

Nostrum Oil & Gas
Annual Report 2013

nostrum 
Oil & Gas

Simple.
Sustainable.
Successful.



Nostrum Oil & Gas is an international independent exploration and production (E&P) partnership listed on the London Stock Exchange.

We are a **simple**, **sustainable** and **successful** organisation with a portfolio of assets located in Kazakhstan in one of the most prolific hydrocarbon-producing basins in the world. We are involved in the exploration, appraisal, production and transportation of hydrocarbons.

Our vision is to become the leading independent Former Soviet Union (FSU) oil and gas exploration and production company. In order to achieve our vision we recognise that our responsibilities need to go beyond our financial and operational targets.

Our track record clearly demonstrates that we have successfully achieved our strategic goals. We are now excellently positioned, both financially and operationally, to deliver on our vision.

In order to establish Nostrum as the leading independent E&P company in the FSU we have developed a **simple** and **sustainable** strategy that will allow us to **successfully** deliver near-term growth combined with long-term value creation.



See the report online:
www.annualreport2013.nostrumoilandgas.com

Contents

02	
Nostrum at a glance	
06	
Where we operate	
08	
Performance highlights	
20	
Our business model	
22	
Our strategy	
65	
Corporate governance	

Strategic report

02	Nostrum at a glance
04	Our investment case
06	Where we operate
08	Key performance indicators
10	Key milestones
12	Key historical developments
14	Chairman's statement
18	Chief Executive's review
20	Our business model
22	Our strategy
26	Market overview
30	Performance review
44	Corporate social responsibility
56	Financial review
62	Principal risks and uncertainties

Corporate governance

65	Chairman's overview
66	Corporate governance
69	Remuneration report
70	Board of directors
72	Nostrum Oil & Gas Management team
74	Zhaikmunai LLP Management team
76	Audit committee report

Regulatory information

78	Investor information
-----------	----------------------

Appendix

80	Additional information
87	Glossary

Financial statements

95	Consolidated financial statements
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HOW WE ARE PERFORMING

Our simple and sustainable strategy has allowed us to increase production sixfold since 2010. We look forward to successfully doubling it again in the next three years.

Simple.
Sustainable.
Successful.

CORPORATE STRUCTURE

Nostrum Oil & Gas LP ("Nostrum") is a limited partnership with its corporate headquarters located in Amsterdam, the Netherlands, which indirectly holds and controls Zhaikmunai LLP, a Kazakhstan-registered limited liability partnership. The latter was set up in March 1997 to explore, produce and sell hydrocarbons from the Chinarevskoye field in north-western Kazakhstan.

Strategic report

Nostrum at a glance

A robust and growing business

WHO WE ARE

Nostrum Oil & Gas is a multi-field E&P partnership operating in north-west Kazakhstan. Our main producing asset is the Chinarevskoye field located in the northern part of the oil-rich pre-Caspian Basin. Other assets currently include the Rostoshinskoye, Darzhinskoye and Yuzhno-Gremyachenskoye fields, which are all located in the vicinity of the Chinarevskoye field and its gas treatment facility (GTF). Nostrum has 582 million of 2P reserves and has produced over 16 million barrels of oil equivalent during 2013.

OUR NEW BRAND



The change of name to Nostrum Oil & Gas during 2013 reflects the development of the Partnership into a multi-asset operation. In addition, it is part of our strategy to continue to expand our portfolio of assets beyond our current four fields.

WHAT WE DO

Nostrum Oil & Gas focuses on creating long-term shareholder value through the development and discovery of oil and gas reserves, as well as the production and sale of crude oil, stabilised condensate, LPG and dry gas. We have invested over US\$1.5 billion in our licence area since 2004. We have a highly skilled management team, which has delivered on numerous infrastructure projects as well as significant expansion of the reserve base over the last nine years. This expansion is the result of our own appraisal work, as well as successful M&A.

Our commercial products

Nostrum's range of products includes crude oil, stabilised liquid condensate, LPG and dry gas. Currently all production comes from the Chinarevskoye licence. We have invested in developing our own infrastructure to control the transportation of our products until they reach the final off-taker. This transport serves a wide network of destinations and off-takers ensuring we always obtain the best possible prices.

KEY STATS

PRODUCTION

46,178m boepd
25% increase on 2012

REVENUE

US\$895m
21% increase on 2012

EBITDA

US\$551m
21% increase on 2012

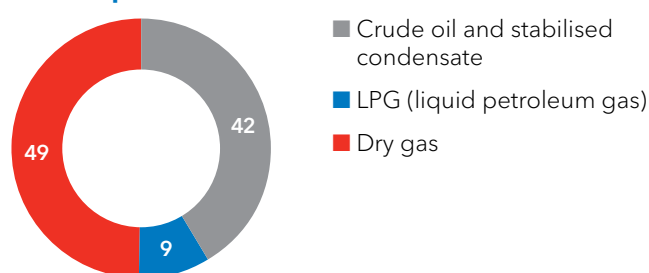
2P RESERVES

582m boe
15% increase on 2012

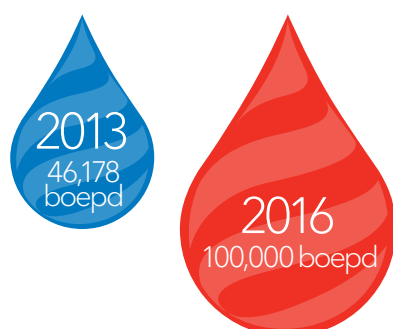
Average daily production rates

Nostrum has increased production every year since 2004. The current production from the Chinarevskoye licence only represents half of what we are aiming to achieve from the field. We are currently working to increase our processing capacity, allowing us to double production by the end of 2016.

FY 2013 product mix %



Doubling production by 2016



RESERVES

An update of Nostrum's reserves report was completed by Ryder Scott in December 2013. This report includes the reserves at Chinarevskoye and the three additional licence areas acquired in 2013. An overview of the reserves is provided below.

1P: The Proven reserve base grew from 195 mboe as of 31 December 2012 to 199 mboe. Taking into account approximately 16 mboe of production during 2013, Nostrum enjoyed a reserve replacement ratio of 102%.

2P: Total 2P (Proven and Probable) reserves increased by 75 mboe to 582 mboe from 31 December 2012. The new licence areas account for 98 mboe of the total 2P reserves. The total Chinarevskoye 2P reserves were 483 mboe.

3P: Total 3P reserves were 691 mboe, of which 76 mboe are located in the Chinarevskoye field and 34 mboe in the new licence areas. This represents a decrease from the previous 3P estimate carried out in 2009, due to a combination of reserves moving into higher categories, cumulative production over the period and the additional information built over the last four years. This allows for more accurate 2P reserves to be calculated and removes the possible reserves which are now considered unlikely to be suitable for commercial production.

