a copy of the Code when entering into any supply agreement with the Group. The updated terms of supply also oblige a supplier to the Group to ensure that any associated person who is performing services or providing goods in connection with their contract with the Group does so on the basis of a written contract which imposes on and secures from such person terms equivalent to those imposed in the Group's standard supply contracts. The aim of this provision is to mitigate risks of slavery and human trafficking occurring further down the supply chain.

Additionally, the updated terms of supply also oblige suppliers to annually certify in writing their compliance with the Code and to provide any supporting evidence of compliance that the Group may request.

Whistle-Blowing
We have a whistle-blowing policy which takes into account the Whistle-blowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work and which applies to all individuals working for the Group at all levels and grades, whether they are senior managers, directors, employees, consultants or contractors. The whistle-blowing policy sets out details of three compliance liaison officers that speak a variety of languages for the purposes of reporting any concerns. The whistle-blowing policy is also mentioned in the Code and a person who reports any matter in good faith will be protected against any sanctions. A copy of the whistle-blowing policy is available on the Group's intranet in the both Russian and English and on the Group's website: www.nostrumoilandgas.com/en/corporate-governance.

At the time of writing we have received no reports under our whistle-blowing policy of forced/involuntary labour or human trafficking in relation to our business or supply chains.

Introduction to health & safety
QHSE at Zhaikmunai 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. QHSE management is a priority to Zhaikmunai as it is key to the sustainability and success of our business and therefore we constantly seek to develop programmes to improve our QHSE standards. The new health and safety measures given below reflect our efforts to improve QHSE reporting standards.

Health and safety	2012	2013	2014	2015	2016

Number of man-hours without loss of working hours in 2016 (millions)	1.66	1.83	1.89	1.91	1.71

Heath and safety	**2012**	**2013**	**2014**	**2015**	**2016**
Total Recordable Injury Frequency	N/A	N/A	3.09	4.0	2.59

Zhaikmunai's road safety programme
In 2015 a significant proportion of HSE incidents were classified as road traffic incidents. A programme was therefore developed and put in place in 2016 in order to minimise future road traffic incidents at Zhaikmunai.

Dedicated awareness sessions were conducted with the major transport services contractors to communicate Zhaikmunai's internal road safety rules. Hazardous areas were identified and speed bumps were built to help reduce average speed in these areas. Pedestrian crossings were also marked with better lighting. Inspections were carried out on all heavy equipment and buses of the major transport services contractors and LPG transportation service contractors to ensure compliance with internal QHSE standards.

QHSE Reporting
Zhaikmunai has developed a simple system for employees to report hazards and unsafe behaviour to management. Reporting forms are available to all employees, in Kazakh, Russian and English, and also encourage feedback on how Zhaikmunai should continue to improve its QHSE practices. This is being launched in 2017 and will allow for data to be collected centrally and for follow-up action to be coordinated more efficiently.

2017 targets and campaigns
We constantly aim to minimise accidents and injuries as a result of Zhaikmunai's operations and in 2017 will target lost time injury frequency of less than 0.18 and total recordable injuries of less than 2.00. We will also be developing a QHSE leadership programme, allowing senior executives to demonstrate their leadership, support and commitment to QHSE aspects. We aim to hold 20 QHSE leadership tours in 2017. These are inspections of the facilities made by groups of senior management, demonstrating their commitment to QHSE standards and aiming to establish a two-way communication between management and the workforce. In addition, we will seek to review contractor QHSE processes and procedures, with specific focus to be given to contract control, competence and performance monitoring. We aim to hold ten QHSE Contractors Audits over the course of the year.

Our Community

Approach to our community
At Zhaikmunai we place great importance on building an integrated and secure community for our workforce. Our employee camp at the field site provides more than 460 beds and modern facilities, as well as a canteen, recreational areas and a health clinic. This ensures comfortable indoor living conditions throughout the year for our field site employees. In addition, our new corporate offices in Uralsk were finished last year and offer both modern and secure facilities for staff.

We also support the communities around us through financing social infrastructure projects under the terms of our PSA agreement and subsoil use contracts for the Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye fields. Such projects include improvement of infrastructure, repair of school facilities and charitable donations. Other initiatives carried out over the year include a children's matinee for families of our employees, giving gift sets out on International Women's Day and funding of local charities.

Liquidation fund contribution

Under the terms of the PSA and the subsoil use agreements for Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye, Zhaikmunai is building up a liquidation fund of US$12 million to provide funds for the removal of oil and property at the end of the PSA. US$5.98m is held on restricted cash accounts as a liquidation fund deposit (2015: US$5.38m).

Payment to governments

Zhaikmunai is committed to transparency in its business activities and payments to governments. In 2015 a total of US$66,454,012 was paid to governments by Zhaikmunai and its subsidiary undertakings. We will report on 2016 payments to governments in the first half 2017. For more detail please see our website: www.nostrumoilandgas.com/en/transparency

Case study - social investment

Zhaikmunai supports local universities through the provision of internships to students, including those from the West Kazakhstan Agrarian Technical University. Practical training placements are open to all students who study a technical programme or subject and nearly 50 students were placed during 2016.

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 are structured in accordance with Kazakh regulations:

- Air pollution controls;
- 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.

Zhaikmunai 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 rectifying violations of national environmental laws, including the internal response to any violations;
- Monitoring quality assurance procedures;
- Emergency action 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 (2016)" submitted by AMEC, our independent environmental auditor, is a comprehensive document detailing the content, methodology and results of the environmental efforts at Zhaikmunai. It shows that all environmental monitoring programme activities were carried out according to the established scope and ensures reliable control of process requirements.

AMEC's main conclusions based on the 2016 audit were as follows:

- Production activities of Zhaikmunai generally comply with high standards of environmental, industrial and occupational safety;
- During 2016 the conversion to full self-sufficiency in electric energy supply has been continued with a new electric generation unit being put in operation. This greatly improves the economic, environmental and safety performance of Zhaikmunai in accordance with sustainability principles;

- Recommendations of the previous Assessment by Amec have been largely fulfilled, including improvement of the environmental, health and safety management system;

Industrial waste management and contaminated soil reclamation
Zhaikmunai complies with all current RoK legislation with regard to industrial waste management and contaminated soil reclamation.

Water management
As part of Zhaikmunai's environmental control programme accurate monitoring of air, soil surface and sub-surface waters is conducted on a regular basis. Zhaikmunai is fully committed to continuing this work in order to ensure compliance with the sanitary and epidemiological, as well as specific environmental protection requirements of the Republic of Kazakhstan and to prevent environmental incidents.

Measures to prevent soil and surface water contamination include hard pavement at production sites and drainage of runoffs from sites to production and storm water receivers.

Our greenhouse gas (GHG) reporting

Since 2011 Zhaikmunai has been monitoring and reporting on its GHG emissions in accordance with RoK regulatory requirements. From 2013 UK company law requirements regarding GHG reporting have also been followed.
GHG data is reported from all emission sources, as required under the Companies Act 2006 (Strategic Report and Directors' Report) – Regulations 2013. Zhaikmunai's GHG reporting period is aligned with the period in respect of which the Directors' Report is prepared. 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 2016 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 (mtCO2e)	2016	2015	2014	2013	2012
Carbon dioxide	195,453.3	208,466.2	236,556.0	188,604.0	256,050.4
Methane	10,817.0	13,919.8	27,424.8	28,693.6	805.2
Nitrous oxide	1,045.7	126.2	124.3	165.7	283.1
Hydrofluorocarbons	33.6	34.0	16.1	16.1	16.1
Total	207,349.6	222,546.2	264,121.2	217,479.4	257,154.8

GHG emission structure is shown in Table 1. The composition of the GHG emissions predominantly consisted of carbon dioxide and methane.

Table 2: Scope 1 GHG emissions subdivided by source types (mtCO2e)	2016	2015	2014	2013	2012
Stationary combustion	195,576.1	205,701.9	260,124.4	212,612.3	252,138.9
Mobile combustion	757.9	1,498.2	2,135.2	2,876.3	2,312.1
Fugitive sources	11,015.6	15,346.1	1,861.6	1,990.8	2,703.8
Total	207,349.6	222,546.2	264,121.2	217,479.4	257,154.8

Stationary combustion sources formed the major portion of emitted GHG's. The reduction in emissions from mobile combustion is related to the fact that the majority of vehicles were transferred to a transport services company.

Indirect GHG emissions (Scope 2)

Zhaikmunai does not use purchased steam, heating or cooling. Electrical power is the only such purchased power related to indirect GHG emissions, and it is supplied to Zhaikmunai 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 2 GHG Emissions from Purchased Electricity

Scope 2	2012	2013	2014	2015	2016
Purchased Electricity (MWh)	15116.8	14983.5	19488.2	20240.4	8354.6
Indirect Emissions (tCO_2e)	4094.5	4058.4	5278.6	5482.3	2262.9

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, stabilized 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 (Scope1 and Scope 2) emissions in the period 2010-2016. The intensity ratio was at its highest in 2011 and considerably decreased in 2012 when the GTF became operational.

Table 4: Emissions Intensity Ratios for Total GHG Emissions

Production - Intensity Ratio	2012	2013	2014	2015	2016
Production, toe	1973965	2460830	2369823	2152423	2156171
tCO_2e/toe	0.13	0.090	0.114	0.106	0.097
Production, mmboe	13.52	16.86	16.23	14.74	14.77
tCO_2e/mmboe	19323.17	13139.85	16598.88	15467.30	14,193.41

As per National Plans for GHG Quotas Distribution for 2016 – 2020 (pursuant to RoK Government Resolution No. 1138 dated 30 December 2015) the established base year level is equal to 212580 tonnes CO_2 (2013-2014 average of reported emissions). The total quota for 2016-2020 is 1,062,900 tonnes CO_2. It should be noted that due to changes in the Environmental Code of the RoK related to suspension of positions related to quotas utilisation the excessive quotas for GHG emissions cannot be utilised until 1 January 2018. Reportedly, the Ministry of Energy of the RoK is, in cooperation with the World Bank, developing an electronic GHG reporting platform. The electronic reporting will be used in the deployment of a national GHG quota trading system in the future.

Developing a GHG reduction capacity.

According to its GHG emissions reduction strategy, Zhaikmunai evaluates the potential for GHG emissions yearly to plan for the subsequent introduction of energy and resource saving measures. To meet these ambitious targets, we have developed the commitments of our managers and contractors to provide effective assistance in improving energy efficiency and reducing GHG emissions.

Risk Management

The Group continuously develops its risk management system in order to ensure it remains in line with best practice in achieving the primary purpose of managing, monitoring and reporting on the risks that may impact achievement of the Group's strategic objectives, whilst maintaining compliance with respective regulatory requirements.

