Nostrum Oil & Gas LP

Consolidated financial statements

For the year ended December 31, 2013
with Independent auditors' report

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Independent Auditors' Report

To the participants of Nostrum Oil & Gas LP:

We have audited the accompanying consolidated financial statements of Nostrum Oil & Gas LP and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nostrum Oil & Gas LP and its subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner

Alexandr Nazarkulov
Auditor

Auditor Qualification Certificate
No. 0000059 dated 6 January 2012

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

18 April 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2013

In thousands of US Dollars	Notes	December 31, 2013	December 31, 2012
ASSETS			
Non-current assets			
Exploration and evaluation assets	6	**20,434**	–
Goodwill	5	**30,386**	–
Property, plant and equipment	7	**1,330,903**	1,222,665
Restricted cash	13	**4,217**	3,652
Advances for non-current assets	8	**10,037**	25,278
Non-current investments	12	**30,000**	–
		1,425,977	1,251,595
Current assets			
Inventories	9	**22,085**	24,964
Trade receivables	10	**66,565**	54,004
Prepayments and other current assets	11	**31,192**	24,369
Income tax prepayment		**5,042**	–
Current investments	12	**25,000**	50,000
Cash and cash equivalents	13	**184,914**	197,730
		334,798	351,067
TOTAL ASSETS		**1,760,775**	1,602,662
EQUITY AND LIABILITIES			
Partnership capital and reserves			
Partnership capital	14	**350,123**	371,147
Additional paid-in capital		**8,126**	6,095
Retained earnings and reserves		**474,202**	317,862
		832,451	695,104
Non-current liabilities			
Long term borrowings	15	**621,160**	615,742
Abandonment and site restoration provision	16	**13,874**	11,064
Due to Government of Kazakhstan	17	**6,021**	6,122
Deferred tax liability	26	**152,545**	148,932
		793,600	781,860
Current liabilities			
Current portion of long term borrowings	15	**7,263**	7,152
Employee share option plan liability	27	**12,016**	9,788
Trade payables	18	**58,518**	58,390
Income tax payable		**1,232**	11,762
Current portion of Due to Government of Kazakhstan	17	**1,031**	1,031
Other current liabilities	19	**54,664**	37,575
		134,724	125,698
TOTAL EQUITY AND LIABILITIES		**1,760,775**	1,602,662

Chief Executive Officer of the General Partner of Nostrum Oil & Gas LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Nostrum Oil & Gas LP

Jan-Ru Muller

The accounting policies and explanatory notes on pages 5 through 35 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2013

In thousands of US Dollars	Notes	2013	2012
Revenue			
Revenue from export sales		**765,029**	630,412
Revenue from domestic sales		**129,985**	106,653
	20	**895,014**	737,065
Cost of sales	21	**(286,222)**	(238,224)
Gross profit		**608,792**	498,841
General and administrative expenses	22	**(60,449)**	(64,882)
Selling and transport expenses	23	**(121,674)**	(103,604)
Finance costs	24	**(43,615)**	(46,785)
Foreign exchange (loss)/gain, net		**(636)**	776
Interest income		**764**	698
Other expense	25	**(25,593)**	(6,612)
Other income		**4,426**	3,940
Profit before income tax		**362,015**	282,372
Income tax expense	26	**(142,496)**	(120,363)
Profit for the year		**219,519**	162,009
Total comprehensive income for the year		**219,519**	162,009

Chief Executive Officer of the General Partner of Nostrum Oil & Gas LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Nostrum Oil & Gas LP

Jan-Ru Muller

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

In thousands of US Dollars	Notes	2013	2012
Cash flow from operating activities:			
Profit before income tax		**362,015**	282,372
Adjustments for:			
Depreciation, depletion and amortization	21, 22	**120,370**	102,632
Accrual of share option expenses	22	**4,430**	2,470
Finance costs	24	**43,615**	46,785
Interest income		**(764)**	(698)
Foreign exchange loss/(gain) on investing and financing activities		**48**	(745)
Loss on disposal of property, plant and equipment		**–**	79
Operating profit before working capital changes		**529,714**	432,895
Changes in working capital:			
Change in inventories		**2,879**	(10,446)
Change in trade receivables		**(12,561)**	(41,364)
Change in prepayments and other current assets		**(6,823)**	(9,190)
Change in trade payables		**(5,747)**	(2,673)
Change in advances received		**(23)**	(3,094)
Change in due to Government of Kazakhstan		**(1,031)**	(1,030)
Change in other current liabilities		**8,803**	25,316
Cash generated from operations		**515,211**	390,414
Income tax paid		**(154,455)**	(94,173)
Payments under Employee share option plan		**(2,202)**	(4,416)
Net cash flows from operating activities		**358,554**	291,825
Cash flow from investing activities:			
Interest received		**764**	698
Purchase of property, plant and equipment		**(201,306)**	(210,283)
Purchase of exploration and evaluation assets		**(5,045)**	(10,089)
Placement of non-current bank deposits		**(30,000)**	–
Acquisition of Probel	5	**(28,433)**	–
Redemption/(placement) of current bank deposits		**25,000**	(50,000)
Net cash used in investing activities		**(239,020)**	(269,674)
Cash flow from financing activities:			
Finance costs paid		**(49,613)**	(53,735)
Issue of Notes	15	**–**	560,000
Fees paid on arrangement notes and borrowings		**–**	(7,259)
Repayment of Notes	15	**–**	(357,495)
Premium paid for early repayment of notes		**–**	(38,409)
Transfer to restricted cash		**(565)**	(576)
Treasury shares (purchased)/sold		**(18,993)**	7,362
Distributions paid		**(63,179)**	(59,498)
Net cash (used in) / provided from financing activities		**(132,350)**	50,390
Effects of exchange rate changes on cash and cash equivalents		**–**	(204)
Net (decrease)/increase in cash and cash equivalents		**(12,816)**	72,337
Cash and equivalents at the beginning of the year		**197,730**	125,393
Cash and equivalents at the end of the year		**184,914**	197,730

Chief Executive Officer of the General Partner of Nostrum Oil & Gas LP ______________________

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Nostrum Oil & Gas LP ______________________

