# Nostrum Oil & Gas LP

Interim condensed consolidated financial statements (unaudited)

*For the three months ended March 31, 2014*

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

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

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

## Report on review of interim condensed consolidated financial statements

To the participants and management of Nostrum Oil & Gas LP

### *Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of Nostrum Oil & Gas LP and its subsidiaries, comprising the interim consolidated statement of financial position as at 31 March 2014 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of Nostrum Oil & Gas LP and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLP

| | |
|---|---|
| Alexandr Nazarkulov<br>Auditor | Evgeny Zhemaletdinov<br>General Director<br>Ernst & Young LLP |
| Auditor Qualification Certificate<br>No. 0000059 dated 6 January 2012 | State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005 |

22 May 2014

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## As at March 31, 2014

| *In thousands of US Dollars* | Notes | March 31, 2014 (unaudited) | December 31, 2013 (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Exploration and evaluation assets | 3 | **21,002** | 20,434 |
| Goodwill | | **30,386** | 30,386 |
| Property, plant and equipment | 4 | **1,353,372** | 1,330,903 |
| Restricted cash | | **4,314** | 4,217 |
| Advances for non-current assets | | **6,930** | 10,037 |
| Non-current investments | 5 | **–** | 30,000 |
| | | **1,416,004** | 1,425,977 |
| **Current assets** | | | |
| Inventories | | **22,884** | 22,085 |
| Trade receivables | | **107,816** | 66,565 |
| Prepayments and other current assets | | **34,590** | 31,192 |
| Income tax prepayment | | **–** | 5,042 |
| Current investments | 5 | **30,000** | 25,000 |
| Cash and cash equivalents | | **608,643** | 184,914 |
| | | **803,933** | 334,798 |
| **TOTAL ASSETS** | | **2,219,937** | 1,760,775 |
| **EQUITY AND LIABILITIES** | | | |
| **Partnership capital and Reserves** | | | |
| Partnership capital | 6 | **350,463** | 350,123 |
| Additional paid-in capital | | **8,792** | 8,126 |
| Retained earnings and reserves | | **532,108** | 474,202 |
| | | **891,363** | 832,451 |
| **Non-Current Liabilities** | | | |
| Long-term borrowings | 7 | **924,787** | 621,160 |
| Abandonment and site restoration provision | | **13,842** | 13,874 |
| Due to Government of Kazakhstan | | **5,906** | 6,021 |
| Deferred tax liability | | **162,062** | 152,545 |
| | | **1,106,597** | 793,600 |
| **Current liabilities** | | | |
| Current portion of long-term borrowings | 7 | **120,357** | 7,263 |
| Employee share option plan liability | | **9,046** | 12,016 |
| Trade payables | | **45,543** | 58,518 |
| Income tax payable | | **5,461** | 1,232 |
| Derivative financial instrument | 13 | **648** | – |
| Current portion of Due to Government of Kazakhstan | | **1,031** | 1,031 |
| Other current liabilities | | **39,891** | 54,664 |
| | | **221,977** | 134,724 |
| **TOTAL EQUITY AND LIABILITIES** | | **2,219,937** | 1,760,775 |

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 17 are an integral part of these interim condensed consolidated financial statements*

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**For the three months ended March 31, 2014**

| | | Three months ended March 31, | |
|---|---|---|---|
| *In thousands of US Dollars* | **Notes** | **2014 (unaudited)** | 2013 (unaudited) |
| **Revenue** | | | |
| Revenue from export sales | | **197,844** | 196,712 |
| Revenue from domestic sales | | **29,108** | 31,814 |
| | **8** | **226,952** | 228,526 |
| Cost of sales | **9** | **(49,992)** | (72,402) |
| **Gross profit** | | **176,960** | 156,124 |
| General and administrative expenses | **10** | **(13,511)** | (11,284) |
| Selling and transportation expenses | **11** | **(30,459)** | (28,330) |
| Employee share option plan fair value adjustment | | **2,299** | 183 |
| Finance costs | **12** | **(20,197)** | (11,571) |
| Foreign exchange (loss)/gain, net | | **(1,591)** | 9 |
| Loss on derivative financial instrument | **13** | **(648)** | – |
| Interest income | | **551** | 258 |
| Other expenses | | **(6,541)** | (2,839) |
| Other income | | **874** | 1,005 |
| **Profit before income tax** | | **107,737** | 103,555 |
| Income tax expense | **14** | **(49,831)** | (37,650) |
| **Profit for the period** | | **57,906** | 65,905 |
| **Total comprehensive income for the period** | | **57,906** | 65,905 |