Risk management framework

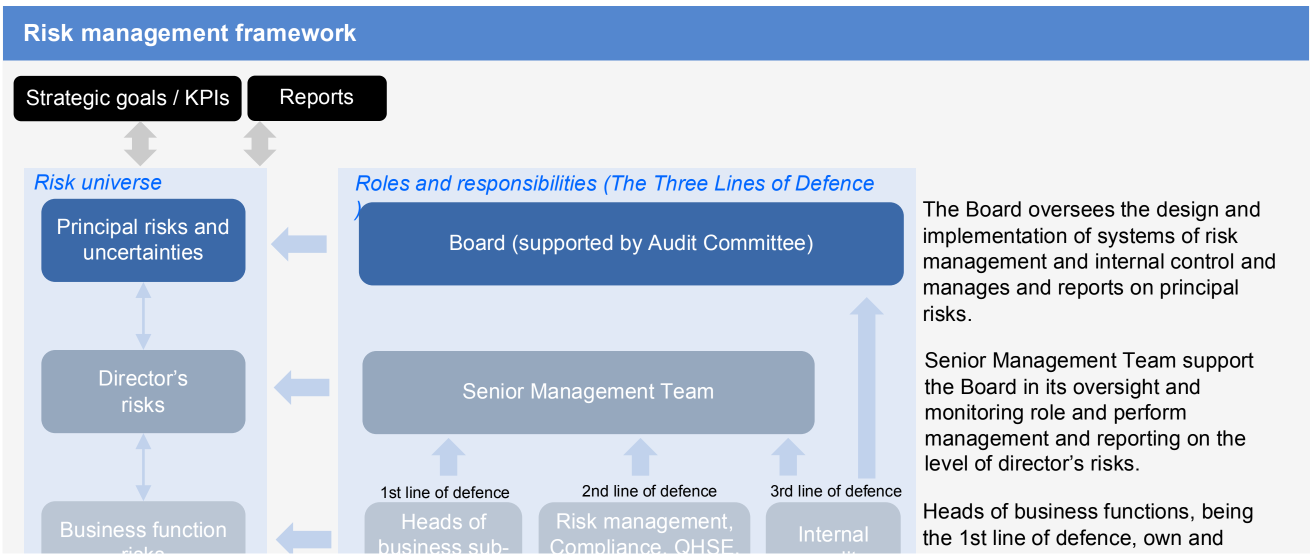
Under the UK Corporate Governance Code, the Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain a sound system of risk management and internal control systems.

Therefore, the Board, supported by the Audit Committee and senior management, has the ultimate responsibility for risk management and internal control, including responsibility for the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives and for ensuring that an appropriate risk-awareness culture has been embedded throughout the Group.

The Group is in the process of formalising risk management roles and duties according to “The Three Lines of Defence” model as further described in the diagram below, whereby the Board and senior management are the primary stakeholders served by the three lines of defence as follows: 1) heads of business functions; 2) risk control and compliance oversight functions; and 3) the internal audit function.

The risk management process goes through a set of coordinated activities starting with risk identification and ending with a review of the risk management framework as shown in the diagram opposite.

The principal risks and uncertainties, which are managed and monitored at Board level, are supported by the directors’ risks, which are identified, managed and reported by senior management. Risks are inherent in the various business functions within the Group and have therefore been categorised as business function risks. The members of the Senior Management Team have overall responsibility for managing the business function risk(s) relevant to their functional responsibility but delegate such responsibilities to various heads of business sub-functions. The identified risks are then aggregated and categorised into the following risk categories: strategic, operational, financial, compliance and other.



Based on these risk registers, related analysis and discussions senior management and the Board 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. These significant risks are discussed in more detail in and below the table headed “Changes in principal risks and uncertainties from prior year”.

In 2016, the processes related to risk management and internal control systems were consistent with the UK Corporate Governance Code and FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014.

Environmental, social and governance (ESG) matters

ESG matters form an integral part of the areas covered by the Group’s systems of risk management and internal controls, and the Board recognises their significance and importance which are assessed consistently in accordance with regulatory requirements and established rules. Identified ESG risks and related responses can be seen within operational and other risks in and below the table headed “Changes in principal risks and uncertainties from prior year”.

The Board received appropriate information for managing such risks and ensures that systems of risk management and internal controls are in place to effectively manage and monitor them. More elaborate disclosure on the established policies and procedures in these areas can be found in the corporate social responsibility section on pages 28 -41.

Changes from prior year risk assessment

In 2016, the principal risks and uncertainties managed and monitored by the Board and senior management remained the same as in 2015 and the related risk assessments did not change significantly. However, certain principal risks and uncertainties were reclassified and renamed to allow for better presentation and disclosure. A summary of these changes is shown in the diagram below:

Changes in principal risks and uncertainties from prior year

	2015		2016	Explanations for changes
Strategic	Commodity price risk	Strategic	Business and market environment	This principal risk area was renamed to cover, in addition to commodity price volatility, the broader range of risks and external factors related to the business environment in which the Group operates.
Strategic	Development projects	Strategic	Strategic development initiatives	Due to their close nature "Development projects" and "Single revenue source" risks were combined into one principal risk area related to "Strategic initiatives". See more details in the respective principal risk description.
Operational	Single revenue source and business interruption			As mentioned above, this principal risk area was merged with "Development projects" and renamed "Strategic development initiatives".
Operational	Estimation of oil and gas reserves	Operational	Oil and gas reserves and operations	This principal risk area was renamed taking into account that it covers not only estimation risks but also risks related to oil and gas exploration, development and production.
Compliance	Environmental compliance	Operational	Health, safety and environment	This principal risk area was renamed to cover a broader area of risks including those related to health and safety. In addition, it was reclassified to an operational area, considering the fact that these risks are inherent to the Group's operations.
Compliance	Subsoil use agreements	Compliance	Subsoil use agreements	The description of the risk was updated to reflect a wider range of risks related to subsoil use agreements and their impact.
Compliance	Non-compliance with anti-bribery legislation	Compliance	Compliance with laws and regulations	This principal risk area was renamed to cover not only anti-bribery risks but also various other legal and compliance risks related to the legislative frameworks in which the Group operates.
Financial	Tax law uncertainty	Financial	Tax risks and uncertainties	This principal risk area was renamed to cover a wider range of risks related to tax positions including risks related to tax calculations, reporting, timely payments, etc.
Financial	Going concern and liquidity risk	Financial	Liquidity and financing risks	Since the assumption of the Group's going concern and liquidity are subject to assessment and are respectively affected by various risks and uncertainties, this principal risk area was renamed to give more specific definition of the risks in this
		Other	Other significant risks	This principal risk area was added to cover the directors' risks not specifically allocated to any of the above principal risks and uncertainties.

Description of risk	Risk management
Strategic risks **Business and market environment**	

Description of risk	Risk management
The Group is exposed to various risks related to the market and external business environment which are out of the Group's control. Such risks include the volatility of commodity prices on the markets, the geopolitical situation affecting the Group's areas of operations as well as risks related to foreign currency exchange rates. Given that the Group's sales prices of crude oil and condensate are based on market prices, the Group's future earnings are exposed to adverse impact by changes in the market price of crude oil. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. The Group 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 the Group could otherwise achieve. The Group's strategy and business model are not directly influenced by any significant risk resulting from Brexit. However, related future changes in the business environment, regulations and political situation will be closely monitored to assess any potential impact on the Group's operations. **Strategic development initiatives**	In order to mitigate the oil price risk, the Group has a hedge of 15,000 boepd with a strike price of US$49.16 per barrel which has 24-month tenor, maturing in December 2017 and with cash settlement on a quarterly basis. The primary purpose of the hedge is to secure funding for the construction of GTU3. In addition, in 2015 the Group started exporting the majority of its dry gas under a new contract and therefore benefits from export prices which are usually substantially higher than domestic prices. To mitigate the geopolitical and customer risks, the Group has been strengthening customer relationships through establishing long-term off-take agreements while also looking at possibilities to geographically diversify its customer portfolio. Also, senior management constantly monitors the Group's exposure to foreign currency exchange rate changes and plans for necessary measures.

The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue, which puts the Group at a significant risk of not meeting shareholder expectations in the event of natural disaster, facilities damage from accidents, crisis and other political influences. Diversification of its activity areas is considered by the Group as a way of minimising this risk while also providing the Group with an opportunity to gain from expanding the use of available capacities, technological resources and human capital.

The Group's strategic initiatives towards diversification of its activity areas including M&A activities and further development projects such as the GTU3 construction project and the well drilling programme are subject to customary risks related to delay, non-completion and cost overruns which could impact future production and the Group's performance.

In addition, the Group's strategic initiatives, as well as certain other ordinary activities, are subject to the risk that terms of the transactions with related parties may deviate from market terms, as well as associated risks related to the disclosure of such transactions.

The Group has a team of dedicated specialists who assess possible acquisitions of oil and gas fields and assets. In 2013, the Group acquired subsoil use rights for three oil and gas fields near the Chinarevskoye field. In addition, Nostrum's approach made during 2015 to the board of Tethys Petroleum Ltd regarding a possible offer to acquire that company represents an example of the Group's further efforts towards diversification of the Group's portfolio of assets. This offer was subsequently withdrawn by Nostrum.

For the purpose of GTU3 construction, the Group has formed a dedicated, experienced project management team and engaged JSC "OGCC KazStroyService" for construction services and expects to benefit from their technical expertise and significant experience gained during the construction of GTU1 and GTU2. The project management team periodically reports to senior management and the Board on the progress of engineering, procurement and construction. The Group has concluded the majority of the procurement process in relation to GTU3 and monitors logistics, engineering, expedition of materials and equipment on an ongoing basis.

Senior management and the Board 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. A detailed drilling programme is approved by senior management for each well which forms the basis against which the progress of works and costs are reported.

Nostrum has entered into certain relationship agreements to ensure that its transactions and relationships with certain shareholders are on arm's length and on normal commercial terms. In addition, the Group has established policies and procedures for the timely identification of related parties to ensure that all required pre-approvals are obtained before any contracts are entered into with a related party.

Operational risks	
Oil and gas reserves and operations Oil and gas reserves estimation, exploration, development and production are accompanied by typical risks inherent to activities in this industry, which may adversely affect the Group's financial performance and achievement of strategic objectives. Estimation of oil and gas reserves requires exercise of judgement due to the inherent uncertainty in any oil and gas field. There are also uncertainties and risks related to a field's geological structure and choice of development methods to maximise the reservoir performance. Hence, there are a number of risks which may lead to a deviation of production volumes from estimated and projected volumes. Well drilling and workover activities as well as construction, operation and maintenance of surface facilities are also subject to various risks including the availability of adequate services, technologies, expertise, etc., which may adversely affect the fulfilment of the Group's strategic objectives.	The Group has a department of highly skilled geologists who perform periodic assessments of the oil and gas reserves in accordance with international standards on reserve estimations and prepare production forecasting using advanced exploration risk and resource assessment systems. The results of the assessments are reviewed by the Group's independent reserve consultant, Ryder Scott. For well drilling and workover activities the Group engages highly skilled personnel, leading service suppliers in the local market as well as operations and cost monitoring systems, based on which the management oversees the work progress. Maintenance of the wells and surface facilities is scheduled in advance in accordance with technical requirements and all necessary preparations are performed in a timely manner and within budget ensuring high quality. In addition, the Group has emergency response and disaster recovery plans in place and periodically conducts necessary training and testing procedures.

Health, safety and environment

Linking corporate social responsibility (CSR) to growth is one of the strategic priorities of the Group. Relevant health, safety and environmental risks are also considered to be one of the key areas of focus in terms of risk management. The Group faces typical health, safety and environmental risks in the oil and gas industry, including risks related to gas flaring, waste management, environmental pollution, fires and explosions at facilities, and transportation accidents.

These risks may have a broad range of results including, but not limited to, injury of employees or local residents, pollution of the local environment and respective regulatory actions, legal liabilities, business interruption and any consequential impact on financial performance. It should also be noted that 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 the Group will not be in full compliance with all such regulations at all times.

The Group has a QHSE department of highly skilled and competent specialists. The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Periodic training on the requirements of policies and regulations are held for employees. In addition, at the supplier selection and contracting stage the Group places a high degree of importance on a supplier's resources and ability to comply with the Group's QHSE requirements and, subsequently, the Group's dedicated team in this area conducts supplier audits. Key indicators such as GHG emissions, lost time injuries, waste management, water and soil pollution rates, etc., as well as progress of work are reported to senior management on a monthly basis.

The Group is working towards full compliance with ISO 14001 Environmental Management Systems and ISO 50001 Energy Management Systems. The Group also regularly engages an independent auditor to conduct HSE audits to monitor its compliance and best practice in this area, and takes all necessary measures on the basis of the audit recommendations.

