Zhaikmunai LLP

Sustainable processing infrastructure Empowering North-western Kazakhstan

2019 ANNUAL REPORT

An Introduction to Zhaikmunai LLP

Background

Zhaikmunai LLP ("Zhaikmunai"), 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").

Group Structure and affiliates

There are currently a number of intermediary companies between Zhaikmunai LLP and its parent, Nostrum (together, the "Group"). Zhaikmunai LLP is the main operating subsidiary of the Group. 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 2019 can be found on page 69.

Subsidiaries

Since the corporate restructuring of the Group in 2014, Zhaikmunai LLP had no subsidiaries until December 2018, when Zhaikmunai LLP acquired a service company, Atom & Co LLP, which was merged into Zhaikmunai LLP on 20 August 2019.

References to "our", "us" or "we" in this Annual Report are references to the Group.

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WHAT SETS US APART

World-class infrastructure with the potential to increase cash flow by fully utilising our spare capacity

Zhaikmunai has invested over US$1bn into its infrastructure in North-western Kazakhstan. The current production levels utilise under 20% of its capacity. Our focus is to try to fill the spare capacity with third-party gas. Unlocking this potential is critical to our ability to grow stakeholder value.

In 2019, we formed the Health, Safety, Environment and Communities Committee which has oversight over health, safety and environmental matters. By operating safe facilities, we aim that every employee will go home healthy after a day's work. We want to ensure the safety of employees, contractors and the environment.

Our processing infrastructure has more than doubled in capacity. We are utilising under 20% of this and will now focus on third parties to fill the spare capacity as we no longer see the Chinarevskoye field being able to do this.

Our infrastructure is linked to both major oil export pipelines and gas export pipelines, as well as a good rail network. This allows us to sell our products in the export markets and achieve export prices.

With over US$1bn of debt and declining production levels, the Group has been focused on reducing its cost base. This is a critical part of the new vision to maintain liquidity.

Safety is at the core of our operations

- Safety is a core value of our operations; we believe that all accidents are preventable and everyone at the Group has a right to work in a safe environment. 'Golden Rules' rolled out across the Group to ensure awareness of Group guidelines.
- All employees are accountable and responsible to ensure safe working conditions. We strive to ensure all employees work in a healthy and safe environment by operating prudent logistics and facilities.

Infrastructure, including a 4.2 bcm gas processing facility

- Extensive infrastructure allows Zhaikmunai to process raw gas deposits in North-western Kazakhstan, where there is a shortage of processing capacity.
- Fully commissioned gas treatment facility with a combined nameplate processing capacity of 4.2 bcm per year.

Well-established transport links to export markets

- Access to multiple transportation routes.
- Full control of liquid transportation logistics with 120km liquids pipeline and automated rail loading terminal owned by Zhaikmunai.

Cost optimisation

- With over US$1bn of debt and declining production levels, Zhaikmunai continues to focus on reducing its cost base and to try to preserve capital.
- More than 200 employees released during 2019.
- All non-core projects ceased.

EXECUTIVE CHAIRMAN'S STATEMENT

Q: **What have been the main challenges for Zhaikmunai during 2019?**

A: We have faced several challenges in 2019 which have not allowed us to fully accomplish some of our priority goals for 2019.

Despite finding hydrocarbons in more zones than expected, the appraisal wells in the North of the Chinarevskoye licence did not flow at commercial rates.

Our own studies and the results of the Schlumberger and PML Lucas reports concluded that well productivity is a major concern, particularly in those reservoirs currently classified as Probable. We therefore have taken the decision to reclassify most of these reserves to contingent resources.

We had a higher than anticipated decline in production from our existing producing wells, which meant we had to revise production guidance down during the year.

Q: **How has the Management sought to address these challenges?**

A: On the back of our disappointing operational performance and the various associated analytical studies, the Management has taken the decision to halt all drilling this year whilst we look for ways to mitigate the identified reservoir risks. We cannot afford to spend on drilling unless we are confident that we are able to drill commercially viable wells.

Our primary focus is now on securing third-party volumes to fill the spare capacity in our world-class gas treatment facility. We already have one third-party, Ural Oil & Gas LLP, signed up to supply raw gas. At the time of writing, we are in discussions with potential other third parties who are interested in utilising our infrastructure. Should these discussions prove successful, the anticipated gas processing contracts would ensure our gas treatment facility can work at capacity and provide long-term stable cash flows for Zhaikmunai.

We appointed Kaat Van Hecke as interim CEO of Nostrum as soon as our previous CEO decided to step down. She has intimate knowledge of the Group, a strong track record of delivering projects in these geographies and understands the challenges we are facing, so is well placed to help the Group through this period of transformation.

We have reduced our cost base to reflect the revised scope of our operations and will continue to stringently monitor costs.

Q: **How has the Nostrum Board responded to shareholders and bondholders in 2019?**

A: We recognise how challenging it has been for our shareholders and bondholders as the Group has missed guidance, written down significant amount of reserves and had to stop drilling. This has clearly led to a lot of frustration from all our stakeholders and has also led to a significant shift in our shareholder register. The Nostrum Board and I are acutely aware of the frustrations of our stakeholders and are doing all we can to try to improve performance. We hope we can start to make some progress during 2020 that will demonstrate to our stakeholders the value of our existing assets and how these can be monetised in the future.

Q: **Where do you see the biggest risks to the Group in 2020?**

A: Executing a third-party agreement on additional volumes for our gas treatment facility with enough time to also present the value proposition to our stakeholders well in advance of the Group's bond repayment in 2022.

Given the disappointing reservoir performance of the last few years, worse than anticipated future behaviour cannot be ruled out.

Following recent events in the oil and gas sector where we have seen significant falls in the oil price – this has a material impact on the liquidity of the Group as we are unhedged. As a result, we are considering further cost reductions across all areas of the business. In addition, we announced on March 31, 2020 that we will now seek to engage with our bondholders regarding a possible restructuring of the Group's outstanding bonds. We are in the process of selecting a financial advisor to commence negotiations with the bondholders. Whilst we believe that consensual agreement will be reached with our bondholders and shareholders, the outcome of the discussions is uncertain.

In Q1 2020, we have also seen the outbreak of COVID-19, we will ensure the Group monitors the impact of the virus on both its operations and the wellbeing of all its employees. At this stage, we can't quantify the impact this will have but it could be substantial. Currently our operations are continuing uninterrupted and to our expected high and safe standards.

Q: **How are you positioning your business for a sustainable future?**

ESG (Environmental, Social and Governance) performance has and will always be central to how the Group operates as a business.

This includes maintaining high standards of QHSE (Quality, Health, Safety and the Environment), with the health and safety of our employees being paramount.

To demonstrate that we take our responsibility with regards to the environment and climate change seriously, we completed the CDP (formerly the Carbon Disclosure Project) initiative in 2019 and plan to continue with this in the coming years so we are fully accountable and comparable.

We established a new Nostrum Board committee to focus entirely on Health, Safety, Environment and Communities, and attention to climate change issues is among the responsibilities of this committee.

The Audit Committee and the Nostrum Board have recognised that climate change should be included among the risks and uncertainties faced by Nostrum, and we will continue to seek to quantify climate change-related risks.

Q: **What is the Group's strategy to create shareholder value in the medium to long term?**

A: Our fundamental mission is to maximise the value of our assets, particularly that of the infrastructure we have built. We need to seek additional third-party volumes, on top of Ural potential volumes, that can allow us to monetise the full capacity we have available in our state-of-the-art gas treatment facility. The infrastructure we have built will last for many years and the quicker we can fill it, the higher the value will be for Nostrum's stakeholders. We also need to overcome the reservoir productivity issues that we have faced over recent years so that we can recover the significant volumes of discovered hydrocarbons within the licenses we own. We recognise that any value we create needs to be done in a sustainable manner, and we need to be considerate of any social or environmental impact our business has. We continue to invest in social development, as well as education and training. We will continue to improve our reporting in this area and ensure our future growth is carried out in a responsible manner.

Focus for 2020

Priorities

- Ensure the safety of employees, contractors, the environment and our communities;
- Advance discussions with third parties interested in supplying raw gas to completely fill our spare capacity;
- Reduce cost base in line with new strategy to focus on processing third-party volumes; and
- Continue studies to identify viable technologies to mitigate sub-surface risks.

I am proud of our people and the culture at the Group. That culture must be harnessed to focus on operational excellence in 2020 and on delivery against our targets, whilst ensuring Nostrum is an attractive place to work with an inclusive environment that celebrates diversity. We will continue to focus on diversity, particularly gender diversity, across all levels throughout the Group. We are setting up a mechanism for regular reporting by our human resources team to the Nostrum Board on diversity. We are grateful for the quality and commitment of our employees.

I look forward to sharing our story with you over the coming months and thank you for your support.

Atul Gupta
Executive Chairman of Nostrum

BUSINESS MODEL

Value potential

Our story

Over the last 15 years, we have built a world-class infrastructure hub that has allowed for the exploration and development of the Chinarevskoye field and can continue to support production and sale of billions of cubic meters of gas in North-western Kazakhstan for years to come.

Our strategy

We, as management and employees, together with our local partners, are committed to working towards delivering sustainable long-term cash-flows by commercialising our gas processing infrastructure, mitigating sub-surface reservoir risk and applying stringent cost control.

Business model inputs

- World-class infrastructure
- Low operating costs
- Attractive fiscal terms
- Experienced management team
- Responsible operations

Value chain

Stakeholder value

Workforce

We are one of the leading employers in North-western Kazakhstan, delivering sustainable benefits to the local community.

Investors

2019 was an extremely challenging time for investors – the Group is working hard with a new vision to improve this.

Local Communities

We are a proud community partner and strive to foster a culture of openness and engagement, offering social and financial support to promote the well-being of local residents.

Suppliers, Contractors & Customers

Established safety audits to ensure trusted partnerships. Constant communication with our key customers.

Governments & Regulators

We paid US$36,709,841 of tax in 2019 to governments. Please see our website for more information at www.nog.co.uk.

MARKET REVIEW

Nostrum's markets

Solid export potential

Since its independence in 1991, Kazakhstan has established itself as one of the world's most prolific hydrocarbon centres.

The oil & gas market in Kazakhstan

The foundation of Kazakhstan's oil & gas industry consists of three supergiant fields situated in the north-west of the country (Tengiz, Karachaganak and Kashagan). Together, these fields hold the majority of the country's reserves and production, and have allowed Kazakhstan to attract more foreign direct investment than any other country in the FSU over the past three decades, including Russia. Together, the three fields produced over 60% of the country's output during 2019.

As the world's largest landlocked country, Kazakhstan depends on an extended network of pipelines and railways to deliver its products to export markets. Pipeline exports are primarily delivered via Russia (Atyrau-Samara and the Caspian Pipeline Consortium pipelines); via Azerbaijan and Turkey (the Baku-Tbilisi-Ceyhan pipeline); and one via China (Atasu-Alashankou). Rail exports utilise Kazakhstan's extensive rail network, reaching markets throughout the CIS and beyond.

Production from the three supergiant fields was near or at record levels during 2019. Kashagan resumed full production during 2017 and underwent a successful maintenance program during 2019. Expansion projects at the Tengiz and Karachaganak fields, which have been producing for over two decades, are currently being developed to increase liquid recovery rates as the fields mature. For Karachaganak, in particular, which is located approximately 70km from the Chinarevskoye field, this will require increased gas handling capacity.

What it means for us

Zhaikmunai's assets are located in the Pre-Caspian Basin close to the Russian border and in close proximity to some of the most significant hydrocarbon resources in the Former Soviet Union. This advantageous position means that the Zhaikmunai has access to multiple export markets for its products, as well as labour and specialist equipment providers. In addition, the Zhaikmunai has a substantial amount of spare processing capacity in a region where there is a significant amount of stranded gas and a growing need for gas processing.

Competitive analysis and market share – Benchmarking our business against our peers

Strengths and opportunities	Weaknesses and threats
• Multiple export routes	• Zhaikmunai is subject to fluctuations in the market prices for its products, although we have a variety of sales products.
• 100% ownership of Chinarevskoye licence, infrastructure on the field, pipelines and rail loading terminal used for transportation to export routes.	• Increased geological risks due to deep, tight, highly fractured reservoirs.
• Extensive infrastructure allows Zhaikmunai to process raw gas deposits in North-western Kazakhstan, where there is a shortage of processing capacity.	• Seasonal temperature fluctuations in a harsh operating environment.
• Onshore field with low operating costs.	• Lack of significant population reduces the size of the skilled workforce locally.

Key macroeconomic and microeconomic trends

Oil prices

Oil prices were range-bound during 2019, with a low of US$55/bbl in January and a high of US$75/bbl in April. Coordinated efforts to reduce production by OPEC+ were mitigated by increased trade tensions between the US and China and increasing political uncertainty in the Middle East. Although supply and demand fundamentals appear to be broadly balanced, missile and drone attacks, which caused more than half of Saudi Arabia's production to be temporarily suspended for around a month during September, have increased the risk premium in the crude market. Consensus fundamental views of long-term prices remain around US$60-70/bbl although volatility is bound to persist.

What it means for us

With no debt maturities until 2022, approximately US$90million of cash on our balance sheet, the Group continues to focus on reducing its cost base to ensure it can maintain adequate liquidity while its strategic options are being assessed.

Kazakh economy

During 2019, Kazakhstan's economy grew by 3.8% (2018: 3.7%). The KZT/USD average exchange rate weakened to 383KZT to USD (2018: 345KZT to USD), although inflationary pressures remained subdued with CPI at 5.2% (2018: 6.1%).

What it means for us

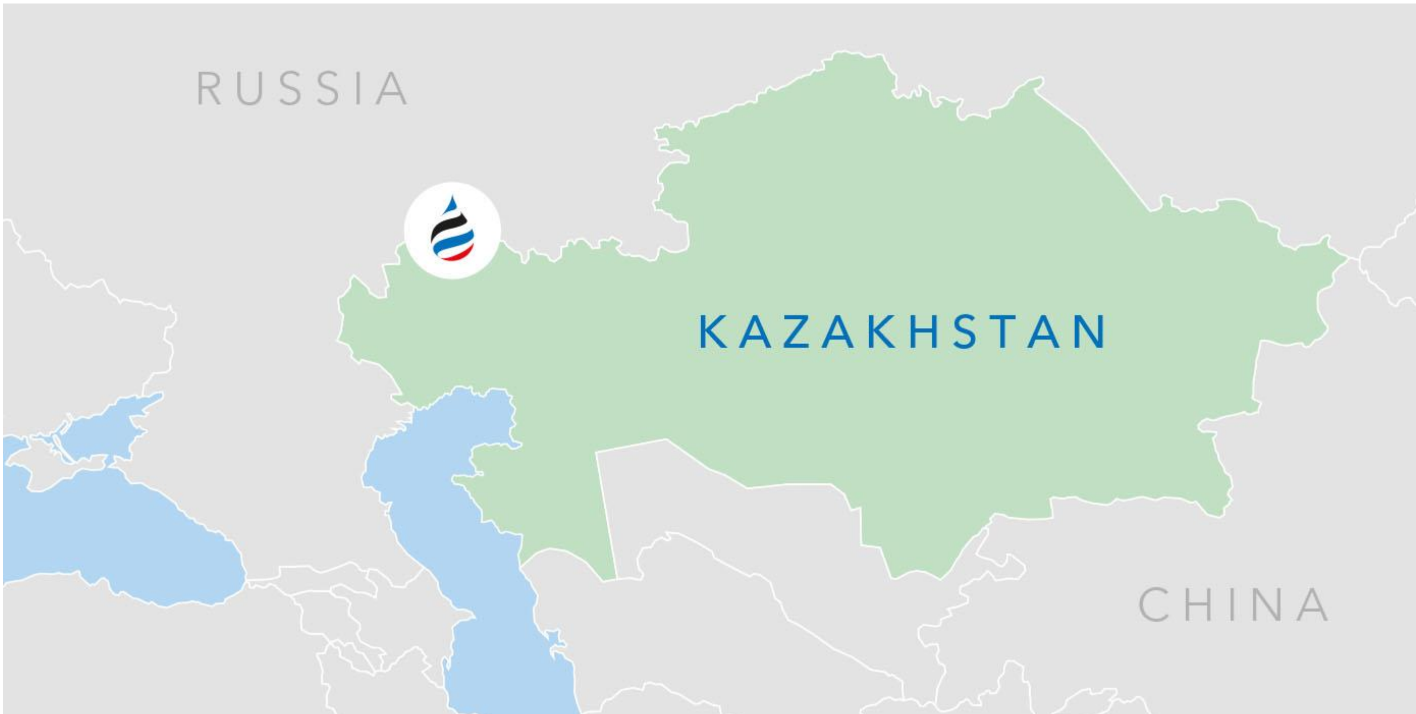
While the Kazakh economy has experienced considerable development and a degree of diversification since independence, the oil & gas industry still dominates the economy. Given its prominence, the government has proven to be supportive of operators over time in its attempts to foster the development of the country's resources and attract foreign investment.

Competitive environment

Kazakhstan and Azerbaijan are the two main oil producing countries in the Caspian region, producing 1.9 million bopd and 0.8 million bopd in 2018 respectively. It is expected these countries will continue to lead the region in oil production. Turkmenistan and Uzbekistan are the predominant gas producers in the region, producing 6.0 billion cubic feet per day and 5.5 billion cubic feet per day in 2018 respectively. 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 oil.

What it means for us

Vast distances between Central Asian markets, long-established trading relationships and in-place infrastructure promote co-dependency between FSU exporters. Kazakhstan naturally benefits from its geo-strategic position between Russia and China. Zhaikmunai is situated at the heart of the export corridor that exists between Russia and multiple markets to the west of the Caspian.



STRATEGY

A strategy for the future

Zhaikmunai is focused on realising the significant value of its gas processing infrastructure

Our purpose

To work as a team with people who constantly strive to develop their business and technical skills, to ensure excellence across our value chain.

Our vision

We have a new vision to add value to the region through the utilisation of our state-of-the-art infrastructure.

Strategic pillars	2020 priorities	KPIs	Risks	Forecasts, objectives and prospects for 2020-2022
Commercialise world-class gas processing infrastructure	• Advance ongoing discussions with third parties interested in supplying raw gas to completely fill the Zhaikmunai's spare capacity	• Conclude commercial processing contracts such as Ural Oil & Gas LLP	• Ongoing negotiations with various counterparties are complex and commercially sensitive, and there can be no certainty that agreement will be reached	• Execute binding commercial contracts to fill the Zhaikmunai's spare gas processing capacity with third-party volumes
Safety at the core of operations	• Ensure the safety of employees, contractors and the environment • Continue roll-out of 'Golden Rules' • Implement contractor management framework	• Lost time injury frequency • Total recordable injury frequency	• Legal framework for environmental protection and operational safety still being developed in Kazakhstan • Impact of equipment failure	• Improve contractor safety management • Improve Supervisor HSE competence
Reduce costs and preserve capital	• Reduce cost base in line with new strategy to focus on processing third-party volumes • Reductions to be realised in all cost categories against 2019 levels (operating, G&A, CAPEX)	• G&A below US$20 million • Operating costs below US$50 million	• Sustained higher prices can lead to cost inflation in Kazakhstan • Restructuring charges may offset effect of some cost reductions • Further spend on reservoir assessment might be needed • The halting of drilling will have a negative short-term impact on working capital	• Manage cash resources to ensure that the Group remains a going concern
Reservoir management & well productivity	• Utilise workover rigs and other technologies to manage existing production decline in a cost-effective way • Continue studies to identify viable	• Finalised construction of potential second Low Pressure System to prolong life of ageing gas-	• At low production levels, unexpected sub-surface events could severely impact the Group's operating cash flow forecasts	• Reduce decline rates in existing producing wells • Identify technologies to increase well productivity and reduce sub-surface risk for future drilling

	technologies to mitigate sub-surface risks for future drilling planning	condensate wells • Maximised uptime of existing wells and production facilities		programmes at Chinarevskoye

Reshaping operations and restructuring the cost base

"Despite the operational challenges, G&A has continued to fall, and operational expenses are reducing. We believe there are opportunities where we can fill the spare capacity of the gas treatment facility in the future."

Q: **2019 was a tough year in terms of production and missed guidance. What were the main issues and how can this be turned around?**

A: In 2019, we drilled three wells in the Northern area of our field. This decision was based on the success we had from Well 40, which was in a similar location. Unfortunately, none of the wells drilled delivered commercial levels of production. This meant we were unable to add any new production during the full year 2019.

In 2019, we also encountered steeper than expected decline in our core producing reservoir, Biski North East. This is largely due to the pressure declining more quickly than anticipated and the resulting impact on the condensate to gas ratio. This results in lower gas, LPG and condensate production from our existing wells.

In 2020, we will continue to use one workover rig at field site. We will use the rig to unlock productivity from existing closed-in wells or enhance recovery from existing producers. Our target for workovers is to try to reduce the rate of production decline and better understand what techniques will work in the future to realise full potential at the Chinarevskoye field.

Additionally, in 2019, we approved the extension of our low-pressure-system (LPS), which will allow us to prolong the life of those wells where the pressure has declined below the inlet pressure required to feed the gas treatment facility. From the main gas reservoir, we currently have the first group of wells linked to the low pressure system with good results. We will look to increase the number of wells once the LPS second phase is complete by year-end.

Q: **How strong is Zhaikmunai's financial position?**

A: Despite the operational challenges, G&A has continued to fall, and operational expenses are reducing with the halted drilling and completion of GTU3.

In 2020, we will look to reshape the operational make-up of the business as we restructure the cost base towards a midstream infrastructure group versus a pure E&P group. We expect significant operational cost savings as a result of the ceasing of all drilling during 2020.

We are acutely aware that the recent fall in oil prices will mean we need to find further cost savings. We are working hard to cut costs across the Group. Given we have halted drilling, we don't expect capex cuts to materially impact production during 2020.