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*

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
## For the three months ended March 31, 2014

| | | Three months ended March 31, | |
|---|---|---|---|
| *In thousands of US Dollars* | **Notes** | **2014 (unaudited)** | 2013 (unaudited) |
| **Cash flow from operating activities:** | | | |
| Profit before income tax | | **107,737** | 103,555 |
| *Adjustments for:* | | | |
| Depreciation, depletion and amortization | **9,10** | **29,376** | 36,031 |
| Finance costs | **12** | **20,197** | 11,571 |
| Interest income | | **(551)** | (258) |
| Foreign exchange (gain)/loss on investing and financing activities | | **(371)** | 4 |
| Loss on disposal of property, plant and equipment | | **29** | – |
| Loss on derivative financial instrument | | **648** | – |
| **Operating profit before working capital changes** | | **157,065** | 150,903 |
| *Changes in working capital:* | | | |
| Change in inventories | | **(799)** | 1,349 |
| Change in trade receivables | | **(41,251)** | (13,872) |
| Change in prepayments and other current assets | | **(3,398)** | 743 |
| Change in trade payables | | **(7,682)** | (5,553) |
| Change in advances received | | **–** | 951 |
| Change in due to Government of Kazakhstan | | **(259)** | (259) |
| Change in other current liabilities | | **(15,187)** | (4,670) |
| Change in employee share option plan liability | | **(2,970)** | (183) |
| **Cash generated from operations** | | **85,519** | 129,409 |
| Income tax paid | | **(31,729)** | (31,653) |
| **Net cash flows from operating activities** | | **53,790** | 97,756 |
| **Cash flow from investing activities:** | | | |
| Interest received | | **551** | 258 |
| Purchase of property, plant and equipment | | **(50,197)** | (60,748) |
| Purchase of exploration and evaluation assets | | **(5,868)** | – |
| Redemption of bank deposits | | **25,000** | – |
| **Net cash used in investing activities** | | **(30,514)** | (60,490) |
| **Cash flow from financing activities:** | | | |
| Finance costs paid | | **–** | (1,347) |
| Issue of Notes | **8** | **400,000** | – |
| Transfer to restricted cash | | **(97)** | (114) |
| Treasury shares reissued | | **1,006** | – |
| **Net cash from / (used in) financing activities** | | **400,909** | (1,461) |
| Effects of exchange rate changes on cash and cash equivalents | | **(456)** | – |
| **Net increase in cash and cash equivalents** | | **423,729** | 35,805 |
| **Cash and equivalents at the beginning of the period** | | **184,914** | 197,730 |
| **Cash and equivalents at the end of the period** | | **608,643** | 233,535 |

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*

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
**For the three months ended March 31, 2014**

| *In thousands of US Dollars* | Partnership capital | Treasury capital | Additional paid-in capital | Retained earnings and reserves | Total |
|---|---|---|---|---|---|
| **As at January 1, 2013 (audited)** | **380,874** | **(9,727)** | **6,095** | **317,862** | **695,104** |
| Net income for the period | – | – | – | 65,905 | 65,905 |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **65,905** | **65,905** |
| **As at March 31, 2013 (unaudited)** | **380,874** | **(9,727)** | **6,095** | **383,767** | **761,009** |
| **As at December 31, 2013 (audited)** | **380,874** | **(30,751)** | **8,126** | **474,202** | **832,451** |
| Net income for the period | – | – | – | 57,906 | 57,906 |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **57,906** | **57,906** |
| Sale of treasury shares | – | 340 | 671 | – | 1,011 |
| Transaction costs | – | – | (5) | – | (5) |
| **As at March 31, 2014 (unaudited)** | **380,874** | **(30,411)** | **8,792** | **532,108** | **891,363** |

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 17 are an integral part of these interim condensed consolidated financial statements*

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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 interim condensed 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 May 22, 2014.