Compliance risks

Subsoil use agreements

As the Group performs exploration, development and production activities in accordance with related licences for the oil and gas fields, there are related risks that the Group might not be able to obtain extensions when necessary, risks of non-compliance with the licence requirements due to ambiguities, risks of alteration of the licence terms by the authorities and others. These risks may result in the Group's inability to fulfil scheduled activities; fines, penalties, suspension or termination of licences by authorities; and, respectively, significant and adverse impact on the Group's business, financial performance and prospects.

The Group has procedures and processes in place for the timely application for extension of licence periods when it is considered appropriate, however, uncertainty remains in relation to timing and results of decisions of authorities. The exploration period for the Rostoshinskoye field expires in early 2017, while for the Darjinskoye and Yuzhno-Gremyachinskoye fields it expires at the end of 2017. At present, these periods are considered acceptable, taking into account that active exploration works have been performed in the Rostoshinskoye field. However, applications for further extension are in process. The Group 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 terms modified and pays any penalties and fines that may apply.

Compliance with laws and regulations

The Group carries out its activities in a number of jurisdictions and therefore must comply with a range of laws and regulations, which exposes the Group to the respective risks of non-compliance. In addition, the Group must comply with the Listing Rules, the Disclosure Guidance and Transparency Rules, FRC guidance and requirements, as well as KASE and bond indenture requirements, in light of its publicly traded shares and notes. Hence, there are non-compliance risks to which the Group is exposed. The impact of these risks may vary in magnitude and include regulatory actions, fines and penalties by authorities, diversion of management time, and may have an overall adverse effect on the Group's performance and activities towards achieving its strategic objectives.	For the purpose of compliance with laws, regulations and rules the Group has adopted a number of policies including a code of conduct, inside information and disclosure policy, related party transactions policy, code for dealing in scurities, anti-corruption and bribery policy and a whistle-blowing policy, performs periodic updates based on the changes in regulatory requirements, and carries out related communications and training for employees. Necessary communication lines are established with authorities to ensure timely and adequate inbound and outbound flow of information. Management and the Board monitor significant matters related to legal and compliance matters in order to act promptly in response to any actions. The Group continuously monitors its compliance with its policies on the level of authorisations for transactions. In addition, the management maintains an open dialogue with its sponsors in relation to any matter related to non-compliance with Listing Rules and other regulatory requirements.

Financial risks	
Tax risks and uncertainties The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create risks related to additional tax liabilities from assessments or risks related to recoverability of tax assets. Tax risks and uncertainties may adversely affect the Group's profitability, liquidity and planned growth.	The Group has policies and procedures related to various tax assessments and positions, as well as other control activities to ensure the timely assessment and filing of tax returns, payment of tax obligations and recovery of tax assets. The Group 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.
Liquidity and financing risks	

Forecasting and maintaining an adequate liquidity position is subject to the risk that inaccurate information or assumptions are used for the forecasts, risks of counterparty delay or failure to meet their contractual obligations due to severe market conditions, etc. The Group's ability to access and source debt or equity capital is also exposed to volatility and uncertainties in global financial markets, which may adversely impact the Group's ability to meet its commitments associated with its financial liabilities, increase the cost of financing and affect the plans towards realisation of its strategic initiatives.	Management and the Board constantly monitor the Group’s liquidity position, forecasts and key financial ratios to ensure that sufficient funds are available to meet any commitments as they arise. In addition, the treasury policy provides that the Group should maintain a minimum level of cash of US$50 million. The Group performs financial reviews, establishes credit limits and engages with reliable financial counterparties. In addition, the Group has processes in place to monitor overdue receivables and take timely measures when necessary. The Group's corporate finance function continuously monitors debt and equity markets and maintains an open dialogue with investors to be able to react quickly to any need for financing.

Other risks	

Other significant risks

Other risks are those which are not specifically identified within any of the principal risks and uncertainties, but may be related to several such areas or be organisation-wide. These include risks related to fraudulent activities, cyber security, the Group's supply chains, accounting and reporting, management systems and the availability of human resources, and may also significantly impact the Group's financial performance, reputation and achievement of its strategic objectives.

The Group has an anti-bribery and corruption policy and provisions relating to the same are included in the Group's Code of Conduct. Related training and updates are periodically provided for employees in relation to their obligations in this area.

In 2016, the Group participated in the Cyber Governance Health Check carried out by the UK authorities. The findings of this exercise as well as other recommendations from external consultants are constantly monitored to ensure the Group continually improves its response to risks related to cyber security.

The Group has a wide range of internal controls over its supply chains and accounting and reporting processes, including policies, procedures, segregation of duties for authorisation of matters, periodic training for employees, etc.

Senior management and the Board stay alert to emerging challenges related to various management systems and related governance matters and when necessary initiate change initiatives to ensure enhancement and integration of certain management systems.

The Board and senior management ensure that risks associated with human resources are adequately addressed through a combination of policies, training, communication and other means of internal controls as described in the corporate social responsibility section on pages 28-41.

The risks listed above do not comprise all those associated with the Group'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 the Group's business. The risks listed above are continuously monitored by the management team and assessed when making business decisions.

Financial Review

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 5-6.

FINANCIAL AND OPERATIONAL REVIEW

Results of operations for the years ended 31 December 2016 and 2015

The table below sets forth the line items of the Partnership's statement of comprehensive income for the years ended 31 December 2016 and 2015 in US Dollars and as a percentage of revenue.

In thousands of US dollars	**2016**	**% of revenue**	2015	**% of revenue**
Revenue	**347,983**	**100.0%**	448,901	**100.0%**
Cost of sales	**(201,785)**	**58.0%**	(187,816)	**41.8%**
Gross profit	**146,198**	**42.0%**	261,085	**58.2%**
General and administrative expenses	**(18,008)**	**5.2%**	(27,982)	**6.2%**
Selling and transportation expenses	**(75,683)**	**21.7%**	(92,970)	**20.7%**
Finance costs	**(49,127)**	**14.1%**	(51,740)	**11.5%**
Foreign exchange gain/(loss), net	**214**	**0.1%**	(20,023)	**4.5%**
(Loss)/gain on derivative financial instrument	**(63,244)**	**18.2%**	37,055	**8.3%**
Interest income	**423**	**0.1%**	341	**0.1%**
Other income	**9,718**	**2.8%**	11,409	**2.5%**
Other expenses	**(1,545)**	**0.4%**	(30,495)	**6.8%**
(Loss)/profit before income tax	**(51,054)**	**14.7%**	86,680	**19.3%**
Income tax expense	**(15,583)**	**4.5%**	(164,102)	**36.6%**
Loss for the year	**(66,637)**	**19.1%**	(77,422)	**17.2%**
Total comprehensive loss for the year	**(66,637)**	**19.1%**	(77,422)	**17.2%**

General note

For the year ended 31 December 2016 (the "reporting period") realised loss decreased by US$ 10.8 million to US$ 66.6 million (2015: US$ 77.4 million), which was mainly driven by decrease in the Partnership's income tax expense.

Revenue

The Partnership's revenue decreased by 22.5% to US$ 348 million for the reporting period (2015: US$ 449 million). This is mainly explained by decrease in the average Brent crude oil price from 53.6 US$/bbl during 2015 to 45.1 US$/bbl during the reporting period.

Revenues from sales to the Partnership's largest three customers amounted to US$ 109.5 million, US$ 92.9 million and US$ 38.1 million respectively (2015: US$ 141.4 million, US$ 105 million and US$86 million).

The Partnership's revenue breakdown by products and sales volumes for the reporting period and FY 2015 is presented below:

In thousands of US Dollars	**2016**	**2015**	**Variance**	**Variance, %**
Oil and gas condensate	**226,357**	297,777	**(71,420)**	(24.0)%
Gas and LPG	**121,626**	151,124	**(29,498)**	(19.5)%
Total	**347,983**	448,901	**(100,918)**	(22.5)%
Sales volumes (boe)	**12,988,199**	14,080,339	**(1,092,140)**	(7.8)%
Average Brent crude oil price (US$/bbl)	45.13	53.6	8.47	(15.8%)

The following table shows the Partnership's revenue breakdown by export/domestic sales for the reporting periods ended 31 December 2016 and 2015:

In thousands of US Dollars	**2016**	**2015**	**Variance**	**Variance, %**
Revenue from export sales	**244,586**	426,764	**(182,178)**	(42.7)%
Revenue from domestic sales	**103,397**	22,137	**81,260**	367.1%
Total	**347,983**	448,901	**(100,918)**	(22.5)%

Cost of sales

In thousands of US Dollars	**2016**	**2015**	**Variance**	**Variance, %**
Depreciation, depletion and amortisation	**130,043**	107,690	**22,353**	20.8%
Repair, maintenance and other services	**21,097**	26,557	**(5,460)**	(20.6%)
Royalties	**11,910**	14,364	**(2,454)**	(17.1%)
Payroll and related taxes	**11,214**	17,160	**(5,946)**	(34.7%)
Other transportation services	**6,843**	3,049	**3,794**	124.4%
Materials and supplies	**4,649**	7,838	**(3,189)**	(40.7%)
Well workover costs	**3,928**	5,182	**(1,254)**	(24.2%)
Government profit share	**2,582**	1,880	**702**	37.3%
Change in stock	**2,047**	(3,613)	**5,660**	156.7%
Environmental levies	**1,071**	1,391	**(320)**	(23.0%)
Management fees	**4,407**	3,519	**888**	25.2%

Other	**1,994**	2,799	**(805)**	(28.8%)
Total	**201,785**	187,816	**13,969**	7.4%

Cost of sales increased by 7.4% and arrived at US$ 201.8 million for the reporting period (2015: US$ 187.8 million). The increase is primarily explained by the increase of the depreciation, depletion and amortization expenses by US$ 22.4 million. The increase of the depreciation, depletion and amortization expenses was partially offset by decrease of the payroll and related taxes expenses and repair and maintenance and other services resulted from the Partnership's optimisation efforts.

On a boe basis, cost of sales increased marginally by US$ 2.2 or 16.47% to US$ 15.5 for the reporting period (2015: US$ 13.3) and cost of sales net of depreciation per boe decreased by US$ 0.17, or 2.9%, to US$ 5.5 (2015: US$ 5.7).

Depreciation, depletion and amortisation increased by 20.8% to US$ 130 million for the reporting period (2015: US$ 107.7 million). The increase is mainly due to higher depletion rate of 11.9% in 2016 relatively to the depletion rate of 10.2% in 2015.

Repair, maintenance and other services decreased by 20.6% to US$ 21.1 million for the reporting period (2015: US$ 26.6 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of the Partnership, engineering and geophysical study expenses.

Royalties, which are calculated on the basis of production and market prices for the different products, decreased by 17.1% to US$ 11.9 million for the reporting period (2015: US$ 14.4 million). This decrease resulted mainly from the decrease in the average Brent crude oil price from 53.6 US$/bbl during 2015 to 45.1 US$/bbl during the reporting period.

Costs for government profit share increased by 37.3% to US$ 2.6 million for the reporting period (2015: US$ 1.9 million). The difference is mainly because in 2015, the Partnership made changes in its estimates including change in the coefficient of natural gas equivalent which resulted in a reversal of the government profit share expense in 2015.

Materials and supplies expenses decreased by 40.7% to US$ 4.6 million for the reporting period (2015: US$ 7.8 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 due to the decreased maintenance budget.

Well workover costs decreased by 24.2% to US$ 3.9 million for the reporting period (2015: US$ 5.2 million). The decrease resulted from the less wells undergone workover in the reporting period comparing to 2015.