Q: **What is the strategy to fill the Gas treatment facility now that the third train is complete, and you have approximately 80% of your capacity free?**

A: This is the single most important focus for the entire Nostrum Board and Group. We believe there are opportunities where we can fill the spare capacity of the gas treatment facility in the future. The infrastructure is located in a region rich in raw gas hydrocarbons that need to be processed in order to maximise their value. We are very proud of our facilities, and now need to realise their value by ensuring we fill them as soon as possible. We have already entered into agreements with Ural Oil and Gas. We are actively working to try and agree more third party processing agreements that can deliver further value from our infrastructure. I hope that during 2020 we can provide more concrete information in relation to these opportunities.

Whilst we see the third party volumes as being the core focus of our strategy today, we also plan to continue to supply equity barrels from Chinarevskoye.

Q: **What is your production and sales guidance for 2020, and how much risk do you see to missing the guidance again this year?**

A: After reviewing the results of various third party studies conducted last year, including that of Schlumberger, and all the in-house work to analyse drilling and production performance, we have concluded that whilst significant discovered resources exist within our reservoirs, well productivity in certain areas remains challenging. The Group has therefore decided to halt all drilling in 2020 whilst it carries out further analysis to identify viable technologies to mitigate sub-surface risk. The Nostrum Directors and I have also concluded that it would be prudent to transfer higher risk hydrocarbons, identified above, from the Reserve category to the Contingent Resources category. Zhaikmunai will continue to operate a workover rig and focus on investigating which technologies could be appropriate to increase well productivity in the future.

Our forecast average sales volume for 2020 is 19,000 boepd corresponding to average production of 20,000 boepd. The Group is reviewing its capex programme for 2020 following the recent oil price fall. We are focused on ensuring the Group remains a going concern through 2020.

We hope that there are limited risks of missing guidance, as we aim to have lower decline rates in 2020 compared with 2019 and less downtime.

Q: **How did Zhaikmunai deliver against its QHSE commitments in 2019?**

A: In 2019, we had a Lost Time Incident Rate of 1.39.

We have set up, at Nostrum Board level, a new Health, Safety, Environment and Communities Committee under my chair that is working closely with management to improve overall health, safety, environmental and social performance, and better address important issues such as climate change and gender diversity.

In 2019, we sharpened the “Golden Rules” to clearly communicate the safety requirements to each person working for us. When serious incidents happen, an improved transparent investigation is conducted in-house, with root cause analysis, to learn from the events and take actions to prevent future occurrence.

We are constantly reviewing our contractor management systems. As such, we have improved the supplier selection process in 2019.

We also reported our environmental performance under the CDP framework last year for the first time. We are committed to reporting in 2020 and to improving the quality of our submissions going forward.

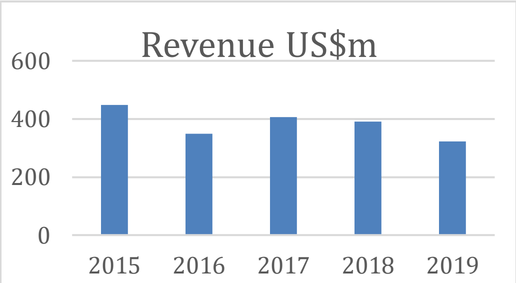
Kaat Van Hecke
Chief Executive Officer of Nostrum

Increasingly challenging position

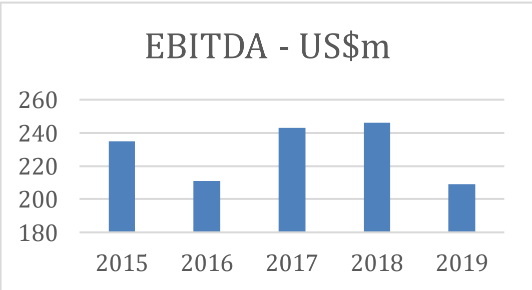
Financial KPIs

Whilst Zhaikmunai has successfully built infrastructure and produced over 100m boe from the Chinarevskoye field, it has incurred substantial debts of over US$1bn and is now facing declining production from its producing field. This increases the pressure on its financial position, and 2020 will be a key year in addressing those challenges. The Group needs to execute its new strategy to be able to go forward.

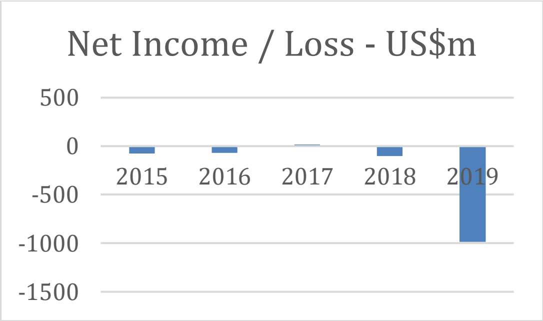
Revenue	US$m
2015	449
2016	348
2017	406
2018	390
2019	322



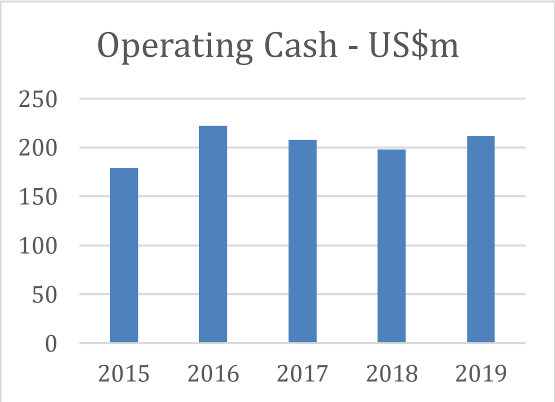
EBITDA	US$m
2015	235
2016	211
2017	243
2018	246
2019	209



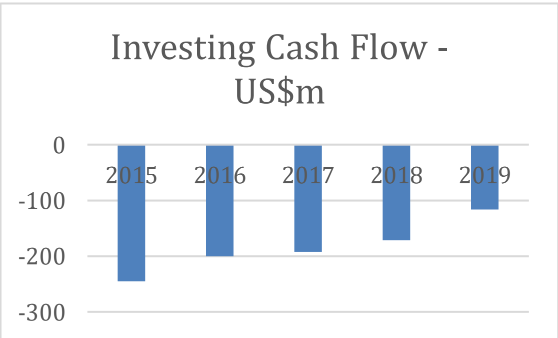
Net Income / Loss	US$m
2015	-77
2016	-68
2017	17
2018	-105
2019	-985



Operating Cash Flow	US$m
2015	179
2016	222
2017	208
2018	198
2019	212

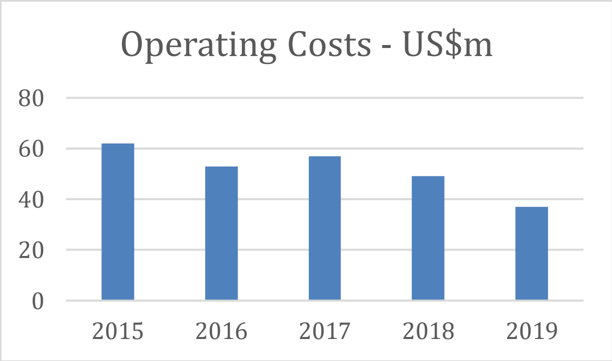


Investing Cash Flow	US$m
2015	-245
2016	-200
2017	-192
2018	-172
2019	-116



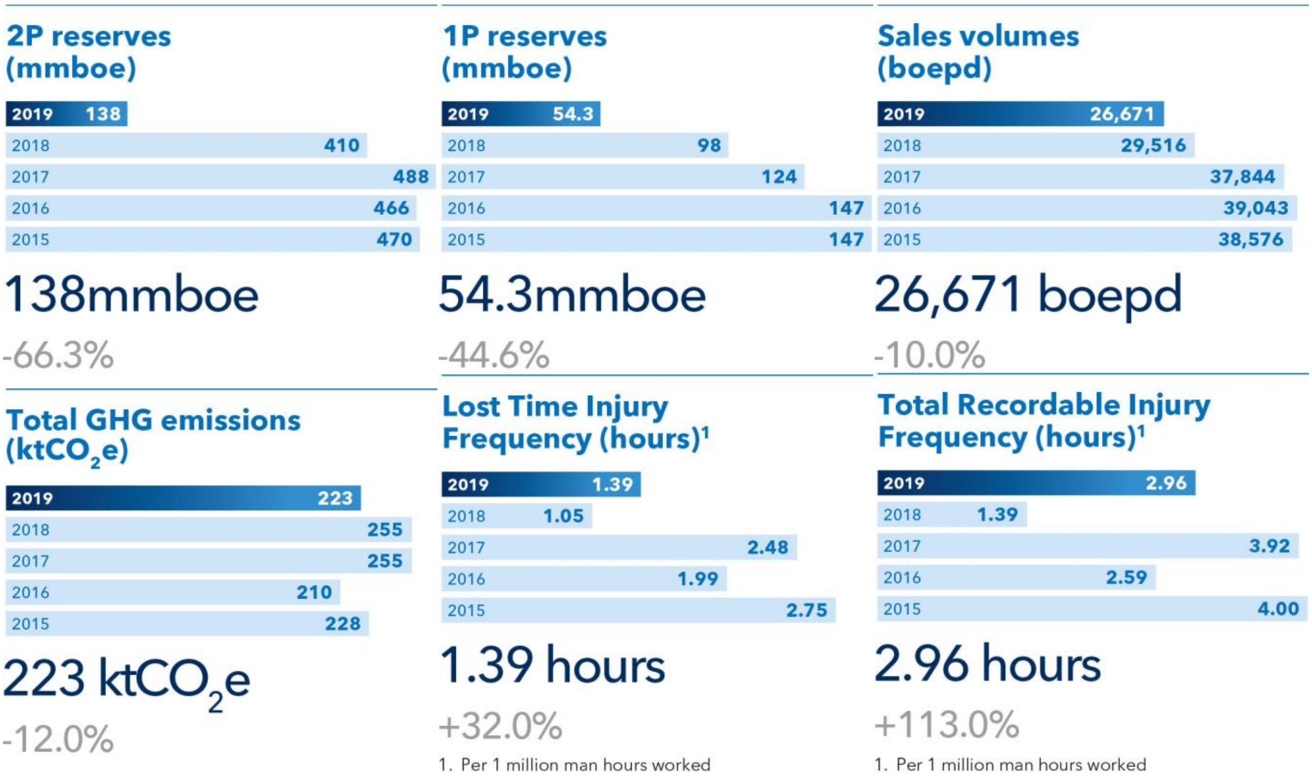
Operating costs	US$m
2015	62
2016	53
2017	57
2018	49

2019	37



Non–financial KPIs

Performing responsibly and safely is integral to our strategy and to the sustainability of our business. We believe that long-term value comes from seeing success as a part of a bigger picture, encompassing people and the environment. We have set ourselves specific non-financial KPIs to track our progress, as we believe it to be the best way to monitor our achievements in relation to environmental, social and governance matters.



2019 milestones

December

Mechanical completion of GTU3

May

First gas through GTU3 and commencement of hot commissioning

June

Commencement of review of strategic and operational options

Agreement to acquire 100% of Positive Invest LLP

July

Completed drilling of wells 41 & 42

August

Licence extension at Rostoshinskoye

September

Licence extension at Chinareveskoye

October

GTU3 Technical commissioning complete

No commercial hydrocarbons confirmed at wells 41 & 42, drilling of well 361 continues

PM Lucas and Schlumberger reports received by Zhaikmunai

2019 Production guidance revised down to 28,000 boepd with sales volumes at 27,000

November

No commercial flow indicated at well 361

December

CDP completed, and ‘C’ grade awarded

Kai-Uwe Kessel steps down as CEO and Kaat Van Hecke becomes interim CEO

January 2020

Stop drilling and focus on third party volumes

PERFORMANCE REVIEW

Our products

Crude oil

Quality	• Density – 0.815g/cm^3. • API – 42-43 degrees.	• Average Sulphur – 0.4%.
Sales	• 85% exported in accordance with the PSA. • 15% sold domestically. • During 2019, all exported crude oil volumes were sold through the KTO pipeline.	
Pricing	• Urals-based pricing for pipeline exports.	• Domestic sales at c.50% discount.
Transportation	• Crude exports are delivered to the KTO pipeline through an extension to our own 120km pipeline from the field site.	• From here it is delivered to Russian ports.

Stabilised condensate

Quality	• Density – 0.750-0.790 g/cm^3. • API – 56 degrees API.	• Average sulphur – <0.2%.
Sales	• 100% exported. • Destinations are the Russian ports.	
Pricing	• Brent-based pricing.	
Transportation	• 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 the Russian ports.

	LPG	
Quality	• Field grade quality. • No olefins and low sulphur content.	
Sales	• <85% exported. • Destinations include the Russian Black Sea Ports.	
Pricing	• International Mediterranean LPG price Sonatrach for Black Sea deliveries.	• Brest quotation for Eastern European deliveries.
Transportation	• Loaded onto LPG trucks from the field site to our rail loading terminal in Uralsk.	• From here it is loaded onto railcars and sold to third parties.

	Dry gas	
Quality		
Sales	• 100% sold to KazTrans Gas.	
Pricing	• Price agreed annually.	• Price agreed annually.
Transportation	• 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.

Oil treatment facility

Zhaikmunai finalised the construction of an oil treatment facility in 2006 (“OTF”). Currently, the OTF has a maximum throughput capacity of 400,000 tonnes 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 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 17km dry gas pipeline.

GTU1,2 & 3

The gas treatment facility includes three gas treatment units, with the capacity to treat 4.2 billion cubic metres of raw gas per annum. The final train of this facility was commissioned during 2019.

Power generation plant

The gas-fired power generation plant is linked to the gas treatment facility with an output of 26 megawatts. The generation capacity from the plant is sufficient to meet the existing and anticipated energy needs of the field site and associated operations.

Gas pipeline

Zhaikmunai has its own 17km gas pipeline which was completed in 2011 and is linked to the Orenburg Novopskov gas pipeline. Our own pipeline has a capacity sufficient to sell all of our volumes assuming our gas plants are at full capacity.

Liquids pipeline

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

Rail loading terminal

Zhaikmunai commissioned its own automated rail loading terminal in the city of Uralsk in 2009. The rail loading terminal currently receives all domestic crude oil and export condensate produced by Zhaikmunai, and has a capacity of approximately four million tonnes of crude oil and condensate per annum.

Storage facilities

Zhaikmunai has over 30,000 cubic metres of storage capacity for liquids at its field site and rail loading terminal.

KTO pipeline connection

During 2017, Zhaikmunai completed 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 reduced Zhaikmunai's crude oil transportation costs by more than 50% and has enhanced Zhaikmunai's ability to manage crude oil netbacks through the commodity cycle.

Low Pressure System

During 2019, Zhaikmunai continued commissioning its Low Pressure System, which aims to reduce the decline rates of ageing gas condensate reservoirs through increasing the inlet pressure of the main manifold at the GTF from 10 to 42 bar.

Reserves

The Chinarevskoye field is the only producing field Zhaikmunai owns. It has a grandfathered PSA from 1997 and the licence is valid until 2032. Initial hydrocarbon discoveries at the Chinarevskoye field were made during the Soviet era. There have been 103 wells and side-tracks drilled under the PSA between 2004-2019. The licence is owned 100% by Zhaikmunai. The Chinarevskoye field is a multi-layer structure with 17 reservoirs and 53 compartments spread over three areas. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian, Frasnian, Mullinski, Ardatovski, and Biyski-Afoninski reservoirs.

In 1 January 2020 Ryder Scott Reserve Report, for the Chinarevskoye field, a total of 45 interventions, including new wells are planned between 2020-2026, which together with 46 existing producers, recover the estimated 2P reserves in the 31st December 2019 assessment. This compares to 72 interventions under the previous year's report, approximately one-third less.

The Chinarevskoye field interventions comprise 30 new wells, 2 sidetracks, 7 workovers and 6 non-rig re-completions for a total drilling capex estimate of $324 mm, which compares with the previous 2019 estimate of $640 mm.

Current reserves estimates are shown in Table 1. The Total 1P (Proven) case for Chinarevskoye is 54.3 mmboe comprising 43.4 mmboe for Proved Developed Producing (PDP) – from 46 current wells, 8.1 mmboe for the Proved Undeveloped (PUD) category and 2.8 mmboe for Proved Developed Non-Producing (PDNP). Overall Proven volumes are down by c. 46 mmboe due to 10.8 mmboe of 2019 production plus a reduction in condensate yields in the Biyski-Afoninski reservoir, to reflect current observed and expected rates and a reduction in Tournasian wells and water-flood performance.

The Chinarevskoye 2P (Proven plus Probable) volume is 138 mmboe, with the majority of Probable Undeveloped Reserves associated with the development of the Biyski-Afoninski West, North-East and North-West reservoirs. The 2P volumes are reduced by 156 mmboe compared to last year's report. Offsetting some of the above reductions are inclusion of volumes for Frasnian North, Filippovski gas-condensate and the Biyski North-East low-pressure production system (LPS II).

The three fields which together make up the Trident project are now entirely classified as contingent resources. A total of 116 mmboe Probable Reserves for Rostoshinskoye and Darinskoye in the 31/12/2018 reserves report has been moved into the Contingent Resource category pending further appraisal.

The Ryder Scott Reserves Report as of 1 January 2020 looks purely at the economics of a possible field development to extract the maximum number of reserves at a US$65 long-term oil price.

All of the information provided does not take into account the repayment of the Group's liabilities as they come due in 2022 and 2025. It also does not take into account any short-term impact on the liquidity position of the Group as a result of fluctuations in the oil price.

Table 1 – Chinarevskoye & NOG 100% run

			Proved		
Fluid	**Unit**	**Producing**	**Non-producing**	**Undeveloped**	**Total proved**
Oil/Condensate	barrels	12,044,488	626,846	3,080,209	15,751,543
Plant products	barrels	6,772,009	487,689	1,279,685	8,539,383
Gas (after shrink)	mmcf	130,905	8,932	19,970	159,807
Gas (after shrink)	boe	24,575,963	1,676,884	3,749,146	30,001,994
Total	boe	**43,392,460**	**2,791,419**	**8,109,040**	**54,292,920**
			Probable		
Fluid	**Unit**	**Producing**	**Non-producing**	**Undeveloped**	**Total probable**
Oil/Condensate	barrels	0	596,510	25,327,462	25,923,972
Plant products	barrels	0	555,504	11,788,401	12,343,905
Gas (after shrink)	mmcf	0	11,363	231,358	242,721
Gas (after shrink)	boe	0	2,133,277	43,434,901	45,568,179
Total	boe	**0**	**3,285,291**	**80,550,764**	**83,836,056**
			Proved+Probable		
Fluid	**Unit**	**Producing**	**Non-producing**	**Undeveloped**	**Total proved+probabl**

					e
Oil/Condensate	barrels	12,044,488	1,223,356	28,407,671	41,675,515
Plant products	barrels	6,772,009	1,043,193	13,068,086	20,883,288
Gas (after shrink)	mmcf	130,905	20,295	251,328	402,528
Gas (after shrink)	boe	24,575,963	3,810,161	47,184,048	75,570,172
Total	boe	**43,392,460**	**6,076,710**	**88,659,805**	**138,128,975**

Table 2 – Comparison of reserves per reservoir vs. previous year

Reservoir	Unit	Ryder Scott 31/12/2018 Proven	Ryder Scott 31/12/2018 Probable	Ryder Scott 31/12/2018 Total	Ryder Scott 31/12/2019 Proven	Ryder Scott 31/12/2019 Probable	Ryder Scott 31/12/2019 Total	Change 2018 vs. 2019 Proven	Change 2018 vs. 2019 Probable	Change 2018 vs. 2019 Total
Biyski/Afoninski NE	mmboe	63.9	43.8	107.7	**32.2**	**11.4**	**43.6**	-31.7	-32.4	-64.1
Biyski/Afoninski West	mmboe	0.0	80.6	80.6	**0.0**	**35.7**	**35.7**	0.0	-44.9	-44.9
Biyski/Afoninski NW	mmboe	0.0	18.0	18.0	**0.0**	**10.9**	**10.9**	0.0	-7.2	-7.2
Tournaisian NE	mmboe	20.9	13.6	34.5	**12.9**	**9.3**	**22.2**	-8.0	-4.3	-12.3
Tournaisian South	mmboe	1.9	0.0	1.9	**1.4**	**0.0**	**1.4**	-0.4	0.0	-0.4
Tournaisian West	mmboe	0.3	0.0	0.3	**0.2**	**0.0**	**0.2**	-0.1	0.0	-0.1
Mullinski South	mmboe	0.0	2.9	2.9	**0.0**	**2.8**	**2.8**	0.0	-0.1	-0.1
Mullinski North	mmboe	1.1	2.7	3.8	**0.0**	**0.0**	**0.0**	-1.0	-2.7	-3.8
Mullinski NE	mmboe	1.6	23.5	25.1	**0.7**	**4.0**	**4.7**	-1.0	-19.5	-20.5
Bashkirian NE & W	mmboe	2.3	3.7	6.0	**1.0**	**1.5**	**2.5**	-1.3	-2.2	-3.5
Ardatovski NE	mmboe	5.1	5.3	10.4	**4.0**	**5.2**	**9.2**	-1.0	-0.2	-1.2
Ardatovski S	mmboe	1.4	1.7	3.1	**0.0**	**0.0**	**0.0**	-1.4	-1.7	-3.1
Frasnian N	mmboe	0.0	0.0	0.0	**1.6**	**1.0**	**2.6**	1.6	1.0	2.6
Vorobyovski N	mmboe	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
Chernoyarski NE	mmboe	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
Fillippovski	mmboe	0.0	0.0	0.0	**0.3**	**2.0**	**2.3**	0.3	2.0	2.3
Bobrikovski S	mmboe	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
CHN Sub-total	mmboe	98.4	195.9	294.2	**54.3**	**83.8**	**138.1**	-44.1	-112.1	-156.1
Rostoshinskoye	mmboe	0.0	111.0	111.0	**0.0**	**0.0**	**0.0**	0.0	-111.0	-111.0
Darinskoye	mmboe	0.0	5.0	5.0	**0.0**	**0.0**	**0.0**	0.0	-5.0	-5.0
Total Nostrum	mmboe	98.4	311.9	410.2	**54.3**	**83.8**	**138.1**	-44.1	-228.1	-272.1

Chinarevskoye Field

The breakdown on a reservoir by reservoir basis and comparison to the previous year is given in Table 2. A summary of the well interventions programme is given in Table 3 on page 26.

