Zhaikmunai LLP

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

CONTENTS

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

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

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

Independent auditor's report

To the Board of directors and Participant of Zhaikmunai LLP

Opinion

We have audited the consolidated financial statements of Zhaikmunai LLP and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

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Key audit matter	How our audit addressed the key audit matter
Estimation of oil and gas reserves and its impact on the impairment testing, depreciation, depletion and amortization (DD&A) and decommissioning provision	
We considered this matter to be one of the most significance in our audit due to the fact that reserves estimates are subjective in nature and have a pervasive impact on the consolidated financial statements through impairment testing, DD&A calculations and decommissioning provision estimate. The estimation of oil and gas reserves is a significant area of judgement due to the technical uncertainty in assessing reserves quantities. Reserves and resources are also a fundamental indicator of the future potential of the Group's performance. Management used Group's internal specialists and engaged an external specialist to assist internal specialists in the estimation of reserves volumes. The Group's disclosures about oil and gas reserves, related impairment testing and decommissioning provision are included in Note 4, Note 6 and Note 14.	We performed evaluation of management's assumptions including commercial assumptions, in particular we: • obtained understanding of the Group's internal process and key controls associated with the oil and gas reserves estimation process. • held discussions with external specialists, engaged by the Group, during the planning and execution of the audit and assessed their competence and objectivity by inquiring of their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists. We analyzed volumes estimation and other input data prepared by internal specialists and used by the external specialist. We checked the accuracy of the data transfer to the external specialist. • analyzed management's commercial assumptions by comparing them to the publicly available benchmarks as well as actual and prior year data. We compared management's internal assumptions to the latest plans and budgets; we have also assessed management's capabilities to meet such plans by comparing prior periods' planned and actual results. • compared the updated reserves estimates to input data in the Group's calculations in respect of impairment, DD&A and decommissioning provision.

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

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

The Group uses a discounted cash flow model to determine value in use of its cash generating unit, on the basis of the following key assumptions:

- Future prices of oil, natural gas and related products;

- Operating and capital expenditure;

- Inflation and exchange rates;

- Production volumes based on oil and gas reserves; and

- Discount rate applied to the projected cash flows.

The impairment assessment is prepared by management with assistance of the Group's internal valuation experts.

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

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

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

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

- obtained understanding of the controls designed by the Group relating to the assessment of the carrying value of oil and gas development and production fixed assets.
- tested the integrity of models with the assistance of our own specialists.
- tested price and discount rate assumptions by comparing forecast oil price assumptions to the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the Group.

- tested forecast cash flows by comparing the assumptions used within the impairment models to the approved budgets, business plans and other evidence of future intentions. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance.
- compared the inflation and exchange rate assumptions to external market data.
- evaluated sensitivity analysis of oil & gas development and production fixed assets impairment testing in order to assess the potential impact of a range of reasonably possible outcomes.
- evaluated the consolidated financial statement disclosures against the requirements of IFRSs.

Other information included in the Group's 2018 Annual report

Other information consists of the information included in the Group's 2018 Annual report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Board of directors of the Participant for the consolidated financial statements

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

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

The Board of directors of the Participant is responsible for overseeing the Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Kairat Medetbayev
Auditor

Gulmira Turmagambetova
General Director
Ernst & Young LLP

Audit qualification certificate No. МФ-0000137 dated 8 February 2013

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

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

26 March 2019

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

In thousands of US Dollars .	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Exploration and evaluation assets	5	**50,241**	47,828
Property, plant and equipment	6	**1,926,262**	1,943,986
Restricted cash	11	**7,021**	6,663
Advances for non-current assets	7	**13,152**	14,598
		1,996,676	2,013,075
Current assets			
Inventories	8	**29,584**	29,746
Trade receivables	10	**35,732**	34,520
Prepayments and other current assets	9	**19,225**	25,969
Income tax prepayment		**–**	3,376
Cash and cash equivalents	11	**7,059**	33,261
		91,600	126,872
TOTAL ASSETS		**2,088,276**	**2,139,947**
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	12	**4,112**	4,112
Other reserves		**32,586**	32,586
Retained earnings		**468,579**	568,236
		505,277	604,934
Non-current liabilities			
Long-term borrowings	13	**1,070,736**	1,012,913
Long term finance guarantee	13	**4,111**	3,616
Abandonment and site restoration provision	14	**21,894**	23,590
Due to Government of Kazakhstan	15	**5,280**	5,466
Deferred tax liability	25	**395,224**	381,590
		1,497,245	1,427,175
Current liabilities			
Current portion of long-term borrowings	13	**4,627**	15,173
Current portion of finance guarantee	13	**1,594**	1,212
Trade payables	16	**49,679**	57,524
Advances received		**394**	1,279
Income tax payable		**484**	–
Current portion of due to Government of Kazakhstan	15	**1,031**	1,031
Other current liabilities	17	**27,945**	31,619
		85,754	107,838
TOTAL EQUITY AND LIABILITIES		**2,088,276**	**2,139,947**

General Director of Zhaikmunai LLP

Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 to 36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