For a detailed breakdown of the reserve report please access: Ryder Scott reserves report.



Please see our website for more detail on the Ryder Scott reports

Market positioning

Nostrum Oil & Gas is in a unique position on the market. The Company's front-loaded investment programme has meant it is now a leader in terms of infrastructure in the region, with the ability to process significant volumes of raw gas via its gas treatment plant. In addition, its advantageous location in north-west Kazakhstan places it closer to its final off-take destinations.

Strategic report

Our investment case

A compelling investment case

Over half a billion of 2P reserves



Nostrum has developed a world-class portfolio of assets in north-west Kazakhstan. Our front-loaded investment programme has been at the root of our current highly favourable operational and financial position. With 582 million of 2P reserves and production of more than 16 million barrels of oil equivalent per year, Nostrum provides a unique combination of significant production and reserve upside and strong operational cash flow.

Excellent financial performance



Excellent production levels and a stable oil price in 2013 resulted in our best financial performance to date. Nostrum produced record revenue (US\$895 million), EBITDA (US\$550 million) and net income (US\$220 million) for a truly outstanding overall result.

Record levels of production



2013 saw an average daily production record of 46,178 boepd, compared to 36,940 in 2012. This growth was driven by the further ramp-up of the GTF. We now expect a period of sustained production at levels above 45,000 boepd for the next two years, before more than doubling production by the end of 2016.

World-class portfolio of assets



On 1 March 2013 Nostrum acquired 100% of the subsoil use rights related to three oil and gas fields (Rostoshinskoye, Darzhinskoye and Yuzhno-Gremyachenskoye) through its operating subsidiary Zhaikmunai LLP. The fields are located in the pre-Caspian Basin to the north-west of Uralsk, approximately 60-120 kilometres from the Chinarevskoye field, our current main producing asset. The total consideration paid for these fields was US\$16 million.



Compelling business case, robust model and clear strategy

Nostrum has a clear strategy, which is based on a solid foundation and compelling business case.

OUR STRATEGY HAS FIVE COMPONENTS:

1. Delivering near-term production growth.
Target: double production by the end of 2016.
2. Continuing to appraise the existing Chinarevskoye field and the three new fields. Our goal is to transfer as many Probable and Possible reserves in to the Proven category, allowing us to maintain peak production up to the end of the licence term.
Target: 700 million boe of Proven reserves.
3. Continuing to expand our reserve base through additional acquisitions. Our goal is to consider M&A where we can continue to leverage off our infrastructure, whilst also considering expanding our reserve base beyond north-western Kazakhstan.
Target: A multi-asset company.
4. Commitment to achieving the highest possible standard of corporate and social responsibility.
Target: A positive and lasting contribution to the areas in which we operate.
5. Focus on delivering shareholder value.
Target: Sustainable long-term value.

With a dedicated and experienced management team used to operating in Kazakhstan, we are confident in our ability to execute our strategy.



Strategic report
Where we operate

Advantageous location of assets

Our main operational facilities are located at the 74-square-kilometre Chinarevskoye field, in the province of Batys, in north-west Kazakhstan. Our additional licences are located 60-120 kilometres away.



TRANSPORTATION

Crude oil

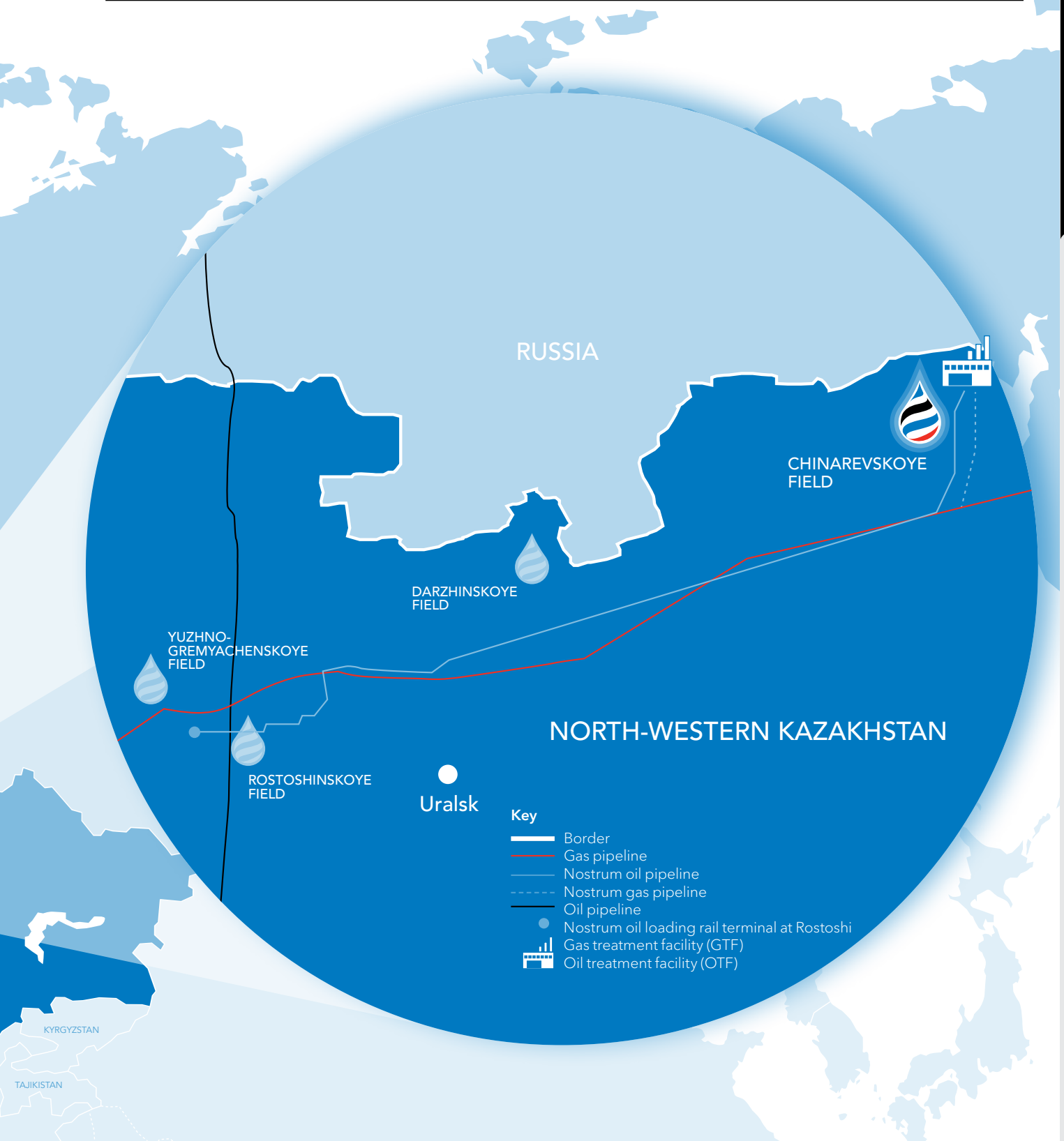
Nostrum transports 100% of its crude oil through its own liquids pipeline from the field site. We then export 85% of our crude oil through our rail terminal to various destinations ranging from Finland, to the Black Sea ports and the Ukraine. We are always looking to expand the number of destinations we sell to, in order to achieve the best possible netbacks.