Jan-Ru Muller

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2013

In thousands of US Dollars	Notes	Partnership capital	Treasury capital	Additional paid-in capital	Retained earnings and reserves	Total
As at January 1, 2012		373,990	(5,787)	1,677	215,351	585,231
Profit for the year		–	–	–	162,009	162,009
Total comprehensive income for the year		–	–	–	162,009	162,009
Share issue	14	6,884	(6,884)	–	–	–
Sale of treasury capital		–	2,944	4,418	–	7,362
Distributions	14	–	–	–	(59,498)	(59,498)
As at December 31, 2012		380,874	(9,727)	6,095	317,862	695,104
Profit for the year		**–**	**–**	**–**	**219,519**	**219,519**
Total comprehensive income for the year		**–**	**–**	**–**	**219,519**	**219,519**
Buyback of GDRs	14	**–**	**(22,165)**	**–**	**–**	**(22,165)**
Sale of treasury capital		**–**	**1,141**	**2,031**	**–**	**3,172**
Distributions	14	**–**	**–**	**–**	**(63,179)**	**(63,179)**
As at December 31, 2013		**380,874**	**(30,751)**	**8,126**	**474,202**	**832,451**

Chief Executive Officer of the General Partner of Nostrum Oil & Gas LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Nostrum Oil & Gas LP

Jan-Ru Muller

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

1. GENERAL

Nostrum Oil & Gas LP is a Limited Partnership formed on August 29, 2007 pursuant to the Partnership Act 1909 of the Isle of Man. Nostrum Oil & Gas LP is registered in the Isle of Man with registered number 295P.

The registered address of Nostrum Oil & Gas LP is: 7th Floor, Harbour Court, Lord Street, Douglas, Isle of Man, IM1 4LN.

These consolidated financial statements were authorized for issue by Kai-Uwe Kessel, Chief Executive Officer of the General Partner of Nostrum Oil & Gas LP and by Jan-Ru Muller, Chief Financial Officer of the General Partner of Nostrum Oil & Gas LP on March 20, 2014.

These consolidated financial statements include the results of the operations of Nostrum Oil & Gas LP ("Partnership") and its wholly owned subsidiaries Zhaikmunai Netherlands B.V. (formerly Frans Van Der Schoot B.V.), Zhaikmunai Finance B.V., Zhaikmunai International B.V., Claydon Industrial Limited ("Claydon"), Jubilata Investments Limited ("Jubilata"), Zhaikmunai LLP, Condensate-Holding LLP ("Condensate"), Nostrum Oil & Gas Coöperatief U.A., Probel Capital Management N.V. and Probel Capital Management UK Ltd. Nostrum Oil & Gas LP and its subsidiaries are hereinafter referred to as "the Group". The Group's operations comprise of a single operating segment and three exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan. The General Partner of Nostrum Oil & Gas LP is Nostrum Oil & Gas Group Limited, which is responsible for the management of the Group (Note 14). The Partnership does not have an ultimate controlling party.

Zhaikmunai LLP 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 October 31, 1997 between the State Committee of Investments of the Republic of Kazakhstan and Zhaikmunai LLP in accordance with the license MG No. 253D for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On August 17, 2012 Zhaikmunai LLP 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 March 1, 2013 Zhaikmunai LLP has acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the Ministry of Oil and Gas of the Republic of Kazakhstan ("MOG").

On December 30, 2013 Nostrum Oil & Gas Coöperatief U.A. signed a purchase agreement to acquire 100% of Probel Capital Management N.V., located in Brussels, Belgium.

Subsoil use rights terms

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

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated February 8, 2008 originally included a 3-year exploration period and a 12-year production period. On April 27, 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision to extend the exploration period until February 8, 2015 and the corresponding supplementary agreement between MOG and Zhaikmunai LLP was signed on August 9, 2013.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated July 28, 2006 originally included a 6-year exploration period and a 19-year production period. On October 21, 2008 the exploration period was extended for 6 months so as to expire on January 28, 2013. On April 27, 2009 the exploration period was extended until January 28, 2015. Upon receipt of the ownership rights Zhaikmunai LLP started the process of application for further extension of the exploration period.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated July 28, 2006 originally included a 5-year exploration period and a 20-year production period. On April 27, 2009 the exploration period was extended until July 28, 2012. On July 8, 2011 the exploration period was further extended until July 28, 2014. Upon receipt of the ownership rights the Partnership started the process of application for further extension of the exploration period.

Royalty Payments

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

Royalty rates depend on hydrocarbon 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 gross basis.

Government "profit share"

Zhaikmunai LLP 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 gross basis.

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (Note 0). The consolidated financial statements are presented in US Dollars and all values are rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from management to exercise its judgment in the process of applying the Partnership'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 0.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Partnership and its subsidiaries as at December 31, 2013. A subsidiary and a structured entity are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies for all Group entities. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and profit distributions are eliminated in full.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and the effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases.

Business combinations

Acquisitions of subsidiaries are included on the basis of the acquisition method. The cost of acquisition is measured based on the consideration transferred at fair value, the fair value of identifiable assets distributed and the fair value of liabilities incurred or assumed at the acquisition date (i.e. the date at which control is obtained). The excess of the costs of an acquired subsidiary over the net of the amounts assigned to identifiable assets acquired and liabilities incurred or assumed, is capitalized as goodwill. Acquisition related costs are expensed when incurred in the period they arise or the service is received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Reclassification of comparative information

The Group reconsidered the classification of Employee share option plan liabilities. In the consolidated financial statements as at December 31, 2012 Employee share option plan liabilities were classified as non-current. The Group reclassified Employee share option liabilities to current liabilities as at December 31, 2012 in accordance with the expected timing of settlement of these liabilities.

	As at December 31, 2012		
In thousands of US Dollars	Initial presentation	Reclassification amount	Adjusted presentation
Consolidated statement of financial position			
Employee share option plan liability (current)	–	9,788	9,788
Total current liabilities	115,910	9,788	125,698
Employee share option plan liability (non-current)	9,788	(9,788)	–
Total non-current liabilities	791,648	(9,788)	781,860

Corresponding reclassification of Employee share option liabilities to current liabilities as at January 1, 2012 would result in following:

	As at January 1, 2012		
In thousands of US Dollars	Initial presentation	Reclassification amount	Adjusted presentation
Consolidated statement of financial position			
Employee share option plan liability (current)	–	11,734	11,734
Total current liabilities	109,535	11,734	121,269
Employee share option plan liability (non-current)	11,734	(11,734)	–
Total non-current liabilities	611,414	(11,734)	599,680

In addition, the Group reclassified the amount of withholding tax for the year ended December 31, 2012 from finance costs to general and administrative expenses in order to comply with the presentation in the consolidated financial statements as at December 31, 2013 and for the year then ended. Reclassifications do not affect the financial indicators of the Group.