In thousands of US Dollars	Notes	2018	2017
Revenue			
Revenue from export sales		**296,034**	262,767
Revenue from domestic sales		**93,893**	142,766
	18	**389,927**	405,533
Cost of sales	**19**	**(166,263)**	(180,088)
Gross profit		**223,664**	225,445
General and administrative expenses	**20**	**(12,380)**	(17,184)
Selling and transportation expenses	**21**	**(50,590)**	(66,773)
Finance costs	**22**	**(55,798)**	(41,452)
Taxes other than income tax	**23**	**(29,728)**	(19,935)
Impairment charge	**4,6**	**(117,575)**	–
Foreign exchange loss net		**(784)**	(369)
Loss on derivative financial instruments		**–**	(6,658)
Interest income		**253**	277
Other income		**5,357**	4,298
Other expenses	**24**	**(46,203)**	(12,213)
(Loss)/profit before income tax		**(83,784)**	65,436
Current income tax expense		**(10,156)**	(11,998)
Deferred income tax expense		**(10,565)**	(35,988)
Income tax expense	**25**	**(20,721)**	(47,986)
(Loss)/profit for the year		**(104,505)**	17,450
Other comprehensive (loss)/income for the year		**–**	–
Total comprehensive (loss)/income for the year		**(104,505)**	17,450

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 2018

In thousands of US Dollars	Notes	2018	2017
Cash flow from operating activities:			
(Loss)/profit before income tax		**(83,784)**	65,436
Adjustments for:			
Depreciation, depletion and amortisation	19, 20	**116,998**	122,642
Impairment charge	4, 6	**117,575**	–
Finance costs	22	**55,798**	41,452
Interest income		**(253)**	(277)
Foreign exchange loss/(gain) on investing and financing activities		**311**	(873)
Loss on disposal of property, plant and equipment		**1,510**	1,285
Other income		**(1,180)**	(349)
Loss on derivative financial instruments		**–**	6,658
Provision for doubtful debts		**85**	1,756
Accrued liabilities		**2,691**	3,458
Operating profit before working capital changes		**209,751**	241,188
Changes in working capital:			
Change in inventories		**164**	1,561
Change in trade receivables		**(1,212)**	(5,468)
Change in prepayments and other current assets		**7,203**	(10,159)
Change in trade payables		**(2,351)**	(4,082)
Change in advances received		**(885)**	(531)
Change in due to Government of Kazakhstan		**(1,031)**	(1,289)
Change in other current liabilities		**(6,365)**	420
Cash generated from operations		**205,274**	221,640
Income tax paid		**(7,315)**	(13,378)
Net cash flows from operating activities		**197,959**	208,262
Cash flow from investing activities:			
Interest received		**253**	277
Purchase of property, plant and equipment		**(167,733)**	(188,801)
Exploration and evaluation works		**(2,517)**	(3,482)
Acquisition of subsidiaries		**(1,675)**	–
Net cash used in investing activities		**(171,672)**	(192,006)
Cash flow from financing activities:			
Finance costs paid	13	**(104,223)**	(69,682)
Payment of finance lease liabilities	13	**(237)**	(676)
Repayment of borrowings	13	**(8,000)**	(7,500)
Transfer to restricted cash	11	**(358)**	(683)
Proceeds from borrowings	13	**60,350**	10,000
Net cash used in financing activities		**(52,468)**	(68,541)
Effects of exchange rate changes on cash and cash equivalents		**(21)**	48
Net decrease in cash and cash equivalents		**(26,202)**	(52,237)
Cash and cash equivalents at the beginning of the year		**33,261**	85,498
Cash and cash equivalents at the end of the year	11	**7,059**	33,261

General Director of Zhaikmunai LLP

Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 to 36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

In thousands of US Dollars	Notes	Capital	Other reserves	Retained earnings	Total
As at 1 January 2017	**3**	**4,112**	**32,586**	**555,963**	**592,661**
Profit for the year		–	–	17,450	17,450
Total comprehensive income for the year		**–**	**–**	**17,450**	**17,450**
Issue of finance guarantee	**13**	–	–	(5,177)	(5,177)
As at 31 December 2017	**3**	**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	**13**	–		(2,057)	(2,057)
As at 31 December 2018		**4,112**	**32,586**	**468,579**	**505,277**

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 to 36 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 a cash consideration of US$ 1.7 million for the main purpose of gaining control over the administrative office in Uralsk, which was under finance lease with this entity (Note 27). The Partnership and its subsidiary are further referred as the "Group".

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 Partnership is: 43/1, Aleksandr Karev street, Uralsk, the Republic of Kazakhstan.

These consolidated financial statements were authorised for issue by the Partnership's General Director and Chief Accountant on 26 March 2019.

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

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

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

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. Subsequently, the exploration period was extended until 8 February 2019.