These interim condensed 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., Nostrum Oil & Gas Finance 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 management of the Group. 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. The purchase agreement resulted in goodwill of US$ 30,386 thousand as at December 31, 2013.

### *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 Group applied to the MOG for another extension of the exploration period.

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

***Government "profit share"***

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 a gross basis.

***Seasonality of operations***

The Group's operating expenses are subject to seasonal fluctuations, with higher expenses for various maintenance and other oil field services usually performed in the warmer months.

## 2. BASIS OF PREPARATION AND CONSOLIDATION

***Basis of preparation***

These interim condensed consolidated financial statements for the three months ended March 31, 2014 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2013.

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2013, except for the following new standards and interpretations effective as of 1 January 2014, and which did not have an impact on the Group:

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);*
- *Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32;*
- *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39;*
- *Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36; and*
- *IFRIC 21 Levies.*

## 3. EXPLORATION AND EVALUATION ASSETS

During the three months ended March 31, 2014 the Group had additions of exploration and evaluation assets of US$ 568 thousand which includes capitalized expenditures on geological and geophysical studies (three months ended March 31, 2013: US$15,937 thousand, mainly represented by capitalized consideration under the acquisition agreements for the Darinskoye, Rostoshinskoye and Yuzhno-Gremyachinskoye oilfields). There was no capitalized interest.

## 4. PROPERTY, PLANT AND EQUIPMENT

During the three months ended March 31, 2014, the Group had additions of property, plant and equipment of US$ 59,371 thousand (three months ended March 31, 2013 US$ 49,443 thousand). These additions are mostly associated with drilling costs, capitalised interest of US$ 3,391 thousand (three months ended March 31, 2013: US$ 3,213 thousand), and abandonment and site restoration assets of US$ 460 thousand (three months ended March 31, 2013 US$ 224 thousand).

## 5. CURRENT AND NON-CURRENT INVESTMENTS

Current investments as at March 31, 2014 were represented by an interest bearing deposit placed on September 30, 2013 for a one-year period and an interest bearing short-term deposit placed on March 4, 2013 for a two-year period. As at March 31, 2014 no non-current investments were placed by the Group.

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. Non-current investments as at December 31, 2013 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.

## 6. 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.

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 Partnership’s 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 three months ended March 31, 2014 no new Common Units were issued and 84,935 share options were exercised by employees (three months ended March 31, 2013: no share options were exercised). 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.

The movements in the number of GDR's during the three months ended March 31, 2014 and 2013 were as follows:

| *Number of GDRs* | **2014** | 2013 |
|---|---|---|
| Balance at January 1 (audited) | **188,182,958** | 188,182,958 |
| Issued during the period | **–** | – |
| **Balance at March 31 (unaudited)** | **188,182,958** | 188,182,958 |

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 Kazakhstani 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.

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.

| | **Three months ended March 31,** | |
|---|---|---|
| | **2014 (unaudited)** | 2013 (unaudited) |
| Net profit attributable to Common Unit holders (in thousands of US Dollars) | **57,906** | 65,905 |
| Weighted average number of Common Units | **184,564,730** | 186,051,235 |
| **Basic and diluted earnings per Common Unit (in US Dollars)** | **0.31** | 0.35 |

## 7. BORROWINGS

Borrowings comprise the following as at March 31, 2014 and December 31, 2013:

| *In thousands of US Dollars* | **March 31, 2014 (unaudited)** | December 31, 2013 (audited) |
|---|---|---|
| Notes issued in 2012 and maturing in 2019 | **546,482** | 536,301 |
| Notes issued in 2014 and maturing in 2019 | **396,929** | – |
| Notes issued in 2010 and maturing in 2015 | **101,733** | 92,122 |
| | **1,045,144** | 628,423 |
| Less amounts due within 12 months | **(120,357)** | (7,263) |
| **Amounts due after 12 months** | **924,787** | 621,160 |

### 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.

On March 14, 2014 the Group submitted a notice of early redemption on April 14, 2014 of the principal amount of the 2010 Notes plus accrued interest and premium. As at that date the outstanding principal amount of US$ 92,505 thousand was reclassified to the current portion of long-term borrowings and the related unamortized transaction costs were expensed to profit and loss. The Group has also accrued related early redemption premium in the amount of US$ 4,857 thousand.