	Year ended December 31, 2012		
In thousands of US Dollars	Initial presentation	Reclassification amount	Adjusted presentation
Consolidated statement of comprehensive income			
General and administrative expenses	(61,549)	(3,333)	(64,882)
Finance costs	(50,118)	3,333	(46,785)
	(111,667)	–	(111,667)

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of January 1, 2013:

- IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities –* Amendments to IFRS 7*;*
- IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements;*
- IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures;*
- IFRS 12 *Disclosure of Interests in Other Entities;*
- IFRS 13 *Fair Value Measurement;*
- IAS 19 *Employee Benefits* (Revised 2011)

Improvements to IFRSs – 2009-2011 Cycle:

- IFRS 1 – *Repeat application of IFRS 1;*
- IFRS 1 – *Borrowing costs;*
- IAS 1 – *Clarification of the requirement for comparative information;*
- IAS 16 – *Classification of servicing equipment;*
- IAS 32 – *Tax effects of distributions to holders of equity instruments;*
- IAS 34 – *Interim financial reporting and segment information for total assets and liabilities.*

The nature and the impact of each new standard and/or amendment are described below:

IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including structured entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Structured Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. As the Group does not have JCEs, IFRS 11 had no impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for consolidated financial statements of the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

In addition to the above-mentioned amendments and new standards, IFRS 1 First-time Adoption of International Financial Reporting Standards was amended with effect for reporting periods starting on or after January 1, 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

IAS 19 Employee Benefits (Revised 2011)

IAS 19 (Revised 2011) includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss; instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendment had no impact on the Group's financial position or performance.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

The opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. The amendment did not have an impact on the consolidated financial statements of the Group.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 *Financial Instruments: Presentation* removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial statements of the Group.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Group provides this disclosure as total segment assets were reported to the chief operating decision maker (CODM). The amendment did not have an impact on the disclosures in the consolidated financial statements for the Group.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will not have an effect on the classification and measurement of the Group's financial assets and financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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

These amendments are effective for annual periods beginning on or after January 1, 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact on its future consolidated financial statements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations if any.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

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

Oil and gas reserves

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

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

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A.

Fair value of financial instruments

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

Abandonment and site restoration provision

The Group estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted at applicable rate. The Group reviews site restoration provisions at each date of financial position and adjusts it to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimate of discount rate and timing of cash flow. The management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights.

Management of the Group believes that the interest rates on its debt financing shall provide best estimates of applicable discount rate. The discount rate shall be applied to the nominal amounts the managements expect to spend on site restoration in the future. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long term inflation and discount rates used to determine the balance sheet obligation at December 31, 2013 and 2012 were 7% and 10%, respectively. Movements in the provision for decommissioning liability are disclosed in *Note 16.*

Taxation

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

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The functional currency of the Partnership and each of its subsidiaries is the United States dollar (the “US Dollar” or “US$”), except for Condensate functional currency of which is Kazakhstani Tenge (the “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.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest ("NCI") in the acquiree. For each business combination, the Group elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised separately, but instead are subsumed in goodwill.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value, and any resulting gain or loss is recognised in the statement of profit or loss and other comprehensive income. It is then considered in the determination of goodwill. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *IAS 39 Financial Instruments: Recognition and Measurement* is measured at fair value, with changes in fair value recognised either in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured, and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a Cash Generating Unit ("CGU") and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Exploration expenditure

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

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. The exploration expenditure expensed to profit or loss during 2013 amounted to US$ 3,810 thousand (2012: Nil).

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

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalized 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 capitalized costs of oil and gas properties are amortized 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 subsoil use rights. In the case of assets that have a useful life shorter than the lifetime of the field the straight line method is applied.

Oil and gas reserves

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

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

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 recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

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

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

Impairment of non-financial assets

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

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

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

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

Goodwill

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Borrowing costs

The Group capitalizes borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalization include all assets under construction that are not being depreciated, depleted, or amortized, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field infrastructure under construction. Capitalized borrowing costs are calculated by applying the capitalization rate to the expenditures on qualifying assets. The capitalization rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period.

Inventories

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

Provisions

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

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, 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 amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term interest rates for emerging market debt adjusted for risks specific to the Kazakhstan market. The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

Financial assets

Initial recognition and measurement

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

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

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

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

Loans and receivables

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

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

Accounts receivable

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

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

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

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

Financial assets carried at amortized cost

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortized cost using the effective interest rate method ("EIR"). Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized 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 amortization is included in finance cost in the profit or loss.

Derecognition

A financial liability is derecognized 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 recognized in the profit or loss.

Offsetting of financial instruments

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

Fair value of financial instruments

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 30.

Derivative financial instruments and hedging

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

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

The fair value of financial instruments contracts is determined by reference to market values for similar instruments. As at December 31, 2013 and 2012 the Group had no open hedging contracts.

Cash and short-term deposits

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

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

Taxation

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

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

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

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 recognized when delivery has taken place and risks and rewards of ownership have passed to the customer.

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

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no distributions are accepted in relation to them. Share options exercised during the reporting period are satisfied with treasury shares.

Share-based payments

The Group measures the cost of cash-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in *Note 27.*

5. BUSINESS COMBINATIONS

On December 30, 2013 the Group has acquired 100% of the share capital of Probel Capital Management N.V. ("Probel"), a company providing management and consulting services to the Group, from Group's related parties, in exchange for a cash consideration consisting of initial purchase price of US$ 28,836 thousand subject to a price adjustment based on accounts of Probel at December 30, 2013. The amount of the price adjustment has not yet been agreed or paid as at the date of the authorization of the financial statements for issue, but it is estimated that the amount will not exceed US$ 4,598 thousand. Respective liability for this amount has been recognized within other current liabilities (Note 19) as at December 31, 2013, part of which was offset against receivables of Probel from previous owners.

Historically, certain senior managers of the Group have provided their services to the Group pursuant to a service agreement between Probel and the Group. The Probel acquisition was completed in connection with a proposed alternative listing of the Group's listed entity, so as to comply with certain exchange requirements that listed companies be managed by persons employed by entities within the listed company's group. The goodwill arising on acquisition represents the savings of the Group on management fees.