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

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

Government "profit share"

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

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements for the year ended 31 December 2018 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*.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Partnership and its subsidiary as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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 2018. The Group has not adopted any other standard, interpretation or amendment that has been

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 9 Financial Instruments adopted from 1 January 2018

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. However, as permitted by IFRS 9 the Group elected not to restate comparative information for the year ended 31 December 2017 for the financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

In thousands of US dollars	As previously reported	Remeasurement	As adjusted
Property, plant and equipment	1,943,986	2,362	1,946,348
Total non-current assets	2,013,075	2,362	2,015,437
Total assets	**2,139,947**	**2,362**	**2,142,309**
Retained earnings	568,236	6,905	575,141
Total equity	604,934	6,905	611,839
Long-term borrowings	1,012,913	(7,612)	1,005,301
Deferred tax liabilities	381,590	3,069	384,659
Total non-current liabilities	1,427,175	(4,543)	1,422,632
Total equity and liabilities	**2,139,947**	**2,362**	**2,142,309**

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group's financial assets. Trade receivables are held to collect contractual cashflows and are expected to give rise to cashflows representing solely payments of principal and interest, if applicable. Hence, the Group continued to measure these at amortised cost.

The classification and measurement of the Group's financial liabilities has remained materially unchanged on application of IFRS 9 with the exception of long-term borrowings accounted at amortised cost.

Under IFRS 9, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss, whereas under IAS 39 there was no such requirement to recognize gain or loss in such circumstances. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. Any fees and costs incurred are amortised over the remaining term of the asset.

In November 2011, the Notes 2010 were partially refinanced through issue of the Notes 2012 for which the modification was not considered to be significant under IAS 39. As a result, the change in contractual cash flows on the Notes 2010 was amortised over the new life of the Notes 2012, rather than taken straight to profit or loss. Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. The cash flows were reassessed and, on 1 January 2018 on the adoption of IFRS 9, an adjustment for US$ 6,905 thousand was taken through opening reserves, property, plant and equipment (US$ 2,362 thousand), deferred tax liabilities (US$ 3,069 thousand) and through the amortised value of the Notes 2012 (US$ 7,612 thousand).

The adjustment of capitalized transaction costs and fees resulted in the change of the effective interest rate on the Notes from each date of refinancing. Hence, the interest capitalization rate has been revised and related adjustments made to the carrying amounts of property, plant and equipment and deferred taxes at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group applies the simplified approach and record lifetime expected losses on all trade receivables. There was no significant impact on Group's equity due to the short-term nature and high quality of its trade receivables as well as anticipation of low trade impairment losses on trade receivables based on the historical data.

(c) Hedging accounting

The hedge accounting requirements of IFRS 9 have been simplified. Under IFRS 9 all existing hedging relations will qualify as continuing hedging relations. IFRS 9 also introduces a new way of treating fair value movements on the time value of certain hedging instruments. Whereas under IAS 39 these movements were recognized in profit and loss, under IFRS 9 they are initially recognized in equity to the extent that they relate to the hedged item. The changes to hedge accounting under IFRS 9 had no impact on the consolidated financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 (amended in April 2016) and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Group has adopted IFRS 15 with effect from 1 January 2018, which did not represent a change from the Group's existing practice and did not have a significant effect on the Group's accounting or disclosures, and therefore no transition adjustment is presented.

(a) Sale of goods

The Group is in the business of production and sale of oil and gas products. All goods are sold in separate identified contracts with customers. For such contracts with customers in which the sale of goods is the only performance obligation, adoption of IFRS 15 had no significant impact on the revenues and profit or loss.

(b) Variable consideration

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Historically, the goods sold by the Group were not returned by customers, neither there were material volume rebates in contracts. Therefore, application of IFRS 15 has not resulted in a different amount of revenue being recognised than under current IFRS.

(c) Advances received from customers

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in IFRS 15, and did not adjust the promised amount of the consideration for the effects of significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group does not account for a financing component. The Group receives only short-term advances from its customers. However, the Group may receive from customers long-term advances in the future. Therefore, close monitoring of the advances from customers will be made to reveal any significant financing component because of the length of time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

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 16 Leases

IFRS 16 was issued in January 2016 and it replaces 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. IFRS 16 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 similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group has chosen to apply the modified retrospective approach which does not require comparatives. Under this approach the lease liability will be based on future rentals as determined under the standard, based on the term of the lease, and usually with a transition date discount rate.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

In summary, the Group estimated that IFRS 16 adoption will result to restatement to opening balance of property, plant and equipment and lease liabilities by US$ 33,747 thousand as at 1 January 2019. Where lease liabilities will be measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

If the full retrospective approach had been chosen, IFRS adoption would have the following impact on the consolidated statements of financial position as at 31 December 2018:

In thousands of US dollars	**1 January 2019**
Property, plant and equipment (right-of-use asset)	33,747
Total non-current assets	**33,747**
Total assets	**33,747**
Lease liabilities, long-term portion	17,207
Total non-current liabilities	**17,207**
Lease liabilities, current portion	16,540
Total current liabilities	**16,540**
Total equity and liabilities	**33,747**

The impact of the standard on 2019 underlying earnings and profit before tax following adoption is not expected to be significant although the income statement presentation of the cost of leases is expected to be changed. Instead of a rent expenses, the cost of leases will be allocated between the depreciation of right-of-use assets, and a finance charge representing the unwinding of the discount on lease liabilities.