General and administrative expenses

In thousands of US Dollars	**2016**	**2015**	**Variance**	**Variance, %**
Payroll and related taxes	**5,765**	8,523	**(2,758)**	(32.4)%
Management fees	**3,511**	3,785	**(274)**	(7.2)%
Training	**2,154**	3,000	**(846)**	(28.2)%
Depreciation and amortisation	**1,917**	1,430	**487**	(34.1)%
Insurance fees	**775**	1,401	**(626)**	(44.7)%
Professional services	**701**	4,531	**(3,830)**	(84.5)%
Sponsorship	**574**	1,314	**(740)**	(56.3)%
Communication	**484**	766	**(282)**	(36.8)%
Business travel	**381**	414	**(33)**	(8.0)%
Materials and supplies	**353**	635	**(282)**	(44.4)%

Social program	**315**	302	**13**	4.3%
Bank charges	**311**	568	**(257)**	(45.2)%
Lease payments	**192**	454	**(262)**	(57.7)%
Other taxes	**68**	267	**(199)**	(74.5)%
Other	**507**	592	**(85)**	(14.4)%
Total	**18,008**	27,982	**(9,974)**	(35.6)%

General and administrative expenses decreased by 35.6% to US$ 18 million for the reporting period (2015: US$ 28 million). This was primarily due to decrease in legal services and payroll and related taxes.

Selling and transportation expenses

In thousands of US Dollars	**2016**	**2015**	**Variance**	**Variance, %**
Loading and storage costs	**33,220**	41,229	**(8,009)**	(19.4)%
Transportation costs	**24,862**	45,071	**(20,209)**	(44.8)%
Payroll and related taxes	**1,234**	1,901	**(667)**	(35.1)%
Management fees	**138**	159	**(21)**	(13.2)%
Other	**16,229**	4,610	**11,619**	252%
Total	**75,683**	92,970	**(17,287)**	(18.6)%

Selling and transportation expenses decreased by 18.6% to US$ 75.7 million for the reporting period (2015: US$ 93 million) being combination of lower sales quantities of liquid products in the reporting period, lower rail and rail tank car (RTC) tariffs, partially offset by the increase in the consulting services.

Finance costs

In thousands of US Dollars	**2016**	**2015**	**Variance**	**Variance, %**
Interest expense on borrowings	**46,864**	50,412	**(3,548)**	(7.0)%
Unwinding of discount on amounts due to Government of Kazakhstan	**885**	902	**(17)**	(1.9)%
Unwinding of discount on social obligations liability	**850**	–	**(850)**	–
Unwinding of discount on abandonment and site restoration provision	**327**	426	**(99)**	(23.2)%
Finance charges under finance leases	**201**	–	**201**	100%
Total	**49,127**	51,740	**(2.62)**	(5.5)%

Finance costs decreased by 5.5% to US$ 49 million for the reporting period (2015: US$ 51.7 million). The interest expenses incurred were lower in 2016 mainly because of the early partial redemption of Loans due to Nostrum Oil & Gas B.V. in 2015.

Other

Foreign exchange losses amounted to US$ 0.2 million for the reporting period (2015: US$ 2 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 257,2 Tenge for 1 US Dollar. As per 31 December 2015 the exchange rate made up 340.6 Tenge for 1 US Dollar. Since the Partnership 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.

The exchange rate decreased to 333.3 Tenge for 1 US Dollar as of 31 December 2016.

Other expenses significantly decreased to US$ 1.6 million (2015: US$ 30.5 million). Other expenses mainly represent export duties paid by the Partnership. 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. In 2016, Kazakhstan introduced floating rates of export duties for crude oil based on the average market price which resulted to the decrease of the export duties from US$ 60 per tonne during 2015 to US 40 per tonne on average during the reporting period.

Other expenses were further decreased by the reversal of the accruals under subsoil use agreements in the amount of US$ 9.8 million resulting from the contracts for exploration and production of hydrocarbons amendments.

Income tax expense decreased by 90.5% to US$15.6 million for the reporting period (FY 2015: US$ 164 million).

In 2015 the high income tax expense was primarily due to an increased deferred tax for the reporting period. This was driven by the Tenge devaluation in August 2015, which led to a significant decrease in the tax base of property, plant and equipment, which is denominated in Tenge.

Liquidity and Capital Resources

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

Cash Flows

The following table sets forth the Partnership's cash flow statement data for the reporting periods and FY 2015:

In thousands of US Dollars	**2016**	**2015**
Cash and cash equivalents at the beginning of the period	**134,928**	361,350
Net cash flows from operating activities	**226,689**	179,103
Net cash used in investing activities	**(204,223)**	(242,766)
Net cash (used in) / from financing activities	**(72,205)**	(161,120)
Effects of exchange rate changes on cash and cash equivalents	**309**	(1,639)
Cash and cash equivalents at the end of the period	**85,498**	134,928

Net cash flows from operating activities

Net cash flow from operating activities was US$ 226.7 million for the reporting period (FY 2015: US$ 179.1 million) and was primarily attributable to:

- Loss before income tax for the reporting period of US$ 51 million (2015: profit of US$ 86.7 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$ 132 million (2015: US$ 109.1 million), finance costs of US$ 49.1 million (2015: US$ 51.7 million) and loss on derivative financial instruments of US$ 63.2 million (2015: gain of US$ 37 million).

- US$ 15.1 million change in working capital (2015: US$ 8.8 million) primarily attributable to an decrease in prepayments and other current assets of US$ 21.4 million (2015: US$ 13 million) partially offset by an decrease in other current liabilities of US$ 11.6 million (2015: US$ 3.6 million).
- income tax paid of US$ 7.1 million (2015: US$ 37.1 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$204.2 million (2015: US$242.8 million) due primarily to costs associated with the drilling of new wells of US$54.6 million for the reporting period (2015: US$58.7 million), costs associated with the third gas treatment unit of US$101.5 million (2015: US$ US$112.4 million), costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields of US$7.4 million (2015: US$7.6 million).

Net cash (used in)/provided by financing activities

Net cash used from financing activities during the reporting period was US$ 72.2 million, net cash provided in financing activities (2015: US$ 161.1 million), primarily due to the finance costs of US$ 71.1 million (2015: US$ 70.8 million.

Commitments

Liquidity risk is the risk that the Partnership 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 the Partnership's financial liabilities as at 31 December 2016 based on contractual undiscounted payments:

As at 31 December 2016	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	17,509	52,256	1,132,627	2,039	**1,204,431**
Trade payables	35,156	–	8,361	–	–	**43,517**
Other current liabilities	14,757	–	–	–	–	**14,757**
Due to Government of Kazakhstan	–	258	773	4,124	9,536	**14,691**
	49,913	**17,767**	**61,390**	**1,136,751**	**11,575**	**1,277,396**

Capital Commitments

During the reporting period, Zhaikmunai's cash used in capital expenditures for purchase of property, plant and equipment (excluding VAT) was approximately US$ 197.2 million (2015: US$ 255.7 million). This reflects drilling costs and infrastructure and development costs for the gas treatment facility. The total capital expenditure represented 57% of revenue for the reporting period.

Drilling

Drilling expenditures amounted to US$ 54.6 million for the reporting period (2015: US$58.7 million).

Gas Treatment Facility

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, Zhaikmunai is constructing a third unit for it. The construction of GTU3 is important for implementing Zhaikmunai'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 2016 Ryder Scott Report and assuming the successful completion of the gas treatment facility in 2017, that Zhaikmunai's annual production will more than double from the 2016 annual production (with an average of 40,351 boepd in

2016) 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$380 million have been spent as of the end of the reporting period.

Corporate Governance Framework and Principles

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

During the year ended 31 December 2016, Nostrum was subject to the provisions of the September 2014 version of the UK Corporate Governance Code (the "**2014 Code**"). Since 1 January 2017, Nostrum has been subject to the provisions of the April 2016 version of the UK Corporate Governance Code (the "**2016 Code**" and together with the 2014 Code, the "**Code**") and will report its compliance with the 2016 Code in its 2017 Annual Report. Both the 2014 Code and 2016 Code are publicly available on the website of the UK Financial Reporting Council (www.frc.co.uk).

Policies

Following the coming into force of MAR in July 2016, Nostrum updated its share dealing code which applies to the directors, senior management and other relevant employees of the Group, and its inside information and disclosure policy which applies to all entities within the Group and all of their employees. The Nostrum also implemented a new market sounding policy to take account of the new market sounding regime implemented by MAR. The market sounding policy applies to any employee that is authorised by the chairman to conduct market soundings on behalf of Nostrum.

In 2016, Nostrum also updated its code of conduct to include provisions regarding slavery and human trafficking for the purposes of the Modern Slavery Act 2015. Further information regarding the steps Nostrum has taken to ensure there is no slavery or human trafficking in its supply chains can be found in our statement on slavery and human trafficking which is available on our website WWW.NOG.CO.UK

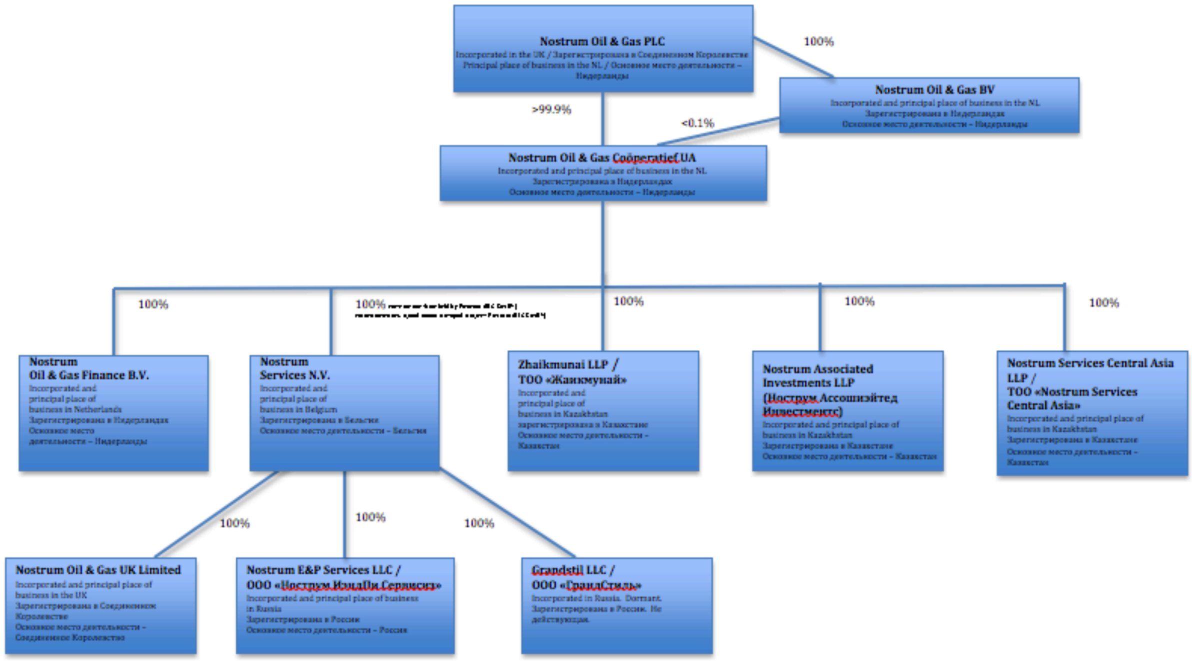
Bribery and corruption are significant risks in the oil and gas industry and as such Nostrum operates a Group-wide anti-corruption and bribery policy, which applies to all Group employees and contractor staff. The policy requires annual bribery and corruption risk assessments; risk-based due diligence 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 Group's code of conduct requires that employees or others working on behalf of the Group do not engage in bribery or corruption in any form.