The provisional fair values of the identifiable assets and liabilities of Probel as at the date of acquisition were:

In thousands of US Dollars	**Fair value recognized on acquisition**
Assets	
Property, plant and equipment	32
Prepayments and other current assets	2,554
Cash and cash equivalents	1,953
	4,539
Liabilities	
Trade payables	(1,021)
Other current liabilities	(470)
	(1,491)
Total identifiable net assets at fair value	**3,048**
Goodwill arising on acquisition	30,386
Purchase consideration	**33,434**

6. EXPLORATION AND EVALUATION ASSETS

During the year ended December 31, 2013 the Group had additions of exploration and evaluation assets of US$ 20,434 thousand (year ended December 31, 2012: US$ nil). The additions are mainly represented by the consideration related to acquisition of subsoil use rights of three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye in the amount of US$ 15,835 thousand, including capitalized contingent consideration under acquisition agreement of those oil and gas fields in the amount of US$ 5,300 thousand respective liabilities for which were recognized as other current liabilities (Note 19). Also additions to exploration and evaluation assets include expenditures on geological and geophysical studies in the amount of US$ 4,599 thousand.

7. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2013 and 2012 property plant and equipment comprised the following:

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
Oil and gas properties	**1,292,073**	1,192,048
Non oil and gas properties	**38,830**	30,617
Total property, plant and equipment	**1,330,903**	1,222,665

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 December 31, 2013 and 2012 was as follows:

In thousands of US Dollars	**Working assets**	**Construction in progress**	**Total**
Balance at January 1, 2012, net of accumulated depreciation and depletion	903,178	204,236	1,107,414
Additions	5,816	178,082	183,898
Transfers	192,872	(192,872)	–
Disposals	(61)	–	(61)
Disposals depreciation	6	–	6
Depreciation and depletion charge	(99,209)	–	(99,209)
Balance at December 31, 2012, net of accumulated depreciation and depletion	1,002,602	189,446	1,192,048
Additions	**5,108**	**210,076**	**215,184**
Transfers	**197,271**	**(197,271)**	**–**
Depreciation and depletion charge	**(115,159)**	**–**	**(115,159)**
Balance at December 31, 2013, net of accumulated depreciation and depletion	**1,089,822**	**202,251**	**1,292,073**
As at December 31, 2012			
Cost	1,209,373	189,446	1,398,819
Accumulated depreciation and depletion	(206,771)	–	(206,771)
Balance, net of accumulated depreciation and depletion	1,002,602	189,446	1,192,048
As at December 31, 2013			
Cost	**1,411,752**	**202,251**	**1,614,003**
Accumulated depreciation and depletion	**(321,930)**	**–**	**(321,930)**
Balance, net of accumulated depreciation and depletion	**1,089,822**	**202,251**	**1,292,073**

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

The depletion rate for oil and gas working assets was 12.14% and 11.96% in 2013 and 2012, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The Group incurred borrowing costs including amortization of arrangement fees. Capitalization rate and capitalized borrowing costs were as follows for the years ended December 31, 2013 and 2012:

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
Borrowing costs including amortization of arrangement fee	**56,260**	71,076
Capitalization rate	**8.95%**	15.84%
Capitalized borrowing costs	**14,609**	26,080

Non-oil and gas properties

In thousands of US Dollars	**Buildings**	**Machinery & Equipment**	**Vehicles**	**Others**	**Construction in progress**	**Total**
Balance at January 1, 2012, net of accumulated depreciation	5,488	2,919	1,106	2,520	1,006	13,039
Additions	609	4,062	378	2,026	13,950	21,025
Transfers	358	1,245	–	11	(1,614)	–
Disposals	–	(143)	–	(201)	–	(344)
Disposals depreciation	–	140	–	180	–	320
Depreciation	(848)	(1,727)	(314)	(534)	–	(3,423)
Balance at December 31, 2012, net of accumulated depreciation	5,607	6,496	1,170	4,002	13,342	30,617
Additions	**562**	**2,410**	**560**	**1,217**	**8,654**	**13,403**
Transfers	**21,799**	**–**	**–**	**150**	**(21,949)**	**–**
Disposals	**(35)**	**(102)**	**(50)**	**(44)**	**–**	**(231)**
Disposals depreciation	**16**	**52**	**49**	**30**	**–**	**147**
Depreciation	**(1,653)**	**(2,378)**	**(334)**	**(741)**	**–**	**(5,106)**
Balance at December 31, 2013, net of accumulated depreciation	**26,296**	**6,478**	**1,395**	**4,614**	**47**	**38,830**
As at December 31, 2012						
Cost	8,561	10,977	3,003	5,843	13,342	41,726
Accumulated depreciation	(2,954)	(4,481)	(1,833)	(1,841)	–	(11,109)
Balance, net of accumulated depreciation	5,607	6,496	1,170	4,002	13,342	30,617
As at December 31, 2013						
Cost	**30,887**	**13,285**	**3,513**	**7,166**	**47**	**54,898**
Accumulated depreciation	**(4,591)**	**(6,807)**	**(2,118)**	**(2,552)**	**–**	**(16,068)**
Balance, net of accumulated depreciation	**26,296**	**6,478**	**1,395**	**4,614**	**47**	**38,830**

8. ADVANCES FOR NON-CURRENT ASSETS

As at December 31, 2013 and 2012 advances for non-current assets comprised the following:

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
Advances for pipes and construction materials	**6,241**	9,126
Advances for construction services	**3,796**	6,063
Advances for purchase of subsoil use rights	**–**	10,089
	10,037	25,278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVENTORIES

As at December 31, 2013 and 2012 inventories comprised the following:

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
Materials and supplies	**16,738**	17,127
Gas condensate	**2,986**	4,633
Crude oil	**1,754**	2,750
LPG	**607**	454
	22,085	24,964

As at December 31, 2013 and 2012 inventories are carried at cost.

10. TRADE RECEIVABLES

December 31, 2013 and 2012 trade receivables were not interest bearing and were mainly denominated in US Dollars, their collection period was less than 30 days and they were not impaired.

As at December 31, 2013 and 2012 the ageing analysis of trade receivables is as follows:

			Past due but not impaired			
In thousands of US Dollars	**Total**	**Neither past due nor impaired**	**<30 days**	**60-90 days**	**90-120 days**	**>120 days**
December 31, 2013	**66,565**	**66,561**	**–**	**–**	**–**	**4**
December 31, 2012	54,004	54,000	–	–	–	4

See Note 30 on credit risk of the trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

11. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
VAT receivable	**17,192**	10,782
Advances paid	**7,817**	12,613
Other	**6,183**	974
	31,192	24,369

Advances paid consist primarily of prepayments made to service providers.