Biyski-Afoninski North-East

There has been an overall 2P reduction of 64.1 mmboe since last year, spread fairly evenly between the Proven and Probable categories. It is planned to drill two new wells. In addition, five wells will undergo rig-less re-completions in the Afoninski during 2022, which is a reduction of one well over last year's programme. This is a much reduced programme compared with the previous year which had 7 new wells and sidetracks and 6 rigless recompletions, and reflects a more cautious approach considering recent production and the results of a Schlumberger study in 2019.

During 2019, Schlumberger carried out static and dynamic modelling studies for the Biyski-Afoninski North-East, and West Reservoirs, together with the Tournasian North-East Oil Reservoir.

The Schlumberger Biyski-Afoninski North East study comprised probabilistic dynamic modeling, with 13 geological realisations to assess further development potential. Production will be monitored in the coming year to confirm a base case scenario which can be used for the update and justification of future production wells. The study concluded that the potential of further infill drilling is limited, which has led to a reduction and deferral in planned wells for the current reserves evaluation.

The study also evaluated the expansion of the existing low-pressure gathering system, which showed positive benefits in extending well producing life together with gas re-injection, which was not recommended as it was unable to restore reservoir pressure above the dew point.

Biyski-Afoninski West & North-West

For the Probable Category in the West, there is a 44.9 mmboe reduction compared to the previous year. A reduced programme of 10 wells (from 16 previously) in the Probable category starts with a re-entry in 2021, with further wells following in 2022 and 2026.

The Schlumberger simulation study for the Biyski-Afoninski West concluded that there was a high degree of uncertainty in predicting the presence of fractures and good quality reservoir in order to locate wells. The reduced program recognises that successful and economic drilling and hydraulic fracturing techniques will need to be established to recover the reserves. Forecast well performance has been reduced by -25% in boe terms. This is based on a reduction in the in-place volumes and a lower Recovery Factor for condensate based on the 2018 natural fractures report from Midland Valley Exploration and the Schlumberger model data from the North-East area.

The Biyski-Afoninski North-West remains in Probable Undeveloped, but with a reduced programme of three development wells in 2024 and early 2025 and a reduction of 7.2 mmboe in 2P.

Tournasian North-East, West & South

The Tournaisian North-East has a Total 2P of 22.2 mmboe and is 12.3 mmboe lower than the previous year. In the Proven category, apart from 2019 production, the main reduction is in the Proven Undeveloped with a reduction of one well and replacement of two new wells by rig-less recompletions which are expected to recover lower volumes than a new well. The remaining four new wells will be drilled in 2022. In addition to production wells, two new water injection wells are planned, with the first in 2022 and the second in 2024. These waterflood plans are provisional on the results of a water injection tracer study due later in 2020, which will be used to help design the next phase of the waterflood.

The Schlumberger Tournasian North-East study comprised probabilistic dynamic modeling with six geological realisations to assess further development potential, including expansion of the waterflood. As in Biyski-Afoninski, production will be monitored in the coming year to confirm a base case scenario which can be used for update of future production and injection wells.

There remain no plans for further drilling in the Tournasian South and Tournasian West reservoirs.

Mullinski North-East

Probable reserves have been reduced by 20.5 mmboe due to a reduced programme of five wells (from nine in the previous year) which is planned between 2023 and 2025. In addition, forecast well performance has been reduced based on analysis of the production histories of existing wells.

Mullinski South

This remains unchanged in the programme, with one well to be drilled in 2023.

Mullinski North

A small volume of Proven Reserves is attributed to the existing well Ch-724_1. Due to the marginal economics of drilling new wells, all three previously planned Probable wells have been removed from the programme.

Bashkirian North-East & West

There are two new wells proposed in the North-East to be drilled in 2023 and 2024. These are offset wells and have been allocated to Probable (from Proven Undeveloped) because of observed variable production performance in existing wells. Five former Probable wells in the East have been removed from the programme.

Ardatovski North-East & South

Two Probable wells remain in the plan for the Ardatovski North-East. As in the previous year, these are a sidetrack together with a new well, with both to be drilled in 2023. No further development is planned for the Ardatovski South reservoir.

Frasnian North

Reserves from this horizon have been booked for the first time based on the production licence ("mining allotment") being extended to the northern area in 2019. Proven reserves are attributed to the existing Ch-40_1 well, while two new wells are planned as step-outs in 2023 and 2024 respectively.

Filippovski

Five low cost workover recompletions have been identified for the Filippovski, and these are planned to be carried out in 2020 and 2021.

Trident project

The three fields which make up the Trident project are now entirely classified as contingent resources, with previous Probable Reserves for Rostoshinskoye and Darinskoye in the 31/12/2018 reserves report moved into the Contingent Resource category.

Rostoshinskoye Field

The Appraisal period has been prolonged for three years and includes a commitment to drill one new well.

No operational activities are planned for the Rostoshinskoye field in 2020.

Darinskoye Field

No operational activities were carried out in 2019 and work continued on feasibility and detailed planning for the Early Oil Development concept comprising well re-entry, new wells and facilities.

Yuzhno-Gremyachinskoye Field

This remains in the Contingent Resources category with no changes during 2019.

Table 3 – Summary of 31/12/2019 well programme compared to the previous year

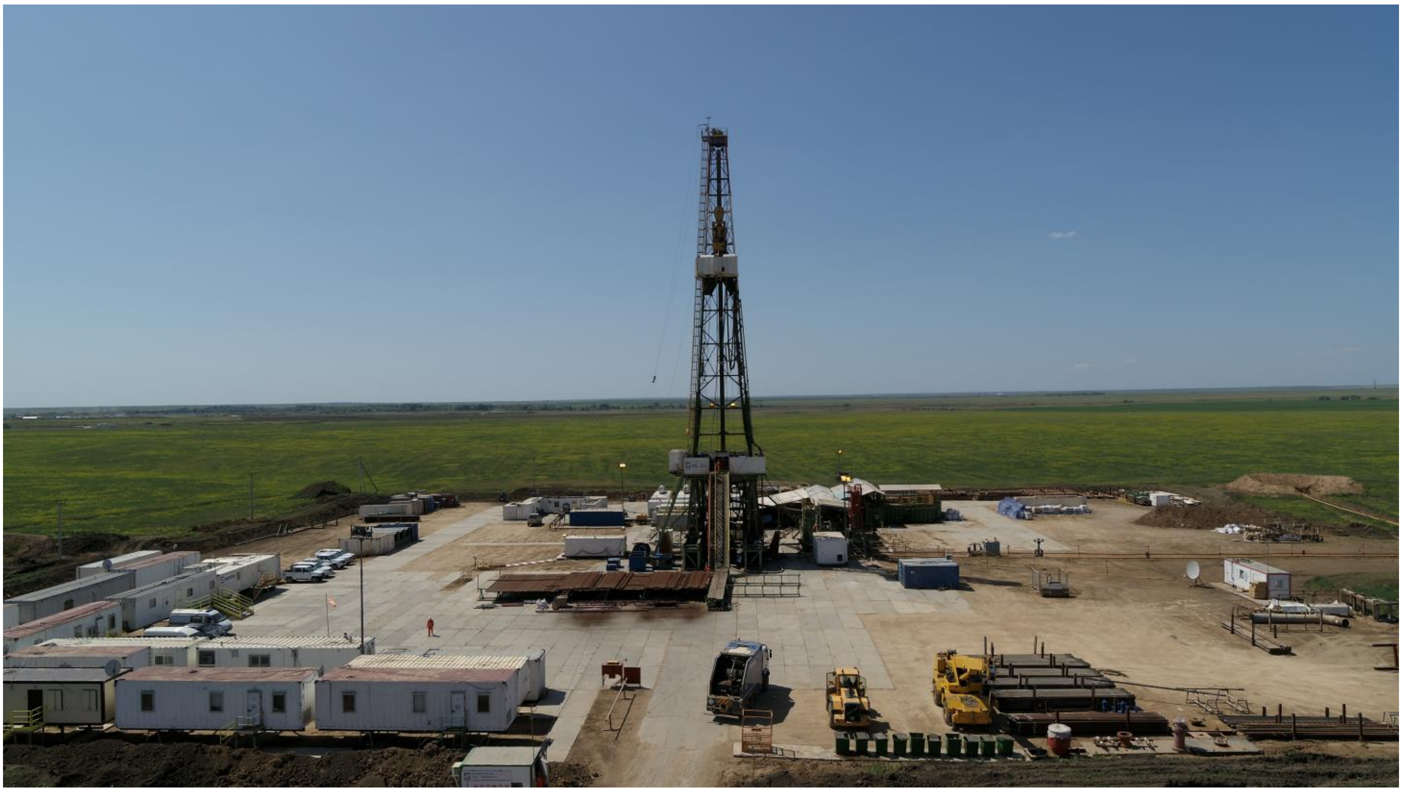
	Ryder Scott 31/12/2018				Drill Schedule effective 31/12/2019			
Reservoir	**Proved wells**	**Probable wells**	**Appraisal**	**Total**	**Proved wells**	**Probable wells**	**Appraisal**	**Total**
Biyski/Afoninski NE	6	7	–	13	**1**	**6**	**–**	**7**
Biyski/Afoninski NW	–	4	–	4	**–**	**3**	**–**	**3**
Biyski/Afoninski West	–	16	–	16		**10**		**10**
Tournaisian NE – oil	5	3	–	8	**4**	**2**	**–**	**6**
Tournaisian NE – WI	4	–	–	4	**–**	**2**	**–**	**2**
Tournaisian South	–	–	–	–	**–**	**–**	**–**	**–**
Tournaisian West	–	–	–	–	**–**	**–**	**–**	**–**
Mullinski South	–	1	–	1	**–**	**1**	**–**	**1**
Mullinski North	–	3	–	3	**–**	**–**	**–**	**–**
Mullinski NE	–	9	–	9	**–**	**5**	**–**	**5**
Bashkirian NE & W	2	5	–	7	**–**	**2**	**–**	**2**
Ardatovski NE	–	2	–	2	**–**	**2**	**–**	**2**
Ardatovski S	–	–	–	–	**–**	**–**	**–**	**–**
Frasnian N	–	–	2	2	**1**	**1**	**–**	**2**
Vorobyovski N	–	–	3	3	**–**	**–**	**–**	**–**
Chernoyarski NE	–	–	–	–	**–**	**–**	**–**	**–**
Fillippovski	–	–	–	–	**–**	**5**	**–**	**5**
Bobrikovski S	–	–	–	–	**–**	**–**	**–**	**–**
CHN Sub-total	17	50	5	72	**6**	**39**	**–**	**45**
Rostoshinskoye	–	24	1	25	**–**	**–**	**1**	**1**
Darinskoye	–	6	1	7	**–**	**1**	**–**	**1**
Grand Total	17	80	7	104	**6**	**35**	**6**	**47**

2019 Drilling

In 2019 Zhaikmunai drilled 3 appraisal wells, 41, 42 into the Frasnian and 361 in to the Vorobyovski. There was no commercial inflow of hydrocarbons from any of the wells. In addition to the appraisal wells, two side-tracks were drilled. One Bashkirian side-track 52_2 was drilled but flow tests did not yield commercial production of crude oil. One Tournaisian NE water injection sidetrack 51_1 was drilled and completed, and injection started immediately after connection to surface systems.

The workover campaign in 2019 consisted of the recompletion of two idle gas condensate wells for further appraisal of the Permian Filippovski reservoir. After acid stimulation, both wells started to produce hydrocarbons free of formation water. Two idle oil wells were recompleted in 2019 with the workover rig to the Tournaisian NE oil reservoir. They are now producing with stable flow rates. After failure of the Electrical Submersible Pump (ESP) in well 45, a replacement pump was installed without loss of production rate after completion. It took approximately six months to replace the ESP, however the well now produces at the same rate as prior to the ESP failing.

Zhaikmunai has decided to halt drilling in 2020 and operate with one work over rig. Low cost rig-less recompletions are also planned to contribute to the development of remaining reserves. The focus of Zhaikmunai will now be to efficiently utilise the work over rig and reduce costs where possible at field site whilst working hard to add additional third-party gas streams through the gas treatment facility in the future. As per the Ryder Scott reserves report, further drilling is planned to take place on the Chinarevskoye field from late 2021, but this is dependent on Nostrum being able to both refinance its liabilities and maintain sufficient liquidity to fund such a programme. There is no guarantee that Nostrum will be able to achieve this, which can have a material impact on Zhaikmunai’s ability to develop the remaining proven and probable reserves at Chinarevskoye. As at 31 December 2019, the Group had 46 production wells in operation on the Chinarevskoye field.



Infrastructure

GTU3 & Sulphur Recovery Unit

In 2019, Zhaikmunai successfully completed and commissioned the third train (GTU-3) of its gas treatment facility. After introducing raw gas, each technological element of the GTU-3 system has been tested and verified independently. After achieving on-spec quality of the final products (sales gas, stable condensate, LPG), a 72-hour performance test was concluded. Following the successful performance test, while obtaining all necessary documents, regulatory acts, documents regarding industrial and fire-fighting safety, GTU-3 was declared ready for operation and became part of the Field Operation (as GTU-1-2-3). The total capacity of the gas treatment facility is now 4.2 billion cubic metres per annum. The third train has a capacity of 2.5 billion cubic metres per annum. The sulphur recovery unit allows Zhaikmunai to process sour gas with an H2S content of up to 16% at the moment in direct oxidisation mode. This is part of the sour gas stream after processing before it gets into the Sulphur Recovery Unit. Work is ongoing on modifying the Sulphur Recovery Unit to allow for the UOG gas to be processed. Consideration will be given to enhancing the Sulphur Recovery Unit further, to allow for other third party gas with higher H2S content.

Extension of LPS

In order to stabilise the decline of some of older producing wells, Zhaikmunai commissioned a low pressure system in Q4 2018. There are now 12 wells linked up to the Low Pressure system, and further compressor capacity is required to prolong the life of the gas condensate wells. As a result, an extension to the low pressure system was approved in Q3 2019, and the extension is scheduled for completion in October 2020.

Demonstrating the value of our infrastructure

The core strategy for the Group to create value for its stakeholders is commercialising the investment made in its infrastructure. The focus is to fill the spare capacity with third-party hydrocarbons. The first step towards achieving this was made in 2018, when Zhaikmunai entered into binding agreements to process third party hydrocarbons delivered by UOG from the Rozhkovskoye field, which is situated less than 20km from the Chinarevskoye field. UOG will fund the connection of existing wells at the Rozhkovskoye field to Zhikmunai's licence area. Thereafter, Zhaikmunai will process all of the hydrocarbons coming into the field. UOG is a company owned by KazMunaiGas ("KMG") (50%), Sinopec (27.5%) and MOL Group ("MOL") (22.5%).

The commercial terms comprise two parts. Firstly, a tolling fee for the stabilisation of liquid condensate, which will be US$8 per barrel, and secondly the purchasing of raw gas from UOG at a price to be agreed at the point of delivery to Nostrum's facilities.

The Rozhkovskoye field

The pre-salt Rozhkovskoye gas condensate field was discovered in 2008 on the Fedorovsky exploration block by UOG. The field has broadly analogous geology to the Chinarevskoye field which sits approximately 20km to the north. Rozhkovskoye's primary Tournaisian (Lower Carboniferous) reservoir tested positive for gas-condensate in all nine exploration and appraisal wells drilled by UOG. The Tournaisian consists of shallow marine limestones at 4,200-4,600 metres. The Bobrikovski horizon (Lower Carboniferous) also contains gas-condensate. In 2014, an oil discovery was announced in the Bashkirian (Upper Carboniferous). In April 2015, UOG signed a 25-year production contract for the Rozhkovskoye field, demonstrating a commitment to developing its licence area.

Additional third party volumes

Zhaikmunai is focused on entering into additional agreements which can fill all the remaining capacity in its gas treatment facility. Zhaikmunai is working with other counter-parties to secure a long-term stream of raw gas from which it can generate significant revenues. Without any additional third party gas coming through Zhaikmunai's facilities, it will be extremely challenging to repay or refinance its liabilities.

SUSTAINABLE ACCOUNTABILITY

Operating in a responsible manner

Our approach to Sustainability

Nostrum aims to operate in a responsible manner to ensure the safety of employees, contractors and the environment.

Safety is a personal and shared responsibility, and Nostrum is committed to occupational health and environmental impact mitigation. We believe everybody working at or visiting our facilities has a right to return home safely and to perform their duties under safe working conditions.

Safety is at the core of our operations. Our field sites are in remote locations, making rigorous safety procedures essential and the safety of all our employees is our number one priority. Nostrum adheres to internationally recognised health, safety and environmental standards, and seeks to comply with ISO 14001, ISO 50001 and ISO 45001 Occupational Health and Safety Standards.

A major achievement in 2019 was the formation of a Nostrum Board Health, Safety, Environment and Communities Committee, which has oversight over health, safety and environmental matters. This Committee is focused on five key QHSE pillars which define our approach to sustainable operations and in 2019 redrafted Nostrum's 'Golden Rules' on safety.

Sustainability focus areas

- Health and safety
- Our people
- Environment
- Social Responsibility

QHSE

- HSE leadership
- Rigorous incident investigation
- Process Safety critical element identified and maintained
- Contractor HSE management
- Commitment to reduce GHG emissions

Golden Rules

In 2019, the committee, together with senior management, re-drafted the 'Golden Rules' and stressed their importance to employees at all levels. The 'Golden Rules' set out clear and simple 'do's and don'ts', covering activities deemed to have the highest potential safety risk, based on both international and Group statistics of incidents. Managers and Contract Owners communicated the 'Golden Rules' across the Group, explaining the purpose, expectations and consequences. Employees who observe rule breaking or unsafe activity can use the Hazard Observation Cards to alert their supervisor or manager.

UN Sustainable Development Goals

The Group's approach to sustainability is guided by the 17 UN Sustainable Development Goals ("SDGs"). These SDGs aim to end poverty and reduce inequality while addressing climate change and environmental preservation. They are an important focus for Nostrum as they assist the Group in prioritising sustainable development matters, and aligning these global challenges with our business strategy.

For more information, please see https://sustainabledevelopment.un.org.

Health and safety

The wellbeing of employees and contractors is of extreme importance to the Group, and we promote an active health and safety culture within the Group. QHSE training and procedures are rigorous and are promoted to an international standard.

Progress against 2019 targets

The Group has activities that potentially involve a high number of injuries. We are pleased to report that in 2019, there were no lost time incidents relating to Group employees, however contractors were responsible for eight LTIs during the year, all of which were in the Republic of Kazakhstan and only involved men. As per our health and safety procedures, all incidents were investigated, their causes identified and corrective action plans developed. The accident severity rate, the fatality frequency rate, the rate of occupational diseases, the lost day rate, the absenteeism rate, the number of on-job accidents with fatalities that occurred in Zhaikmunai LLP were not recorded separately from LTIs and TRIs.

In addition, we sought to improve contractor safety management.

An updated contractor management framework is being developed with implementation expected to be in 2020. In 2019, Nostrum developed HSE pre-qualification criteria and HSE requirements for low and high risk activities. In 2019, four contractor audits and nine management system audits were performed, demonstrating an ongoing commitment to improved contractor management. In addition, a Contractor HSE Forum was conducted in October 2019, which allowed the management teams of contractor companies to review and discuss issues.

The main areas for improvement identified for 2020 are:

- Supervisor HSE Competence
- Contractor HSE Performance Management
- Determination and provision of resources needed for the operational HSE control
- HSE Leadership

HSE Leadership, Communication and Awareness

HSE Golden Rules

In September 2019, a 'Golden Rules' safety campaign was rolled out within all Group facilities and distributed to all contractors. These Golden Rules state the main safety requirements of the Group and are based on international best practice within the Oil & Gas Industry and a review of Group incident statistics. Examples of the campaign initiatives include:

- A pop-up window appearing daily on login screens with a notification from the QHSE department
- HSE alerts emailed from QHSE Info Mailbox to all employees to communicate lessons learned following 2019 safety incidents
- Toolbox meetings conducted regularly on fieldsite to communicate safety initiatives
- Monthly QHSE reports issued to communicate HSE performance and promote accountability

There are no formal agreements with trade unions regarding health and safety issues.

HSE Observation Cards

An awards ceremony was conducted in September 2019 to recognise employees who raised Hazard Observation Cards in 2019. Hazard Identification Cards allow every employee to report unsafe conditions observed in the workplace, or comment upon any safe or unsafe personnel behaviour and to make suggestions on HSE improvement. All employees are encouraged to actively participate in hazard identification activity and fill the Hazard Observation Cards.

Process Safety

In 2019, there were no Tier 1 or Tier 2 process safety events registered at Nostrum's production facilities. Tier 1 and 2 safety incidents are a loss of primary containment with the greatest consequence as defined by the American Petroleum Institute. It is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable materials from a process that results in one or more of the consequences listed below:

- an employee, contractor or subcontractor incurs days away from work, injury and/or fatality;
- a hospital admission and/or fatality of a third party;
- an officially declared community evacuation or community shelter in place including precautionary community evacuation or community shelter-in-place;
- fire or explosion damage greater than or equal to US$100,000 of direct cost.

The selection of the applicable maintenance strategy type versus the equipment criticality is identified based on the impact that equipment failure has on related risk. This will enable maintenance to be prioritised in the event of shortage of resources and will allow reporting against critical systems.