To assist with compliance with the related party roles contained in Chapter 11 of the Listing Rules, the Group has implemented a related party transaction policy that applies whenever a Group entity is involved in a transaction wth Group directors or substantial shareholders and / or their associates. The policy sets out the procedural steps that must be followed before the Group can enter into a related party transaction. The overall aim of the policy is to prevent such related parties from taking advantage of their position when involved in transactions with the Group.

Major transactions in Zhaikmunai LLP’s authorised capital and changes to Zhaikmunai LLP’s ownership structure in the reporting period

As at 1 January 2016, Zhaikmunai LLP’s participatory interests were held by Nostrum Cooperatief 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.

1. During 2016, Zhaikmunai LLP bought back: (i) 0.036% of Zhaikmunai LLP's participatory interests from Claydon Industrial Limited; and (ii) 0.044% of Zhaikmunai's participatory interests from Nostrum Associated Investments LLP. Zhaikmunai LLP subsequently sold the 0.08% of its participatory interests it had bought back to Nostrum Oil & Gas Coöperatief UA. Accordingly, Nostrum Oil & Gas Coöperatief UA now directly holds 100% of Zhaikmunai LLP.
2. During 2016, Jubilata Investments Limited and Claydon Industrial Limited were dissolved. Prior to dissolution, Jubilata Investments Limited sold Nostrum Associated Investments LLP to Nostrum Oil & Gas Coöperatief UA. Accordingly, Nostrum Oil & Gas Coöperatief UA now directly holds 100% of Nostrum Associated Investments LLP.



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.

Zhomart Darkeyev
• General Director, Zhaikmunai LLP
• Date of Birth: 01.01.1966
• Nationality: Kazakh
• Positions held (chronological order), spheres of activity:
o Appointed as Administrative Director of Zhaikmunai LLP in 1 March 2008, and as General Director of Zhaikmunai LLP on 14 November 2016.

• Skills and experience:

o Previously worked for Derkl Oil & Gas drilling as assistant driller and Kazakhgas State Holding Company as a leading reservoir engineer. At Zhaikmunai LLP, Mr Darkeyev has held the positions of Assistant General Director, Chief Administrative Manager, Engineer Manager and Deputy General Manager.
o 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.

o Mr Darkeyev holds no shares or other interests in Zhaikmunai LLP or Nostrum Oil & Gas PLC.

Information on executive management remuneration

Mr Darkeyev's total compensation for 2016 was KZT 13 688 009,01 (comprising his basic compensation). No performance related bonuses were paid in 2016.

Returns to holders of our participatory interests

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

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

Our profit distributions to the holders of our participatory interests for the last three years were nil in 2014, USD 45 million in 2015 and nil in 2016.

Auditors Report

Financial Statements

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 informaton about the financial and operational performance of the Group. 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.

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Zhaikmunai LLP

Financial statements

For the year ended 31 December 2016

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Independent auditor's report

To the Participant and management of Zhaikmunai LLP

Opinion

We have audited the financial statements of Zhaikmunai LLP (the Company), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (*IESBA Code*), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

- ***Estimation of oil and gas reserves and its impact on the impairment testing, depreciation, depletion and amortisation (DD&A) and decommissioning provision***

We considered this matter to be one of the most significant to our audit due to the fact that reserves estimates are subjective in nature and have a pervasive impact on the financial statements through impairment testing, DD&A calculations and decommissioning provision estimate.

The estimation of oil and gas reserves is a significant area of judgement due to the technical uncertainty in assessing reserves quantities. Reserves and resources are also a fundamental indicator of the future potential of the Company's performance.

Management engaged an external specialist to assist in the estimation of reserves volumes. We performed evaluation of management's assumptions including commercial assumptions, in particular we:

- obtained understanding of the Company's internal process and key controls associated with the oil and gas reserves estimation process.
- held discussions with external specialists, engaged by the Company, during the planning and execution of the audit and assessed their competence and objectivity by inquiring of their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists. We checked the accuracy of the data transfer to the external specialist.
- analysed management's commercial assumptions by comparing them to the publicly available benchmarks as well as actual and prior year data. We compared management's internal assumptions to the latest plans and budgets; we have also assessed management's capabilities to meet such plans by comparing prior periods' planned and actual results.
- validated that the updated reserves estimates were included appropriately in the Company's calculations in respect of impairment, DD&A and decommissioning provision.

Note 4 and Note 6 to the financial statements describe the details of reserves estimates used to determine DD&A and decommissioning provision.

- ***Impairment of exploration licenses, oil & gas development and production fixed assets***

This matter was one of the most significance to our audit due to the significance of the carrying value of the assets being assessed, the current economic environment and the judgement involved in the assessment of the recoverable amount of the Company's Cash Generating Unit ('CGU'), in particular, in respect of future prices of oil, natural gas and related products, both in the short and long-term, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes.

For exploration licenses we have evaluated management's assessment of each impairment trigger. We have:

- evaluated the Company's rights to explore under the relevant exploration area by obtaining and analyzing supporting documentation such as license agreements and signed supplemental agreements and communication with relevant government agencies.
- inquired management about the intention to carry out exploration and evaluation activity in the relevant exploration area and corroborated these responses by comparing them with the assumptions used in management's cash-flow forecast models.
- assessed the Company's ability to finance any planned future exploration and evaluation activity.
- assessed the competency of management's experts.
- compared the commercial viability of the exploration fields to the cash-flow forecast models.

For oil & gas development and production fixed assets we involved our valuation specialists and analysed management's impairment assessment by evaluating the key assumptions. We have:

- obtained understanding of the controls designed by the Company relating to the assessment of the carrying value of oil & gas development and production fixed assets.
- tested the integrity of models with the assistance of our own specialists.
- tested price and discount rate assumptions by comparing forecast oil price assumptions to the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the Company.
- tested forecast cash flows by comparing the assumptions used within the impairment models to the approved budgets, business plans and other evidence of future intentions. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance.
- compared the inflation and exchange rate assumptions to external market data.
- evaluated sensitivity analysis of oil & gas development and production fixed assets impairment testing in order to assess the potential impact of a range of reasonably possible outcomes.
- evaluated the financial statement disclosures against the requirements of IFRSs.

Note 4 to the financial statements describes the significant accounting policies and Notes 5 and 6 describe the details of oil & gas development and production fixed assets.

Other information included in the Company's 2016 Annual report

Other information consists of the information included in the Company's 2016 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

Ernst & Young LLP

Paul Cohn
Audit Partner

Aigerim Nurkenova Auditor	Gulmira Turmagambetova General Director Ernst & Young LLP
Auditor Qualification Certificate No. 0000115 dated 21 September 2012	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

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27 March 2017

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

In thousands of US Dollars	Notes	31 December 2016	31 December 2015
Assets			
Non-current assets			
Exploration and evaluation assets	5	**44,271**	36,917
Property, plant and equipment, net	6	**1,809,431**	1,605,821
Restricted cash	11	**5,980**	5,375
Advances for non-current assets	7	**28,676**	130,660
Derivative financial instruments	25	**–**	43,005
		1,888,358	1,821,778
Current assets			
Inventories	8	**28,326**	28,953
Trade receivables	10	**29,052**	31,337
Prepayments and other current assets	9	**19,668**	25,519
Derivative financial instruments	25	**6,658**	54,095
Income tax prepayment		**1,062**	26,926
Cash and cash equivalents	11	**85,498**	134,928
		170,264	301,758
Total assets		**2,058,622**	2,123,536
Equity and liabilities			
Partnership capital and reserves			
Partnership capital	12	**4,112**	4,112
Other reserves		**32,586**	32,440
Retained earnings		**556,126**	622,763
		592,824	659,315
Non-current liabilities			
Long-term borrowings	13	**1,003,893**	996,666
Abandonment and site restoration provision	14	**19,635**	15,928
Due to Government of Kazakhstan	15	**5,631**	5,777
Deferred tax liability	24	**344,684**	347,767
		1,373,843	1,366,138
Current liabilities			
Current portion of long-term borrowings	13	**15,518**	15,361
Trade payables	16	**43,517**	40,678
Advances received		**1,810**	245
Current portion of due to Government of Kazakhstan	15	**1,289**	1,031
Other current liabilities	17	**29,821**	40,768
		91,955	98,083
Total equity and liabilities		**2,058,622**	2,123,536

General Director of Zhaikmunai LLP

Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 through 33 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

In thousands of US Dollars	Notes	2016	2015
Revenue			
Revenue from export sales		**244,586**	426,764
Revenue from domestic sales		**103,397**	22,137
	18	**347,983**	448,901
Cost of sales	19	**(201,785)**	(187,816)
Gross profit		**146,198**	261,085
General and administrative expenses	20	**(18,008)**	(27,982)
Selling and transportation expenses	21	**(75,683)**	(92,970)
Finance costs	22	**(49,127)**	(51,740)
Foreign exchange gain/(loss), net		**214**	(20,023)
(Loss)/gain on derivative financial instrument	25	**(63,244)**	37,055
Interest income		**423**	341
Other income		**9,718**	11,409
Other expenses	23	**(1,545)**	(30,495)
(Loss)/profit before income tax		**(51,054)**	86,680
Current income tax (expense)		**(18,667)**	(21,633)
Deferred income tax benefit/(expense)		**3,084**	(142,469)
Income tax expense	24	**(15,583)**	(164,102)
Loss for the year		**(66,637)**	(77,422)
Other comprehensive income for the year		**–**	–
Total comprehensive loss for the year		**(66,637)**	(77,422)

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

In thousands of US Dollars	Notes	2016	2015
Cash flow from operating activities:			
(Loss)/profit before income tax		**(51,054)**	86,680
Adjustments for:			
Depreciation, depletion and amortisation	19, 20	**131,960**	109,120
Finance costs	22	**49,127**	51,740
Interest income		**(423)**	(341)
Foreign exchange gain on investing and financing activities		**(1,493)**	(3,023)
Loss on disposal of property, plant and equipment		**95**	39
Proceeds from derivative financial instruments	25	**27,198**	92,256
Purchase of derivative financial instruments	25	**–**	(92,000)
Loss/(gain) on derivative financial instruments	25	**63,244**	(37,055)
Operating profit before working capital changes		**218,654**	207,416
Changes in working capital			
Change in inventories		**710**	(3,510)
Change in trade receivables		**2,285**	(1,227)
Change in prepayments and other current assets		**21,419**	13,051
Change in trade payables		**1,546**	7,537
Change in advances received		**1,565**	(2,425)
Change in due to Government of Kazakhstan		**(773)**	(1,031)
Change in other current liabilities		**(11,630)**	(3,562)
Cash generated from operations		**233,776**	216,249
Income tax paid		**(7,087)**	(37,146)
Net cash flows from operating activities		**226,689**	179,103
Cash flow from investing activities			
Interest received		**423**	341
Purchase of property, plant and equipment		**(197,171)**	(255,707)
Sale of property, plant and equipment		**–**	543
Exploration and evaluation works		**(7,475)**	(12,943)
Redemption of bank deposits		**–**	25,000
Net cash used in investing activities		**(204,223)**	(242,766)
Cash flow from financing activities			
Finance costs paid		**(71,077)**	(70,768)
Payment of finance lease liabilities		**(669)**	–
Repayment of borrowings	13	**–**	(45,000)
Transfer to restricted cash		**(605)**	(352)
Profit distributions paid	12	**–**	(45,000)
Consideration paid for repurchased interests	12	**(494)**	–
Consideration received for sold interests	12	**640**	–
Net cash used in financing activities		**(72,205)**	(161,120)
Effects of exchange rate changes on cash and cash equivalents		**309**	(1,639)
Net decrease in cash and cash equivalents		**(49,430)**	(226,422)
Cash and cash equivalents at the beginning of the year	11	**134,928**	361,350
Cash and cash equivalents at the end of the year	11	**85,498**	134,928

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

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STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

In thousands of US Dollars	Notes	Partnership capital	Other reserves	Retained earnings	Total
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	12	–	–	(45,000)	(45,000)
As at 31 December 2015		4,112	32,440	622,763	659,315
Loss for the year		–	–	(66,637)	(66,637)
Total comprehensive loss for the year		–	–	(66,637)	(66,637)
Surplus on the repurchased and reissued interests	12	–	146	–	146
As at 31 December 2016		4,112	32,586	556,126	592,824

General Director of Zhaikmunai LLP

Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 through 33 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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'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 12*. The Partnership does not have an ultimate controlling party.