**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.

**2014 Notes**

On February 14, 2014, Nostrum Oil & Gas Finance B.V. (the “2014 Issuer”) issued U.S.$ 400,000 thousand notes (the “2014 Notes”).

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

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

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

## 8. REVENUE

| | Three months ended March 31, | |
|---|---|---|
| *In thousands of US Dollars* | **2014 (unaudited)** | 2013 (unaudited) |
| Oil and gas condensate | **177,224** | 182,783 |
| Gas and LPG | **49,728** | 45,743 |
| | **226,952** | 228,526 |

During the three months ended March 31, 2014 the revenue from sales to three major customers amounted to US$ 87,283 thousand, US$ 51,127 thousand and US$ 25,066 thousand respectively (three months ended March 31, 2013 three major customers: US$ 61,063 thousand, US$ 55,475 thousand and US$ 53,640 thousand respectively).

## 9. COST OF SALES

| | Three months ended March 31, | |
|---|---|---|
| *In thousands of US Dollars* | **2014 (unaudited)** | 2013 (unaudited) |
| Depreciation, depletion and amortization | **29,048** | 35,668 |
| Repair, maintenance and other services | **9,213** | 12,284 |
| Royalties | **9,142** | 9,771 |
| Payroll and related taxes | **4,008** | 3,985 |
| Materials and supplies | **2,198** | 3,003 |
| Other transportation services | **726** | 1,178 |
| Well workover costs | **344** | 854 |
| Environmental levies | **222** | 181 |
| Management fees | **–** | 811 |
| Change in stock | **(558)** | 2,089 |
| Government profit share | **(5,174)** | 2,295 |
| Other | **823** | 283 |
| | **49,992** | 72,402 |

The Group revised the estimates related to the government share in accordance with the recent supplement to the Chinarevskoye subsoil use rights and recognized reversal of the expense in the amount of US$ 15,334 thousand related to prior periods.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

## 10. GENERAL AND ADMINISTRATIVE EXPENSES

| | Three months ended March 31, | |
|---|---|---|
| *In thousands of US Dollars* | **2014 (unaudited)** | 2013 (unaudited) |
| Professional services | **4,558** | 1,388 |
| Payroll and related taxes | **3,463** | 1,652 |
| Business travel | **1,108** | 809 |
| Training | **779** | 1,077 |
| Sponsorship | **730** | 338 |
| Other taxes | **488** | 94 |
| Insurance fees | **393** | 473 |
| Communication | **334** | 225 |
| Depreciation and amortization | **328** | 363 |
| Management fees | **284** | 3,851 |
| Lease payments | **273** | 140 |
| Bank charges | **169** | 275 |
| Materials and supplies | **135** | 132 |
| Social program | **75** | 75 |
| Other | **394** | 392 |
| | **13,511** | 11,284 |

## 11. SELLING AND TRANSPORTATION EXPENSES

| | Three months ended March 31, | |
|---|---|---|
| *In thousands of US Dollars* | **2014 (unaudited)** | 2013 (unaudited) |
| Loading and storage costs | **14,997** | 7,839 |
| Transportation costs | **12,971** | 18,476 |
| Payroll and related taxes | **525** | 601 |
| Management fees | **27** | 198 |
| Other | **1,939** | 1,216 |
| | **30,459** | 28,330 |

The transportation costs for the three months ended March 31, 2013 also included certain loading and storage costs, which are included in loading costs in 2014.