Condensate

Nostrum transports 100% of its condensate through its own liquids pipeline from the field site. We then export 100% of our condensate by rail to various destinations. The majority of our condensate is sold at the Black Sea ports; however, we are continually seeking to expand the possible destinations in order to achieve the best possible netbacks for the Company.

Key

- Current destinations
- Oil/condensate
- Possible destinations
- Oil/condensate
- LPG and oil/condensate



LPG

Nostrum transports all of its LPG on trucks from the field site to the rail terminal. The LPG is then loaded on to special LPG trains, which transport it to the off-taker. The majority of our LPG is sold at Black Sea ports and distributed by traders into Eastern Europe and Turkey.

Dry gas

Nostrum transports dry gas for sale along its own 17-kilometre pipeline, which connects to the Central Asia gas pipeline. Our gas is sold at the connection point.

EXPANDING FOR THE FUTURE

Further production from our three new fields will all flow through the production facilities at the Chinarevskoye field and then follow the same transport routes, all of which have the capacity to accommodate the increased volumes.

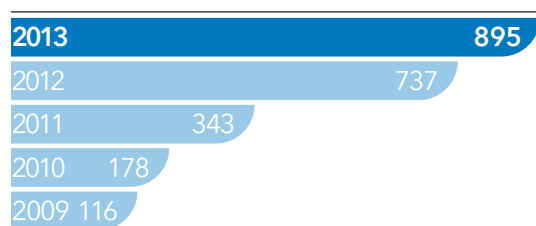
Strategic report

Key performance indicators

Focused on performance

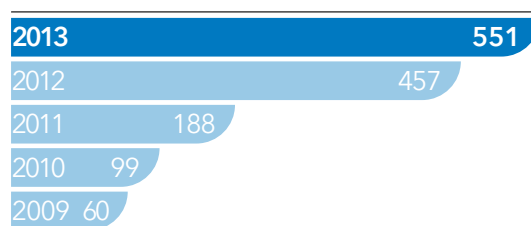
FINANCIAL KPIs

Revenue US\$895m



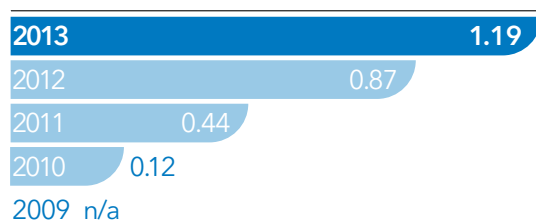
+21% from 2012

EBITDA US\$551m



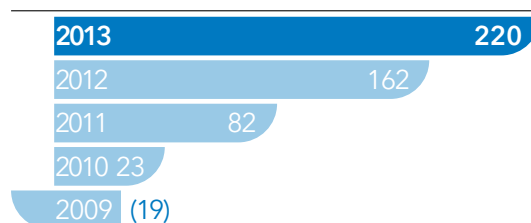
+21% from 2012

EPS US\$1.19



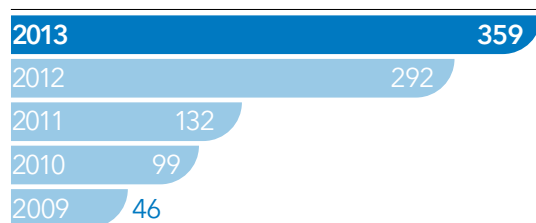
+37% from 2012

Net income US\$220m



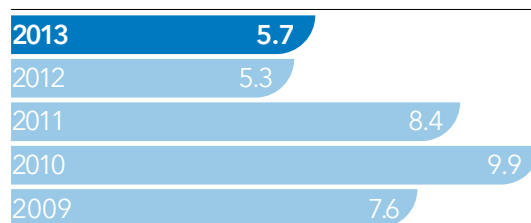
+35% from 2012

Operating cash flow US\$359m



+23% from 2012

Opex per barrel US\$5.7



+6% from 2012

NON-FINANCIAL KPIS

Production **46,178 boepd**

2013	46,178
2012	36,940
2011	13,158
2010	7,671
2009	7,442

+25% from 2012

2P reserves **582 boe**

2013	582
2012	506
2011	522
2010	539
2009	527

+15% from 2012

Proven reserves **199 mboe**

2013	199
2012	195
2011	169
2010	144
2009	139

+2% from 2012

Total GHG emissions (mtCO₂e)

2013	215,312.3
2012	261,249.3
2011	441,370.4
2010	245,116.2

Strategic report

Key milestones

2013 key milestones

STRATEGIC MILESTONES

Record production levels

- Average 2013 production was 46,178 boepd, above the 45,000 boepd full year target.
- Q4 production was more than 48,000 boepd, with the plant running at close to full capacity throughout the quarter.
- More than 50% of the 2013 production came from liquids (crude, condensate, LPG).

Continued reserve growth

- 1P: The Proven reserve base grew from 195 mboe as of 31 December 2012 to 199 mboe as of 31 August 2013. Taking into account approximately 17 mboe of production during 2013, Nostrum enjoyed a reserve replacement ratio of 102%.
- 2P: Total 2P reserves increased by 75 mboe from 31 December 2012 to 582 mboe. The new licence areas account for 98 mboe of the total 2P reserves.
- 3P: Total 3P reserves reached 691 mboe, of which 76 mboe are located in the Chinarevskoye Field and 34 mboe in the new licence areas.

Transition to a multi-field model

- In 2013, Nostrum acquired 100% of the subsoil use rights related to three new oil and gas fields (Rostoshinskoye, Darzhinskoye and Yuzhno-Gremyachenskoye) for a total purchase price of US\$16 million. The fields are located in the pre-Caspian Basin to the north-west of Uralsk, approximately 60-120km from the Chinarevskoye field. This was the first step in our M&A strategy, marking the beginning of a wider strategic plan to consider further M&A opportunities in Kazakhstan.