The registered legal address of the Partnership is: 43/1, Aleksandr Karev street, 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 27 March 2017.

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. Subsequently on 28 December 2016 the thirteenth supplementary agreement to the Contract was signed extending the exploration period for the Bobrishovskiy reservoir to 26 May 2018.

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. Subsequently, the exploration period was extended until 8 February 2017. The Partnership's application for further extension of the exploration period is under approval by the MOE.

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

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

Royalty payments

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 2016 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 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 2016. The Partnership has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of each new standard or amendment which is applicable to the Partnership's financials statements is described below:

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 applied prospectively and do not have any impact on the Partnership given that the Partnership does not use a revenue-based method to depreciate its non-current assets.

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 is applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 is applied retrospectively. These amendments do not have any impact on the Partnership.

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 do not have any impact on the Partnership.

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* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: 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. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Partnership plans to adopt the new standard on the required effective date. During 2016, the Partnership performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Partnership in the future. Overall, the Partnership expects no significant impact of IFRS 9 on its balance sheet.

(a) Classification and measurement

The Partnership does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It will continue measuring at fair value derivative financial instruments.

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Partnership expects that these will continue to be measured at amortised cost under IFRS 9.

(b) Impairment

IFRS 9 requires the Partnership to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Partnership expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Partnership does not expect a significant impact on its equity due to the average short collection period of trade receivables as well as anticipation of low trade impairment losses on trade receivables based on the historical data, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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. Early adoption is permitted. The Partnership plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Partnership performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Partnership is considering the clarification issued by the IASB in April 2016 and will monitor any further developments.

(a) Sale of goods

The Partnership's revenue is driven by sale of crude oil, gas condensate and LPG. The goods are sold on their own in separate identified contracts with customers. Therefore, contracts with customers of the sale of goods is generally expected to be the only performance obligation are not expected to have any impact on the Partnership's profit or loss. The Partnership expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on the delivery of the goods.

(b) Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. Many of the disclosure requirements in IFRS 15 are completely new. In 2016 the Partnership started to develop appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. 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*. A lessee can chose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

In 2017, the Partnership plans to assess the potential effect of IFRS 16 on its financial statements, but in broad terms, the impact will be to recognise a lease liability and a corresponding asset for most of the operating lease commitments disclosed in *Note 27*.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Exploration expenditure

Costs directly associated with exploration wells are capitalised within exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration 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.*

Property, plant and equipment

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises 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.*

NOTES TO THE FINANCIAL STATEMENTS (continued)

Significant accounting judgments, estimates and assumptions: 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 internal estimates confirmed by independent reserve engineers on an annual basis to assess the oil and gas reserves of its oil and gas fields. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under the SPE methodology, the 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, whereby changes in proved reserves is dealt with prospectively by amortizing the remaining carrying value of the asset over the expected future production. Downward revision of the proved reserves estimates in the future could lead to relative increase in depreciation expense. Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Partnership. Details on carrying values of oil and gas properties and related depreciation, depletion and amortization are shown in *Note 6.*

Impairment of property, plant and equipment, exploration and evaluation assets

The Partnership assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the Partnership's business plans, significant decreases in the market commodity prices, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the Partnership makes an estimate of the asset's recoverable amount. Individual assets are grouped into CGU for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information for the determination of value in use. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax rate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Significant accounting judgments, estimates and assumptions: impairment of property, plant and equipment, exploration and evaluation assets

Management has determined a single cash-generating unit within the Partnership's non-current assets consisting of all Partnership's assets related to its Chinarevskoye and exploration fields and gas treatment facility.

Determination as to whether, and by how much, the CGU is impaired involves management's best estimates on highly uncertain matters such as future commodity prices, operating expenses and capital expenditures estimates, discount rate, future production volumes and fiscal regimes.

The recoverable amount is determined by calculation of the value-in-use based on the discounted cash flow model as no recent third party transactions exist on which a reliable market-based fair value can be established. The value-in-use calculation model takes into consideration cashflows, which are expected to arise until 2032, i.e. during the license term of the Chinarevskoye field. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers and respective past history of the Partnership's ability to transfer probable reserves into proved.

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

- Oil prices (in real terms): US$ 55/bbl for 2016-2017 and US$ 60/bbl for 2018-2032;
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;
- Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates and production profiles; and
- Pre-tax discount rate of 14.1% (2015: 14.0%);
- Completion of the third unit for the gas treatment facility in 2017 resulting in gradual increase in the annual production volumes from 40,351 boepd in 2016 to approximately 100,000 boepd by the end of 2019.

These estimates may have a material impact on the value in use and, respective impairment, e.g. low oil prices for an extended period might lead to impairment charges. A 100 basis points increase in the pre-tax rate to 15% would result in no additional impairment charges. None of the reasonably possible changes in other key assumptions causes the cash generating unit's carrying amount to exceed its recoverable amount. More detailed information related to carrying values of oil and gas properties and related depreciation, depletion and amortisation are shown in *Note 6.*

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax bases of income and expense already recorded. The 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 2016 and 2015, please see *Note 24.*

Significant accounting judgments, estimates and assumptions: taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2016.

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

As at 31 December 2016 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. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see *Note 24.*

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.*

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 13*.

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 2016 and 2015, please see *Note 8*.

Provisions and contingencies

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.

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

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.

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 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.*

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 abandonment and site restoration provision are disclosed in *Note 14.*

Significant accounting judgments, estimates and assumptions: provisions and contingencies

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

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

The Partnership holds provision for the future decommissioning of oil and gas properties and site restoration. The estimation of the future dismantlement and site restoration costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimates of future cash outflows timing and discount rate.

Management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights. Therefore, the most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows. Management of the Partnership believes that the long-term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan provides the best estimates of applicable risk uncorrected discount rate. Any changes in the expected future costs are reflected in both the provision and the asset. Moreover, actual decommissioning costs can differ from estimates because of constantly changing decommissioning technologies as well as changes in environmental laws and regulations and public expectations.

The Partnership believes that the impact of any reasonably foreseeable change to these provisions on the Partnership's results of operations, financial position or liquidity will not be material. For more details on abandonment and site restoration provision please refer to *Note 14.*

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 consolidated financial statements.

Financial assets

Initial recognition, measurement and derecognition

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.

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

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.

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.

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, measurement and derecognition

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

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.

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 25*.

Significant accounting judgments, estimates and assumptions: 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.

The fair value of derivative financial instruments is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange. Significant management judgment is required to estimate expected volatility used in the internal valuation model. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Changes in the key assumptions may have a material impact on the fair value gains and losses on derivatives recognised in the future reporting periods.

The detail information on the derivative financial instruments and their fair value sensitivity to changes in volatilities and oil price assumptions is provided in *Note 28*.

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 2016 and 2015, please see *Note 11*.

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 2016 the Partnership had additions to exploration and evaluation assets of US$ 7,354 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (2015: US$ 12,537 thousand). Interest was not capitalised on exploration and evaluation assets.

6. PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2016 and 2015 property plant and equipment comprised the following:

In thousands of US Dollars	31 December 2016	31 December 2015
Oil and gas properties	**1,760,592**	1,567,334
Other property, plant and equipment	**48,839**	38,487
	1,809,431	1,605,821

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 2016 and 2015 was as follows:

In thousands of US Dollars	Working assets	Construction in progress	Total
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
Additions	**5,646**	**312,750**	**318,396**
Transfers	**219,673**	**(220,491)**	**(818)**
Depreciation and depletion charge	**(124,320)**	–	**(124,320)**
Balance at 31 December 2016, net of accumulated depreciation and depletion	**1,132,543**	**628,049**	**1,760,592**
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	1,031,544	535,790	1,567,334
As at 31 December 2016			
Cost	**1,785,125**	**628,049**	**2,413,174**
Accumulated depreciation and depletion	**(652,582)**	–	**(652,582)**
Balance, net of accumulated depreciation and depletion and depletion	**1,132,543**	**628,049**	**1,760,592**

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 11.95% and 10.2% in 2016 and 2015, respectively.

The Partnership engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2016. Depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision *(Note 14)* in the year ended 31 December 2016 resulted in the increase of the oil and gas properties by US$ 2,399 thousand (31 December 2015: the decrease of US$ 5,622 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 2016 and 31 December 2015:

In thousands of US Dollars	31 December 2016	31 December 2015
Borrowing costs including amortisation of arrangement fee	**76,433**	77,630
Capitalisation rate	**6.99%**	7.04%
Capitalised borrowing costs	**29,569**	27,218

As at 31 December 2016 the Partnership's property, plant and equipment of US$ 253,570 thousand were pledged as security for the loans due to Nostrum Oil & Gas B.V. *(Note 13)* (31 December 2015: US$ 283,448).

Other property, plant and equipment

In thousands of US Dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
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
Additions	**14,594**	**318**	**388**	**1,952**	**111**	**17,363**
Transfers	**1,759**	**216**	**104**	**(875)**	**(386)**	**818**
Disposals	**(62)**	**(97)**	**(49)**	**(507)**	**–**	**(715)**
Disposals depreciation	**58**	**70**	**31**	**367**	**–**	**526**
Depreciation	**(3,746)**	**(2,176)**	**(233)**	**(1,485)**	**–**	**(7,640)**
Balance at 31 December 2016, net of accumulated depreciation	**34,529**	**4,254**	**1,209**	**8,802**	**45**	**48,839**
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
As at 31 December 2016						
Cost	**49,159**	**18,093**	**2,804**	**14,530**	**45**	**84,631**
Accumulated depreciation	**(14,630)**	**(13,839)**	**(1,595)**	**(5,728)**	**–**	**(35,792)**
Balance, net of accumulated depreciation	**34,529**	**4,254**	**1,209**	**8,802**	**45**	**48,839**

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. ADVANCES FOR NON-CURRENT ASSETS

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

In thousands of US Dollars	**31 December 2016**	31 December 2015
Advances for pipes and construction materials	**7,875**	76,806
Advances for construction services	**20,801**	53,854
	28,676	130,660

8. INVENTORIES

As at 31 December 2016 and 2015 inventories comprised the following:

In thousands of US Dollars	**31 December 2016**	31 December 2015
Spare parts and other inventories	**21,789**	20,369
Gas condensate	**4,914**	5,684
Crude oil	**1,488**	2,528
LPG	**125**	372
Dry Gas	**10**	–
	28,326	28,953

As at 31 December 2016 and 2015 inventories are carried at cost.

9. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December 2016 and 2015 prepayments and other current assets comprised the following:

In thousands of US Dollars	**31 December 2016**	31 December 2015
VAT receivable	**10,321**	18,053
Other taxes receivable	**2,312**	2,731
Advances paid	**6,085**	4,040
Other	**950**	695
	19,668	25,519

Advances paid consist primarily of prepayments made to service providers.

10. TRADE RECEIVABLES

As at 31 December 2016 and 2015 trade receivables were not interest bearing and were mainly denominated in US Dollars, their average collection period is 30 days.

As at 31 December 2016 there were neither past due nor impaired trade receivables.

11. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**31 December 2016**	31 December 2015
Current accounts in US Dollars	**68,489**	108,026
Current accounts in Tenge	**16,726**	1,893
Current accounts in other currencies	**267**	–
Petty cash	**16**	9
Bank deposits with maturity less than three months	**–**	25,000
	85,498	134,928

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$ 521 thousand with Sberbank in Kazakhstan, US$ 3,404 thousand with Kazkommertsbank and US$ 2,055 with Halyk bank (31 December 2015: US$ 5,375 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Partnership.

12. 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 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. made a contribution to the charter capital of the Partnership in the amount of 749,400 thousand Tenge, equivalent to US$ 4,108 thousand.

On 21 April 2016 Zhaikmunai LLP bought back the 0.036% interest in the Partnership formerly held by Claydon Industrial Limited for US$ 220 thousand and the 0.044% interest formerly held by Nostrum Associated Investments LLP for KZT 92,526 thousand (equivalent to US$ 274 thousand).

On 30 June 2016 the Partnership sold the repurchased interest of 0.08% to Nostrum Oil & Gas Coöperatief U.A. for US$ 640 thousand. The surplus on the sale was recorded in other reserves. As the result of the transactions Nostrum Oil & Gas Coöperatief U.A. became the sole participant of the Partnership.

The interests of the partners as at 31 December 2016 and 2015 were as follows:

	31 December 2016		31 December 2015	
	In thousands of Tenge	**%**	In thousands of Tenge	%
Nostrum Oil & Gas Coöperatief U.A.	**750,000**	**100**	749,400	99.920
Nostrum Associated Investments LLP	**–**	**–**	330	0.044
Claydon Industrial Limited	**–**	**–**	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.

Until 30 June 2016 the participants in the Partnership voted based on their participation percentage and were entitled to participate in any distributions on the same basis. From 30 June 2016 decisions of the sole participant of the Partnership replace meetings of the Partnership, and distributions will be made 100% to the sole participant.

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.

13. BORROWINGS

Borrowings comprise the following as at 31 December 2016 and 2015:

In thousands of US Dollars	**31 December 2016**	31 December 2015
Notes issued in 2012 and maturing in 2019	**550,518**	545,309
Notes issued in 2014 and maturing in 2019	**406,715**	405,718
Nostrum Oil & Gas B.V.	**61,000**	61,000
Finance lease liability *(Note 27)*	**1,178**	–
	1,019,411	1,012,027
Less amounts due within 12 months	**(15,518)**	(15,361)
Amounts due after 12 months	**1,003,893**	996,666

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

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

Period	Redemption Price
2016	103.56250%
2017	101.78125%
2018 and thereafter	100.00000%

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.

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

Period	Redemption Price
2017	103.1875%
2018 and thereafter	100.0000%

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 2016 has an interest rate of 6.625% (31 December 2015: 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.

14. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during years ended 31 December 2016 and 2015 is as follows:

In thousands of US Dollars	**2016**	2015
Abandonment and site restoration provision as at 1 January	**15,928**	20,877
Unwinding of discount	**331**	426
Additional provision	**977**	247
Change in estimates	**2,399**	(5,622)
Abandonment and site restoration provision as at 31 December	**19,635**	15,928

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 2016 were 2.5% and 4.28%, respectively (31 December 2015: 2.49% and 5.54%).

The change in the long-term inflation rate and discount rate in the year ended 31 December 2016 resulted in the increase of the abandonment and site restoration provision by US$ 2,399 thousand (31 December 2015: the decrease by US$ 5,622 thousand).

15. 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 2016 and 2015 is as follows:

In thousands of US Dollars	**2016**	2015
Due to Government of Kazakhstan as at 1 January	**6,808**	6,937
Unwinding of discount	**885**	902
Paid during the year	**(773)**	(1,031)
	6,920	6,808
Less: current portion of due to Government of Kazakhstan	**(1,289)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,631**	5,777

16. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2016 and 2015:

In thousands of US Dollars	**31 December 2016**	31 December 2015
Tenge denominated trade payables	**22,516**	22,437
US Dollar denominated trade payables	**11,637**	13,956
Euro denominated trade payables	**8,087**	2,437
Russian Rouble denominated trade payables	**1,277**	1,848
	43,517	40,678

17. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 31 December 2016 and 2015:

In thousands of US Dollars	**31 December 2016**	31 December 2015
Training obligations accrual	**12,018**	11,443
Accruals under the subsoil use agreements	**6,462**	16,902
Taxes payable, other than corporate income tax	**6,645**	8,941
Due to employees	**2,739**	2,541
Other current liabilities	**1,957**	941
	29,821	40,768

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

The changes in the supplements to the subsoil use agreements and the adjusted work programs led to a reversal of the previous year accrued liability by US$ 10,698 thousand during the year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. REVENUE

In thousands of US Dollars	2016	2015
Revenue from oil and gas condensate sales	**226,357**	297,777
Revenue from gas and LPG sales	**121,626**	151,124
	347,983	448,901

During the year ended 31 December 2016 the revenue from sales to three major customers amounted to US$ 109,499 thousand, US$ 92,885 thousand and US$ 38,053 thousand respectively (2015: three major customers: US$ 141,359 thousand, US$ 104,978 thousand and US$ 85,954 thousand, respectively).

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

19. COST OF SALES

In thousands of US Dollars	2016	2015
Depreciation, depletion and amortisation	**130,043**	107,690
Repair, maintenance and other services	**21,097**	26,557
Royalties	**11,910**	14,364
Payroll and related taxes	**11,214**	17,160
Other transportation services	**6,843**	3,049
Materials and supplies	**4,649**	7,838
Management fees	**4,407**	3,519
Well workover costs	**3,928**	5,182
Government profit share	**2,582**	1,880
Change in stock	**2,047**	(3,613)
Environmental levies	**1,071**	1,391
Other	**1,994**	2,799
	201,785	187,816

20. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	2016	2015
Payroll and related taxes	**5,765**	8,523
Management fees	**3,511**	3,785
Training	**2,154**	3,000
Depreciation and amortisation	**1,917**	1,430
Insurance fees	**775**	1,401
Professional services	**701**	4,531
Sponsorship	**574**	1,314
Communication	**484**	766
Business travel	**381**	414
Materials and supplies	**353**	635
Social program	**315**	302
Bank charges	**311**	568
Lease payments	**192**	454
Other taxes	**68**	267
Other	**507**	592
	18,008	27,982

21. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollars	2016	2015
Loading and storage costs	**33,220**	41,229
Transportation costs	**24,862**	45,071
Marketing services	**14,138**	159
Payroll and related taxes	**1,234**	1,901
Other	**2,229**	4,610
	75,683	92,970

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. FINANCE COSTS

In thousands of US Dollars	2016	2015
Interest expense on borrowings	**46,864**	50,412
Unwinding of discount on amounts due to Government of Kazakhstan	**885**	902
Unwinding of discount on abandonment and site restoration provision	**327**	426
Unwinding of discount on social obligations liability	**850**	–
Finance charges under finance leases	**201**	–
	49,127	51,740

23. OTHER EXPENSES

In thousands of US Dollars	2016	2015
Export customs duty	**5,534**	14,669
Accruals under subsoil use agreements *(Note 17)*	**(9,808)**	2,156
Compensation	**571**	2,531
Other expense	**5,248**	11,139
	1,545	30,495

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.

24. INCOME TAX

The income tax expense consisted of the following:

In thousands of US Dollars	2016	2015
Deferred income tax (benefit)/expense	**(3,083)**	142,469
Corporate income tax expense	**19,994**	22,836
Adjustment in respect of the current income tax for the prior periods	**(1,328)**	(1,203)
Total income tax expense	**15,583**	164,102

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	2016	2015
(Loss)/Profit before income tax	**(51,054)**	86,680
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**(15,316)**	26,004
Effect of exchange rate on the tax base	**(2,355)**	101,043
Adjustments in respect of current income tax of previous years	**(1,327)**	(1,203)
Effect of (loss)/income taxed at different rate	**7,258**	(3,634)
Non-deductible interest expense on borrowings	**22,864**	20,698
(Reversal)/accrual of non-deductible penalties	**(1,343)**	3,656
Net foreign exchange loss	**2,828**	12,019
Non-deductible social expenditures	**–**	1,021
Non-deductible cost of technological loss	**1**	141
Non-deductible training expenditures	**181**	561
Other non-deductible expenses	**2,792**	3,796
Income tax expenses reported in the financial statement	**15,583**	164,102

The Partnership's effective tax rate for the year ended 31 December 2016 is negative 30.5% (2015: 189.3%). The Partnership's effective tax rate, excluding effect of movements in the US dollar / Tenge exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2016 is 15.2% (2015: 35%).

In addition the effective tax rate was impacted by the effect of losses and gains taxed at different rate mainly including loss and gain on derivative financial instruments taxed at underlying tax rate of 20% which increased effective tax rate by 14.2% for the year ended 31 December 2016 (2015: decreased by 4.2%).

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 financial statements and are comprised of the following:

In thousands of US Dollars	**2016**	2015
Deferred tax asset		
Accounts payable and provisions	**4,959**	4,488
Deferred tax liability		
Property, plant and equipment	**(348,311)**	(332,835)
Derivative financial instruments	**(1,332)**	(19,420)
	(344,684)	(347,767)

The movements in the deferred tax liability were as follows:

In thousands of US Dollars	**2016**	2015
Balance as at 1 January	**347,767**	205,298
Current period (benefit)/charge to statement of comprehensive income	**(3,083)**	142,469
Balance as at 31 December	**344,684**	347,767

25. DERIVATIVE FINANCIAL INSTRUMENTS

During the years ended 31 December 2016 and 2015 the movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US Dollars	**2016**	2015
Derivative financial instruments at fair value as at 1 January	**97,100**	60,301
Proceeds from hedging contract	**(27,198)**	(92,256)
Purchase of hedging contract	**–**	92,000
(Loss)/gain on derivative financial instruments	**(63,244)**	37,055
Derivative financial instruments	**6,658**	97,100
Less current portion of derivative financial instruments	**6,658**	54,095
Long-term derivative financial instruments at fair value as at 31 December	**–**	43,005

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 28.*

26. 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 2016 and 2015 consisted of the following:

In thousands of US Dollars	**31 December 2016**	31 December 2015
Trade receivables and advances paid		
With significant influence over Partnership:		
- JSC OGCC KazStroyService	**18,063**	35,832

Accounts payable to related parties as at 31 December 2016 and 2015 consisted of the following:

In thousands of US Dollars	**31 December 2016**	31 December 2015
Borrowings		
Under common control:		
- Nostrum Oil & Gas B.V.	**61,000**	61,000
Trade payables		
With significant influence over the Partnership:		
- JSC OGCC KazStroyService	**6,291**	4,144
- Nostrum Services N.V.	**1,250**	217
- Nostrum Services Central Asia LLP	**201**	73

During the years ended 31 December 2016 and 2015 the Partnership had the following transactions with related parties:

In thousands of US Dollars	**2016**	2015
Repayment of borrowings		
Under common control:		
- Nostrum Oil & Gas B.V.	**–**	45,000
Interest paid		
Under common control:		
- Nostrum Oil & Gas B.V.	**4,490**	5,705
Purchases		
With significant influence over the Partnership:		
- JSC OGCC KazStroyService	**40,746**	29,606
Management fees and consulting services		
Under common control:		
- Nostrum Services Central Asia LLP	**1,739**	1,787
- Nostrum Services N.V.	**9,487**	8,009

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.

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2016 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$ 305 thousand for the year ended 31 December 2016 (2015: US$ 404 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.

27. 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, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. 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 2016. As at 31 December 2016 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 2016 the Partnership had contractual capital commitments in the amount of US$ 96,990 thousand (31 December 2015: US$ 123,529 thousand) mainly in respect to the Partnership's oil field exploration and development activities.