## 12. FINANCE COSTS

| | Three months ended March 31, | |
|---|---|---|
| *In thousands of US Dollars* | **2014 (unaudited)** | 2013 (unaudited) |
| Interest expense on borrowings | **19,730** | 11,156 |
| Unwinding of discount on Abandonment and site restoration provision | **323** | 258 |
| Unwinding of discount on amounts Due to Government | **144** | 157 |
| | **20,197** | 11,571 |

## 13. DERIVATIVE FINANCIAL INSTRUMENT

On March 3, 2014, in accordance with its hedging policy, the Group 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 is Citibank. Based on the hedging contract the Group bought a put at $85/bbl, which protects it against any fall in the price of oil below $85/bbl, i.e. Citibank will compensate the difference in price below $85/bbl. As part of this contract the Group also sold a call at $111.5/bbl and bought a call at $117.5/bbl, under which Zhaikmunai LLP is obliged to compensate the difference in price above $111.5/bbl with an upper limit of $117.5/bbl, i.e up to $6/bbl. If the spot price will go above $117.5/bbl, then Zhaikmunai LLP will be obliged to pay $6/bbl to Citibank.

| | **Three months ended March 31,** | |
|---|---|---|
| *In thousands of US Dollars* | **2014 (unaudited)** | 2013 (unaudited) |
| Hedging contract fair value at January 1 | **–** | – |
| Realized hedging loss | **–** | – |
| Hedging loss | **(648)** | – |
| **Hedging contract at fair value at March 31** | **(648)** | – |

## 14. INCOME TAX

The income tax expense consisted of the following:

| | **Three months ended March 31,** | |
|---|---|---|
| *In thousands of US Dollars* | **2014 (unaudited)** | 2013 (unaudited) |
| Current income tax expense | **40,314** | 42,514 |
| Deferred income tax expense /(benefit) | **9,517** | (4,864) |
| **Total income tax expense** | **49,831** | 37,650 |

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

| | **Three months ended March 31,** | |
|---|---|---|
| *In thousands of US Dollars* | **2014 (unaudited)** | 2013 (unaudited) |
| Profit before income tax | **107,737** | 103,555 |
| Tax rate applicable to the suboil use rights | **30%** | 30% |
| **Expected tax provision** | **32,321** | 31,067 |
| Change of the tax base | **6,066** | 101 |
| Non-deductible interest expense on borrowings | **6,062** | 4,515 |
| Adjustments in respect of current income tax of previous years | **4,331** | 646 |
| Net foreign exchange loss | **1,847** | 106 |
| Non-deductible compensation for gas | **74** | 238 |
| Effect of income taxed at different rate | **6** | – |
| Non-deductible technological losses | **3** | 341 |
| Non-deductible training expenditures | **153** | 214 |
| Non-assessable income | **–** | (188) |
| Adjustment of government profit share of prior periods | **(1,278)** | – |
| Other non-deductible expenses | **246** | 610 |
| **Income tax expenses reported in the consolidated financial statements** | **49,831** | 37,650 |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

| *In thousands of US Dollars* | **March 31, 2014 (unaudited)** | December 31, 2013 (audited) |
|---|---|---|
| **Deferred tax asset:** | | |
| Accounts payable and provisions | **3,176** | 2,811 |
| | | |
| **Deferred tax liability:** | | |
| Property, plant and equipment | **(165,238)** | (155,356) |
| **Net deferred tax liability** | **(162,062)** | (152,545) |

The movements in the deferred tax liability were as follows:

| | **Three months ended March 31,** | |
|---|---|---|
| *In thousands of US Dollars* | **2014** | 2013 |
| Balance at January 1, (audited) | **(152,545)** | (148,932) |
| Current period charge to statement of income | **(9,517)** | 4,864 |
| **Balance at March 31 (unaudited)** | **(162,062)** | (144,068) |

## 15. RELATED PARTY TRANSACTIONS

For the purpose of these interim condensed consolidated financial statements transactions with related parties mainly comprise transactions between the members of the Group and the participants and/or their subsidiaries or associated companies, which were made on terms agreed to between the parties that may not necessarily be at market rates.