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. The Group will apply the interpretation from its effective date, which may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

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. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. The Group does not expect any effect on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, with 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 will not have any 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 Group does not expect any effect on its 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 and materials and fuel used, rig costs and payments made to contractors and asset retirement obligation fees.

Significant estimates and assumptions: Exploration expenditure

If hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

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

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

The Partnership owns licenses in the Western Kazakhstan region, including the Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye fields where the exploration periods will expire respectively on 8 February 2019, 31 December 2021 and 31 December 2021. The Partnership's applications for extension of the Rostoshinskoye's license is under approval by the MOE. The Partnership remains committed to developing its exploration assets and based on the past history of the Partnership'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Significant accounting judgements: Exploration expenditure

Judgement is also required when determining the appropriate grouping of the exploration assets into a CGU when assessing their recoverable amounts. The management has determined all three exploration fields as a single cash generating unit.

Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

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

Property, plant and equipment

Oil and gas properties

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

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

Other properties

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 6*.

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.

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

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 facility.

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, future production volumes and fiscal regimes.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(a) Oil prices (in real terms): 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 15.4% (2017: 14.7%);

(g) Considering mechanical completion of GTU3 in December 2018 and the ongoing commissioning works, the first gas is planned for Q2 2019 and full commissioning of the plant during 2019, which is expected to lead to a gradual increase in the annual production volumes.

Owing to drilling challenges in the western area of the Chinarevskoye field accompanied with reduction of the 2P reserves expected to be recovered from the field over the period of 2019-2032, the Group performed stress-testing of the discounted cashflow model by applying higher sensitivities to oil prices and forecast production profiles while keeping discount rate at the same level. Based on such analysis the Group evaluated the value-in-use of the single CGU and recognized an impairment charge US$117,575 thousand 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). Further downgrades of reserves or decline in oil prices may result in increase of the impairment charge in future periods. Successful drilling results in the western area, 2P reserves increase, and increase in utilisation of the Group's processing facilities would have the effect of reversal of the impairment partially or in full. Delay in commissioning of GTU3 up to 1-2 years will have no material impact on the VIU model used by management for the purpose of the impairment testing.

More detailed information related to carrying values of oil and gas properties and related depreciation, depletion, amortisation and impairment are shown in Note 6.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax bases of income and expense already recorded. The 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 and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

For more detailed information in current and deferred income tax disclosure as at 31 December 2018 and 2017, please see *Note 25*.

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 2018.

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 2018 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 25*.

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 7*.

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 statement of comprehensive income in the period in which they are incurred.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Inventories

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

For more information in relation to the breakdown of inventories as at 31 December 2018 and 2017, please see *Note 8*.

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 27*, 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 14*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 accounting estimates and assumptions: provisions and contingencies

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 disclosed, since the outcome of litigation is difficult to predict.

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.

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, the most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows. The 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 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 14*.

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, measurement and derecognition

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial assets are de-recognised when the rights to receive cash flows from the asset have expired with gains and losses being recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Impairment of financial assets

The 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, 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.

During the year ended 31 December 2018, the Group has not provided for impairment losses due to short-term nature and high quality of the financial assets.

Financial liabilities

Initial recognition, measurement and derecognition

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

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

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the 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 Partnership 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 2018 and 2017, please see *Note 11*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 the sale of crude oil, gas condensate, gas and LPG is recognised when when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

5. EXPLORATION AND EVALUATION ASSETS

During the year ended 31 December 2018 the Group had additions to exploration and evaluation assets of US$ 2,413 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (2017: US$ 3,557 thousand). Interest was not capitalised on exploration and evaluation assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2018 and 2017 property plant and equipment comprised the following:

In thousands of US Dollars	31 December 2018	31 December 2017
Oil and gas properties	**1,886,844**	1,898,711
Other property, plant and equipment	**39,418**	45,275
	1,926,262	1,943,986

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 2018 and 2017 was as follows:

In thousands of US Dollars	Working assets	Construction in progress	Total
Balance at 1 January 2017, net of accumulated depreciation and depletion	**1,132,697**	**628,651**	**1,761,348**
Additions	8,588	245,662	254,250
Transfers	104,997	(104,712)	285
Disposals	(16)	(1,275)	(1,291)
Disposals depreciation	8	–	8
Depreciation and depletion charge	(115,889)	–	(115,889)
Balance at 31 December 2017, 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 and depletion	1,083,317	803,527	1,886,844
As at 31 December 2016			
Cost	1,784,792	628,651	2,413,443
Accumulated depreciation and depletion	(652,095)	–	(652,095)
Balance, net of accumulated depreciation and depletion	1,132,697	628,651	1,761,348
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 and depletion	(878,080)	–	(878,080)
Balance, net of accumulated depreciation and depletion	1,083,317	803,527	1,886,844

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

The depletion rate for oil and gas working assets was 10.33% and 10.89% in 2018 and 2017, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2018 and 2017. Depletion has been calculated using the unit of production method based on these reserves estimates.