Safety Critical Elements are devices, equipment or systems that are required to ensure process conditions are maintained within safe operating limits, or the purpose of which is to prevent malfunctioning.

Incident Investigation

In 2019, Zhaikmunai looked to improve incident investigation processes with a greater focus on leadership and collaboration between the HSE department and responsible business areas. Incident levels were revised so that incidents are now placed on a scale of 1-5, depending on severity, and responsibility to lead an investigation into the incident will be based on this number. The most serious incidents will be investigated by the CEO and COO, and those which are less severe will be handled by the field operations director or head of unit.

To increase awareness of QHSE generally, training was held by the British Institute of Occupational Health & Safety for 35 supervisors. A key course module was Incident Investigation which reinforced the importance of proper incident investigation and international QHSE practices.

2020 initiatives

- To participate in CDP 2020
- Implement a Contractor Safety Management process with a periodical tracking of contractors' HSE performance;
- Provide a structured and consistent approach considering HSE requirements in the selection process of potential contractors;
- Organise in-house HSE training and examination process in order to improve HSE competence of NOG and contractor personnel performing safety critical activities.

Examples include:

- Lock out/tag out;
- Permit to work process;
- Working on heights;
- Confined space entry.

Hazard Observation Procedure

A hazard observation procedure was developed and implemented in 2019 to define the process of hazard identification in the workplace. Employees and contractors are encouraged to fill in Hazard Observation Cards to report unsafe conditions observed in the workplace, any safe or unsafe behaviours of personnel performing duties and to make suggestions on HSE improvement.

During 2019, 216 of these cards were raised, allowing the Group to take corrective actions in cases of unsafe behaviour and to implement HSE improvements. The programme was highly successful and staff were incentivised to participate.

Field Director Ivan Vukov supported this programme and personally raised many Hazard Observation cards in order to immediately address issues and improve workplace safety. Mr Vukov demonstrated safety leadership by improving safety culture and promoting a 'no-fault' approach to hazard identification and the reporting process.

Talgat Zharmukhambetov, an engineer from the Power Generation Department, personally raised 22 Hazard Observation cards in 2019. The Drilling department and Drilling Contractors also used the card system for hazard reporting, which further demonstrated the operational support for the system, and Damirzhan Urumbaev, a shift supervisor at the Oil Treatment Unit, raised 21 Hazard Observation Cards in 2019.

Our people

Zhaikmunai is proud to engage a diverse workforce spanning many ages, nationalities and genders. The Group's Code of Conduct protects all employees and contractors against illegal discrimination on the basis of race, religion, national origin, age, gender, disability, sexual orientation or political opinion.

Our business is led by a dedicated and experienced management team, diverse in age, nationality and gender. This is integral to advancing the Group’s approach to diversity throughout the business.

Gender diversity

Whilst we are encouraged by our diversity at Nostrum Board and department head levels, we do recognise that diversity remains an ongoing issue in the oil and gas industry, particularly with regards to gender diversity. We strive to be an attractive place to work with an inclusive environment that celebrates diversity. Nostrum is committed to improving the gender balance at all levels of the Group, and in 2018 & 2019 we engaged with interest groups to better understand how we might do this. Additionally, the Group adopted a corporate Equality and Diversity Policy in November 2017 to further support these ambitions. At present, 23,6% of Zhaikmunai LLP employees are female.

The Nostrum Board recognises the importance of continued improvement in this area, and is committed to giving due regard to the benefits of diversity in our future appointments, including ensuring Kazakh nationals are properly represented at senior levels of the Group. The Nostrum Board also focused on succession planning during 2019, and gender considerations will factor into this. Currently 22% of employees at department head level are female.

In addition, Human Resources is working toward a policy of promotion from within and building a pipeline of diverse employees at all levels of the business. We are pleased to report that 30% of Zhaikmunai recruitment in 2019 was female. There were no recorded discrimination incidents with any of the Zhaikmunai’s employees in 2019.

In 2019, 23 employees (1 male and 22 females) took maternity/paternity leave and 4 employees (4 females) returned from maternity/paternity leave.

Employee relations and social guarantees

Nostrum prides itself on being an integral community partner, and the Group is one of the largest employers in Western Kazakhstan. We employed a total of 636 staff from more than 17 countries, including 479 males and 157 females.

We offer all staff members competitive benefits and remuneration packages in compliance with all regulatory bodies, guidelines and requirements, which (to the extent applicable) are also applied to those hired as temporary or part-time employees. In 2019 the average monthly salary of locally engaged employees increased by 12% in KZT.

In an effort to promote gender equality, we will now also monitor gender pay discrepancies. In 2019, the average employee salary was 47.3% higher for males at Zhaikmunai LLP and the median employee salary was 7.1% lower for females at Zhaikmunai LLP. This data was not recorded by category and workplace.

Education and training

We believe investing in our people is key to economic self-empowerment in the communities in which we operate. Under the terms of our PSA, 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 subsoil use agreements for the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

There was no advanced training in addition to that required under the PSA and the other subsoil use agreements. There was no assistance for employees who stopped working as a result of retirement or termination of employment

Our employees and their children are eligible for educational grants and financial support to assist with university and college expenses. Educational fellowships and assistance may also be awarded on a discretionary basis.

In 2019, Nostrum supported 722 employees to benefit from education and training programmes. Our total Group training costs in 2019 were US$2,068,225, and the total number of training days in 2019 was 7,264 days.

Training was undertaken by operational teams, department heads, specialist engineers and other technicians at different levels across the organisation. The average number of training hours per employee by gender and category was not recorded.

Hiring and staff turnover

206 employees were released in 2019. This was the main cause of staff turnover. The number of employees hired in 2019 was 63 (11.5%) of which 30% were female and 70% male.

Workforce representation

In 2018, the Group put collective agreements in place to provide for workforce representation and, in 2019, Nostrum designated a non-executive director, Sir Christopher Codrington, to serve as its liaison for engagement with the workforce.

The Nostrum Board of Directors strives to adopt best practices in corporate governance, including engagement with the Group’s workforce. In particular, the Nostrum Board wishes to understand the views of the Group’s workforce and to take such views into consideration in Nostrum Board discussions and decision making. Communication between the workforce and the Nostrum Board is often referred to as the ‘employee voice’, and it is hoped that a wide selection of views from the workforce can be gathered through a range of formal and informal channels. Such channels are intended to help the workforce share ideas and concerns with senior management and the Nostrum Board. It provides useful feedback about business practices from those delivering them, and can help empower colleagues. The Nostrum Board encourages individuals to raise any concerns they may have. Doing so acts as an early warning system for actual or potential problems and helps to manage risk. The Nostrum Board actively listens to workforce concerns and subsequently provides feedback on how the matter raised has been considered, including any action taken. The Nostrum Board emphasised that the workforce felt safe to raise concerns.

There is no requirement under applicable laws for the Group to notify its employees of significant changes relating to its activities.

Internal control system

The Group’s internal control system is aimed at mitigating risks and improving efficiency. These include:

Corporate governance: segregation of authorities and duties at various levels;

Policies and procedures covering directors’ remuneration, compliance, accounting and reporting, health, safety and environment as described in the relevant sections of this report;

training and internal communications; and

continuous monitoring by senior management and the Nostrum Board of short-term, medium-term and long-term planning and decision-making processes.

Details of the procedures related to compliance control are set out below (including compliance liaison equivalent to a hotline). No instructions for conflict of interest settlement or compliance control forms were in use in 2019. No sanctions or disciplinary actions were applied in respect of internal control in 2019.

Internal audit

The primary role of the internal audit function is to assist the Nostrum Board and senior management to protect the assets, reputation and sustainability of the organisation. This is achieved through:

Building strong and effective risk awareness within the Group;

Continuously improving risk management and control processes so that they operate effectively and efficiently, and reflect leading practice; and

Sharing best practice regarding risk management and assurance across the Group.

External audit

Since 2007, Ernst & Young LLP LLP has been the auditor of Zhaikmunai LLP. Measures concerning the identification and independence of Ernst & Young LLP are set out in the annual report of Nostrum.

The audit committee of the Nostrum Board has overall responsibility for the Group’s internal control system. All other details of internal control are to be found in the report of the audit committee of the Nostrum Board, as set out in the annual report of Nostrum.

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. Nostrum is committed to maintaining a Group-wide culture that recognises international standards of human rights.

Group Policies

The UK Corporate Governance Code issued by the Financial Reporting Council in July 2018 (the “Code”) sets out the governance principles and provisions that applied to Nostrum during 2019. The Nostrum Board believes that compliance with the Code ensures compliance by the Group with appropriate corporate ethics.

A copy of the Code is available from the Financial Reporting Council's website at www.frc.org.uk.

Nostrum fully complied throughout 2019 with the provisions of the 2018 version of the UK Corporate Governance Code except in the following respects:

Provision 11

Following the appointment of Ms Van Hecke as Chief Executive Officer of Nostrum on 16 December 2019 and Mr Cocker as Interim Chief Financial Officer of Nostrum on 1 April 2020, at least half of the Nostrum Board, excluding the Chairman of the Nostrum Board, are no longer considered to be independent. Given recent changes in various directors' respective roles, Nostrum's announced engagement with its bondholders and the ongoing uncertainties caused by the Covid-19 coronavirus, the Nostrum Board has not yet commenced a search for an additional independent non-executive director to join the Nostrum Board but this subject is being kept under review.

Provisions 24 and 32

Following the appointment of Ms Van Hecke as Chief Executive Officer of Nostrum on 16 December 2019, she was no longer considered as independent for the purposes of the Code and her continued membership of both the Nostrum Audit Committee and the Nostrum Remuneration Committee contravened Provisions 24 and 32 of the Code, respectively.

On 27 January 2020, Ms Van Hecke stepped down as a member of the Nostrum Audit Committee and the Nostrum Remuneration Committee and Mr Cocker was appointed as a member of the Nostrum Remuneration Committee to ensure full compliance with the Code in this respect.

No additional changes were made to the composition of the Nostrum Audit Committee as following Ms Van Hecke's departure as a member, the membership of the Nostrum Audit Committee still consisted of three independent non-executive directors in full compliance with the Code.

Following the appointment of Martin Cocker as Interim Chief Financial Officer of Nostrum on 1 April 2020, he was no longer considered by the Nostrum Board as independent for the purposes of the Code and as a result his continued membership of both the Nostrum Audit Committee and the Nostrum Remuneration Committee contravenes Provisions 24 and 32 of the Code, respectively.

On 1 April 2020 Mr Cocker stepped down as Chairman of the Nostrum Audit Committee and was replaced by Sir Christopher Codrington, Bt. so that the Chairman of the Nostrum Audit Committee is an independent non-executive director. However, the Nostrum Board determined that given that it is intended that Mr Cocker will only serve as Chief Financial Officer of Nostrum on an interim basis, he should remain as a member of the Nostrum Audit Committee and the Nostrum Remuneration Committee at this time and this matter will be kept under review going forward.

Bribery, corruption and whistle-blowing

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. Corruption-related risks are evaluated on a Group-wide basis (not in respect of divisions). No confirmed corruption cases were identified in 2019. No employees were trained on anti-corruption policies in 2019.

Human Rights Policy

In 2019, the Group developed and implemented a Human Rights Policy which reflects the Nostrum's desire to comply with industry best practice. There was no training on this policy in 2019.

This is in addition to the Nostrum Code of Conduct ("the Code") which defines the principles that guide business conduct and provide a non-exhaustive outline of what Nostrum considers permissible conduct by its employees. These principles include provisions relating to human rights and diversity in the workplace, inside dealing and inside information.

A copy of the Code 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

There are no divisions of the Group (or its vendors) believed to have significant risk of child/forced labour/hazardous work performance by young employees.

Under the Group's standard supply contracts, the Group is entitled to require suppliers to demonstrate compliance with the Code and to hold its suppliers responsible for compliance by their supply chain with equivalent terms.

A copy of our Modern Slavery and Transparency Statement is available on our website: www.nog.co.uk.

Whistleblowing Policy

We have a Whistleblowing Policy which takes into account the Whistleblowing 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.

The Whistleblowing Policy sets out details of three compliance liaison officers who speak a variety of languages for the purposes of reporting any concerns. The Whistleblowing 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 Whistleblowing Policy is available in both Russian and English and on the Group's website. At the time of writing, we have received no reports under our Whistleblowing Policy of forced/involuntary labour or human trafficking in relation to our business or supply chains. For further details, please see our website: www.nog.co.uk

An anonymous person raised one matter under the Group's whistle-blowing policy in 2019 and, upon receipt of this request, the Group followed the review procedures contained in the whistle-blowing policy and conducted an investigation. The outcome of the investigation was that the allegations made by the anonymous person were baseless.

Anti-facilitation of tax evasion

Further to the new rules under the Criminal Finances Act 2017 ("CFA") in the UK, in 2018 the Nostrum Board approved a new Anti-Facilitation of Tax Evasion Policy applicable to the Group and its associated persons. In connection with the preparation of this policy, Nostrum commissioned an independent bespoke risk assessment and incorporated findings from such assessment in the policy in this area.

Compliance with other legal requirements

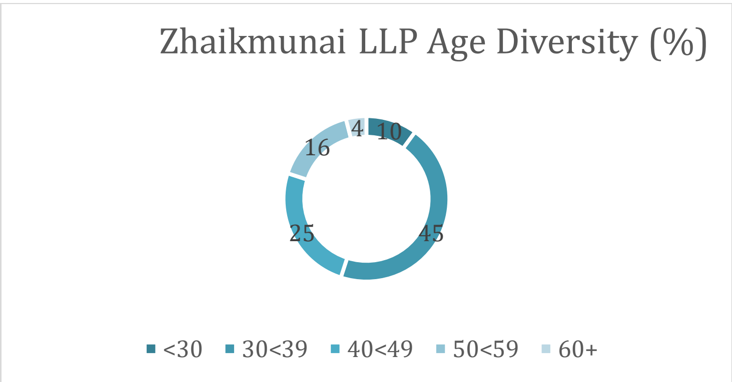
There were no material fines or other sanctions against the Group in 2019.

Product liability

There were no cases relating to product liability in 2019.

Diversity Action Plan

The aim is to set up KPIs for HR on improving diversity at all levels. In terms of diversity statistics, we would like to stand out by improving female representation across all levels. At the end of 2019, there were 75.3% male & 24.7% female employees in Zhaikmunai LLP. We are targeting 75% male & 25% female split by the end of 2022.



The improvement initiatives are the following:

- Establishing gender diversity as a strategic business focus;
- Consult experts to build diversity programs;
- Conduct a gender audit that evaluates how gender equality is incorporated into policies, procedures, budgets, etc;
- Identify an internal pool of female talent. This has already started with our "succession planning identification programme";
- Support recruitment that provides equal opportunities for men and women;

- Arrange gender pay gap analysis to identify main areas for improvement.

Social Responsibility

Zhaikmunai is a proud community partner and strives to foster a culture of openness and engagement. We are pleased to be able to offer social and financial support to promote the well being of local residents.

2019 key initiatives

We support our local communities through financing social infrastructure and community projects. In 2019, key initiatives included:

- USD$118,416 funding of 20 regional secondary schools to purchase equipment and furniture. This included the purchasing of a school bus for the Beles District rural secondary school.
- Sponsoring of repairs for schools in Yanvartsevo and Sulukol villages.
- Support of the Zelenovkiy area biathlon team through the purchase of sports equipment.

Additionally, during 2019, we supported 22 local individuals and public associations. These included:

- Support for festive events in the communities of Yanvartsevo, Beles and Sulukol, including an event organised by a disability support group.
- Sponsorship of a Beles school student to participate in an international karate competition where he won a silver medal.
- Support for artistic performances, including a local singing contest and photography exhibition.
- Sponsorship of the Condensate Kazakhstan International Badminton Series.
- Funding of medical treatment for local individuals.
- Improvements to community infrastructure, including street lighting, water and gas supply.
- Material assistance to veterans of the Second World War on the Victory day and restoration of the alley of oilmen on the 120th anniversary of the oil and gas industry of Kazakhstan.
- Summer camp sponsorship for children affected by emergency in the city of Arys.

Zhaikmunai also provides support on a continuing or needs basis, such as special machinery in emergency situations in rural districts on occasions of extreme snow or infrastructure accidents, and providing transport for rural children to participate in excursions to historical places within the region.

Payment to governments

Zhaikmunai is committed to transparency in its business activities and payments to governments. We have a formal Public Relations and Government Relations procedure which regulates our relationships with the local community and government, and it details how and why we engage with various stakeholder groups.

In 2019, a total of US$36,709,841 was paid to governments by Zhaikmunai. We will report on 2020 payments to governments in the first half of 2021. For more details, please see the Governance page of our website.

Liquidation fund contribution

Under the terms of the Chinarevskoye PSA and the subsoil use agreements for Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye, Zhaikmunai is building up liquidation funds of US$23 million to eliminate the consequences of operating activities, namely the conservation and liquidation of drilled wells and the elimination of other facilities. These projects will subsequently be approved by the Group, the local community, and government. At the end of 2019, US$7.6 million was held on restricted cash accounts as liquidation fund deposits (2018: US$7.02 million).

Spend with suppliers

We are committed to partnering with local companies, and in 2019 we spent 62% of our supplier budget with Kazakh national suppliers.

Labour Practices

The total number of complaints filed against Zhaikmunai LLP for violation of the labour practices was one, which was decided in favour of the employee. The details of the complaints system existing in the Group are set out on page 36.

Kazakhstan experienced a very cold winter during 2018-2019 and, in a short period of time, precipitation exceeded the annual average. As a result, almost all the settlements in the Yanvartsevo rural district and the Sulukol rural districts close to our field site were cut off from regional roads. Local stores were running out of food provisions and governmental snow-cleaning equipment could not cope with demand to clear main roads, let alone inter-village roads. Zhaikmunai provided assistance to nearby villages, despite also being affected by these conditions at our field site. Our equipment was used to clear snow blockages on roads to Sulukol, Yanvartsevo, Kirsanovo, and Chinarevo settlements and other villages. Later, with the onset of spring, we again helped by providing equipment for the removal of melt water to prevent flooding of residential and administrative premises. In total, eight units of special machinery were deployed and over 480 hours of assistance was provided.

We support our local communities through financing social infrastructure and community projects.

Environment

Zhaikmunai is focused on being a responsible operator in order to minimise as far as possible the Group's impact on the natural environment. We abide by strict international environmental protection legislation and are actively working on GHG emission reduction initiatives.

Update on CDP

In 2019, our main environmental objectives included participation in the CDP (formerly Carbon Disclosure Project), which is a key way for companies to disclose their environmental impact and risk management, as well as continue to focus on greenhouse gas (GHG) emission reduction strategies.

Our CDP response was independently assessed, and we are pleased to note that Nostrum received a 'C' grade. We are pleased with this scoring in our first year, as it demonstrates the policies and procedures we have developed over recent years are positioning the Group to deal with the issue of climate change now and into the future. We will continue to engage with the CDP initiative in order to maintain an open dialogue, both internally and externally, on this important issue.

Compliance with legislation

Nostrum engages an independent auditor to measure and evaluate our environmental impact. In 2019, AMEC was again engaged to undertake a "Health, Safety and Environmental Compliance Audit" and report upon the content, methodology and results of the environmental efforts at Nostrum during the year. Our 2019 AMEC report showed no non-compliance with Kazakh legislation or any significant environmental findings. The main conclusions drawn from AMEC's 2019 audit were as follows:

- HSE management system is in place and functional;
- Good behavioural safety is reinforced by strong leadership and personnel with good safety processes; and
- The Group has to focus on training for management of change process, permit to work system, risk assessment in order to improve general HSE performance.

Waste, water and soil management

The impact of Zhaikmunai's operational activities on the environment are monitored through detailed waste, water and soil management systems. Zhaikmunai undertakes air, soil and subsurface water testing to ensure sanitary and epidemiological compliance with Kazakh legislation.

In 2019, 100% of drilling waste was recycled by a contractor. Soil and water survey results demonstrated compliance with all applicable environmental legislation.

For more detailed information, please visit our website at www.nog.co.uk.

GHG emission reduction and reporting

Zhaikmunai seeks to minimise all GHG emissions and continues to invest in new technologies to improve GHG emission performance. The Group strictly adheres to both UK and Kazakh regulatory requirements with regard to GHG emissions and has been monitoring and reporting GHG emissions since 2011. In 2019, we participated in the CDP disclosure process to demonstrate our commitment to improvement and transparency in this area.

As a dually-listed entity, the Group also follows UK company law requirements regarding GHG reporting as required under the UK Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, which requires the disclosure of all emission sources. The Group's GHG reporting period is aligned with the period in respect of which the Nostrum 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.

Additional quota

According to the 2018-2020 National Plan, 627,174 tonnes of CO_2 was granted to Zhaikmunai. In 2019, the ROK Ministry of Ecology, Geology and Natural Resources issued an additional quote for 103,650 tonnes of CO_2 for the commissioned facility, which was not originally included in the National Plan. At the end of 2019, the balance of the GHG emission quota was 272,930 tonnes.

Energy efficiency audit

Following an Energy efficiency audit conducted in 2019, the following energy saving measures were identified:

- Use of exhaust gas heat to hot oil heating of lines No.1 and No.2 at GTU 1&2;
- Use of exhaust gas to heat hot oils for amine regeneration at GTU1&2;
- Installation of control box to water heating boilers;
- Heat insulation of pipelines;
- Construction of power line 110 kV.

Future GHG reduction initiatives:

- Optimisation of facilities operation, operations and maintenance schedule adjustment in function of reduced inlet feed, reduction of fuel gas consumption and flare volumes depending on GTU operating scenarios in 2020
- Emission tracking improvement – creation of monthly tracking system, about 5-10% reduction,
- Use of power from GTPP at 26 megawatts while wells drilling

Climate change

Nostrum recognises that hydrocarbon exploration and production is a major contributor to GHG emissions and consequently, we have a responsibility to work to address climate change. One of our key CSR goals in 2019 was to minimise the impact of our operations on climate change. This remains a key goal for Nostrum. During the year, we partnered with an external agency to assist us in understanding and reporting on potential impacts to our business. We hope this will be a key step in our ongoing efforts to address the issue of climate change long term within our business.