12. CURRENT AND NON-CURRENT INVESTMENTS

Current investments as at December 31, 2013 were represented by an interest bearing short-term deposit placed on September 30, 2013 for a six-month period. Current investments as at December 31, 2012 were represented by an interest bearing short-term deposit placed on November 16, 2012 for a six-month period.

Non-current investments were represented by an interest bearing deposit placed on September 30, 2013 for a period more than one year and an interest bearing deposit placed on March 4, 2013 for a two-year period.

13. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
Current accounts in US Dollars	**150,931**	84,615
Bank deposits with maturity less than three months	**25,000**	100,000
Current accounts in Tenge	**5,485**	10,595
Current accounts in other currencies	**3,492**	2,520
Petty cash	**6**	–
	184,914	197,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group has restricted cash accounts as liquidation fund deposit in the amount of US$ 4,217 thousand with Kazkommertsbank JSC in Kazakhstan (December 31, 2012: US$ 3,652 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration provision of the Group.

Bank deposits with maturity of less than three months as at December 31, 2013, represent an interest bearing short-term deposit placed on December 30, 2013.

14. PARTNERSHIP CAPITAL

The ownership interests in the Partnership consist of (a) Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in the Partnership and (b) the interest of the General Partner. At any general meeting every holder of Common Units shall have one vote for each Common Unit of which he or she is the holder. Under the Partnership Agreement, distributions to limited partners will be made either as determined by the General Partner in its sole discretion or following the approval of a majority of limited partners provided such amount does not exceed the amount recommended by the General Partner. Any distributions to the Partnership's limited partners will be made on a pro rata basis according to their respective partnership interests in the Partnership and will be paid only to the recorded holders of Common Units.

The following table summarizes the number of Common Units authorized and fully paid and do not have a par value, all but 10 of which are represented by Global Depositary Receipts ("GDRs"):

Number of Common Units	**In circulation**	**Treasury capital**	**Total**
At January 1, 2012	185,315,341	1,446,541	186,761,882
Issued for ESOP	–	1,421,076	1,421,076
Share options exercised	735,894	(735,894)	–
At December 31, 2012	186,051,235	2,131,723	188,182,958
Buyback of GDRs	**(1,814,348)**	**1,814,348**	**–**
Share options exercised	**285,375**	**(285,375)**	**–**
As at December 31, 2013	**184,522,262**	**3,660,696**	**188,182,958**

On June 28, 2013 the limited partners of the Partnership duly passed all proposed resolutions at the Annual General Meeting ("AGM") of limited partners. Such resolutions included approval by the limited partners at the AGM of the distribution to the Partnership's limited partners of US$ 0.34 per common unit, payable by the Partnership on July 26, 2013 to common unit holders on the register of partners and interests at the close of the business on July 19, 2013.

In September 2012, the Board of Directors of the General Partner approved the payment of the Partnership's inaugural distribution of US$ 0.32 per Common Unit to the holders of the Partnership's Common Units, representing a cash distribution of US$ 60,219 thousand (equal to approximately 20% of retained earnings at June 30, 2012). The distribution (in the amount of US$ 59,498 thousand, since the ESOP Trustee referenced in the following paragraph declined the distribution) was paid on October 2, 2012 to Common Unit holders on the register of partners and interests at the close of business on October 1, 2012.

1,421,076 new Common Units (represented by GDRs) were issued in 2012 to support its obligations to employees under the Employee Share Option Plan (ESOP). The issued GDRs are held by Ogier Employee Benefit Trustee Limited ("the Trustee"), which upon request from employees to exercise options, sells GDRs on the market and settles respective obligations under the ESOP. This trust constitutes a special purpose entity under IFRS and therefore, these newly issued GDRs are recorded as treasury capital of the Partnership. During the year ended December 31, 2013 no new Common Units were issued and 285,375 share options were exercised by employees (year ended December 31, 2012: 735,894 share options). The aggregate number of GDRs in respect of which share options may be outstanding under the ESOP must not exceed 5,000,000. There are no common units held by Partnership's subsidiaries, except for the treasury shares held to support the ESOP.

Additional paid-in capital includes excess of the sale price of treasury shares at the transaction date over their original cost, deducted by transaction costs incurred for issuance of treasury shares.

Retained earnings and reserves include foreign currency translation reserve accumulated before 2009, when the functional currency of the Group was Tenge.

Earnings per share ("EPS")

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of Common Units outstanding during the period.

The basic and diluted EPS are the same as there are no instruments that have a dilutive effect on earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements

	December 31, 2013	December 31, 2012
Net profit attributable to Common Unit holders (in thousands of US Dollars)	**219,519**	162,009
Weighted average number of Common Units	**185,289,550**	186,051,235
Basic and diluted earnings per Common Unit (in US Dollars)	**1.18**	0.87

15. BORROWINGS

Borrowings comprise the following as at December 31, 2013 and 2012:

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
Notes issued in 2012 and maturing in 2019	**536,301**	530,425
Notes issued in 2010 and maturing in 2015	**92,122**	92,469
	628,423	622,894
Less amounts due within 12 months	**(7,263)**	(7,152)
Amounts due after 12 months	**621,160**	615,742

2010 Notes

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

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

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

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

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

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

2012 Notes

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

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

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on May 14 and November 13 of each year, beginning on May 14, 2013. Prior to November 13, 2016, the 2012 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2012 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2012 Notes (including Additional Notes as defined in the indenture relating to the 2012 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2012 Notes may be redeemed, in whole or in part, at any time prior to November 13, 2016 at the option of the 2012 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2012 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2012 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2012

Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2012 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2012 Note at November 13, 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through November 13, 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2012 Note.

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

16. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in Abandonment and site restoration provision during the years ended December 31, 2013 and 2012 is as follows:

In thousands of US Dollars	**2013**	2012
Abandonment and site restoration provision as at January 1	**11,064**	8,713
Unwinding of discount	**1,034**	847
Additional provision	**2,500**	1,743
Change in estimates	**(724)**	(239)
Abandonment and site restoration provision as at December 31	**13,874**	11,064

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at December 31, 2013 were 7 % and 10 %, respectively (December 31, 2012: 7 % and 10%).