Name change to Nostrum Oil & Gas

- Nostrum Oil & Gas has replaced Zhaikmunai as the name of the listed holding partnership. The name change reflects our strategy to further expand the Company's assets in the region. Separating the names of the operating company and holding company allows us to easily communicate the acquisition of any additional operating companies.

Pursuit of an alternative listing

- Nostrum anticipates concluding the previously announced preparatory legal and regulatory work for a possible alternative listing during H1 2014. As part of this process, in December 2013 Nostrum acquired Probel Capital Management NV, which was previously the Partnership's principal external provider of oil and gas and management services. In conjunction with a possible alternative listing, we requested a waiver of the State pre-emptive right and consent from the Ministry of Oil & Gas in Kazakhstan for certain corporate restructurings contemplated for such a listing. On 30 December 2013 we received such waiver and consent from the Ministry of Oil & Gas of the Republic of Kazakhstan. We currently intend to implement this corporate reorganisation in the first half of 2014, with the approval of our limited partners.



FINANCIAL MILESTONES

Record financial results

- Record revenue of US\$895 million, EBITDA of US\$551 million and Net profit of US\$220 million ensured that all financial targets were exceeded in 2013.
- The Company ended the year with US\$245 million of cash on its balance sheet, further reducing the net debt to EBITDA ratio below 1x, whilst also distributing 34 cents per GDR and spending more than US\$20 million on a share buyback programme.

Further increase in earnings per share

- An increase in net income from 2012 of US\$57,510 resulted in EPS growth of 37%, ensuring significant value continued to be delivered to shareholders during 2013.

Increase in level of distributions

- Nostrum distributed 34 cents per common unit to its Limited Partners through its 2013 annual cash distribution. This was a 5% increase on the 2012 distribution. The annual distribution was a policy implemented by the Board in 2012, and the increase has reinforced the Company's commitment to ensure that excess cash is reinvested in future growth, as well as considered for return to Limited Partners.

Introduction of a GDR buyback programme

- The Company bought back approximately 1.8 million GDRs during 2013. The programme was implemented to both fund the employee share option plan, and take advantage of the fact that the Company believed its shares were significantly undervalued. A total cash consideration of approximately US\$20 million was used for this purpose during 2013.

OPERATIONAL MILESTONES

Record production volumes

- Nostrum exceeded its internal production target of 45,000 boepd during 2013. We successfully increased the output from our gas plant during early 2013, resulting in record levels for the year and also exceeding nameplate capacity during Q4 2013. We expect production to now remain stable at 45,000 boepd for the next 24 months.

Continued success shown in drilling results

- Nostrum resumed its focus on appraisal drilling in 2013. Successful results in the appraisal programme allowed for more than 100% replacement of the Proven reserves. In addition, production drilling continued to plan. We currently have 29 producing wells, and we intend to drill 11-12 wells per year at the Chinarevskoye field over the next three years to ensure

that existing production is maintained and that 100,000 boepd can be achieved by the end of 2016.

GTU3 construction remains on track

- Certain key milestones in the construction of the third train of the GTF were achieved during 2013. We have appointed Ferrostaal Industrie Anlagen GmbH (Germany) and Rheinmetall International Engineering (a 50% subsidiary of Ferrostaal) as the project manager in charge of managing the engineering, procurement, construction and commissioning of the entire third train project on behalf of our operating subsidiary Zhaikmunai LLP. The front-end engineering and design (FEED) study, prepared by Lexington Group International (USA), has been the basis from which Ferrostaal's engineering team has been developing the project since late 2012. We intend to complete the procurement process of long-lead items during 2013, as well as start on construction works on the GTU3.



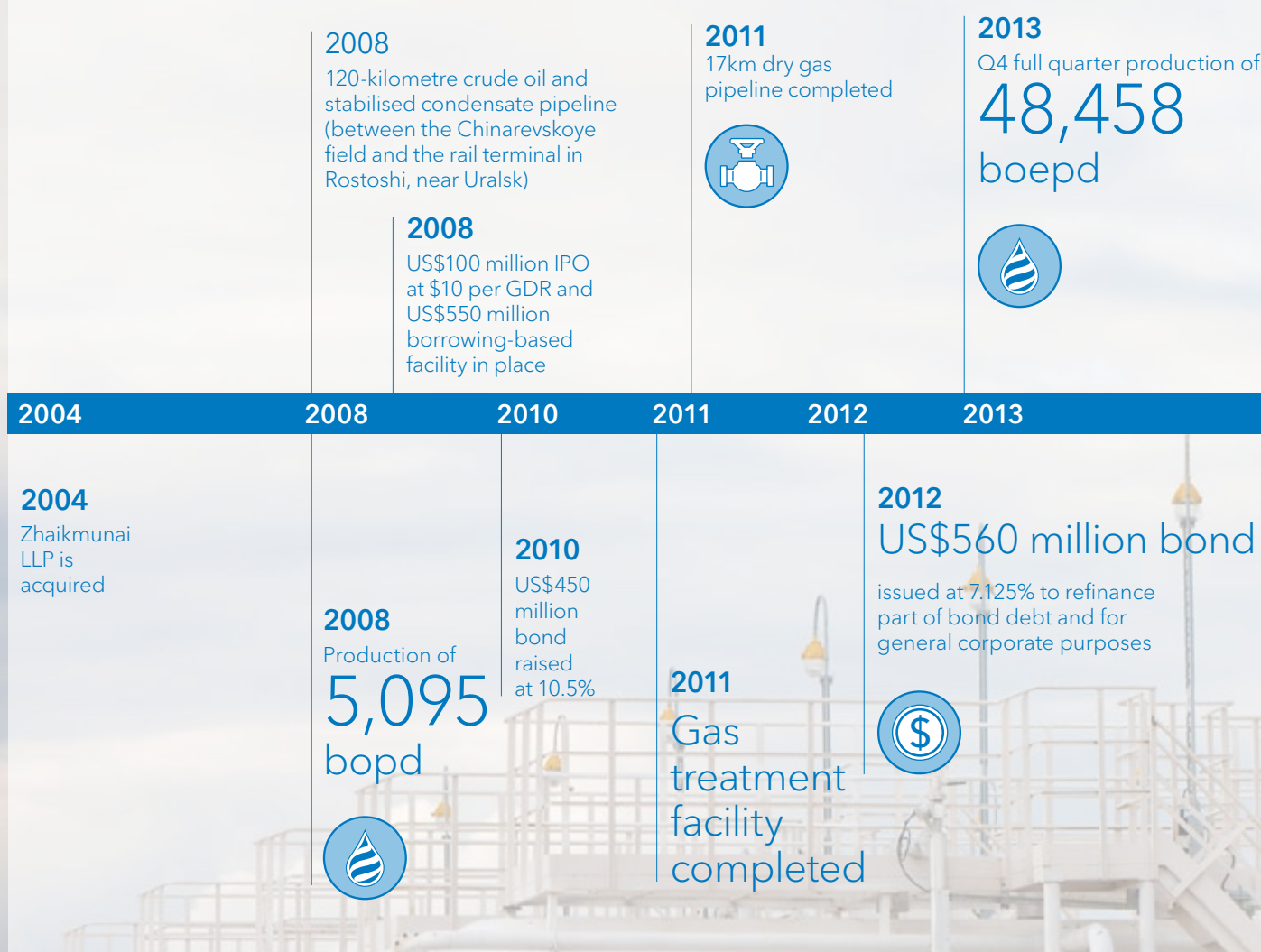
Strategic report

Key historical developments

Where we've come from...