Climate change can affect our business through physical disruption to operations due to changing weather conditions, legislative and policy changes, technology to help reduce emissions, and future changes in energy market demands. We plan to assess more rigorously the impact of climate change on our business in the near future, including through portfolio resilience testing. Climate change remains on our risk register for 2020.

GHG emissions

The baseline in the GHG emissions allocation plan was set as the mean value of the total emissions for the years 2013-2014 (in carbon dioxide emissions equivalent). According to the established limit, GHG emissions for 2019 should not exceed the 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.

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

No further ecological data is available for publication. Consequently, additional disclosures in relation to materials used, products and services, waste management, water consumption, energy consumption and energy efficiency, emergency and intermittent pollution episodes, wastewater discharges, atmospheric emissions of greenhouse gases and other pollutants, environmental protection and biodiversity are not possible. There were no fines or other sanctions against the Group as regards compliance with environmental requirements in 2019.

Table 1: Scope 1 GHG emissions subdivided by gas type (tCO_2e)

	2015	2016	2017	2018	**2019**
Carbon dioxide	208,466.2	195,453.3	242,275.6	244,379.2	**213,520**
Methane	13,919.8	10,817.0	10,723.4	8,436.3	**8,429**
Nitrious oxide	126.2	1,045.7	1,305.4	1,303.5	**1,034**
Hydroflurocarbons	34.0	33.6	27.6	36.6	**24**
Total	222,546.2	207,349.6	254,331.9	254,155.6	**223,008**

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 (tCO_2e)

	2015	2016	2017	2018	**2019**
Stationary combustion	205,701.9	195,576.1	243,001.1	245,362.4	**214,536**
Mobile combustion	1,498.2	757.9	434.9	104.9	**89**
Fugitive sources	15,346.1	11,015.6	10,896.0	8,535.8	**8,359**
Total	222,546.2	207,349.6	254,332.0	254,003.2	**223,008**

Stationary combustion sources formed the major portion of emitted GHGs. 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 Nostrum facilities via the Zelenovskaya distribution network (ZapKazREK JSC), through its subsidiary Batys Energoresursy LLC. The regional emission factor (0.27086 tCO_2/MWh) was calculated using Methodological Guidelines for the Calculation of GHG Emissions from Electrical Power Stations and Boiler Houses (Astana, 2010) and the regional net thermal efficiency of Urals Natural Gas Fired Power Plants (73.3%).

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

Table 3: Scope 1, Scope 2 and total GHG emissions (tCO_2e)

	2015	2016	2017	2018	**2019**
Direct energy (Scope 1)	222,546	207,350	254,332	254,156	**223,008**
Indirect energy (Scope 2)	5,482	2,263	640	559	**297**
Total	228,029	209,613	254,972	254,714.8	**223,305**

Emissions intensity ratio

Tonnes of CO_2 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 Nostrum Oil & Gas – crude oil, stabilised condensate, LPG and dry gas – the chosen intensity ratio is expressed in metric tonnes of CO_2e ($mtCO_2e$) per tonne of oil equivalent (mmboe).

Table 4 shows intensity ratios for total (Scope 1 and Scope 2) emissions in the period 2014-2018.

Table 4: Emissions intensity ratios for total GHG emissions

	2015	2016	2017	2018	**2019**
Production, toe	2,152,421	2,156,171	2,088,917	1,878,026	**1,520,928**
tCO2/toe	0.106	0.097	0.122	0.136	**0.1**
Production, mmboe	14.743	14.768	14.300	12.9	**10**
tCO2/mmboe	15,467	14,193	17,820	19,801.8	**21,434**

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

Therefore, the Nostrum 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 Nostrum Board and senior management are the primary stakeholders served by the three lines of defence as follows:

- Heads of business functions;
- Risk control and compliance oversight functions; and
- 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 below.

The principal risks and uncertainties, which are managed and monitored at Nostrum Board level, are supported by the 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 Nostrum 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 below in the section "Principal risks and uncertainties".

In 2019, 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 Nostrum 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 the "Principal risks and uncertainties" disclosure on the next page.

The Nostrum Board receives appropriate information for managing such risks. Management is responsible for monitoring that systems of risk management and internal controls are in place to effectively manage and monitor energy risks and other ESG matters.

Changes from prior year risk assessment

In 2019, the principal risks and uncertainties managed and monitored by the Nostrum Board, and senior management mostly remained the same as in 2018, and the related risk assessments did not change significantly.

Risk management framework

The Nostrum Board oversees the design and implementation of systems of risk management and internal control, and manages and reports on principal risks.

The Senior Management Team supports the Nostrum Board in its oversight and monitoring role, and perform management and reporting on the level of director's risks.

Heads of business functions, being the 1st line of defence, own and manage operational risks related to their respective area of activity.

2nd line of defence has a general oversight function to ensure that the risk management practices followed are effective.

Internal audit, acting as the 3rd line of defence, provides independent assurance over the effectiveness of the systems of risk management and internal control.

Principal risks and uncertainties

Description of risk	Risk management
STRATEGIC RISKS	
Business and market environment	
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: 1.The volatility of commodity prices on the markets; 2.The geopolitical, regional situation affecting the Group's areas of operations; and 3.Changes in currency exchange rates. Given that the Group's sales prices of its products are based directly or indirectly on international 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. Recent OPEC actions have shown this to be the case, which in combination with the suppressed demand for oil and gas as a result of measures to control the spread of COVID-19, has resulted in a significant fall in the Brent price since the beginning of the year. Further volatility could be caused by the ongoing impact that COVID-19 is having on the demand for oil and gas globally. Zhaikmunai 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.	The Group is selling the majority of its dry gas under contract referencing export prices which are usually substantially higher than domestic prices. In 2017, Zhaikmunai expanded its transportation options as it completed a connection to an oil pipeline. It can now transport its crude oil either via rail or pipeline. To mitigate the geopolitical, regional 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. The Group's financial policies are designed for the group to withstand a period of prolonged low oil prices. Also, senior management constantly monitors the Group's exposure to foreign currency exchange rate changes and plans for necessary measures. Given the uncertainties caused by a low oil price environment, the Group is taking prudent, mitigating actions that can be executed in the necessary time frame and which will protect liquidity. These include cancelling uncommitted capital expenditures over the period without having an impact on forecast production in the going concern period of assessment and identifying further reductions in operating costs and general and administration costs. The Group also announced on March 31, 2020 that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds. The Group will require amendment to the payment terms within the bond agreements to take effect within the going concern period. The Group is in the process of seeking a financial advisor to commence negotiations with bondholders. Whilst it is believed that a consensual agreement will be reached with bondholders and shareholders the outcome of the discussions is uncertain.
Strategic development initiatives	
Zhaikmunai'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 for instance in the event of natural disaster, facilities damage from accidents, crisis and other political influences as further described below. Diversification of its sources of feedstock is considered by the Group as a way to reduce 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	In December 2018, Zhaikmunai announced mechanical completion of GTU3 and the start of the commissioning process. In October 2019, Zhaikmunai announced completion of technical commissioning of GTU3. Senior management and the Nostrum Board continuously monitor the timing, scope and performance of the drilling programme taking into account 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. A KPI in place to monitor risk management in Strategic development initiatives,

of its sources of feedstock are subject to customary risk related to counter-parties delay and non-completion 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 risks 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.

includes:

- Concluded commercial processing contracts such as those signed with Ural Oil & Gas in 2018. See Strategy section on p.19.

Description of risk	Risk management
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 owing 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 that may lead to a deviation of production volumes from estimated and projected volumes. Unsuccessful drilling activities and failure to find additional commercial reserves could reduce future production of oil and natural gas, which is dependent on the rate of success of drilling activity. 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.	Zhaikmunai 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, as well as operations and cost monitoring systems, based on which 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. KPIs in place to monitor risk management in Operations include: • Finalised construction of potential second Low Pressure System to prolong life of ageing gas-condensate wells; and • Maximised uptime of existing wells and production facilities (See Strategy section on p.19)
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. Additionally, as witnessed by recent developments, the group is exposed to pandemic diseases, such as the COVID-19 outbreak. 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	Zhaikmunai 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, ISO 45001 Occupational Health & Safety Management System 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

risk that the Group will not be in full compliance with all such regulations at all times.

necessary measures on the basis of the audit recommendations.

The Group has been further stepping up its efforts by forming a Health, Safety, Environment and Communities Committee. Staff are activity encouraged to submit Hazard Observation Cards. The Group efforts are aimed to be in line with its peers.

KPIs in place to monitor risk management in QHSE include:

- Lost time injury frequency; and
- Total recordable injury frequency.

(See more on KPI’s on p.22)

Description of risk	Risk management
COMPLIANCE RISKS	
Subsoil use agreements	
As Zhaikmunai performs exploration, development and production activities in accordance with related licences for the oil and gas fields, there are related risks that Zhaikmunai might not be able to obtain extensions when necessary, risks of non-compliance with the licence requirements owing to ambiguities, risks of alteration of the licence terms by the authorities and others. These risks may result in Zhaikmunai'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.	Zhaikmunai 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. Zhaikmunai 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, Zhaikmunai 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, including reputational, litigation and government sanction 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 securities, Anti-Corruption and Bribery Policy, a Whistle-Blowing Policy and a Human Rights Policy. The Group also 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 Nostrum 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 risks	
Forecasting to maintain an adequate liquidity position is	Management and the Nostrum Board constantly

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 owing to severe market conditions. The recent actions of OPEC highlight these risks, which has contributed to significant commodity price volatility in the post-balance sheet period. The actions of OPEC led to a Brent oil price fall of over 50% in a week. This kind of movement in prices can result in the Group's liquidity position becoming more strained than the severe but plausible downside scenario in the Going Concern assessment. This makes forecasting subject to the risk that it may prove to be inaccurate in the future.

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.

KPIs in place to monitor risk management in Finance include:

- G&A below US$20 million; and
- Operating costs below US$50 million

(See more on KPI's on p.22)

Description of risk	Risk management
FINANCIAL RISKS CONTINUED	
Refinancing risk	
The Group has US$1.125bn of debt outstanding. US$725m of that matures in July 2022. The ability of the Group to refinance represents a material uncertainty. There is a significant risk that the Group will not be able to refinance the bonds and any future repayments will be subject to negotiations with bondholders.	Execution of the Group's strategy is the premier focus of the Nostrum Board and Senior Management Team. Full utilization of build treatment capacities will significantly improve the Group's position. The Nostrum Board monitors progress on the KPI to concluded commercial processing contracts such as the one signed with Ural Oil & Gas in 2018. (See Strategy section on p.19.) Additionally, the Nostrum Board continues to monitor the Group's ability to refinance. Group will seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds.
Financing risks	
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.	The Group performs financial reviews, establishes credit limits and engages with reliable financial counterparties. 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.
CLIMATE CHANGE RISKS	
Climate change	
Climate change risks is the group of risks, including those stemming from more intense extreme weather events, rising energy intensity in the oil and gas industry, the changing regulatory landscape, the risk of fugitive emissions and climate change policies driving down the demand. The risk of more intense extreme weather events, for example, may lead to the following sub-risks: • Risks of reduced asset operation; • Risks of higher insurance premiums; • Risks of higher fuel prices; and • Risks of disruptions to supply chains.	The Group is actively planning and managing projects designed to mitigate certain climate change-related risks: • To decrease its exposure to rising fuel prices, it retooled drilling rigs to derive more power from electricity rather than diesel; • In operations there is a permanent effort and commitment improve energy efficiency and to reduce flaring, venting and leaks; and • At campsite, most of the water the Group utilises now is recycled. Climate change is on the Nostrum Board's agenda. The Senior Management Team actively evaluates opportunities to further adapt and implement cost-effective mitigation measures.
OTHER RISKS	
Other significant risks	
Other risks are those that 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	The Group is currently adapting to the changing regulations surrounding COVID-19 and will have a policy to deal with future pandemics once the current pandemic is over. The Group is complying with all Government recommendations in the Countries where it has offices and employees. The Nostrum Board monitors the further development of the business

include risks related to:

- Global pandemics, such as COVID-19
- Fraudulent activities;
- Cyber security;
- The Group's supply chains;
- Accounting and reporting management systems; or
- The availability of human resources.

They may also significantly impact the Group's financial performance, reputation and achievement of its strategic objectives.

continuity plan and its implementation to the extent required by the circumstances.

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.

As part of the Risk Management function, a cyber security capability is being developed drawing on the knowledge and experience of the existing ICT team.

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 Nostrum 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 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

Results of operations for the years ended 31 December 2019 and 2018

The table below sets forth the line items of Zhaikmunai's consolidated statement of comprehensive income for the years ended 31 December 2019 and 2018 in US Dollars and as a percentage of revenue.

	For the year ended 31 December			
In thousands of US dollars	**2019**	**% of revenue**	2018	% of revenue
Revenue	**322,128**	100.0%	389,927	100.0%
Cost of sales	**(174,204)**	54.1%	(166,263)	42.6%
Gross profit	**147,924**	45.9%	223,664	57.4%
General and administrative expenses	**(12,658)**	3.9%	(12,380)	3.2%
Selling and transportation expenses	**(46,362)**	14.4%	(50,590)	13.0%
Taxes other than income tax	**(22,930)**	7.1%	(29,728)	7.6%
Impairment charge	**(1,352,173)**	419.8%	(117,575)	30.2%
Finance costs	**(46,747)**	14.5%	(55,798)	14.3%
Foreign exchange gain/(loss), net	**804**	0.2%	(784)	0.2%
Interest income	**86**	0.0%	253	0.1%
Other income	**8,411**	2.6%	5,357	1.4%
Other expenses	**(13,001)**	4.0%	(46,203)	11.8%
Loss before income tax	**(1,336,646)**	414.9%	(83,784)	21.5%
Income tax benefit/(expense)	**351,276**	109.0%	(20,721)	5.3%
Loss for the year	**(985,370)**	305.9%	(104,505)	26.8%
Total comprehensive loss for the year	**(985,370)**	305.9%	(104,505)	26.8%

General note

For the year ended 31 December 2019 (the "reporting period") total comprehensive loss amounted to US$985.4 million, an increase in loss by US$880.9 million from US$104.5 million total comprehensive loss for FY 2018. The loss is mainly driven by additional impairment charge on property, plant and equipment and exploration and evaluation assets, which was offset by corresponding income tax benefit, as well as lower operating and finance costs compared to previous comparative period. These are explained in more detail below.

Revenue

Zhaikmunai's revenue decreased by 17.4% to US$322.1 million for the reporting period (FY 2018: US$389.9 million). This is mainly explained by the 7.1% decrease in the average Brent crude oil price from 71.7 US$/bbl during FY 2018 to 64.2 US$/bbl during the reporting period, as well as slight decrease in the sales volumes as shown in the table below, which was primarily due to the decrease in the volumes of production during the year ended 31 December 2019 as compared to FY2018.

The pricing for all Zhaikmunai's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil.

Revenues from sales to Zhaikmunai's largest three customers amounted to US$190.3 million, US$96.1 million and US$9.3 million respectively (FY 2018: US$258.9 million, US$80.5 million and US$11.9 million).

Zhaikmunai's revenue breakdown by products and sales volumes for the reporting period and FY 2018 is presented below:

	For the year ended 31 December			
In thousands of US dollars	**2019**	2018	Variance	Variance, %
Oil and gas condensate	**196,176**	267,815	(71,639)	(26.7)%
Gas and LPG	**125,947**	122,112	3,835	3.1%
Sulphur	**5**	–	5	–
Total revenue	**322,128**	389,927	(67,799)	(17.4)%
Sales volumes (boe)	**9,735,093**	10,773,266	(1,038,173)	(9.6)%
Average Brent crude oil price (US$/bbl)	**64.2**	71.7		

The following table shows Zhaikmunai's revenue breakdown by export/domestic sales for the reporting period and FY 2018:

	For the year ended 31 December			
In thousands of US dollars	**2019**	2018	Variance	Variance, %
Revenue from export sales	**218,511**	296,034	(77,523)	(26.2)%
Revenue from domestic sales	**103,617**	93,893	9,724	10.4%
Total	**322,128**	389,927	(67,799)	(17.4)%

Cost of sales

	For the year ended 31 December			
In thousands of US dollars	**2019**	2018	Variance	Variance, %
Depreciation, depletion and amortisation	**136,776**	115,347	21,429	18.6%
Payroll and related taxes	**12,781**	11,677	1,104	9.5%
Repair, maintenance and other services	**14,173**	16,133	(1,960)	(12.1)%
Management fees	**7,811**	7,726	85	1.1%
Materials and supplies	**4,499**	5,253	(754)	(14.4)%
Other transportation services	**2,094**	6,116	(4,022)	(65.8)%
Well workover costs	**2,077**	2,767	(690)	(24.9)%
Environmental levies	**167**	367	(200)	(54.5)%
Change in stock	**(6,153)**	136	(6,289)	(4,624.3)%
Other	**(21)**	741	(762)	(102.8)%
Total	**174,204**	166,263	7,941	4.8%

Cost of sales increased by 4.8% to US$174.2 million for the reporting period (FY 2018: US$166.3 million). The increase is primarily explained by increase in depreciation, depletion and amortisation, which was partially offset by the decrease in repair and maintenance costs, other transportation services, well workover costs and change in stock. On a boe basis, cost of sales amounted to US$16.7 for the reporting period increasing from US$14.6 FY 2018 and cost of sales net of depreciation per boe decreased by US$0.9, or 19.5%, to US$3.6 (FY 2018: US$4.5).

Depreciation, depletion and amortisation increased by 18.6% to US$136.8 million for the reporting period (FY 2018: US$115.3 million). Depreciation is calculated applying units of production method. Increase of depreciation in 2019 in comparison with prior period is a consequence of: 1) the ratio change between the volumes produced and the proven developed reserves; 2) putting into operation GTU3 close to end of 2019; as well as 3) implementation of IFRS 16 effective from 1 January 2019, resulting in recognition of right-of-use assets, and their respective depreciation during

2019, respectively this lead to the decrease in the other transportation costs.

Repair, maintenance and other services decreased by 12.1% to US$14.2 million for the reporting period (FY 2018: US$16.1 million). These expenses include services on repairs and maintenance of the facilities, specifically for the gas treatment facility as well as related spare parts and other materials. These costs fluctuate depending on the timing of the periodic scheduled maintenance works.

Other transportation services decreased by 65.8% to US$2.1 million for the reporting period (FY 2018: US$6.1 million). Such a decrease is explained by the recognition of the right-of-use assets under IFRS 16, and reflection of these costs in the form of depreciation of these assets as mentioned above.

General and administrative expenses

	For the year ended 31 December			
In thousands of US dollars	**2019**	2018	Variance	Variance, %
Payroll and related taxes	**3,493**	3,595	(1,102)	(2.8)%
Management fees	**2,570**	2,992	(422)	(14.1)%
Professional services	**2,047**	1,155	892	77.2%
Depreciation and amortisation	**1,812**	1,651	161	9.8%
Insurance fees	**989**	1,282	(293)	(22.9)%
Business travel	**147**	170	(23)	(13.5)%
Communication	**276**	357	(81)	(22.7)%
Materials and supplies	**157**	168	(11)	(6.5)%
Bank charges	**82**	124	(42)	(33.9)%
Lease payments	**33**	–	33	100%
Transportation services	–	430	(430)	(100)%
Other	**1,052**	456	596	130.7%
Total	**12,658**	12,380	278	2.2%

General and administrative expenses increased by 2.2% to US$12.7 million for the reporting period (FY 2018: US$12.4 million). This was mainly driven by US$0,9 million or 77.2% increase in professional services from US$1.2 million during FY 2018 to US$2.0 million during year ended 31 December 2019, as well as slight increase in depreciation and amortisation and other. This was partially offset by significant decrease in payroll and related taxes and management fees.

Selling and transportation expenses

	For the year ended 31 December			
In thousands of US dollars	**2019**	2018	Variance	Variance, %
Transportation costs	**12,405**	15,017	(2,612)	(17.4)%
Loading and storage costs	**11,783**	18,881	(7,098)	(37.6)%
Marketing services	**11,560**	12,077	(517)	(4.3)%
Depreciation	**4,489**	–	4,489	100%
Payroll and related taxes	**1,763**	2,058	(295)	(14.3)%
Other	**4,362**	2,557	1,805	70.6%
Total	**46,362**	50,590	(4,228)	(8.4)%

Selling and transportation expenses decreased by 8.4% to US$46.4 million for the reporting period (FY 2018: US$50.6 million), primarily due to decrease in transportation and loading and storage costs as a result of changes to a more favourable delivery terms. Also part of these costs are reflected as depreciation costs resulting from recognition of right-of-use assets for rented railway tank cars under IFRS 16, which were previously included in transportation costs.

Taxes other than income tax

	For the year ended 31 December			
In thousands of US dollars	**2019**	2018	Variance	Variance, %
Royalties	**12,802**	15,155	(2,353)	(15.5)%
Export customs duty	**7,281**	11,233	(3,952)	(35.2)%

Government profit share	**2,802**	3,277	(475)	(14.5)%
Other taxes	**45**	63	(18)	(28.6)%
Total	**22,930**	29,728	(6,798)	(22.9)%

Royalties, which are calculated based on production and market prices for the different products, decreased by 15.5% to US$12.8 million for the reporting period (FY 2018: US$15.2 million), which corresponds to related decrease in hydrocarbon sales.

Export customs duty on crude oil decreased by 35.2% to US$7.3 million for the reporting period (FY 2018: US$11.2 million), mainly owing to the relative increase of export sales to CIS countries, which are not subject to export duties.