During the year ended 31 December 2018 the Group evaluated the value-in-use of the single CGU and recognized an impairment charge US$117,575 thousand attributable to oil and gas properties (Note 4).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (*Note 14*) in the year ended 31 December 2018 resulted in the decrease of the oil and gas properties by US$ 2,823 thousand (31 December 2017: the increase of US$ 1,391 thousand).

The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2018 and 2017:

In thousands of US Dollars	**31 December 2018**	**31 December 2017**
Borrowing costs including amortisation of arrangement fee	**107,572**	76,167
Capitalisation rate	**8.95%**	7.58%
Capitalised borrowing costs	**53,153**	36,004

As at 31 December 2018 the Group's property, plant and equipment of US$ 246,414 thousand were pledged as security for the loans due to Nostrum Oil & Gas B.V. (*Note 13*) (31 December 2017: US$ 230,490 thousand).

Other property, plant and equipment

In thousands of US Dollars	**Buildings**	**Machinery & equipment**	**Vehicles**	**Others**	**Construction in progress**	**Total**
Balance at 1 January 2017, net of accumulated depreciation	**34,529**	**4,254**	**1,209**	**8,802**	**44**	**48,838**
Additions	1,040	2,530	–	983	–	4,553
Transfers	67	22	–	(374)	–	(285)
Disposals	(8)	(452)	(1,198)	(468)	–	(2,126)
Disposals depreciation	7	360	956	276	–	1,599
Depreciation	(4,070)	(1,550)	(191)	(1,493)	–	(7,304)
Balance at 31 December 2017, net of accumulated depreciation and depletion	**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	**28,082**	**3,994**	**643**	**6,699**	**–**	**39,418**
As at 31 December 2016						
Cost	49,152	18,094	2,800	14,532	44	84,622
Accumulated depreciation	(14,623)	(13,840)	(1,591)	(5,730)	–	(35,784)
Balance, net of accumulated depreciation	**34,529**	**4,254**	**1,209**	**8,802**	**44**	**48,838**
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. ADVANCES FOR NON-CURRENT ASSETS

In thousands of US Dollars	31 December 2018	31 December 2017
Advances for construction services	**12,632**	9,512
Advances for pipes and construction materials	**520**	5,086
	13,152	14,598

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

8. INVENTORIES

As at 31 December 2018 and 2017 inventories comprised the following:

In thousands of US Dollars	31 December 2018	31 December 2017
Spare parts and other inventories	**23,479**	23,505
Gas condensate	**4,198**	4,064
Crude oil	**1,761**	1,968
LPG	**126**	189
Dry Gas	**20**	20
	29,584	29,746

As at 31 December 2018 and 2017 inventories are carried at cost.

9. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December 2018 and 2017 prepayments and other current assets comprised the following:

In thousands of US Dollars	31 December 2018	31 December 2017
VAT receivable	**10,784**	14,728
Advances paid	**4,772**	6,306
Other taxes receivable	**2,947**	4,261
Other	**722**	674
	19,225	25,969

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2018, advances paid for legal services in the amount of US$ 1,841 thousand were impaired and fully provided for. Below table provides the movements in the provision for impairment of advances paid:

In thousands of US dollars	Individually impaired
As at 1 January 2017	–
Charge for the year	1,756
As at 31 December 2017	1,756
Charge for the year	85
As at 31 December 2018	**1,841**

10. TRADE RECEIVABLES

As at 31 December 2018 and 2017 trade receivables were not interest bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 31 December 2018 and 31 December 2017 there were neither past due nor impaired trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	31 December 2018	31 December 2017
Current accounts in US Dollars	**6,194**	16,389
Current accounts in Tenge	**857**	16,859
Current accounts in other currencies	**–**	5
Petty cash	**8**	8
	7,059	33,261

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$ 658 thousand with Sberbank in Kazakhstan and US$ 6,363 thousand with Halyk bank (31 December 2017: US$ 6,663 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

12. PARTNERSHIP CAPITAL

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

On 23 May 2014, Nostrum Oil & Gas Coöperatief U.A. made a contribution to the charter capital of the Partnership in the amount of 749,400 thousand tenge, equivalent to US$ 4,108 thousand.

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

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

13. BORROWINGS

Borrowings comprise the following as at 31 December 2018 and 2017:

In thousands of US Dollars	31 December 2018	31 December 2017
Notes issued in 2012 and maturing in 2019	**559,617**	555,713
Notes issued in 2014 and maturing in 2019	**399,282**	408,045
Nostrum Oil & Gas B.V.	**116,464**	63,518
Finance lease liability (Note 27)	**–**	810
	1,075,363	1,028,086
Less amounts due within 12 months	**(4,627)**	(15,173)
Amounts due after 12 months	**1,070,736**	1,012,913

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 Partnership 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 2018, the Partnership recognised guarantee gain in the amount of US$ 966 thousand and the outstanding balance as at 31 December 2018 of the guarantee, both current and non-current totaled 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.