THE FIRST PHASE OF DEVELOPMENT 2004-2013

**NOSTRUM'S US\$1.5 BILLION PHASE 1 DEVELOPMENT PLAN
FOCUSED ON THE CHINAREVSKOYE FIELD, AND COVERED
THE FOLLOWING KEY COMPONENTS:**



THE SECOND PHASE OF DEVELOPMENT

2014-2018

NOSTRUM'S SECOND PHASE OF DEVELOPMENT IS ESTIMATED TO REQUIRE AN INVESTMENT IN EXCESS OF US\$1.2 BILLION OVER FIVE YEARS. THIS WILL ENABLE US TO ACHIEVE OUR TARGET PRODUCTION OF MORE THAN 100,000 BOEPD BY THE END OF 2016.

2014

2014

US\$400 million bond issued at 6.375% for refinancing and general corporate purposes



2015

2015

Construction of new OTU

2016

GTF completed, more than doubling production to 100,000 boepd



2017

2017

Full year production of more than

100,000
boepd



2018

2018

Development programme submitted for new fields

Strategic report

Chairman's statement

Delivering continued growth

"We made phenomenal progress during 2013. We delivered record production and financial results, as well as taking our first steps in M&A."

Frank Monstrey
Chairman



Our vision

Our vision is to become the leading independent oil and gas company in the Former Soviet Union (FSU). We have all the necessary skills to create a high-quality and complementary portfolio of assets in the FSU, and our strategy is built on extracting as much value as possible from the front-loaded infrastructure investments. I believe the management team has all the knowledge, experience and skill needed to deliver this vision over the coming years.

A clear strategy

We are working to realise our vision through a clearly defined strategy, balancing organic development with opportunistic expansion through acquisitions. Our main priority remains, as always, to continue to deliver growth and shareholder value in a responsible and efficient way.

A very successful year

We made phenomenal progress during 2013. We delivered record production and financial results as well as taking our first steps in M&A. We now have a portfolio of assets that will further prolong the lifespan of our infrastructure at full capacity. With strong cash flows, low leverage and operational control, we are in an excellent position to achieve

our targets. I am delighted with the performance of the management team in 2013 and look forward to achieving further success in 2014.

Strong financial performance

From a financial perspective, our performance was beyond all our internal expectations. The record levels of revenue and EBITDA in 2013 were the result of many years of front-loaded investment and geological work. With EBITDA of more than US\$550 million and margins still above 60%, I am delighted with the strong financial position we are in. We have continuously reduced leverage since our inaugural bond transaction in 2010, and are now able to enjoy access to the debt capital markets at far lower rates than before.

We continue to manage our cash position prudently, whilst also looking to maintain a balance between shareholder distributions and investment in growth. I believe in the current oil price environment we can sustain these financial results over the coming years and provide an excellent platform from which to deliver our vision.

Production grew by

25%
during 2013



A solid operational basis

Our financial performance was built on another record year of operational results. Production of 46,178 boepd was above the targeted 45,000 boepd. We are now entering a period of sustained production at levels above 45,000 boepd. This steady production and associated cash flow will allow us to invest in further infrastructure and drilling to reach production of 100,000 boepd by the end of 2016. During 2013 we have refocused on the Chinarevskoye field appraisal, with a programme aiming to convert more Probable and Possible reserves into the Proven reserves (1P) category over the next three years. In addition to this organic growth, the cash flows we are generating allow us to grow reserves and extend production through our recently established M&A strategy.

Our M&A strategy

We took our first steps in M&A during 2013 by acquiring three additional licences in close proximity to our gas treatment facility (GTF). This was the first step in broadening our strategy to combine organic growth from the continued development of the Chinarevskoye field with growth achieved through M&A. Our M&A strategy has two clear elements.

Firstly, we remain focused on the area around our GTF, where we can enjoy economies of scale by feeding our infrastructure with additional reserves to prolong the period of peak production. Secondly, we are looking further afield to other areas of Kazakhstan where we can build on our first-class track record of appraising and developing Kazakh oil and gas assets. I am delighted that we were able to add 98 million boe 2P reserves through the new fields, increasing our total 2P reserves to 582 million boe. I look forward to developing this aspect of our strategy in 2014 and beyond.

The highest corporate governance standards

At Nostrum, we are committed to implementing exemplary standards of corporate governance, which we recognise as key to our business. As such, we have voluntarily adopted a Group-wide corporate governance code based on the best practice of the UK Corporate Governance Code.

In addition, we have introduced internal control provisions in line with the Code, ensuring that we are fully compliant with our ongoing obligations under the UK Listing Rules and the UK Disclosure and

Transparency Rules. As Chairman, I recognise that it is my role to provide the leadership to the board to ensure that it delivers on its responsibilities. The board takes its role very seriously in ensuring Group values are promoted. We have a zero tolerance approach to corrupt practices and we have a commitment at board level to maintaining a culture focused on our core principles of respect, honesty and transparency.

This is based on our belief that good governance is fundamental to protecting value on behalf of our shareholders. The board sets the standard for the rest of the Company and works with management to embed these values throughout the organisation.

Strategic report

Chairman's statement

continued

"At Nostrum we strive to be a responsible and transparent business."

2P reserves grew by

15%
during 2013

A responsible and transparent business

At Nostrum, we strive to be a responsible and transparent business. Our corporate responsibility covers the relationships we have with all our stakeholders including shareholders, employees, contractors, local communities and host governments, as well as with the environment in which we operate. Our corporate responsibility strategy focuses on four key areas – QHSE, people, community and environment – and includes the following initiatives:

- We have made it a priority to communicate our approach to our stakeholders, emphasising our stringent corporate governance policies and business ethics.

- We monitor and report on the well-being of our employees, health and safety measures, working environment specifics and overall benefits.
- We also report on our direct involvement in the community through social infrastructure programmes, sponsorship and charitable work.
- We manage our environmental footprint carefully and adhere fully to relevant legislation. We are also proactive in defining our environmental objectives to the highest possible standards and ensuring stringent compliance and progress monitoring.