Government profit share decreased by 14.5% to US$2.8 million for the reporting period (FY 2018: US$3.3 million), which corresponds to related decrease in hydrocarbon sales.

Impairment charge

As a result of the further reserves downgrade and respective reflection of the updated future production profiles in the impairment model the Group recognized further non-cash impairment charge mainly on oil & gas assets and exploration & evaluation assets in the amount of US$1,302.0 million and US$50.5 million, respectively (FY 2018: US$117.6 million on oil & gas assets). Further details of impairment testing and assumptions used are disclosed in the Note 4 to the consolidated financial statements of the Group on pages 134-135.

Finance costs

	For the year ended 31 December			
In thousands of US dollars	**2019**	2018	Variance	Variance, %
Interest expense on borrowings	**44,529**	54,419	(9,890)	(18.2)%
Unwinding of discount on lease liabilities	**1,234**	135	1,099	814.1%
Unwinding of discount on amounts due to Government of Kazakhstan	**820**	845	(25)	(3.0)%
Unwinding of discount on abandonment and site restoration provision	**164**	399	(235)	(58.9)%
Total	**46,747**	55,798	(9,051)	(16.2)%

Finance costs decreased by 16.2% to US$46.7 million for the reporting period (FY 2018: US$55.8 million) mainly due to decrease in capitalized borrowing costs, which was slightly offset by finance charges under finance leases of US$1.2 million recognised in accordance with IFRS 16.

Other

Other expenses decreased to US$13.0 million for the reporting period (FY 2018: US$46.2 million). Such a significant decrease in other expenses is explained by absence of various non-recurring costs related to business development and compensations that occurred in previous period (liquidity management fees).

Income tax benefit amounted to US$351.3 million for the reporting period, a change of US$371.9 million as compared to prior year (FY 2018: income tax expense of US$20.7 million). Such a significant change resulting in income tax benefit for the period was a consequence of impairment charges recognized as of 31 December 2019 with respective derecognition of deferred tax liabilities.

Liquidity and capital resources

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

Cash flows

The following table sets forth Zhaikmunai's consolidated cash flow statement data for the reporting period and FY 2018:

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Cash and cash equivalents at the beginning of the year	**7,059**	33,261

Net cash flows from operating activities	**212,121**	197,959
Net cash used in investing activities	**(116,308)**	(171,672)
Net cash used in financing activities	**(89,139)**	(52,468)
Effects of exchange rate changes on cash and cash equivalents	**(17)**	(21)
Cash and cash equivalents at the end of the year	**13,716**	7,059

Net cash flows from operating activities

Net cash flow from operating activities was US$212.1 million for the reporting period (FY 2018: US$197.9 million) and was primarily attributable to:

- loss before income tax for the reporting period of US$1,336.6 million (FY 2018: US$83.8 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$143.1 million (FY 2018: US$116.9 million), finance costs of US$46.7 million (FY 2018: US$55.8 million), impairment charge of US$1,352.2 million (FY 2018: US$117.6 million).
- a US$7.3 million decrease in working capital (FY 2018: US$4.5 million decrease) primarily attributable to a decrease in prepayments and other current assets of US$6.1 million (FY 2018: a decrease of US$7.2 million), an increase in trade payables of US$4.9 million (FY 2018: a decrease of US$2.4 million) and a decrease in trade receivables of US$4.5 million (FY 2018: an increase of US$1.2 million).
- income tax paid of US$3.5 million (FY 2018: US$7.3 million).

Net cash used in investing activities

Net cash used in investing activities for the reporting period was US$116.3 million (FY 2018: US$171.6 million) due primarily to costs associated with the drilling of new wells of US$56.7million for the reporting period (FY 2018: US$87.5 million), and costs associated with the third gas treatment unit of US$36.4 million for the reporting period (FY 2018: US$55.8 million).

Net cash used in financing activities

Net cash used in financing activities during the reporting period made up US$89.1 million, and was mainly represented by the payment of US$100.6 million of the finance costs on the Group's 2017 Notes and 2018 Notes and payment of US$17.5 million under lease agreements recognized in accordance with IFRS 16. Net cash used in financing activities during FY 2018 amounted to US$52.5 million, which was primarily attributable to the US$104.21 million of the finance costs paid on the Group's Notes, which was offset by net proceeds from borrowings totalling US$29.6 million.

Going concern

Zhaikmunai is the main operating entity within the Group, and its liquidity and ability to continue in operation and to meet its liabilities as they become due for the foreseeable future, a period of not less than 12 months from the date of this report, are assessed as part of the Group. Therefore, the following Group level going concern matters and analysis, which were considered by the Directors of the parent (the 'Directors'), are directly relevant for Zhaikmunai.

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

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

As disclosed in Note 31 to the Financial Statements, subsequent to the year-end the price of oil collapsed following a disagreement between OPEC+ countries on production levels compounded by the perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 ('COVID-19'). Whilst the OPEC+ countries, together with a wider group of producers, have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price.

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

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

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

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

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

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

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

These represent material uncertainties that may cast significant doubt on the Group's, and by extension-Zhaikmunai's, ability to continue as a going concern.

After careful consideration of these material uncertainties, the Directors were satisfied that the Group has sufficient resources to continue in operation for the foreseeable future. For these reasons, they continued to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, it is appropriate that the financial statements of Zhaikmunai for the year ended 31 December 2019 are prepapared on the going concern basis, and they do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group or Zhaikmunai were unable to continue as a going concern.

Commitments

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group monitors its risk to a shortage of funds using a liquidity planning tool. The tool allows selecting severe stress test scenarios. To ensure an adequate level of liquidity a minimum cash balance has been defined as a cushion of liquid assets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, loans, hedges, export financing and financial leases.

The Group's total outstanding debt consists of US$ 146,500 million of loan due to Nostrum Oil & Gas Finance B.V. and two notes: US$ 560 million issued in 2012 and maturing in 25 June 2033 and US$ 400 million issued in 2014 and maturing in 14 January 2033. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be moderate.

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

In thousands of US dollars	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	25,210	75,630	529,579	1,716,939	2,347,358
Lease liabilities	–	1,924	5,197	766	–	7,887
Trade payables	23,442	–	5,953	–	–	29,395
Other current liabilities	17,984	–	–	–	–	17,984
Due to Government of Kazakhstan	–	258	773	4,124	6,443	11,598
Total	41,426	27,392	87,553	534,469	1,723,382	2,414,222

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$27.552 million (FY 2018: US$131.373 million). This mainly reflects costs associated with the construction of the third gas treatment unit, drilling costs and other field infrastructure development projects.

Gas Treatment Facility

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, Zhaikmunai achieved full commissioning of a third unit in during 2019. The construction of GTU3 is important for implementing the Group's strategy to increase operating capacity and as a result increase production and processing of liquid hydrocarbons.

Drilling

Drilling expenditures amounted to US$56.7 million for the reporting period (FY 2018: US$87.5 million). The drilling program has been halted for 2020, while ways to mitigate the identified reservoir risks are being analysed.

Five-year summary

In millions of US$ (unless mentioned otherwise)	**2019**	2018	2017	2016	2015
EBITDA reconciliation					
Loss before income tax	**(1,336.6)**	(83.8)	65.4	(52.1)	86.7
Add back					
Finance costs	**46.7**	55.8	41.5	46.4	51.7
Impairment charge	**1,352.1**	117.6	–	–	–
Foreign exchange gain/(loss), net	**(0.8)**	0.7	0.4	(0.2)	20.0
Loss on derivative financial instrument	**–**	–	6.7	63.2	(37.1)
Interest income	**(0.1)**	(0.3)	(0.3)	(0.4)	(0.3)
Other expenses	**13.0**	46.2	12.2	(2.0)	30.5
Export customs duty[1]	**–**	–	–	–	(14.2)
Other income	**(8.4)**	(5.4)	(4.2)	(2.1)	(11.4)
Depreciation, depletion and amortisation	**143.0**	117.0	122.6	131.4	109.1
Proceeds from derivative financial instruments[2]	**–**	–	6.7	63.2	(37.1)
EBITDA	**208.9**	247.8	251.0	247.4	197.9
Operating costs reconciliation					
Cost of sales	**174.2**	166.3	180.1	184.5	187.8
Adjusted for:					
Depreciation, depletion and amortisation[3]	**(136.8)**	(115.3)	(120.7)	(129.4)	(107.7)
Lease costs[4]	**3.0**	–	–	–	–
Change in stock[5]	**(6.2)**	(0.1)	(0.3)	(2.0)	3.6
Royalties[6]	**–**	–	–	–	(14.4)
Government profit share[6]	**–**	–	–	–	(1.9)
Operating costs	**44.4**	49.8	56.3	50.7	66.3
G&A reconciliation					
General and administrative expenses	**12.7**	12.4	17.2	14.9	28.0
Adjusted for:					
Depreciation and amortisation	**(1.8)**	(1.7)	(1.9)	(1.9)	(1.4)
G&A	**19.4**	20.3	31.0	32.6	42.6

- In 2016, 2017, 2018 and 2019, Export customs duty is included within Profit/(loss) before income tax (presented within 'taxes other than income tax'). In 2015, Export customs duty is included within 'other expenses', therefore an adjustment is made to re-include Export customs duty within respective EBITDA.
- Cash received from hedge contract represents the cash proceeds from the long-term hedging contract which in accordance with IAS7 Statement of Cash Flows is included within operating cash flows. While this item is not required to be presented in the Consolidated Income Statement, we have included this in our definition of EBIT and EBITDA in order to better align these non-GAAP measures with our operating cash flows.
- Depreciation as it applies to operating assets only.
- Starting from 2019 certain lease costs are recognized as the right-of-use assets under IFRS 16, and these relevant costs are reflected in the form of depreciation of these assets.
- Due to materiality the change in stock was introduced in the opex reconciliation from 2019, and comparatives have

been adjusted accordingly for consistency purposes.

- Prior to 2016, royalties and government profit share were reported within the cost of sales line.

In millions of US$ (unless mentioned otherwise)	**2019**	2018	2017	2016	2015
Net debt reconciliation					
Long-term borrowings	**1,100.5**	1,071.4	1,012.9	1,003.9	996.7
Current portion of long-term borrowings	**4.0**	4.8	15.1	15.5	15.4
Less					
Cash and cash equivalents	**13.7**	7.0	33.3	85.5	134.9
Net Debt	**1,234.8**	1,616.1	1,492.4	1,380.3	1,329.3
Net cash flows from operating activities	**212.1**	198.0	208.3	222.3	179.1
Net cash used in investing activities[7]	**(116.3)**	(171.7)	(192.0)	(199.8)	(242.8)
Net cash from/(used in) financing activities	**(89.1)**	(52.5)	(68.5)	(72.2)	(161.1)
EBITDA margin[8]	**61.4%**	63.5%	61.9%	71.2%	46.5%
Equity/assets ratio %	**(62.5)%**	26.6%	28.9%	28.8%	31.1%

- IFRS term based on indirect cash flow methodology.
- EBIDTA margin is calculated as EBITDA divided by total revenue.

Alternative performance measures

In the discussion of the Group's reported operating results, alternative performance measures (APMs) are presented to provide readers with additional financial information that is regularly reviewed by management to assess the financial performance or financial health of the Group, or is useful to investors and stakeholders to assess the Group's performance and position. However, this additional information presented is not uniformly defined by all companies including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted IFRS measure. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

EBITDA

EBITDA is defined as the results of operating activities before depreciation and amortisation, share-based compensation, fair value gains and losses on derivative instruments, foreign exchange losses, finance costs, finance income, non-core income or expenses and taxes, and includes any cash proceeds received or paid out from hedging activity. This metric is relevant as it allows management to assess the operating performance of the Group in absence of exceptional and non-cash items.

Operating costs

Operating costs are the cost of sales less depreciation, royalties and government profit share. This metric is relevant as it allows management to see the cost base of the Group on a cash basis.

Contact information:

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Zhomart Darkeyev

Zhaikmunai LLP has no branches

Nostrum's website provides information on the activities of Zhaikmunai LLP, both regulatory and other, as well as the opportunity to sign up to our mailing list to ensure stakeholders are kept up to date with the most recent information. Please see www.nog.co.uk for more information.

The Group's Investor Relations programme aims to develop an open and transparent communication between the Group (including Zhaikmunai LLP) and its shareholders, providing information about the financial and operational performance of the Group. The Investor Relations department of the Group seeks to ensure all questions received from any of the Group's stakeholders are dealt with in a timely manner based on the underlying principle that the Group is approachable and responsive to any potential queries.

Interactions with stakeholders
Details of the Group's interactions with stakeholders are set out in the annual report of Nostrum.

Investor Relations contact information:
Nostrum Oil & Gas PLC
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Tel: +44 20 3740 7430

Glossary

2012 Notes	7.125% notes issued in 2012.
2014 Notes	6.375% notes issued in 2014.
2017 Notes	8.000% notes issued in 2017.
2018 Notes	7.000% notes issued in 2018.
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 sedimentary rock.
bcm	Billion cubic metres.
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.
Boepd	Barrels of (crude) oil equivalent per day.
Bopd	Barrels of crude oil 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.
CDP	CDP is an organisation based in the United Kingdom which supports companies to disclose their environmental impact (formerly known as the Carbon Disclosure Project).
Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
CO_2	Carbon dioxide.
commissioning	Process to assure a facility or plant, such as GTU3, is tested to verify if it functions according to technical objectives and specifications before use.
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.

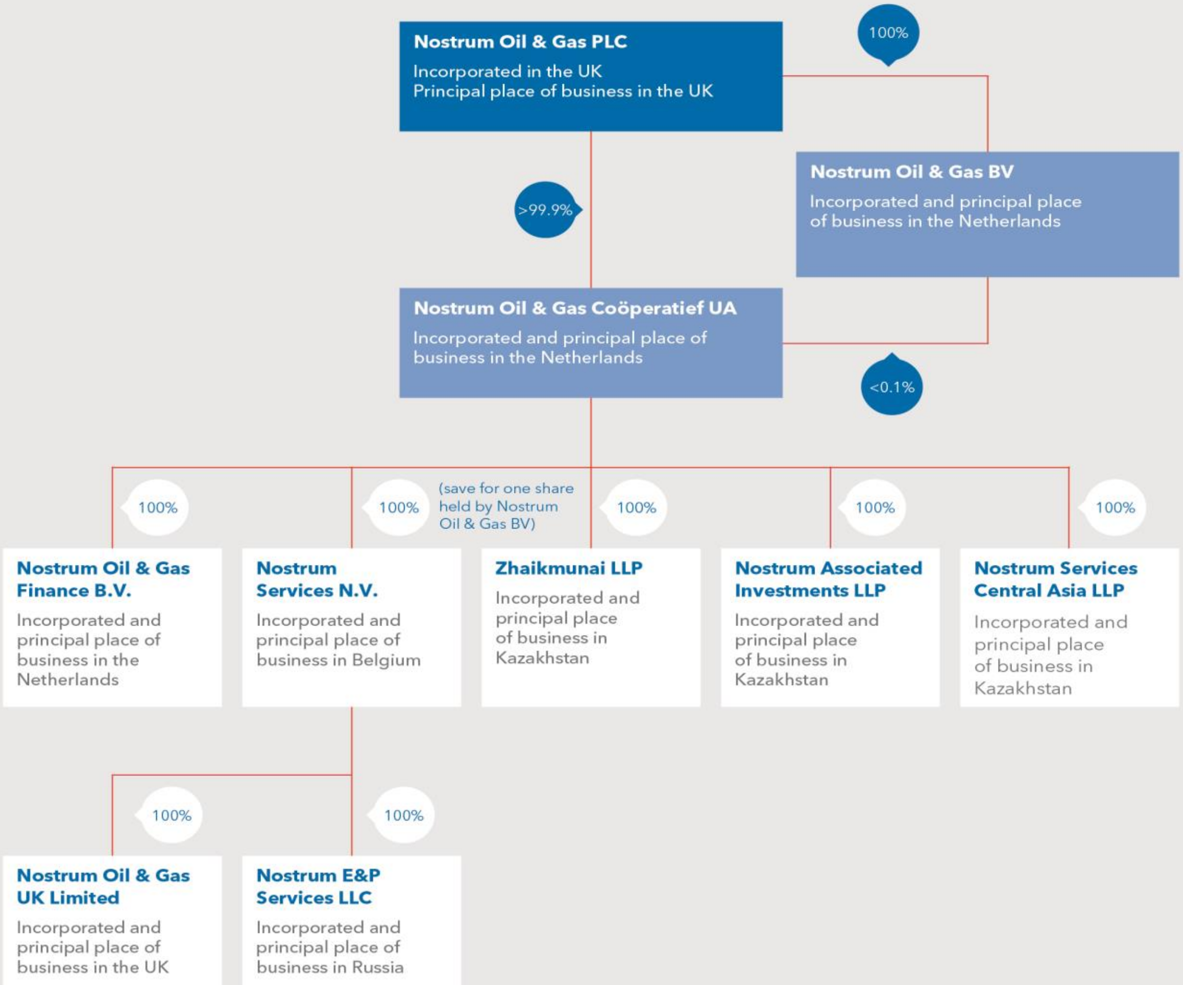
EBITDA	Profit Before Tax non-recurring expenses + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation – Interest Income + Other Expenses / (Income).
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
Exploration Permit	The geological allotment (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	
G&A	General and administrative expenses.
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 = 106 gigajoules = 109 terrajoules = 1012 petajoules = 1015
K	
KASE	Kazakhstan Stock Exchange.
Kazakhstan	The Republic of Kazakhstan.
KazMunaiGas	State-owned oil and gas company of Kazakhstan.
KazMunaiGas Exploration Production (KMG EP)	Onshore oil and gas exploration production subsidiary of KazMunayGas.
KazTransOil (KTO) pipeline	A tie-in to the KTO pipeline enables crude oil export sales via the Atyrau-Samara international export pipeline.
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 Services Authority (FSA) under section 73A of the FSMA.
London Stock Exchange or LSE	London Stock Exchange.
LPG	Liquefied petroleum gas, the name given to the mix of propane and butane in their liquid state.
LTIP	Long-term incentive plan.
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.
Mboe	Thousands of barrels of oil equivalent.
Mechanical completion	Final construction or installation phase whereby a facility can then undergo commissioning activities.
Mmbbls	Millions of barrels of oil.
Mmboe	Millions of barrels of oil equivalent.
N	
NBK	National Bank of Kazakhstan.
NED	Non-executive director.
Nostrum	Nostrum Oil & Gas PLC.
O	
OPEC	The Organisation of Petroleum Exporting Countries.
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 (3P)	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.
Probable Reserves (2P)	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.
processing	Processing of saleable product from hydrocarbons sourced from oil wells and gas wells.
Production Permit	The mining allotment (Annex to the Licence), issued by the Competent Authority to Zhaikmunai LLP.
production well	A well that has been drilled for producing oil or gas, or one that is capable of production once the producing structure and characteristics are determined.
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.
Q	
QHSE	Quality, Health, Safety and the Environment.
R	
recovery	The second stage of hydrocarbon production during which an external fluid such as water or gas is injected into the reservoir to maintain reservoir pressure and displace hydrocarbons towards the wellbore.
Reservoir	A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers, and is individual and separate from other reservoirs.
RoK	Republic of Kazakhstan.

Royalty	An interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production.
Ryder Scott	Independent petroleum consultants Ryder Scott Company LP, headquartered at 621 Seventeenth Street, Suite 1550, Denver, Colorado, 80293, USA.
S	
sales gas	Natural gas that has been processed by gas plant facilities and meets the required specifications under gas sales agreements.
Seismic	The use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures.
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.
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	
TCFD	Task Force on Climate-related Financial Disclosures.
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 1960's, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed "Uralsk Enlarged Oil-Gas Exploration Expedition".
UOG	Ural Oil & Gas LLP.
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

Group Structure Chart as at 31 December 2019



* Apart from the external debt held by Nostrum Oil & Gas Finance B.V, the contribution and results of Nostrum Oil & Gas PLC and all of its subsidiaries (other than Zhaikmunai LLP) to the KPIs and results of the Group were insignificant. Except as stated above, there are no minority shareholdings.

Zhaikmunai LLP’s participatory interests are held by Nostrum Coöperatief Oil & Gas U.A. (“Coop”) (100.00%).

Details of all information provided pursuant to the UK Financial Conduct Authority’s DTRs is publicly available to view via the regulatory information service on Nostrum’s website.

This publicly available information also covers the requirements of the Kazakh Stock Exchange to provide information about all major transactions concerning Zhaikmunai LLP over the reporting period.

There were no major transactions in Zhaikmunai LLP's charter capital or changes to Zhaikmunai LLP's ownership structure in the reporting period.

Zhaikmunai LLP has no direct or indirect shareholdings. No investments were made in the equity of subsidiaries in 2019.

Information as to staffing is given on page 32

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:
• Appointed as Administrative Director of Zhaikmunai LLP on 1 March 2008 and as General Director of Zhaikmunai LLP on 14 November 2016

Skills and experience:

Previously worked for Derkl Oil & Gas drilling as assistant driller and for 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.

- Graduate of Furmanov Secondary School with further education completed at the Ivano-Frankivsk Institute of Oil and Gas with a specialisation in drilling of oil and gas wells.
- 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 2019 was 87,647,400,00 KZT (comprising his basic compensation net of personal income tax and pension contributions). Mr Darkeyev holds no shares or other interests in the charter capital of Zhaikmunai LLP or any of its affiliates. No performance related bonuses were paid in 2019.

Zhaikmunai LLP made pension contributions of 2,550,000 KZT in 2019 in respect of Mr Darkeyev.

Returns to holders of our participatory interests

We are a subsidiary within the Group, and the main operating subsidiary within the Group. We periodically make distributions of profits to the holders of our participatory interests. Our parent company, Nostrum, has its dividend policy reviewed annually by the Nostrum Board.

Our profit distributions to the holders of our participatory interests for the last three years were nil in 2017, 2018 and 2019.

As there are no shares in Zhaikmunai, there is no requirement to publish earnings per share or book value per share.