17. DUE TO GOVERNMENT OF KAZAKHSTAN

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The summary of changes in the amounts due to Government of Kazakhstan during the years ended December 31, 2013 and 2012 is as follows:

In thousands of US Dollars	**2013**	2012
Due to Government of Kazakhstan as at January 1,	**7,153**	7,242
Unwinding of discount	**930**	942
Paid during the year	**(1,031)**	(1,031)
	7,052	7,153
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at December 31	**6,021**	6,122

18. TRADE PAYABLES

Trade payables comprise the following as at December 31, 2013 and 2012:

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
Tenge denominated trade payables	**42,950**	48,622
US dollar denominated trade payables	**12,719**	6,659
Trade payables denominated in other currencies	**2,849**	3,109
	58,518	58,390

19. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at December 31, 2013 and 2012:

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
Taxes payable, other than corporate income tax	**32,110**	24,650
Training obligations accrual	**8,986**	9,256
Contingent consideration[1]	**5,300**	–
Due to employees	**3,227**	1,180
Accrual for additional payment for acquisition of Probel	**1,953**	–
Pension obligations	**204**	162
Other current liabilities	**2,884**	2,327
	54,664	37,575

[1] See Note 6 on exploration and evaluation assets.

20. REVENUE

During the year ended December 31, 2013 the revenue from sales to two major customers amounted to US$ 202,945 thousand and US$ 173,440 thousand (year ended December 31, 2012 three major customers: US$ 200,581 thousand, US$ 118,780 thousand and 53,994 thousand respectively).

In thousands of US Dollars	**2013**	2012
Oil and gas condensate	**709,107**	587,371
Gas and LPG	**185,907**	149,694
	895,014	737,065

21. COST OF SALES

In thousands of US Dollars	**2013**	2012
Depreciation, depletion and amortization	**118,957**	101,374
Repair, maintenance and other services	**52,361**	55,470
Royalties	**39,356**	34,195
Government profit share	**30,747**	7,899
Payroll and related taxes	**17,240**	18,409
Materials and supplies	**12,262**	5,332
Other transportation services	**4,306**	5,350
Management fees	**3,558**	1,880
Well workover costs	**2,794**	7,639
Change in stock	**2,490**	(3,298)
Environmental levies	**1,029**	1,614
Other	**1,122**	2,360
	286,222	238,224

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**2013**	2012
Management fees	**16,006**	13,497
Professional services	**9,072**	4,012
Payroll and related taxes	**7,576**	4,966
Other taxes	**4,839**	4,320
Employee share option plan	**4,430**	2,470
Business travel	**4,089**	2,739
Sponsorship	**2,919**	721
Training	**2,736**	4,118
Insurance fees	**2,050**	1,403
Depreciation and amortization	**1,413**	1,258
Bank charges	**1,100**	1,069
Communication	**1,010**	824
Materials and supplies	**664**	602
Lease payments	**585**	406
Social program	**300**	21,818
Other	**1,660**	659
	60,449	64,882

23. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollars	**2013**	2012
Transportation costs	**72,229**	73,973
Loading and storage costs	**36,991**	21,622
Payroll and related taxes	**2,486**	2,330
Management fees	**701**	1,882
Other	**9,267**	3,797
	121,674	103,604

24. FINANCE COSTS

In thousands of US Dollars	**2013**	2012
Interest expense on borrowings	**41,651**	44,996
Unwinding of discount on Abandonment and site restoration provision[1]	**1,034**	848
Unwinding of discount on Due to Government[2]	**930**	941
	43,615	46,785

[1] See Note 16 on abandonment and site restoration provision.
[2] See Note 17 on due to Government of Kazakhstan.

25. OTHER EXPENSES

In thousands of US Dollars	**2013**	2012
Export customs duty	**12,268**	–
Compensation	**6,387**	4,797
Other	**6,938**	1,815
	25,593	6,612

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. INCOME TAX

The income tax expense consisted of the following:

In thousands of US Dollars	**2013**	2012
Current income tax expense	**138,883**	118,105
Deferred income tax expense	**3,613**	2,258
Total income tax expense	**142,496**	120,363

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

In thousands of US Dollars	**2013**	2012
Profit before income tax	**362,015**	282,372
Tax rate applicable to the subsoil use rights	**30%**	30%
Expected tax provision	**108,605**	84,712
Non-deductible interest expense on borrowings	**19,084**	26,579
Change of the tax base	**2,836**	2,312
Non-deductible other tax expenses	**2,037**	5,243
Non-deductible technological losses	**1,850**	763
Non-deductible compensation for gas	**1,711**	1,226
Foreign exchange (gain)/loss	**1,624**	491
Non-deductible social expenditures	**890**	1,589
Effect of income taxed at different rate	**31**	26
Non-deductible training expenditures	**–**	552
Non-assessable income	**–**	(4,223)
Other non-deductible expenses	**3,828**	1,093
Income tax expenses reported in the consolidated financial statements	**142,496**	120,363

Deferred tax balances are calculated by applying the 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 are comprised of the following:

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
Deferred tax asset:		
Accounts payable and provisions	**2,811**	2,690
Deferred tax liability:		
Property, plant and equipment	**(155,356)**	(151,622)
Net deferred tax liability	**(152,545)**	(148,932)

The movements in the deferred tax liabilities were as follows:

In thousands of US Dollars	**2013**	2012
Balance at January 1,	**148,932**	146,674
Current period charge to statement of income	**3,613**	2,258
Balance at December 31	**152,545**	148,932

27. EMPLOYEE SHARE OPTION PLAN

Employees (including senior executives and executive directors) of members of the Group receive remuneration in the form of equity-based payment transactions, whereby employees render services as consideration for share appreciation rights, which can only be settled in cash (“cash-settled transactions”).

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The equity-based payment plan is described below.

During 2008-2013, 3,182,958 equity appreciation rights (SARs) were granted to senior employees and executive directors of members of the Group, which can only be settled in cash. These generally vest over a five year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a trinomial lattice valuation option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting till the end of the contractual life and give its holder a right to a difference between the market value of the Group's GDRs at the date of exercise and a stated base value. The services received and a liability to pay for those services are recognised over the expected vesting period.

Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The carrying value of the liability relating to 2,912,348 of SARs at December 31, 2013 is US$ 12,016 thousand (December 31, 2012: 2,131,723 SARs with carrying value of US$ 9,788 thousand). During the year ended December 31, 2013 728,487 SARs were fully vested (year ended December 31, 2012: 426,345).