In 2013, our work in this area had a positive impact on our wide range of stakeholders, including investors, business partners, regulators, employees, customers and local communities, as well as on the environment and society in general.



Rewarding exceptional performance

We have continued to witness a tightening recruitment market as well as increased demand and competition for skilled and experienced employees. Our growth and success revolve around the quality and commitment of our people. We maintain a competitive remuneration policy by industry standards, to ensure that we can attract and retain the best people.

It rewards exceptional performance with a balance between short- and long-term rewards and a comprehensive benefits scheme.

We continue to grow our local content; more than 98% of our employees were Kazakh nationals as of the end of 2013. We will continue to develop our employment practices and policies to ensure we can attract and retain the best talent.

Conclusion

2013 saw record operational and financial performance across our business. We benefited from a strong oil price environment, which helped the momentum of our financial growth and sustained our track record of shareholder distribution, which increased by 5% over 2012. Strategically, we made excellent progress in expanding our portfolio of assets within north-west Kazakhstan. In 2014, I expect our focus to shift towards ensuring the timely completion of our next GTF and building the feedstock in order to double production by the end of 2016. We enter this next investment phase with a very strong cash position, low leverage and healthy margins. We have the platform to execute all our strategic initiatives, and this gives me great hope for Nostrum in 2014 and beyond.

Strategic report

Chief Executive's review

2013 was an outstanding year

"Reaching full processing capacity at the GTF alongside increasing our 2P reserves to 582 mboe has been a tremendous achievement."

Kai-Uwe Kessel
Chief Executive Officer



2013 was an outstanding year. Reaching full processing capacity at the GTF alongside increasing our 2P reserves to 582 mboe has been a tremendous achievement. We are now working on our second development phase, which will entail the construction and the commissioning of a new gas plant, as well as a sizeable drilling programme spanning the next 4-5 years. The next GTF is a particularly critical part of our strategy, enabling us to double production before the end of 2016.

Excellent reserve growth

We enjoyed excellent reserve growth from the acquisition of three neighbouring fields, Rostoshinskoye, Darzhinskoye and Yuzhno-Gremyachenskoye, allowing us to increase our 2P reserves to 582 mboe. We now look forward to the appraisal programme at these fields, as well as further appraisal at Chinarevskoye, to ensure we can maintain peak production for as long as possible.

The Chinarevskoye field continues to demonstrate its strong geological potential, as we were able to once again replace more than 100% of our Proven reserves in 2013. I am very excited about the future of our current asset base as well as the potential for further expansion over the coming years.

Strong operational performance

The Chinarevskoye field is performing excellently. With the oil treatment facility (OTF) and the gas treatment facility (GTF) operating at nameplate capacities, we forecast a daily total production average of approximately 45,000 boepd for 2014 and 2015.

Intensive drilling programme

Thirteen wells were drilled as part of our 2013 programme. We now look forward to an intensive drilling programme of more than 50 wells over the next five years. We anticipate drilling 4-5 production wells each year, to ensure existing production is maintained, with the remainder of the wells targeting future feedstock for our next GTF and appraisal wells focused on shifting Probable and Possible reserves into the Proven category.

Third GTF on track

During 2013, we took significant steps towards the construction of our next gas plant, which will allow faster monetisation of reserves, by increasing treatment capacity by an additional 2.5 bcm of raw gas per year, to a total of 4.2 bcm per annum. Investments have already been made in the initial design of this third train and in the early-stage procurement of long-lead items. Construction and commissioning of this state-of-the-art infrastructure is forecast to be completed by mid-2016, with production reaching 100,000 boepd by the end of that year.



Implementing our M&A strategy

In addition to proving up reserves at Chinarevskoye, our development plan also focuses on sustaining long-term production beyond Chinarevskoye alone. This is the basis of our M&A strategy, as reflected in the recent acquisition of the subsoil use rights related to three adjacent oil and gas fields, Rostoshinskoye, Darzhinskoye and Yuzhno-Gremyachenskoye, in the close vicinity of the Chinarevskoye field. Based on Ryder Scott's analysis, these fields have added 98 million of 2P reserves, and we look forward to the results of further appraisal in the next 18 months.

By virtue of our size, development stage and production track record, we have acquired high visibility both locally and internationally and, as a result, are kept informed of further M&A opportunities. Our approach is to remain both pragmatic and prudent as we consider these options. Our main focus remains on north-west Kazakhstan, where we know the landscape and are already operating successfully. In addition, we would also consider opportunities outside of this region where we see the potential to create further shareholder value.

IN 2014 THERE ARE FOUR KEY OBJECTIVES FOR THE COMPANY IN ORDER TO CONTINUE TO DELIVER ON OUR STRATEGY

- 1 Ensure construction of the next gas plant remains on track for 2016.
- 2 Continue to grow the Proven reserve base through appraisal of Chinarevskoye and our three new fields.
- 3 Establish a dedicated business development team to ensure we can quickly and accurately evaluate the opportunities in the region.
- 4 Ensure that the financial position of the Company remains stable.