Section B Financial Statements and Auditors Report

Zhaikmunai LLP

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

SECTION B - CONTENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

In thousands of US Dollars	**Notes**	**31 December 2019**	31 December 2018
ASSETS			
Non-current assets			
Exploration and evaluation assets	**6**	**–**	50,241
Property, plant and equipment	**7**	**661,185**	1,926,262
Right-of-use assets	**5**	**6,875**	–
Restricted cash	**12**	**7,620**	7,021
Advances for non-current assets	**8**	**1,368**	13,152
		677,048	1,996,676
Current assets			
Inventories	**9**	**35,849**	29,584
Trade receivables	**11**	**31,239**	35,732
Prepayments and other current assets	**10**	**10,609**	19,225
Cash and cash equivalents	**12**	**13,716**	7,059
		91,413	91,600
TOTAL ASSETS		**768,461**	**2,088,276**
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	**13**	**4,112**	4,112
Other reserves		**32,586**	32,586
(Accumulated losses)/retained earnings		**(516,791)**	468,579
		(480,093)	505,277
Non-current liabilities			
Long-term borrowings	**14**	**1,100,573**	1,070,736
Long-term lease liability	**15**	**641**	–
Long-term finance guarantee	**14**	**2,887**	4,111
Abandonment and site restoration provision	**16**	**27,502**	21,894
Due to Government of Kazakhstan	**17**	**5,070**	5,280
Deferred tax liability	**27**	**40,924**	395,224
		1,177,597	1,497,245
Current liabilities			
Current portion of long-term borrowings	**14**	**4,013**	4,627
Current portion of long-term lease liability	**15**	**6,735**	–
Current portion of finance guarantee	**14**	**1,594**	1,594
Trade payables	**18**	**29,395**	49,679
Advances received		**335**	394
Income tax payable		**216**	484
Current portion of due to Government of Kazakhstan	**17**	**1,031**	1,031
Other current liabilities	**19**	**27,638**	27,945
		70,957	85,754
TOTAL EQUITY AND LIABILITIES		**768,461**	**2,088,276**

General Director of Zhaikmunai LLP

Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 to 39 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

In thousands of US Dollars	Notes	2019	2018
Revenue			
Revenue from export sales		**218,511**	296,034
Revenue from domestic sales		**103,617**	93,893
	20	**322,128**	389,927
Cost of sales	**21**	**(174,204)**	(166,263)
Gross profit		**147,924**	223,664
General and administrative expenses	**22**	**(12,658)**	(12,380)
Selling and transportation expenses	**23**	**(46,362)**	(50,590)
Finance costs	**24**	**(46,747)**	(55,798)
Taxes other than income tax	**25**	**(22,930)**	(29,728)
Impairment charge	**4, 6, 7**	**(1,352,173)**	(117,575)
Foreign exchange gain / (loss), net		**804**	(784)
Interest income		**86**	253
Other income		**8,411**	5,357
Other expenses	**26**	**(13,001)**	(46,203)
Loss before income tax		**(1,336,646)**	(83,784)
Current income tax expense		**(3,024)**	(10,156)
Deferred income tax benefit/(expense)		**354,300**	(10,565)
Income tax benefit/(expense)	**27**	**351,276**	(20,721)
Loss for the year		**(985,370)**	(104,505)
Other comprehensive (loss)/income for the year		**–**	–
Total comprehensive loss for the year		**(985,370)**	(104,505)

General Director of Zhaikmunai LLP

Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

In thousands of US Dollars	Notes	2019	2018
Cash flow from operating activities:			
Loss before income tax		**(1,336,646)**	(83,784)
Adjustments for:			
Depreciation, depletion and amortisation		**143,077**	116,998
Impairment charge	**6, 7**	**1,352,173**	117,575
Finance costs	**24**	**46,747**	55,798
Finance guarantee gain		**(1,224)**	(1,180)
Interest income		**(86)**	(253)
Foreign exchange loss on investing and financing activities		**253**	311
Loss on disposal of property, plant and equipment		**116**	1,510
Provision for doubtful debts		**–**	85
Accrued liabilities		**3,934**	2,691
Operating profit before working capital changes		**208,344**	209,751
Changes in working capital:			
Change in inventories		**(6,265)**	164
Change in trade receivables		**4,493**	(1,212)
Change in prepayments and other current assets		**6,136**	7,203
Change in trade payables		**4,962**	(2,351)
Change in advances received		**(59)**	(885)
Change in due to Government of Kazakhstan		**(1,030)**	(1,031)
Change in other current liabilities		**(979)**	(6,365)
Cash generated from operations		**215,602**	205,274
Income tax paid		**(3,481)**	(7,315)
Net cash flows from operating activities		**212,121**	197,959
Cash flow from investing activities:			
Interest received		**86**	253
Purchase of property, plant and equipment		**(115,411)**	(167,733)
Exploration and evaluation works		**(983)**	(2,517)
Acquisition of subsidiaries		**–**	(1,675)
Net cash used in investing activities		**(116,308)**	(171,672)
Cash flow from financing activities:			
Finance costs paid	**14**	**(100,647)**	(104,223)
Payment of principal portion of lease liabilities	**15**	**(17,543)**	(237)
Repayment of borrowings	**28**	**–**	(8,000)
Transfer to restricted cash	**12**	**(599)**	(358)
Proceeds from borrowings	**14**	**29,650**	60,350
Net cash used in financing activities		**(89,139)**	(52,468)
Effects of exchange rate changes on cash and cash equivalents		**(17)**	(21)
Net increase / (decrease) in cash and cash equivalents		**6,657**	(26,202)
Cash and cash equivalents at the beginning of the year		**7,059**	33,261
Cash and cash equivalents at the end of the year	**12**	**13,716**	7,059

General Director of Zhaikmunai LLP

Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 to 39 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

In thousands of US Dollars	Notes	Capital	Other reserves	Retained earnings/ (Accumulated losses)	Total
As at 31 December 2017		**4,112**	**32,586**	**568,236**	**604,934**
Impact of adopting IFRS 9		–	–	6,905	6,905
As at 1 January 2018 (restated under IFRS 9)		**4,112**	**32,586**	**575,141**	**611,839**
Loss for the year		–	–	(104,505)	(104,505)
Total comprehensive loss for the year		–	–	**(104,505)**	**(104,505)**
Issue of finance guarantee	**14**	–	–	(2,057)	(2,057)
As at 31 December 2018		**4,112**	**32,586**	**468,579**	**505,277**
Loss for the year		–	–	(985,370)	(985,370)
Total comprehensive loss for the year		–	–	**(985,370)**	**(985,370)**
As at 31 December 2019		**4,112**	**32,586**	**(516,791)**	**(480,093)**

General Director of Zhaikmunai LLP

Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 to 39 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

On 28 December 2018, the Partnership acquired 100% interest in Atom&Co LLP for cash consideration of US$ 1.7 million for the main purpose of gaining control over the administrative office in Uralsk. This transaction has been accounted as an asset acquisition, which was under finance lease with this entity. On 20 August 2019, the Partnership merged with Atom & Co LLP.

The Group's operations comprise of a single operating segment and 3 (three) additional exploration concessions located in Kazakhstan.

The Group does not have an ultimate controlling party.

The registered legal address of the Group is: 43/1, Aleksandr Karev street, Uralsk, the Republic of Kazakhstan.

These consolidated financial statements were authorised for issue by the Group's General Director and Chief Accountant on 29 April 2020.

These consolidated financial statements include the financial position and the results of the operations of the Partnership and its wholly owned subsidiary Atom&Co LLP.

Subsoil use rights terms

The Group 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 Group 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 Group 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 Group acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the authority now known as the Ministry of Energy (the "MOE") of the Republic of Kazakhstan.

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. Subsequently the exploration period was extended to 26 August 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. On 16 August 2019, the contract was amended so as to adopt the terms of the current model contract and the exploration period was extended until 16 August 2022.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Royalty payments

The Group 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 Group 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

These consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared based on a historical cost basis. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

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

Going concern

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

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

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

As disclosed in Note 31, subsequent to the year-end the price of oil collapsed following a disagreement between OPEC+ countries on production levels compounded by the perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 ('COVID-19'). Whilst the OPEC+ countries, together with a wider group of producers have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

After careful consideration of these material uncertainties, management are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of these consolidated financial statements. For these reasons, they continue to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New standards, interpretations and amendments adopted by the Group

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 2019. The Group has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of the amendment which is applicable to the Group's consolidated financial statements is described below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The effect of adoption IFRS 16 is as follows:

In thousands of US dollars	**1 January 2019**
Right-of-use assets	34,184
Total non-current assets	**34,184**
Total assets	**34,184**
Long-term lease liability	16,216
Total non-current liabilities	16,216
Current portion of long-term lease liability	17,968
Total current liabilities	17,968
Total equity and liabilities	**34,184**

Set out below, are the amounts recognised in profit and loss:

In thousands of US Dollars	**2019**
Depreciation expense of right-of-use assets (included in Selling and transportation expenses)	**4,462**
Depreciation expense of right-of-use assets (included in Cost of sales)	**2,653**
Depreciation expense of right-of-use assets (included in General and administrative expenses)	**186**
Rent expenses (included in Selling and transportation expenses)	**(4,984)**
Rent expenses (included in Cost of sales)	**(2,951)**
Rent expenses (included in General and administrative expenses)	**(224)**
Finance costs	**1,287**
Other income	**(428)**
Deferred income tax expense	**–**
	1

Nature of the effect of adoption of IFRS 16

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

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

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

The Group applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The leases for which the lease term ends within 12 months of the date of initial application of IFRS 16 were classified as short-term leases;
- The right-of-use assets were recognised based on the amount equal to the lease liabilities which were recognised based on the present value of the remaining lease payments;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The summary of difference between the operating lease commitments disclosed under IAS 17 at the year ended 31 December 2018 and the lease liabilities recognised in the consolidated statement of financial position on initial application is as follows:

In thousands of US Dollars	**2019**
Total operating lease commitments disclosed at 31 December 2018	10,848
Add: service agreement contracts reassessed as lease agreements	28,356
Total lease liabilities before discounting	**39,204**
Discount using incremental borrowing rate	(5,020)
Total lease liabilities as at 1 January 2019	**34,184**

Summary of new accounting policies

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

Right-of-use assets

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

Lease liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Separation of lease and non-lease components

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

Distinguishing fixed and variable lease payment elements

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

Short-term leases and leases of low-value assets

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

Significant judgement in determining lease

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

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

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

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

More detailed information related to the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period are shown in Note 5 and Note 15, relatively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the amendments had no impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Standards issued but not yet effective

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

IFRS 17 *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IFRS 3: *Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: *Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Exploration expenditure

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

Significant estimates and assumptions: Exploration expenditures

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

The Group owns licenses in the Western Kazakhstan region, including the Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye fields where the exploration periods will expire respectively on 16 August 2022, 31 December 2021 and 31 December 2021. The Group remains committed to developing its exploration assets and based on the past history of the Group's ability to obtain extension, therefore, continues to carry the capitalized costs on its balance sheet. For more detailed information in relation to the subsoil use rights terms, please see Note 1.

Significant accounting judgements: Exploration expenditure

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

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

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

Property, plant and equipment

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises 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 Group depreciates its oil pipeline and oil loading terminal on a straight-line basis over the life of the relevant subsoil use rights. In the case of assets that have a useful life shorter than the lifetime of the field the straight-line method is applied.

Other properties

All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

For more detailed information in relation to property, plant and equipment, please refer to *Note 7*.

Significant accounting judgments: oil and gas reserves

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

Significant estimates and assumptions: oil and gas reserves

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Significant accounting judgment: identification of cash-generating unit

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

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

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

The recoverable amount is determined by calculation of the CGU's value-in-use and fair value less costs of disposal based on the discounted cash flow model as no recent third party transactions exist on which a reliable market-based fair value can be established. In 2019 the recoverable amount reflected the CGUs fair value less costs of disposal (2018: value in use). The discounted cash flow model takes into consideration cashflows, which are expected to arise until 2032, i.e. during the license term of the Chinarevskoye field, and is considered a level 3 valuation under the fair value hierarchy. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers.

The 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:

(a) Oil prices (in real terms): US$45/bbl for 2020, US$50/bbl for 2021, US$55/bbl for 2022, and US$60/bbl for 2023-2032 (2018: US$67.5/bbl for 2019-2032);

(b) Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;

(c) Production profiles based on Group's internal estimates confirmed by independent reserve engineers;

(d) All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;

(e) Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates; and production profiles; and

(f) Pre-tax discount rate of 10.5% (2018: 15.4%);

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

As a result of these changes, and consequential further significant reduction of the 2P reserves expected to be recovered from the Chinarevskoye field over the period of 2020-2032, in addition to oil price trends, the Group identified indicators of impairment. The CGUs recoverable amount was estimated, and compared to its carrying amount, and a further impairment charge on oil and gas assets in the amount of US$1,301,640 thousand was recorded, in addition to the US$117,575 thousand impairment charge recognized in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In 2018 US$117,575 thousand impairment charge was allocated between working oil & gas assets and construction in progress proportionate to their carrying amounts at 31 December 2018 (US$67,740 thousand and US$49,835 thousand, respectively).

Following a consistent approach, the impairment charge in 2019 has been allocated between working oil & gas assets (US$1,169,828 thousand), construction in progress (US$106,825 thousand) and other property, plant and equipment (US$24,987 thousand) proportionate to their carrying amounts at 31 December 2019, resulting in the recoverable amount of property, plant and equipment of US$ 661,185 thousand (2018: US$1,926,262 thousand), equaling its recoverable amount.

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

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

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

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax bases of income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax 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 Group 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 Group.

Current income tax

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

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

Deferred income tax

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

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

Deferred 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For more detailed information on current and deferred income tax disclosure as at 31 December 2019 and 2018, please see *Note 27*.

Significant accounting estimation uncertainty: 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 2019.

The Group is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, 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 2019 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained. 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 27*.

Foreign currency translation

The functional currency of the Partnership is the United States dollar (the "US dollar" or "US$"). The functional currency of the subsidiary Atom&Co LLP is Tenge.

Transactions and balances denominated in foreign currencies

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

Advances for non-current assets

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

For more detailed information in relation to advances for non-current assets, please refer to *Note 8*.

Borrowing costs

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

For more detailed information in relation to capitalisation of borrowing costs, please refer to *Note 7*.

Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For more information in relation to the breakdown of inventories as at 31 December 2019 and 2018, please see *Note 9*.

Provisions and contingencies

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

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

The Group does not recognise contingent liabilities but discloses contingent liabilities in *Note 29*, unless the possibility of an outflow of resources embodying economic benefits is remote.

Decommissioning

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

The Group estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation at current year prices adjusted for expected long-term inflation rate and discounted at 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 Group reviews site restoration provisions at each financial reporting date and adjusts them to reflect current best estimates in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

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

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

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

Movements in the abandonment and site restoration provision are disclosed in *Note 16*.

Significant accounting judgments: 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 contingent liability is required to be disclosed, since the outcome of litigation is difficult to predict.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Significant accounting estimates and assumptions: provisions and contingencies

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

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

Other current liabilities

The Group 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 and measurement

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

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

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

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

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

Subsequent measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

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

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

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

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

Derecognition

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

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

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

Impairment of financial assets

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of long-term borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables and borrowings.

Subsequent measurement

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

<u>Long-term borrowings</u>

This is the category most relevant to the Group. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

This category generally applies to interest-bearing borrowings. For more information, refer to Note 14.

Derecognition

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

Offsetting of financial instruments

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

Cash and short-term deposits

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

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

For more detailed information in relation to cash and cash equivalents as at 31 December 2019 and 2018, please see *Note 12*.

Revenue recognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. RIGHT-OF-USE ASSETS

In thousands of US Dollars	Machinery & equipment	Vehicles	Total
Balance at 1 January 2019, net of accumulated depreciation	**26,825**	**7,359**	**34,184**
Modification of lease agreements	(1,467)	(16)	(1,483)
Termination of lease agreements	(10,086)	–	(10,086)
Depreciation	(12,089)	(3,651)	(15,740)
Balance at 31 December 2019, net of accumulated depreciation	**3,183**	**3,692**	**6,875**
As at 31 December 2019			
Cost	7,643	7,339	14,982
Accumulated depreciation	(4,460)	(3,647)	(8,107)
Balance, net of accumulated depreciation	**3,183**	**3,692**	**6,875**

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

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

See Note 15 for lease liabilities.

6. EXPLORATION AND EVALUATION ASSETS

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

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

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

7. PROPERTY, PLANT AND EQUIPMENT

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

In thousands of US Dollars	**31 December 2019**	**31 December 2018**
Oil and gas properties	**648,495**	1,886,844
Other property, plant and equipment	**12,690**	39,418
	661,185	1,926,262

Oil and gas properties

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The movement of oil and gas properties for the years ended 31 December 2019 and 2018 was as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In thousands of US Dollars	Working assets	Construction in progress	Total
Balance at 1 January 2018, net of accumulated depreciation and depletion	**1,130,385**	**768,326**	**1,898,711**
Additions	1,330	216,936	218,266
Transfers	131,900	(131,900)	–
Disposals	(2,203)	–	(2,203)
Disposals depreciation	842	–	842
Depreciation and depletion charge	(111,197)	–	(111,197)
Impairment charge	(67,740)	(49,835)	(117,575)
Balance at 31 December 2018, net of accumulated depreciation, depletion and impairment	1,083,317	803,527	1,886,844
Additions	15,044	156,405	171,449
Transfers	839,331	(842,083)	(2,752)
Disposals	(90)	–	(90)
Disposals depreciation	41	–	41
Depreciation and depletion charge	(130,344)	–	(130,344)
Impairment transfers	(43,234)	43,234	–
Impairment charge	(1,169,828)	(106,825)	(1,276,653)
Balance at 31 December 2019, net of accumulated depreciation, depletion and impairment	594,237	54,258	648,495
As at 31 December 2017			
Cost	1,898,361	768,326	2,666,687
Accumulated depreciation and depletion	(767,976)	–	(767,976)
Balance, net of accumulated depreciation and depletion	1,130,385	768,326	1,898,711
As at 31 December 2018			
Cost	1,961,397	803,527	2,764,924
Accumulated depreciation, depletion and impairment	(878,080)	–	(878,080)
Balance, net of accumulated depreciation, depletion and impairment	1,083,317	803,527	1,886,844
As at 31 December 2019			
Cost	2,883,423	167,684	3,051,107
Accumulated depreciation, depletion and impairment	(2,289,186)	(113,426)	(2,402,612)
Balance, net of accumulated depreciation, depletion and impairment	594,237	54,258	648,495

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

The depletion rate for oil and gas working assets was 12.04% and 10.33% in 2019 and 2018, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2019 and 2018. 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 16*) in the year ended 31 December 2019 resulted in the increase of the oil and gas properties by US$ 4,354 thousand (31 December 2018: the decrease of US$ 2,823 thousand).

The Group incurred borrowing costs including amortisation of arrangement fees. Capitalization rate and capitalised borrowing costs were as follows as at 31 December 2019 and 2018:

In thousands of US Dollars	**31 December 2019**	**31 December 2018**
Borrowing costs including amortisation of arrangement fee	**100,220**	107,572
Capitalisation rate	**9.32%**	8.95%
Capitalised borrowing costs	**55,691**	53,153

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019 the Group's property, plant and equipment of US$ 229,176 thousand were pledged as security for the loans due to Nostrum Oil & Gas Finance B.V. (*Note 14*) (31 December 2018: US$ 246,414 thousand).

Other property, plant and equipment

In thousands of US Dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2018, net of accumulated depreciation	**31,565**	**5,164**	**776**	**7,726**	**44**	**45,275**
Additions	552	463	9	344	–	1,368
Transfers	115	(168)	–	97	(44)	–
Disposals	(324)	(78)	–	(240)	–	(642)
Disposals depreciation	222	76	–	195	–	493
Depreciation	(4,048)	(1,463)	(142)	(1,423)	–	(7,076)
Balance at 31 December 2018, net of accumulated depreciation and depletion	**28,082**	**3,994**	**643**	**6,699**	**–**	**39,418**
Additions	–	564	–	1,231	–	1,795
Transfers	135	25	–	2,592	–	2,752
Disposals	(33)	(68)	(16)	(466)	–	(583)
Disposals depreciation	33	26	7	450	–	516
Depreciation	(3,867)	(1,087)	(142)	(1,125)	–	(6,221)
Impairment charge	(16,147)	(2,291)	(326)	(6,223)	–	(24,987)
Balance at 31 December 2019, net of accumulated depreciation and impairment	**8,203**	**1,163**	**166**	**3,158**	**–**	**12,690**
As at 31 December 2017						
Cost	50,251	20,194	1,602	14,673	44	86,764
Accumulated depreciation	(18,686)	(15,030)	(826)	(6,947)	–	(41,489)
Balance, net of accumulated depreciation	**31,565**	**5,164**	**776**	**7,726**	**44**	**45,275**
As at 31 December 2018						
Cost	50,602	20,410	1,566	14,881	–	87,459
Accumulated depreciation	(22,520)	(16,416)	(923)	(8,182)	–	(48,041)
Balance, net of accumulated depreciation	**28,082**	**3,994**	**643**	**6,699**	**–**	**39,418**
As at 31 December 2019						
Cost	49,598	20,931	1,551	18,239	–	90,319
Accumulated depreciation and impairment	(41,395)	(19,768)	(1,385)	(15,081)	–	(77,629)
Balance, net of accumulated depreciation and impairment	**8,203**	**1,163**	**166**	**3,158**	**–**	**12,690**

8. ADVANCES FOR NON-CURRENT ASSETS

In thousands of US Dollars	31 December 2019	31 December 2018
Advances for pipes and construction materials	**927**	520
Advances for construction services	**441**	12,632
	1,368	13,152

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. INVENTORIES

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

In thousands of US Dollars	31 December 2019	31 December 2018
Spare parts and other inventories	**23,591**	23,479
Gas condensate	**8,446**	4,198
Crude oil	**3,650**	1,761
LPG	**113**	126
Dry Gas	**49**	20
	35,849	29,584

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

10. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US Dollars	31 December 2019	31 December 2018
Advances paid	**5,357**	4,772
VAT receivable	**2,732**	10,784
Other taxes receivable	**1,713**	2,947
Other	**807**	722
	10,609	19,225

Advances paid consist primarily of prepayments made to service providers.