The following table illustrates the number ("No.") and exercise prices ("EP") of, and movements in, SARs during the year:

	2013		2012	
	No.	**EP,US$**	No.	EP,US$
Total outstanding at the beginning of the year (with EP of US$ 4)	**1,931,723**	**4**	2,667,617	4
Total outstanding at the beginning of the year (with EP of US$ 10)	**200,000**	**10**	200,000	10
Total outstanding at the beginning of the year	**2,131,723**	**–**	2,867,617	–
Share options granted	**1,115,000**	**10**	–	–
Share options exercised	**(285,375)**	**4**	(735,894)	4
Share options lapsed	**(49,000)**	**10**	–	–
Total outstanding at the end of the year	**2,912,348**	**4**	2,131,723	–
Total exercisable at the end of the year	**1,808,348**	**–**	1,311,170	–

The weighted average fair value of SARs granted during the year ended December 31, 2013 amounted to US$ 6.22 per SAR and the weighted average price at the date of exercise for SARs exercised during the year amounted to US$ 8.22 per SAR (2012: US$ 5.96 per SAR). The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for the plan for the years ended December 31, 2013 and 2012:

	2013	2012
GDR price at the reporting date (US$)	**13.0**	10.7
Distribution yield (%)	**3.0%**	1.5%
Expected volatility (%)	**85.0%**	86.0%
Risk-free interest rate (%)	**2.0%**	2.0%
Expected life (years)	**10.0**	3.5
Option turnover (%)	**10.0%**	10.0%
Price trigger	**2.0**	2.0

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Option turnover rate represents the rate of employees expected to leave the Group during the vesting period, which is based on historical data and may not necessarily be the actual outcome. The model considers that when share price reaches the level of exercise price multiplied by the price trigger the employees are expected to exercise their options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. RELATED PARTY TRANSACTIONS

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

Accounts payable to related parties at December 31, 2013 and 2012 represented by entities indirectly controlled by shareholder with significant influence over the Group consisted of the following:

In thousands of US Dollars	**December 31, 2013**	December 31, 2012
Trade payables		
Prolag B.V.B.A.	**240**	298
Amersham Oil LLP	**52**	48
Probel Capital Management N.V.	**–**	288

During the years ended December 31, 2013 and 2012 the Group had the following transactions with related parties represented by entities indirectly controlled by shareholder with significant influence over the Group:

In thousands of US Dollars	**2013**	2012
Management fees and consulting services		
Probel Capital Management N.V.	**17,507**	13,648
Amersham Oil LLP	**1,506**	1,415
Prolag B.V.B.A.	**1,253**	2,195

Management fees are payable in accordance with the Technical Assistance Agreements signed between the members of the Group and Amersham Oil LLP, Prolag B.V.B.A. and Probel Capital Management N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services.

Annual remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 634 thousand for year ended December 31, 2013 (year ended December 31, 2012: US$ 624 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management N.V. and whose remuneration forms part of the management fees and consulting services above.

Payments to key management personnel under ESOP amounted to US$ 2,202 thousand for the year ended December 31, 2013 (year ended December 31, 2012: US$ 4,416 thousand) (Note 27).

29. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2013. As at December 31, 2013 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 cleanup evolve, the Group may incur future costs, the amount of which is currently indeterminable. Such costs, when known, will be provided for as new information, legislation and estimates evolve.

Environmental obligations

The Group may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Group may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation. However, depending on any unfavorable claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Group's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at December 31, 2013 the Group had contractual capital commitments in the amount of US$ 26,842 thousand (December 31, 2012: US$ 23,088 thousand) mainly in respect to the Group's oil field development activities.

Operating lease

In 2010 Zhaikmunai LLP entered into several agreements on lease of 650 railway tank wagons for transportation of hydrocarbon products for a period of up to 7 years for KZT 6,989 (equivalent of US$ 47) per day per one wagon. The lease agreements may be early terminated either upon mutual agreement of the parties, or unilaterally by one of the parties if the other party does not fulfil its obligations under the contract.

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

In thousands of US Dollars	**2013**	2012
No later than 1 year	**12,501**	12,586
Later than 1 year and no later than five years	**23,846**	17,112
Later than five years	**–**	–

Lease expenses of railway tank wagons for the year ended December 31, 2013 amounted to US$ 12,628 thousand (the year ended December 31, 2012: US$ 10,705 thousand).

Social and education commitments

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

- spend US$ 300 thousand per annum to finance social infrastructure;
- perform repair and reconstruction of state automobile roads for the amount of US$ 12,000 thousand in 2012;
- make an accrual of one percent per annum of the financial obligations for the Chinarevskoye field for the purposes of educating Kazakh citizens; and
- 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 fulfillment of several social and other obligations. However, these obligations were amended in the year ended December 31, 2013 (in the case of Rostoshinskoye) or were (as at December 31, 2013) in the process of being amended (in the case of Darjinskoye and Yuzhno-Gremyachinskoye).

The current contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on August 9, 2013) requires the subsurface user to:

- spend at least US$ 206 thousand of investments for education of personnel engaged to work under the contract during the exploration stage;
- spend US$ 600 thousand to finance social infrastructure of the region during the exploration stage;
- invest at least US$ 20,750 thousand for exploration of the field during the exploration period;
- create a liquidation fund (special deposit account with local bank) equal to US$ 206 thousand.

The contract for exploration and production of hydrocarbons from Darjinskoye field (as at December 31, 2013) required the subsurface user to:

- spend at least US$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US$ 18,850 thousand to finance social infrastructure of the region (including US $1,000 thousand for funding of development of Astana city in case of commercial discovery);
- invest at least US$ 20,000 thousand for exploration of the field during the exploration period;
- reimburse historical costs of US$ 6,499 thousand to the Government, including US$ 195 thousand for the right to use geological information; and
- create a liquidation fund (special deposit account with local bank) equal to 1% of the capital expenditures during the exploration stage and 0.1% of the operational costs during the production stage.

The current contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (as at December 31, 2013) required the subsurface user to:

- spend at least 1% of investments for education of personnel engaged to work under the contract during the exploration stage;
- spend US$ 18,950 thousand to finance social infrastructure of the region (including US$ 1,000 thousand for funding of development of Astana city in case of commercial discovery);
- invest at least US$ 23,050 thousand for exploration of the field during the exploration period;
- reimburse historical costs of US$ 3,194 thousand to the Government, including US$ 96 thousand for the right to use geological information; and
- create a liquidation fund (special deposit account with local bank) equal to 1% of the capital expenditures during the exploration stage and 0.1% of the operational costs during the production stage.

Domestic oil sales

In accordance with Supplement # 7 to the Contract, Zhaikmunai LLP 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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations as well as exploration of the three new oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye. The Group's financial assets consist of trade and other receivables, 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 and credit risk. The Group's management reviews and agrees policies for managing each of these risks, which are summarized below.