Accounts payable to related parties as at March 31, 2014 and December 31, 2013 consisted of the following:

| *In thousands of US Dollars* | **March 31, 2014 (unaudited)** | December 31, 2013 (audited) |
|---|---|---|
| **Trade payables** | | |
| Cervus Business Services | **259** | – |
| Prolag BVBA | **70** | 240 |
| Amersham Oil LLP | **50** | 52 |

During the three months ended March 31, 2014 and 2013 the Group had the following transactions with related parties:

| | **Three months ended March 31,** | |
|---|---|---|
| *In thousands of US Dollars* | **2014 (unaudited)** | 2013 (unaudited) |
| **Management fees and consulting services** | | |
| Cervus Business Services | **642** | – |
| Amersham Oil LLP | **455** | 325 |
| Prolag BVBA | **130** | 451 |
| Probel Capital Management N.V. | **–** | 4,231 |

Management fees are payable in accordance with the Technical Assistance Agreements signed between members of the Group and Amersham Oil LLP, Prolag BVBA and Cervus Business Services related to the rendering of geological, geophysical, drilling, technical and other consultancy services.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 738 thousand for three months ended March 31, 2014 (three months ended March 31, 2013: US$ 107 thousand).

Payments to key management personnel under ESOP amounted to US$ 671 thousand for three months ended March 31, 2014 (three months ended March 31, 2013: no payments under ESOP were made).

## 16. 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 March 31, 2014. As at March 31, 2014 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 March 31, 2014 the Group had contractual capital commitments in the amount of US$ 197,870 thousand (December 31, 2013: US$ 26,842 thousand) mainly in respect to the Group's oil field development activities.

### Operating lease

The Group entered into a cancellable lease agreement for the main administrative office in Uralsk in October 2007 for a period of 20 years for US$ 15 thousand per month.

In 2010 the Group 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 fulfill its obligations under the contract.

| *In thousands of US Dollars* | **March 31, 2014 (unaudited)** | December 31, 2013 (audited) |
|---|---|---|
| No later than 1 year | **15,583** | 12,501 |
| Later than 1 year and no later than five years | **28,046** | 23,846 |
| Later than five years | **–** | – |

Lease expenses of railway tank wagons for the three months ended March 31, 2014 amounted to US$ 5,372 thousand (the three months ended March 31, 2013: US$ 2,755 thousand).

**Social and education commitments**

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

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

ii. make an accrual of one percent per annum of the financial obligations for the Chinarevskoye field for the purposes of educating Kazakh citizens; and

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

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

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

i. spend at least US$ 206 thousand of investments for education of personnel engaged to work under the contract during the exploration stage;

ii. spend US$ 600 thousand to finance social infrastructure of the region during the exploration stage;

iii. invest at least US$ 20,750 thousand for exploration of the field during the exploration period;

iv. 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 (after its amendment on January 23, 2014) requires the subsurface user to:

i. spend at least US$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;

ii. spend US$ 225 thousand to finance social infrastructure of the region;

iii. invest at least US$ 20,355 thousand for exploration of the field during the exploration period;

iv. create a liquidation fund (special deposit account with local bank) equal to US$ 208 thousand.

The current contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on January 23, 2014) requires the subsurface user to:

i. spend at least US$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;

ii. spend US$ 1,050 thousand to finance social infrastructure of the region;

iii. invest at least US$ 19,850 thousand for exploration of the field during the exploration period;

iv. reimburse historical costs of US$ 96 thousand; and

v. create a liquidation fund (special deposit account with local bank) equal to US$ 244 thousand.

**Domestic oil sales**

In accordance with Supplement # 7 to the Contract, the Group is required to deliver at least 15% of produced oil to the domestic market on a monthly basis for which prices are materially lower than export prices.

## 17. 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* | **March 31, 2014 (unaudited)** | **December 31, 2013 (audited)** | **March 31, 2014 (unaudited)** | **December 31, 2013 (audited)** |
| **Financial liabilities** | | | | |
| Interest bearing borrowings | 1,045,144 | 628,423 | 1,095,874 | 686,795 |
| **Total** | **1,045,144** | **628,423** | **1,095,874** | **686,795** |

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.

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.

## 18. EVENTS AFTER THE REPORTING PERIOD

On April 14, 2014 Zhaikmunai LLP repaid the outstanding 2010 Notes including interest and premium.

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

On May 9, 2014 the Partnership announced that it intends to make a distribution to holders of its common units of USD 0.35 per common unit on June 6, 2014.