11. TRADE RECEIVABLES

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

As at 31 December 2019 and 31 December 2018 there were neither past due nor impaired trade receivables.

12. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	31 December 2019	31 December 2018
Current accounts in US Dollars	**12,954**	6,194
Current accounts in Tenge	**712**	857
Current accounts in other currencies	**45**	–
Petty cash	**5**	8
	13,716	7,059

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as liquidation fund deposit in the amount of US$ 805 thousand with Sberbank in Kazakhstan and US$ 6,815 thousand with Halyk bank (31 December 2018: US$ 7,021 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

13. GROUP 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 Group 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 Group in the amount of 749,400 thousand tenge, equivalent to US$ 4,108 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

On 21 April 2016 Zhaikmunai LLP bought back the 0.036% interest in the Group 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 Group 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 Group.

14. BORROWINGS

Borrowings comprise the following as at 31 December 2019 and 2018:

In thousands of US Dollars	31 December 2019	31 December 2018
Notes issued in 2012 and maturing in 2033	**559,714**	559,617
Notes issued in 2014 and maturing in 2033	**399,372**	399,282
Nostrum Oil & Gas Finance B.V.	**145,500**	–
Nostrum Oil & Gas B.V.	**–**	116,464
	1,104,586	1,075,363
Less amounts due within 12 months	**(4,013)**	(4,627)
Amounts due after 12 months	**1,100,573**	1,070,736

2012 and 2014 Notes

On 13 November 2012, Zhaikmunai International B.V. issued US$ 560,000 thousand notes (the "2012 Notes"). On 24 April 2013 Zhaikmunai LLP replaced Zhaikmunai International B.V. as issuer of the 2012 Notes and assumed all of the obligations of the issuer under the 2012 Notes.

On 14 February 2014, Nostrum Oil & Gas Finance B.V. issued US$ 400,000 thousand notes (the "2014 Notes"). On 6 May 2014, Zhaikmunai replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes and assumed all of the obligations of the issuer under the 2014 Notes.

On 17 February 2018, the outstanding 2012 Notes and the 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries were purchased from the bondholders by Nostrum Oil & Gas Finance B.V.

On 2 May 2018, certain amendments to the terms and conditions of the 2012 and 2014 Notes became effective, whereby the interest rate on the 2012 and 2014 Notes was changed to 9.5%, being effective from 19 February 2018. The maturity dates of the 2012 and 2014 were moved to 25 June 2033 and 14 January 2033, respectively.

Interest on the 2012 and 2014 Notes is payable on 14 June and 14 December of each year.

Guarantee of 2017 Notes

On 25 July 2017, Nostrum Oil & Gas Finance B.V., an indirect wholly-owned subsidiary of Nostrum Oil & Gas PLC, issued US$ 725,000 thousand notes (the "2017 Notes").

The 2017 Notes are jointly and severally guaranteed on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V.

As at 25 July 2017, the Group recognised the granted guarantee liability at the fair value of US$ 5,177 thousand, which is present value of the guarantee premium estimated based on the assessment of credit risk of the 2017 Issuer. The present value of the estimated guarantee premium is discounted by the 2017 Notes' interest rate. During the year ended 31 December 2019, the Group recognised guarantee gain in the amount of US$ 974 thousand and the outstanding balance as at 31 December 2019 of the guarantee, both current and non-current totaled US$ 2,888 thousand (31 December 2018: US$ 3,861 thousand).

Guarantee of 2018 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. issued US$ 400,000 thousand notes (the "2018 Notes").

The 2018 Notes are jointly and severally guaranteed on a senior basis by Zhaikmunai LLP, Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A. and Nostrum Oil & Gas B.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As at 16 February 2018, the Group recognised the granted guarantee liability at the fair value of US$ 2,057 thousand, which is present value of the guarantee premium estimated based on the assessment of credit risk of the 2018 Issuer. The present value of the estimated guarantee premium is discounted by the 2018 Notes' interest rate. During the year ended 31 December 2019, the Group recognized guarantee gain in the amount of US$ 250 thousand and the outstanding balance as at 31 December 2019 of the guarantee, both current and non-current totaled US$ 1,593 thousand (31 December 2018: US$ 1,844 thousand).

Loans due to Nostrum Oil & Gas B.V.

On 1 July 2008 the Group signed a loan agreement with Frans van der Schoot B.V. under which the latter provided the Group 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.

Subsequently, the interest rate was changed to 6.625% and the maturity date was moved to 31 December 2022.

The outstanding balance of the loan as at 31 December 2019 has an interest rate of 6.625% (31 December 2018: 6.625%).

With effect from 1 October 2019, under the intra-group loan agreement, the rights in respect of outstanding nominal amounts and unpaid interest were transferred from Nostrum Oil & Gas B.V. to Nostrum Oil & Gas Finance B.V. On 11 December 2019 the Group received additional loan of US$ 24,650 thousand from Nostrum Oil & Gas Finance B.V.

Changes in borrowings arising from financing activities are as follows:

	1 January 2019	**Impact of IFRS 9 adoption**	**Cash inflows**	**Cash outflows**	**Borrowing costs including amortisation of arrangement fees**	**Finance charges under leases**	**Modification and termination of leases**	**Other**	**31 December 2019**
Long-term borrowings	**1,070,736**	–	29,650	–	187	–	–	–	**1,100,573**
Current portion of long-term borrowings	**4,627**	–	–	(100,647)	100,033	–	–	–	**4,013**
Long-term lease liability	**16,216**	–	–	–	–	–	(11,997)	(3,578)	**641**
Current portion of long-term lease liability	**17,968**	–	–	(17,543)	–	2,732	–	3,578	**6,735**
	1,109,547	**–**	**29,650**	**(118,190)**	**100,220**	**2,732**	**(11,997)**	–	**1,104,586**

	1 January 2018	Impact of IFRS 9 adoption	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Finance charges under finance leases	Modification and termination of leases	Other	31 December 2018
Long-term borrowings	**1,012,913**	(7,612)	60,350	(8,000)	3,899	–	–	9,186	**1,070,736**
Current portion of long-term borrowings	**15,173**	**–**	**–**	(104,459)	88,577	135	–	5,201	**4,627**
	1,028,086	**(7,612)**	**60,350**	**(112,459)**	**92,476**	**135**	–	**14,387**	**1,075,363**

15. LEASE LIABILITIES

In thousands of US Dollars	**2019**
Lease liability as at 1 January	**34,184**
Modification of lease agreements	**(1,483)**
Termination of lease agreements	**(10,514)**
Finance charges	**2,732**
Paid during the period	**(17,543)**
	7,376
Less: current portion of Long-term lease liability	**6,735**
Long-term lease liability as at 31 December	**641**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The lease liabilities are recognized for leases of vehicles, drilling rigs and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The finance lease was recognized based on the future rentals as determined under IFRS 16. See Note 5 for right-of-use assets.

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

16. ABANDONMENT AND SITE RESTORATION PROVISION

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

In thousands of US Dollars	**2019**	**2018**
Abandonment and site restoration provision as at 1 January	**21,894**	23,590
Additional provision	**1,100**	728
Unwinding of discount	**164**	399
Provision used	**(10)**	–
Change in estimates	**4,354**	(2,823)
Abandonment and site restoration provision as at 31 December	**27,502**	21,894

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

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2019 were 1.9 % and 2.49 %, respectively (31 December 2018: 2.3 % and 4.33 %).

The change in the discount rate and inflation rate in the year ended 31 December 2019 resulted in the increase of the abandonment and site restoration provision by US$ 4,354 thousand (31 December 2018: the decrease by US$2,823 thousand).

17. DUE TO GOVERNMENT OF KAZAKHSTAN

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

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

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

In thousands of US Dollars	**2019**	**2018**
Due to Government of Kazakhstan as at 1 January	**6,311**	6,497
Unwinding of discount	**820**	845
Paid during the year	**(1,030)**	(1,031)
	6,101	6,311
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,070**	5,280

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

18. TRADE PAYABLES

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

In thousands of US Dollars	**31 December 2019**	**31 December 2018**
Tenge denominated trade payables	**15,292**	20,672
US Dollar denominated trade payables	**9,646**	23,088
Euro denominated trade payables	**4,325**	4,948
Russian Rouble denominated trade payables	**132**	971
	29,395	49,679

19. OTHER CURRENT LIABILITIES

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

In thousands of US Dollars	**31 December 2019**	**31 December 2018**
Training obligations accrual	**11,325**	11,609
Other accruals	**7,597**	5,682
Taxes payable, other than corporate income tax	**4,685**	4,926
Due to employees	**1,974**	1,690
Accruals under the subsoil use agreements	**1,270**	2,174
Other current liabilities	**787**	1,864
	27,638	27,945

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.

20. REVENUE

In thousands of US Dollars	**2019**	**2018**
Revenue from oil and gas condensate sales	**196,175**	267,815
Revenue from gas and LPG sales	**125,948**	122,112
Revenue from sulphur sales	**5**	–
	322,128	389,927

The pricing for all of the Group's crude oil, condensate and LPG is directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the year ended 31 December 2019 was US$ 64.16 (2018: US$ 71.69).

During the year ended 31 December 2019 the revenue from sales to three major customers amounted to US$ 190,343 thousand, US$ 96,064 thousand and US$ 9,252 thousand, respectively (2018: US$ 258,898 thousand, US$ 80,499 thousand and US$ 11,924 thousand, respectively).

The Group's exports are mainly represented by deliveries to Belarus and Black Sea ports of Russia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. COST OF SALES

In thousands of US Dollars	2019	2018
Depreciation, depletion and amortisation	**136,776**	115,347
Repair, maintenance and other services	**14,173**	16,133
Payroll and related taxes	**12,781**	11,677
Management fees	**7,811**	7,726
Materials and supplies	**4,499**	5,253
Transportation services	**2,094**	6,116
Well workover costs	**2,077**	2,767
Environmental levies	**167**	367
Change in stock	**(6,153)**	136
Other	**(21)**	741
	174,204	166,263

22. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	2019	2018
Payroll and related taxes	**3,493**	3,595
Management fees	**2,570**	2,992
Professional services	**2,047**	1,155
Depreciation and amortisation	**1,812**	1,651
Insurance fees	**989**	1,282
Communication	**276**	357
Materials and supplies	**157**	168
Business travel	**147**	170
Bank charges	**82**	124
Lease payments	**33**	–
Transportation services	**–**	430
Other	**1,052**	456
	12,658	12,380

23. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollars	2019	2018
Transportation costs	**12,405**	15,017
Loading and storage costs	**11,783**	18,881
Marketing services	**11,560**	12,077
Depreciation of right-of-use assets	**4,489**	–
Payroll and related taxes	**1,763**	2,058
Other	**4,362**	2,557
	46,362	50,590

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

24. FINANCE COSTS

In thousands of US Dollars	2019	2018
Interest expense on borrowings	**44,529**	54,419
Unwinding of discount on lease liability	**1,234**	135
Unwinding of discount on amounts due to Government of Kazakhstan	**820**	845
Unwinding of discount on abandonment and site restoration provision	**164**	399
	46,747	55,798

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. TAXES OTHER THAN INCOME TAX

In thousands of US Dollars	2019	2018
Royalties	**12,802**	15,155
Export customs duty	**7,281**	11,233
Government profit share	**2,802**	3,277
Other taxes	**45**	63
	22,930	29,728

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.

26. OTHER EXPENSES

In thousands of US Dollars	2019	2018
Compensation	**3,576**	–
Training	**2,808**	2,382
Impairment of tax asset	**2,480**	–
Fines and penalties	**1,873**	–
Accruals under subsoil use agreements	**1,181**	(3,327)
Social program	**313**	316
Currency converting	**211**	375
Other accruals	**133**	2,691
Loss on disposal of property, plant and equipment	**96**	1,510
Sponsorship	**77**	52
Liquidity management fees	**–**	40,600
Bad debt provision	**–**	85
Other expense	**253**	1,519
	13,001	46,203

Liquidity management fees include the transaction costs incurred by Nostrum Oil & Gas Finance B.V. in relation to the issue of the 2018 Notes and the 2017 Notes and rebilled to the Group (Notes 14).

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

27. INCOME TAX

The income tax expense consisted of the following:

In thousands of US Dollars	2019	2018
Corporate income tax expense	**3,096**	11,007
Deferred income tax (benefit) / expense	**(354,300)**	10,565
Adjustment in respect of the current income tax for the prior periods	**(72)**	(851)
Total income tax (benefit) / expense	**(351,276)**	20,721

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In thousands of US Dollars	2019	2018
Loss before income tax	**(1,336,646)**	(83,784)
Tax rate applicable to the subsoil use rights	**30%**	30%
Expected tax provision	**(400,994)**	(25,135)
Effect of exchange rate on the tax base	**13,302**	18,284
Adjustments in respect of current income tax of previous years	**(72)**	(851)
Non-deductible interest expense on borrowings	**26,210**	29,055
Non-deductible impairment charges*	**9,012**	–
Non-deductible penalties	**484**	(998)
Loss on disposal of property, plant and equipment and inventories	**–**	453
Net foreign exchange gain	**(241)**	(1,261)
Non-deductible provision for impairment of advances paid	**–**	26
Other non-deductible expenses	**1,023**	1,148
Income tax (benefit)/ expenses reported in the consolidated financial statements	**(351,276)**	20,721

** The Group has not recognized deferred tax assets on the deductible temporary differences related to the exploration and evaluation assets in the amount of US$ 9,012 thousand.*

Activities not related to the Contract are subject to the applicable statutory tax rate of 20%.

The Group's effective tax rate for the year ended 31 December 2019 is 26.2% (2018: 24.73%). The Group's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2019 is 23.1% (2018: 31.8%).

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

In thousands of US Dollars	2019	2018
Deferred tax asset		
Accounts payable and provisions	**8,721**	4,883
Deferred tax liability		
Inventories	**(3,646)**	–
Property, plant and equipment	**(45,999)**	(400,107)
	(40,924)	(395,224)

The movements in the deferred tax liability were as follows:

In thousands of US Dollars	2019	2018
Balance as at 1 January	**395,224**	381,590
IFRS 9 adoption	**–**	3,069
Current period charge to statement of comprehensive income	**(354,300)**	10,565
Balance as at 31 December	**40,924**	395,224

28. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties as at 31 December 2019 and 2018 consisted of the following:

In thousands of US Dollars	31 December 2019	31 December 2018
Trade receivables and advances paid		
With significant influence over Group:		
JSC OGCC KazStroyService	**–**	11,408

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Accounts payable to related parties as at 31 December 2019 and 2018 consisted of the following:

In thousands of US Dollars	31 December 2019	31 December 2018
Borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**–**	115,850
Nostrum Oil & Gas Finance B.V.	**145,500**	–
Trade payables		
With significant influence over the Group:		
JSC OGCC KazStroyService	**430**	11,420
Under common control:		
Nostrum Services N.V.	**2,441**	1,505

During the years ended 31 December 2019 and 2018 the Group had the following transactions with related parties:

In thousands of US Dollars	2019	2018
Repayment of borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**–**	8,000
Received borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**5,000**	60,350
Nostrum Oil & Gas Finance B.V.	**24,650**	–
Interest paid		
Under common control:		
Nostrum Oil & Gas B.V.	**6,471**	4,912
Nostrum Oil & Gas Finance B.V.	**2,092**	–
Purchases		
With significant influence over the Group:		
JSC OGCC KazStroyService	**11,322**	13,975
Liquidity management fees		
Under common control:		
Nostrum Oil & Gas Finance B. V.	**–**	40,618
Management fees and consulting services		
Under common control:		
Nostrum Services Central Asia LLP	**–**	543
Nostrum Services N.V.	**14,444**	14,726

On 28 July 2014 the Group entered into a contract with JSC "OGCC KazStroyService" (the "Contractor") for the construction of the third unit of the Group's gas treatment facility (as amended by fourteen supplemental agreements since 28 July 2014, the "Construction Contract").

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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$ 1,935 thousand for the year ended 31 December 2019 (year ended 31 December 2018: US$ 1,570 thousand). Other key management personnel were employed and paid by Nostrum Services N.V. and their remuneration forms part of management fees and consulting services above.

29. 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 consolidated 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 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2019.

As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

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

Capital commitments

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

Social and education commitments

As required by the Contract (after its amendment on 2 September 2019), the Group is obliged to:

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (after its amendment on 16 August 2019) require the subsurface user to:

(i) invest at least US$ 10,982 thousand for exploration of the field during the exploration period;

(ii) create liquidation fund to cover the Group's asset retirement obligations.

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

(i) invest at least US$ 19,443 thousand for exploration of the field during the exploration period;

(ii) spend US$ 147 thousand to finance social infrastructure;

(iii) fund liquidation expenses equal to US$ 177 thousand.

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

(i) invest at least US$ 20,151 thousand for exploration of the field during the exploration period;

(ii) spend US$ 146 thousand for education of personnel engaged to work under the contract during the exploration stage;

(iii) spend US$ 147 thousand to finance social infrastructure;

(iv) fund liquidation expenses equal to US$ 202 thousand.

Domestic oil sales

In accordance with Supplement No. 7 to the Contract, the Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations as well as exploration of the three new oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye. The Group's financial assets consist of trade and other receivables and cash and cash equivalents.

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

Commodity price risk

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

Interest rate risk

The Group is not exposed to interest rate risk in 2019 and 2018 as the Group had no financial instruments with floating-rate as at years ended 31 December 2019 and 2018.

Foreign currency risk

The Group's consolidated statement of financial position can be affected by movements in the US dollar / tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollars exchange rate, with all other variables held constant, of the Group's profit before tax. The impact on equity is the same as the impact on profit before tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Change in Tenge to US dollar exchange rate	Effect on profit before tax
2019		
US Dollar thousand	**12.00%**	631
US Dollar thousand	**(9.00)%**	(473)
2018		
US Dollar thousand	**14.00%**	(2,790)
US Dollar thousand	**(10.00)%**	1,993

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

As at 31 December 2019	**Tenge**	**Russian Roubles**	**Euro**	**Other**	**Total**
Cash and cash equivalents	717	–	–	45	762
Trade receivables	24,276	–	–	–	24,276
Trade payables	(15,292)	(132)	(4,325)	–	(19,749)
Other current liabilities	(14,957)	–	–	–	(14,957)
	(5,256)	**(132)**	**(4,325)**	**45**	**(9,668)**

As at 31 December 2018	**Tenge**	**Russian Roubles**	**Euro**	**Other**	**Total**
Cash and cash equivalents	865	–	–	–	865
Trade receivables	16,231	–	–	–	16,231
Trade payables	(20,672)	(971)	(4,948)	–	(26,591)
Other current liabilities	(16,336)	–	–	–	(16,336)
	(19,912)	**(971)**	**(4,948)**	**–**	**(25,831)**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group monitors its risk to a shortage of funds using a liquidity planning tool. The tool allows selecting severe stress test scenarios. To ensure an adequate level of liquidity a minimum cash balance has been defined as a cushion of liquid assets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, loans, hedges, export financing and financial leases.

The Group's total outstanding debt consists of US$ 145,500 thousand of loan due to Nostrum Oil & Gas Finance B.V. and two notes: US$ 560 million issued in 2012 and maturing on 25 June 2033 and US$ 400 million issued in 2014 and maturing on 14 January 2033.

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

As at 31 December 2019	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Borrowings	–	25,210	75,630	529,579	1,716,939	2,347,358
Trade payables	23,442	–	5,953	–	–	29,395
Other current liabilities	17,984	–	–	–	–	17,984
Due to Government of Kazakhstan	–	258	773	4,124	6,443	11,598
Lease liability	–	1,924	5,197	766	–	7,887
	41,426	**27,392**	**87,553**	**534,469**	**1,723,382**	**2,414,222**

As at 31 December 2018	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Borrowings	–	24,719	74,156	503,675	1,808,139	2,410,689
Trade payables	34,646	–	15,033	–	–	49,679
Other current liabilities	18,228	–	–	–	–	18,228
Due to Government of Kazakhstan	–	258	773	4,124	7,474	12,629
	52,874	**24,977**	**89,962**	**507,799**	**1,815,613**	**2,491,225**

Credit risk

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

The Group places its tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba1 (stable) from Moody's rating agency and ING with a credit rating of Aa3 (stable) from Moody's rating agency at 31 December 2019. The Group does not guarantee obligations of other parties.

The Group sells its products and makes advance payments only to recognized, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low. Also, the Group's policy is to mitigate the payment risk on its off-takers by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.

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

Fair values of financial instruments

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

	Carrying amount		Fair value	
In thousands of US Dollars	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(1,104,586)**	(1,075,363)	**(453,270)**	(620,440)
Lease liability	**(7,376)**	–	**(7,376)**	–
Total	**(1,111,962)**	(1,075,363)	**(460,646)**	(620,440)

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.

During the year ended 31 December 2019 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Capital management

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

In thousands of US Dollars	**2019**	**2018**
Borrowings and lease liability	**1,111,962**	1,075,363
Less: cash and cash equivalents and restricted cash	**(21,336)**	(14,080)
Net debt	**1,090,626**	1,061,283
Equity	**(480,093)**	505,277
Total capital	**(480,093)**	505,277
Capital and net debt	**610,533**	1,566,560
Gearing ratio	**179%**	68%

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

31. EVENTS AFTER THE REPORTING PERIOD

OPEC and non-OPEC allies

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

Coronavirus outbreak

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

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

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

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

Engagement with bondholders

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