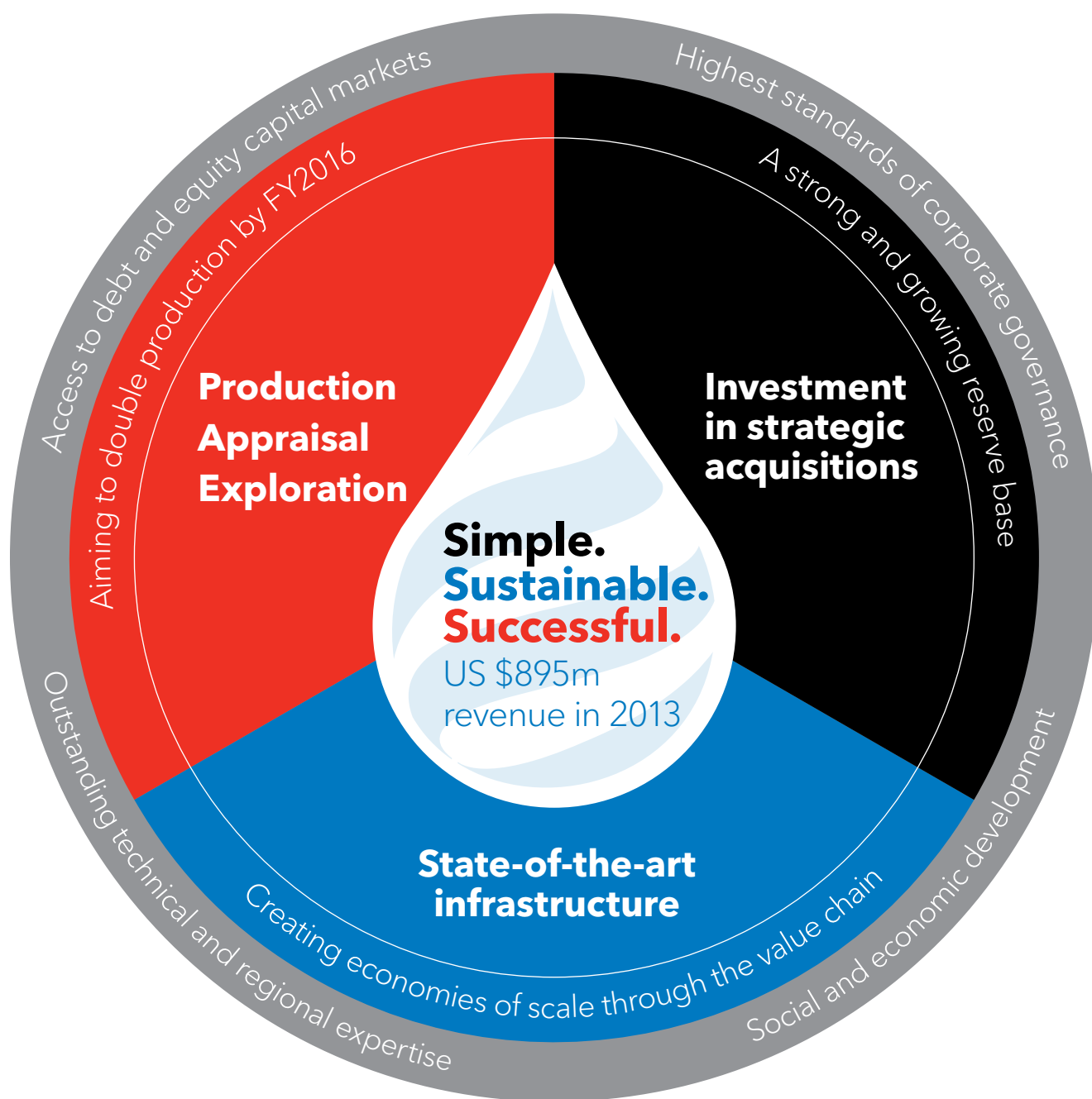
Enhancing shareholder value

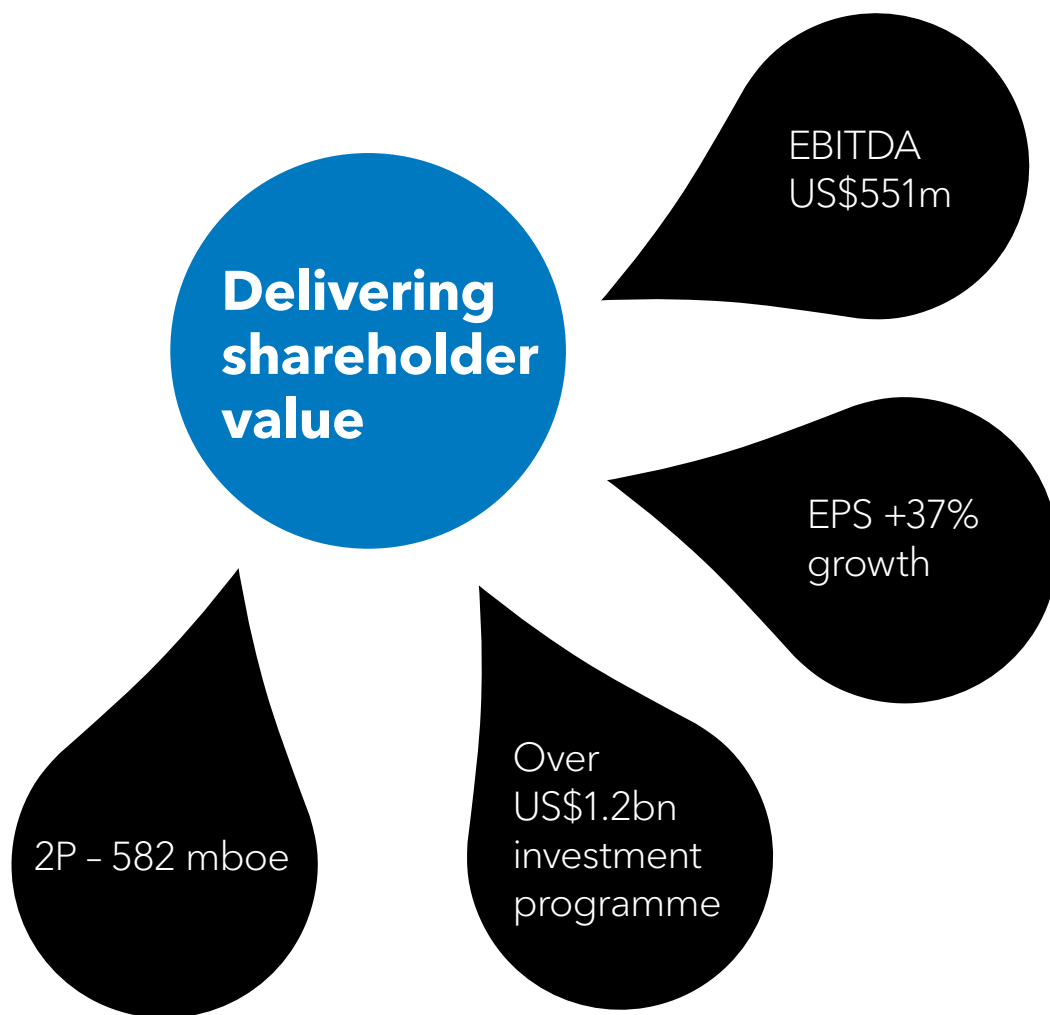
I believe that these objectives, if successfully achieved, will provide the platform to significantly enhance shareholder value. We have demonstrated in the past that we can deliver on our strategy and I am therefore confident as we enter 2014 that we are well positioned to continue

to achieve our goals. I look forward to successfully executing the next infrastructure project, whilst also ensuring the reserve base is not only maintained, but increased over the coming years.

Strategic report
Our business model

How we create value





We create value by:

1. Production, appraisal and exploration of our existing licence area
2. Strategic acquisitions
3. Further leveraging of our infrastructure and experience of operating in the FSU

Our track record of successfully building and financing large infrastructure while developing reserves into commercial production puts us in a unique position.

With our management team's outstanding technical and regional expertise in both oil and gas we can use this platform to deliver future growth to our shareholders.