As at 16 February 2018, the Partnership 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 2018, the Partnership recognized guarantee gain in the amount of US$ 214 thousand and the outstanding balance as at 31 December 2018 of the guarantee, both current and non-current totaled US$ 1,844 thousand.

Loans due to Nostrum Oil & Gas B.V.

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

On 15 September 2009 Frans van der Schoot B.V. provided an additional loan of US$ 261,650 thousand at then prevailing interest rate of 2.6% per year.

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 2018 has an interest rate of 6.625% (31 December 2017: 6.625%).

For the period running from 22 December 2010 to 31 December 2018, the amount of the earlier repayments net of the received additional loans totaled US$ 340,776 thousand.

Changes in borrowings arising from financing activities are as follows:

	1 January 2018	Finance charges under finance leases	Cash flows	Borrowing costs including amortisation of arrangement fees	Other	31 December 2018
Long-term borrowings	**1,012,913**	–	47,118	3,899	6,806	**1,070,736**
Current portion of long-term borrowings	**15,173**	135	(99,133)	88,577	(125)	**4,627**
	1,028,086	**135**	**(52,015)**	**92,476**	**6,681**	**1,075,363**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	1 January 2017	Finance charges under finance leases	Cash flows	Borrowing costs including amortisation of arrangement fees	Other	31 December 2017
Long-term borrowings	1,003,893	–	2,500	6,520	–	**1,012,913**
Current portion of long-term borrowings	15,518	158	(70,358)	69,647	208	**15,173**
	1,019,411	**158**	**(67,858)**	**76,167**	**208**	**1,028,086**

14. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during the years ended 31 December 2018 and 2017 is as follows:

In thousands of US Dollars	2018	2017
Abandonment and site restoration provision as at 1 January	**23,590**	19,635
Additional provision	**728**	2,430
Unwinding of discount	**399**	225
Provision used	**–**	(91)
Change in estimates	**(2,823)**	1,391
Abandonment and site restoration provision as at 31 December	**21,894**	23,590

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 2018 were 2.3 % and 4.33 %, respectively (31 December 2017: 2.50 % and 3.63 %).

The change in the discount rate and inflation rate in the year ended 31 December 2018 resulted in the decrease of the abandonment and site restoration provision by US$ 2,823 thousand (31 December 2017: the increase by US$1,391 thousand).

15. DUE TO GOVERNMENT OF KAZAKHSTAN

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the 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 2018 and 2017 is as follows:

In thousands of US Dollars	2018	2017
Due to Government of Kazakhstan as at 1 January	**6,497**	6,920
Unwinding of discount	**845**	866
Paid during the year	**(1,031)**	(1,289)
	6,311	6,497
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,280**	5,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2018 and 2017:

In thousands of US Dollars	**31 December 2018**	**31 December 2017**
US Dollar denominated trade payables	**23,088**	22,848
Tenge denominated trade payables	**20,672**	27,219
Euro denominated trade payables	**4,948**	6,417
Russian Rouble denominated trade payables	**971**	1,040
	49,679	57,524

17. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 31 December 2018 and 2017:

In thousands of US Dollars	**31 December 2018**	**31 December 2017**
Training obligations accrual	**11,609**	11,592
Other accruals	**5,682**	3,458
Taxes payable, other than corporate income tax	**4,926**	5,710
Accruals under the subsoil use agreements	**2,174**	6,484
Due to employees	**1,690**	2,532
Other current liabilities	**1,864**	1,843
	27,945	31,619

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.

18. REVENUE

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 2018 was US$ 71,69 (2017: US$ 54,74).

In thousands of US Dollars	**2018**	**2017**
Revenue from oil and gas condensate sales	**267,815**	261,069
Revenue from gas and LPG sales	**122,112**	144,464
	389,927	405,533

During the year ended 31 December 2018 the revenue from sales to three major customers amounted to US$ 258,898 thousand, US$ 80,499 thousand and US$ 11,924 thousand, respectively (2017: US$ 200,438 thousand, US$ 102,813 thousand and US$ 30,052 thousand, respectively).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. COST OF SALES

In thousands of US Dollars	**2018**	**2017**
Depreciation, depletion and amortisation	**115,347**	120,692
Repair, maintenance and other services	**16,133**	18,960
Payroll and related taxes	**11,677**	12,481
Management fees	**7,726**	8,012
Transportation services	**6,116**	8,335
Materials and supplies	**5,253**	6,333
Well workover costs	**2,767**	4,159
Environmental levies	**367**	375
Change in stock	**136**	296
Other	**741**	445
	166,263	180,088

20. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**2018**	**2017**
Payroll and related taxes	**3,595**	5,990
Management fees	**2,992**	4,025
Depreciation and amortisation	**1,651**	1,950
Insurance fees	**1,282**	1,236
Professional services	**1,155**	1,628
Transportation services	**430**	242
Communication	**357**	411
Business travel	**170**	407
Materials and supplies	**168**	363
Bank charges	**124**	169
Other	**456**	763
	12,380	17,184

21. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollars	**2018**	**2017**
Loading and storage costs	**18,881**	26,940
Transportation costs	**15,017**	20,160
Marketing services	**12,077**	15,158
Payroll and related taxes	**2,058**	1,570
Other	**2,557**	2,945
	50,590	66,773

22. FINANCE COSTS

In thousands of US Dollars	**2018**	**2017**
Interest expense on borrowings	**54,419**	40,163
Unwinding of discount on amounts due to Government of Kazakhstan	**845**	866
Unwinding of discount on abandonment and site restoration provision	**399**	225
Unwidning of discount on social obligations liability	**–**	40
Finance charges under finance leases	**135**	158
	55,798	41,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. TAXES OTHER THAN INCOME TAX

In thousands of US Dollars	**2018**	**2017**
Royalties	**15,155**	15,724
Export customs duty	**11,233**	3,864
Government profit share	**3,277**	248
Other taxes	**63**	99
	29,728	19,935

24. OTHER EXPENSES

In thousands of US Dollars	**2018**	**2017**
Liquidity management fees	**40,600**	–
Other accruals	**2,691**	3,024
Training	**2,382**	2,675
Loss on disposal of property, plant and equipment	**1,510**	1,810
Currency converting	**375**	481
Social program	**316**	316
Bad debt provision	**85**	1,756
Sponsorship	**52**	256
Accruals under subsoil agreements	**(3,327)**	587
Other expense	**1,519**	1,308
	46,203	12,213

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 Partnership (Notes 13).

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

25. INCOME TAX

The income tax expense consisted of the following:

In thousands of US Dollars	**2018**	**2017**
Corporate income tax expense	**11,007**	11,651
Deferred income tax expense	**10,565**	35,988
Adjustment in respect of the current income tax for the prior periods	**(851)**	347
Total income tax expense	**20,721**	47,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:

In thousands of US Dollars	**2018**	**2017**
(Loss)/profit before income tax	**(83,784)**	65,436
Tax rate applicable to the subsoil use rights	**30%**	30%
Expected tax provision	**(25,135)**	19,631
Effect of exchange rate on the tax base	**18,284**	(390)
Adjustments in respect of current income tax of previous years	**(851)**	347
Effect of income taxed at different rate[1]	**–**	666
Technological losses	**–**	225
Non-deductible interest expense on borrowings	**29,055**	19,755
Non-deductible penalties	**(998)**	3,222
Loss on disposal of property, plant and equipment	**453**	386
Net foreign exchange loss	**(1,261)**	588
Non-deductible provision for impairment of advances paid	**26**	527
Non-deductible social expenditures	**–**	256
Non-deductible training expenditures	**–**	282
Other non-deductible expenses	**1,148**	2,491
Income tax expenses reported in the consolidated financial statements	**20,721**	47,986

[1] 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 2018 is negative 24.73% (2017: 73.8%). 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 2018 is 31.8% (2017: 44%).

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	**2018**	**2017**
Deferred tax asset		
Accounts payable and provisions	**4,883**	4,969
Deferred tax liability		
Property, plant and equipment	**(400,107)**	(386,559)
	(395,224)	(381,590)

The movements in the deferred tax liability were as follows:

In thousands of US Dollars	**2018**	**2017**
Balance as at 1 January	**381,590**	345,602
IFRS 9 adoption	**3,069**	–
Current period charge to statement of comprehensive income	**10,565**	35,988
Balance as at 31 December	**395,224**	381,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. 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 2018 and 2017 consisted of the following:

In thousands of US Dollars	31 December 2018	31 December 2017
Trade receivables and advances paid		
With significant influence over Partnership:		
JSC OGCC KazStroyService	**11,408**	7,573

Accounts payable to related parties as at 31 December 2018 and 2017 consisted of the following:

In thousands of US Dollars	31 December 2018	31 December 2017
Borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**115,850**	63,500
Trade payables		
With significant influence over the Partnership:		
JSC OGCC KazStroyService	**11,420**	10,063
Under common control:		
Nostrum Services N.V.	**1,505**	1,737
Nostrum Services Central Asia LLP	**–**	66

During the years ended 31 December 2018 and 2017 the Group had the following transactions with related parties:

In thousands of US Dollars	2018	2017
Repayment of borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**8,000**	7,500
Received borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**60,350**	10,000
Interest paid		
Under common control:		
Nostrum Oil & Gas B.V.	**4,912**	4,242
Purchases		
With significant influence over the Partnership:		
JSC OGCC KazStroyService	**13,975**	50,350
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**	1,503
Nostrum Services N.V.	**14,726**	14,359

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2018 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership and Nostrum Services Central Asia LLP and Nostrum Services N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 208 thousand for the year ended 31 December 2018 (year ended 31 December 2017: US$ 208 thousand). Other key management personnel were employed and paid by Nostrum Services Central Asia LLP and Nostrum Services N.V. and their remuneration forms part of management fees and consulting services above.

27. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the 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 2018 . As at 31 December 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

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

Capital commitments

As at 31 December 2018 the Partnership had contractual capital commitments in the amount of US$131,373 thousand (31 December 2017: US$ 139,462 thousand) mainly in respect to the Partnership's oil field exploration and development activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Operating lease

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

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

In thousands of US Dollars	31 December 2018	31 December 2017
No later than one year	**5,417**	7,019
Later than one year and no later than five years	**5,431**	14,057

Lease expenses of railway tank wagons for the year ended 31 December 2018 amounted to US$ 5,296 thousand (2017: US$ 7,394 thousand).

Finance lease

On 12 April 2016 Zhaikmunai LLP entered into a finance lease agreement with Atom & Co LLP for the main administrative office in Uralsk for a period of 20 years for a fee of US$66 thousand per month, and a finance lease prepayment amounting to equivalent of US$12,163 thousand.

On 28 December 2018, the Group acquired 100% interest in Atom & Co LLP for a cash consideration of US$1.7 million and became the owner of the administrative building, hence the finance lease was derecognized (Note 1). At the date of the transaction the remaining balance of the finance lease prepayment in the amount of US$11,236 together with the cash consideration paid were considered to be part of the purchase price, has been allocated to the individually identifiable assets and liabilities on the basis of their fair values at the date of the transaction.

Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	2018		2017	
In thousands of US Dollars	Minimum payments	Present value of payments	Minimum payments	Present value of payments
No later than one year	–	–	142	131
Later than one year and no later than five years	–	–	558	345
Later than five years	–	–	1,900	334
Total minimum lease payments	**–**	**–**	**2,600**	**810**
Less amounts representing finance charges	–	–	1,790	–
Present value of minimum lease payments	**–**	**–**	**810**	**810**

Social and education commitments

As required by the Contract (after its amendment on 1 November 2017), the Partnership is obliged to:

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

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

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

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

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (after its amendment on 12 April 2018) require the subsurface user to:

(i) spend US$ 133 thousand for funding of development of Astana city;

(ii) invest at least US$ 12,209 thousand for exploration of the field during the exploration period;

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(iv) fund liquidation expenses equal to US$ 133 thousand.

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

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

(i) invest at least US$ 19,837 thousand for exploration of the field during the exploration period;

(ii) spend US$ 201 thousand for education of personnel engaged to work under the contract during the exploration stage;

(iii) spend US$ 221 thousand to finance social infrastructure;

(iv) fund liquidation expenses equal to US$ 201 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$ 20,351 thousand for exploration of the field during the exploration period;

(ii) spend US$ 176 thousand for education of personnel engaged to work under the contract during the exploration stage;

(iii) spend US$ 220 thousand to finance social infrastructure;

(iv) fund liquidation expenses equal to US$ 176 thousand.

Domestic oil sales

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

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Commodity price risk

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

Interest rate risk

The Group is not exposed to interest rate risk in 2018 and 2017 as the Group had no financial instruments with floating-rate as at years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

	Change in Tenge to US dollar exchange rate	Effect on profit before tax
2018		
US Dollar thousand	**14.00%**	(2,790)
US Dollar thousand	**(10.00)%**	1,993
2017		
US Dollar thousand	**10.00%**	(1,970)
US Dollar thousand	**(10.00)%**	1,970

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

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)**

As at 31 December 2017	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	16,867	5	–	–	16,872
Trade receivables	9,228	–	–	–	9,228
Trade payables	(27,219)	(1,040)	(6,417)	–	(34,676)
Other current liabilities	(18,572)	–	–	–	(18,572)
	(19,696)	**(1,035)**	**(6,417)**	**–**	**(27,148)**

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

The Group's total outstanding debt consists of US$ 116 million of loan due to Nostrum Oil & Gas 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 low.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2018 and 2017 based on contractual undiscounted payments:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

As at 31 December 2017	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	17,437	52,312	1,066,073	1,900	1,137,722
Trade payables	44,262	–	13,262	–	–	57,524
Other current liabilities	19,288	–	–	–	–	19,288
Due to Government of Kazakhstan	–	258	773	4,124	8,505	13,660
	63,550	17,695	66,347	1,070,197	10,405	1,228,194

Credit risk

Financial instruments, which potentially subject the Group to credit risk, consist primarily of accounts receivable and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Partnership 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 Ba3 (stable) from Moody's rating agency and ING with a credit rating of Aa3 (stable) from Moody's rating agency at 31 December 2018. 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.

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

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

Fair values of financial instruments

Set out below, is a comparison by class of the carrying amounts and fair value of the 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 2018	31 December 2017	31 December 2018	31 December 2017
Financial liabilities measured at amortised cost				
Interest bearing borrowings	(1,075,363)	(1,027,276)	(620,440)	(1,018,635)
Finance lease liability	–	(810)	–	(1,267)
Total	(1,075,363)	(1,028,086)	(620,440)	(1,019,902)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 2018 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Capital management

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

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

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

In thousands of US Dollars	**2018**	**2017**
Borrowings	**1,075,363**	1,028,086
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(14,080)**	(39,924)
Net debt	**1,061,283**	988,162
Equity	**505,277**	604,934
Total capital	**505,277**	604,934
Capital and net debt	**1,566,560**	1,593,096
Gearing ratio	**68%**	62%

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