Commodity Price Risk

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

Interest rate risk

The Group is not exposed to interest rate risk in 2013 and 2012 as the Group had no floating-rate borrowings as at December 31, 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Foreign currency risk

As a significant portion of the Group's operation is the Tenge denominated, the Group's statement of financial position can be affected significantly 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 (due to changes in the fair value of monetary assets and liabilities).

	Change in Tenge to US Dollar exchange rate	Effect on profit before tax
2013		
US Dollar thousand	**+30.00%**	**(3,294)**
US Dollar thousand	**+10.00%**	**(1,098)**
2012		
US Dollar thousand	+1.57%	(235)
US Dollar thousand	-1.57%	235

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

As at December 31, 2013	Tenge	Russian Roubles	Euro	Other
Cash and cash equivalents	**5,491**	**–**	**3,492**	**–**
Trade receivables	**27,619**	**–**	**1**	**–**
Trade payables	**(42,950)**	**(372)**	**(2,472)**	**(5)**
Other current liabilities	**(257)**	**–**	**(7,173)**	**–**
	(10,097)	**(372)**	**(6,152)**	**(5)**

As at December 31, 2012	Tenge	Russian Roubles	Euro	Other
Cash and cash equivalents	10,595	–	2,520	2
Trade receivables	10,573	–	–	–
Trade payables	(48,622)	(10)	(2,251)	(848)
Other current liabilities	(10,436)	–	–	–
	(37,890)	(10)	269	(846)

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: a) not more than 25% of borrowings should mature in the next twelve-month period and b) a minimum balance of US$ 50 million is retained on the balance sheet post repayment or refinancing of any debt due in the next twelve-month period.

The Group's total outstanding debt consists of two notes: US$ 92.5 million issued in 2010 and maturing in 2015 and US$ 560 million issued in 2012 and maturing in 2019. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

Access to sources of funding is sufficiently available and if there would be debt maturing within twelve months it could be rolled over with existing lenders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2013 and 2012 based on contractual undiscounted payments:

December 31, 2013	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	**–**	**–**	**43,613**	**259,902**	**594,691**	**898,206**
Trade Payables	**58,518**	**–**	**–**	**–**	**–**	**58,518**
Other current liabilities	**20,571**	**–**	**–**	**–**	**–**	**20,571**
Due to the government of Kazakhstan	**–**	**258**	**773**	**4,124**	**12,371**	**17,526**
	79,089	**258**	**44,386**	**264,026**	**607,062**	**994,821**

December 31, 2012	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	–	49,613	264,451	639,800	953,864
Trade Payables	58,390	–	–	–	–	58,390
Other current liabilities	10,437	–	–	–	–	10,437
Due to the government of Kazakhstan	–	258	773	4,124	13,402	18,557
	68,827	258	50,386	268,575	653,202	1,041,248

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 Group considers that its maximum exposure is reflected by the amount of trade accounts receivable and cash and cash equivalents.

The Group places its Tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba2 (stable) from Moody's rating agency and its US Dollar denominated cash with BNP Paribas with a credit rating of A2 (stable) and ING with a credit rating of A2 (negative) from Moody's rating agency at December 31, 2013. 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 Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Fair values of financial instruments

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

	Carrying amount		Fair value	
In thousands of US Dollars	**2013**	2012	**2013**	2012
Financial liabilities				
Interest bearing borrowings	**628,423**	622,894	**686,795**	692,828
Total	**628,423**	622,894	**686,795**	692,828

The fair value of the financial assets and liabilities represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy.

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

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 borrowers 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's policy is to keep the gearing ratio between 20% and 40%. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits, excluding discontinued operations.

In thousands of US Dollars	**2013**	2012
Interest bearing borrowings	**628,423**	622,894
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(244,131)**	(251,382)
Net debt	**384,292**	371,512
Equity	**832,451**	695,104
Total capital	**832,451**	695,104
Capital and net debt	**1,216,743**	1,066,616
Gearing ratio	**32%**	35%

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2013 and 2012.

31. EVENTS AFTER THE REPORTING PERIOD

On January 23, 2014, the contract for exploration and production of hydrocarbons from Darjinskoye field was amended so as to require Zhaikmunai LLP to:

- spend at least US$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US$ 225 thousand to finance social infrastructure of the region;
- invest at least US$ 20,355 thousand for exploration of the field during the exploration period;
- create a liquidation fund (special deposit account with local bank) equal to US$ 208 thousand.

On January 23, 2014, the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachenskoye field was amended so as to require Zhaikmunai LLP to:

- spend at least US$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US$ 1,050 thousand to finance social infrastructure of the region;
- invest at least US$ 19,850 thousand for exploration of the field during the exploration period;
- reimburse historical costs of US$ 96 thousand; and
- create a liquidation fund (special deposit account with local bank) equal to US$ 244 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The remaining contingent consideration (312,168,910 Tenge for Darjinskoye and 487,375,905 Tenge for Yuzhno-Gremyachenskoye) was paid to the sellers in January 2014.

On February 11, 2014 the Tenge was devalued against the US Dollar and other major currencies. The exchange rates before and after devaluation were 155 Tenge/US Dollar and 185 Tenge/US Dollar respectively.

On February 14, 2014, Nostrum Oil & Gas Finance B.V., a subsidiary of Zhaikmunai Netherlands B.V. (established on January 15, 2014), issued USD 400 million notes at a coupon of 6.325% maturing 2019. The Notes are jointly and severally guaranteed on a senior basis by Nostrum Oil & Gas LP and all of its subsidiaries other than Nostrum Oil & Gas Finance B.V. On February 28, 2014, Zhaikmunai LLP entered into a deed of sale and transfer with Zhaikmunai Netherlands B.V. for the acquisition of the share capital of Nostrum Oil & Gas Finance B.V..

On March 3, 2014, in accordance with its hedging policy, Zhaikmunai LLP entered, at nil upfront cost, into a new hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through February 29, 2016. The counterparty to the hedging agreement was Citibank. Based on the hedging contract Zhaikmunai LLP bought a put at $85/bbl, which protected it against any fall in the price of oil below $85/bbl. As part of this contract Zhaikmunai LLP also sold a call at $111.5/bbl and bought a call at $117.5/bbl which further allowed Zhaikmunai LLP to benefit from oil prices up to $111.5/bbl and above $117.5/bbl.