Operating lease

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 lease was represented as follows:

In thousands of US Dollars	**31 December 2016**	31 December 2015
No later than one year	**9,589**	12,471
Later than one year and no later than five years	**28,795**	4,623

Lease expenses of railway tank wagons during the year ended 31 December 2016 amounted to US$ 12,285 thousand (2015: US$ 15,690 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)

Finance lease

On 12 April 2016 the Partnership entered into a finance lease agreement for the main administrative office in Uralsk for a period of 20 years for US$ 66 thousand per month. As at 31 December 2016 the finance lease prepayment amounted to US$ 12,151 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	31 December 2016		31 December 2015	
In thousands of US Dollars	Minimum payments	Present value of payments	Minimum payments	Present value of payments
No later than one year	525	496	–	–
Later than one year and no later than five years	561	349	–	–
Later than five years	2,039	333	–	–
Total minimum lease payments	**3,125**	**1,178**	–	–
Less amounts representing finance charges	1,947	–	–	–
Present value of minimum lease payments	**1,178**	**1,178**	–	–

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 26 December 2016) require the subsurface user to:

(i) Spend US$ 1,000 thousand for funding of development of Astana city;

(ii) Invest at least US$ 20,694 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;

(iv) Fund liquidation expenses equal to US$ 147 thousand; and

(v) Spend US$ 1,250 thousand to finance social infrastructure.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 26 December 2016) require the subsurface user to:

(i) Invest at least US$ 21,770 thousand for exploration of the field during the exploration period;

(ii) Fund liquidation expenses equal to US$ 209 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 26 December 2016) require the subsurface user to:

(i) Invest at least US$ 27,910 thousand for exploration of the field during the exploration period;

(ii) Fund liquidation expenses equal to US$ 271 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.

28. 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 Partnerhip'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 2016 and 2015 as the Partnership had no financial instruments with floating-rate as at years ended 31 December 2016 and 2015.

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
2016		
US Dollar thousand	**20.00%**	**570**
US Dollar thousand	**(20.00%)**	**(570)**
2015		
US Dollar thousand	60.00%	18,350
US Dollar thousand	20.00%	(6,117)

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

As at 31 December 2016	**Tenge**	**Russian Roubles**	**Euro**	**Other**	**Total**
Cash and cash equivalents	**16,742**	**209**	**59**	–	**17,010**
Trade receivables	**11,540**	–	**1,668**	–	**13,208**
Trade payables	**(22,516)**	**(1,278)**	**(8,087)**	–	**(31,881)**
Other current liabilities	**(8,614)**	–	–	–	**(8,614)**
	(2,848)	**(1,069)**	**(6,360)**	–	**(10,277)**

As at 31 December 2015	Tenge	Russian Roubles	Euro	Other	Total
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)

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 2016 and 2015 based on contractual undiscounted payments:

As at 31 December 2016	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	17,509	52,256	1,132,627	2,039	1,204,431
Trade payables	35,156	–	8,361	–	–	43,517
Other current liabilities	14,757	–	–	–	–	14,757
Due to Government of Kazakhstan	–	258	773	4,124	9,536	14,691
	49,913	17,767	61,390	1,136,751	11,575	1,277,396

As at 31 December 2015	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	18,106	70,667	217,268	1,133,665	1,439,706
Trade payables	47,110	–	1,524	–	–	48,634
Other current liabilities	11,843	–	–	–	–	11,843
Due to 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

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 (negative) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

In thousands of US Dollars	Carrying amount 31 December 2016	Carrying amount 31 December 2015	Fair value 31 December 2016	Fair value 31 December 2015
Financial assets measured at fair value				
Derivative financial instruments	**6,658**	97,100	**6,658**	97,100
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(1,018,233)**	(1,012,027)	**(1,017,418)**	(871,161)
Finance lease liability	**(1,178)**	–	**(1,799)**	–
Total	**(1,012,753)**	(914,927)	**(1,012,559)**	(774,061)

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 2016 and 2015:

	31 December 2016	31 December 2015
Future price at the reporting date (US$)	**56.82-58.84**	37.19-48.75
Expected volatility (%)	**27.33**	30.31
Risk-free interest rate (%)	**0.84**	0.32-0.69
Maturity (months)	**1-11**	1-23

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)	**(1,523)**	1,976
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	**1,203**	(1,143)

Movement in the derivative financial instruments is disclosed in *Note 25.*

During the years ended 31 December 2016 and 2015 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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	2016	2015
Borrowings	1,019,411	1,050,165
Less: cash and cash equivalents, restricted cash and current and non-current investments	(91,478)	(140,303)
Net debt	**927,933**	909,862
Equity	592,824	659,315
Total capital	**592,824**	659,315
Capital and net debt	**1,520,757**	1,569,177
Gearing ratio	61%	58%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

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Republic of Kazakhstan

Auditor
Ernst & Young LLP
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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

Glossary

2012 Notes	7.125% notes issued in 2012
2014 Notes	6.375% notes issued in 2014

A

API	American Petroleum Institute.
API gravity	The industry standard method of expressing specific density of crude oil or other liquid hydrocarbons as recommended by the American Petroleum Institute. Higher API gravities mean lower specific gravity and lighter oils. When the API gravity is greater than 10, the product is lighter and floats on water; if it is less than 10, it is heavier than water and sinks. Generally speaking, oil with an API gravity between 40 and 45 commands the highest prices.
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.

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.
boe	Barrels of (crude) oil equivalent, i.e. the factor used by Nostrum 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

C1	Methane
C2	Ethane
C3	Propane
C4	Butane
C5	Pentane
C6	Hexane
C7	Heptane
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 metres
Cash	Cash and cash equivalents including current and non-current investments.
casing	Relatively thin-walled, large diameter steel rods that are screwed together to form a casing string, which is run into a core hole or well and cemented in place.
Caspian region	Parts of countries adjacent to the Caspian Sea.
Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
CO_2	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 of the Republic of Kazakhstan (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.
contingent resources	Deposits that are estimated, on a given date, to be potentially recoverable from known accumulations but that are not currently considered commercially recoverable.
cost oil	Cost oil denotes an amount of crude oil produced in respect of which the market value is equal to Nostrum'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.
downstream	Downstream refers to all petroleum operations occurring after delivery of crude oil or gas to a refinery or fractionation plant.
Development Plans	The development plans approved by the SCFD in March 2009.
directors or Board	The directors of Nostrum.
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

E&P	Exploration and production.
EBITDA	Profit Before Tax non-recurring expenses + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation – Interest Income + Other Expenses / (Income)
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
Exploration Permit	The geological allotment (Annex to the Licence) issued by the Competent Authority to Zhaikmunai LLP.
exploration phase	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.
exploration well	Well drilled purely for exploratory (information gathering) purposes in a particular area.

F

farm-in	Transfer of a percentage of an oil or gas permit held by the farmor in return for (partial or complete) delivery of the work programme by the farmee(s). Note that this work would normally have had to have been delivered and paid for by the farmor.
farm-out	A contractual agreement with the holder of an oil and gas permit to assign all (or a percentage of) that interest to another party in exchange for

	delivering the work programme required by the permit, or fulfilling other contractually specified conditions.
FCA	Financial Conduct Authority of the United Kingdom
FCA Uralsk	Sales made under free carrier terms according to which Nostrum delivers to the terminal in Uralsk and transportation risk and risk of loss are transferred to the buyer after delivery to the carrier.
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.
FOB	Sales made under free on board terms.
FSU	Former Soviet Union

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.
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

IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
INED	Independent Non-Executive Director.

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 = 10^6 • gigajoules = 10^9 • terrajoules = 10^{12} • petajoules = 10^{15}

K

Kazakhstan	The Republic of Kazakhstan.
KASE	Kazakhstan Stock Exchange.
KazMunayGas	State-owned oil and gas company of Kazakhstan.
KazMunaiGas Exploration Production (KMG EP)	Onshore oil and gas exploration production subsidiary of KazMunayGas

L

Licence	Licence series MG No. 253-D (Oil) issued to Zhaikmunai LLP by the Government on 26 May 1997, including amendments.

Licencing Law	The Kazakhstan Law "On Licensing" (No. 214, dated 11 January 2007, as amended, which came into effect on 9 August 2007).
liquids	A sales product in liquid form produced as a result of further processing by the onshore plant; for example, condensate and LPG.
LNG	Liquefied natural gas. Comprises mainly methane.
Listing Rules	The listing rules made by the Financial Conduct Authority 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)
m3	Cubic metres.
m3/d	Cubic metres per day.
Man –hours	an hour regarded in terms of the amount of work that can be done by one person within this period.
mmbbls	Millions of barrels of oil.
mboe	Thousands of barrels of oil equivalent.
mmboe	Millions of barrels of oil equivalent.

N

NBK	National Bank of Kazakhstan.
NED	Non-Executive Director
Nostrum	Nostrum Oil & Gas PLC, the listed company of the Group.
Nostrum Oil & Gas PLC	Registered Office: 53-54 Grosvenor St London W1K 3HU UK Corporate Headquarters: Gustav Mahlerplein 23 B 1082 MS Amsterdam The Netherlands

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

Partnership	Nostrum Oil & Gas LP, which was the holding company of the Group before the reorganisation
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.
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.
processing	processing of saleable product from hydrocarbons sourced from oil wells and gas wells
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.
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.
profit oil	Profit oil is the difference between cost oil and the total amount of crude oil produced each month, which is shared between the State and Zhaikmunai LLP.
prospective resources	Quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.
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.
PRMS	2007 Petroleum Resources Management System, which are a set of definitions and guidelines designed to provide a common reference for the international petroleum industry, sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers.
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.
PSA Law	Kazakhstan Law No. 68-III “On Production Sharing Agreements for Constructing Offshore Petroleum Operations”, dated 8 July 2005.

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
RoK	Republic of Kazakhstan
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.
shut in	Cease production from a well
sidetrack well	A well or borehole that runs partly to one side of the original line of drilling.
social infrastructure:	assets that accommodate social services, i.e. hospitals, schools, community housing etc.
spud	The commencement of drilling operations
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	Republic of Kazakhstan.
State Share	The share of hydrocarbon production due (in cash or kind) to the Republic of Kazakhstan under the PSA.
Subsoil Law:	
- Old Subsoil Law	The Kazakhstan Law "On Subsoil and Subsoil Use" (No. 2828, dated 27 January 1996, as amended), recently replaced with the New Subsoil Law.
- New Subsoil Law	The most recent Kazakhstan Law "On Subsoil and Subsoil Use" (No. 291-IV, dated 24 June 2010 as amended).
suspended well	A suspended well is not currently used for assessment or production and has been shut in. It will either be returned to assessment or production or plugged and abandoned.

T

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

U

UNGG	Uralsk Oil and Gas Explorations Expedition. The Government of the Kazakh Soviet Socialist Republic decided in March 1960 to create a consortium "Uralskneftegazrazvedka" for conducting oil and gas exploration in the Uralsk region. In the '60s, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed "Uralsk Enlarged Oil-Gas Exploration Expedition".

UK Corporate Governance Code	Set of principles of good corporate governance for listed companies promulgated by the UK Financial Reporting Council

W

well	A hole drilled to test an unknown reservoir or to produce from a known reservoir.
wellhead	The wellhead includes the forged or cast steel fitting on top of a well (welded or bolted to the top of the surface casing), as well as casingheads, tubingheads, Christmas tree, stuffing box and pressure gauges.
work programme	A schedule of works agreed between parties (permit holders, farmees and government) contracted to be delivered in a defined time frame.
workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
WUP or Water Use Permit	The permit granted by the relevant Government authority with respect to water use pursuant to the Water Code.

Z

Zhaikmunai LLP	Principal operating entity of the Group