How we run our business is equally important in enabling us to successfully deliver our business plans and plan our growth strategy. Protecting our business, sustaining our good reputation, maintaining our entrepreneurial culture and contributing to social and economic development are the cornerstones on which we are building our business.

Strategic report
Our strategy

A sustainable strategy for growth...

OUR STRATEGIC PRIORITIES

1

Delivering
near-term
production
growth

2

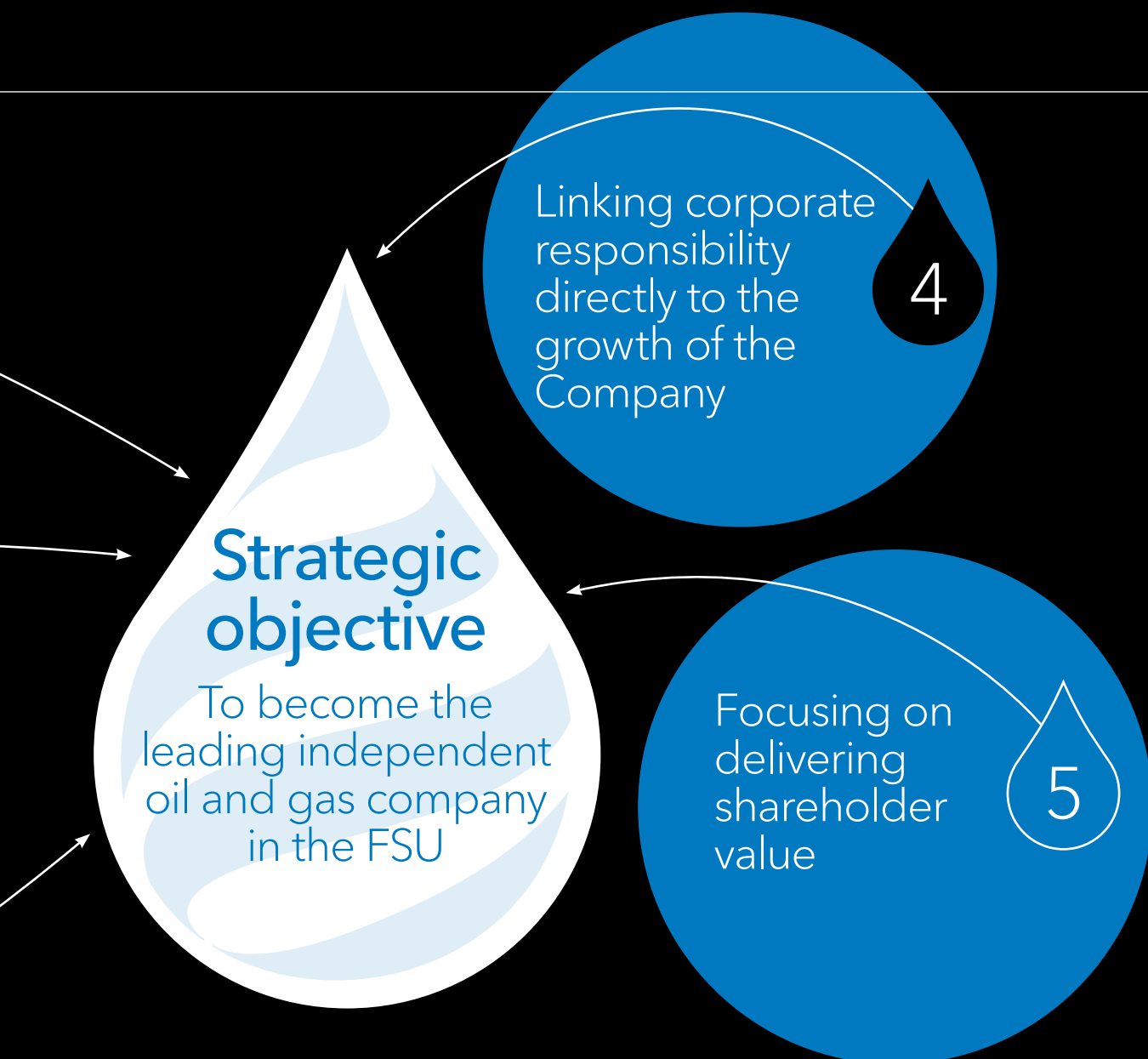
Appraising
and developing
near-term
projects

3

Exploration
upside
through M&A



Our growth is based on five strategic priorities to help build a balanced pool of resources:



Our strategy is underpinned by first-class infrastructure and a strong balance sheet that includes funding from operating cash flow and capital markets.

This strategy is focused on building sustainable long-term value growth. Our objectives are delivering attractive returns to our shareholders as well as making a positive and lasting contribution where we operate.

Strategic report
Our strategy
continued

A sustainable strategy focused on growth

STRATEGIC PRIORITIES

Delivering near-term production growth



Our aim is to double our production levels by the end of 2016. To do this, we are building an additional third train to our GTF, next to the existing two trains, which can currently treat a total of 1.7 bcm of raw gas per year. The capacity of this third train will be 2.5 bcm of raw gas, bringing the total GTF capacity to 4.2 bcm of raw gas annually with all three trains in operation.

The significant investment in infrastructure will be fully funded from operational cash flow. All other existing Nostrum-owned and -operated infrastructure, such as pipelines and rail terminals, have ample capacity to accommodate at least a doubling of the current production levels.

Appraising and developing near-term projects



The Chinarevskoye field currently has well over half a billion boe of reserves. Ryder Scott, in its August 2013 report, confirmed Proven reserves of 199 million boe, leading to a replacement ratio of more than 100%. Our appraisal programme will focus on the Chinarevskoye field's Probable reserves and Possible reserves. Over the next few years our target is to build our Proven reserve base towards 700 million boe. This will ensure that we can produce 100,000 boepd until the end of our current licence in 2033. In addition, we also intend to start appraising the three recently acquired adjacent fields (Rostoshinskoye, Darzhinskoye and Yuzhno-Gremyachenskoye), with a view to extending our reserve base.

Over the last four years, drilling has focused mainly on production wells in order to secure feedstock for the GTF. With the feedstock in place, the focus will shift to a renewed appraisal drilling programme in order to transfer more of our Possible and Probable reserves into the Proven category. In the existing oil price environment, the current plan foresees approximately 50 wells being drilled over the next 4-5 years. Approximately 12 wells are planned for 2014 alone, more than half of which will be appraisal wells.

Taken together, these growth programmes will lay the foundations for more than doubling total production by the end of 2016, and extending production at this level well beyond 2020.

Exploration upside through M&A



We are also pursuing a strategy of growth through value-accretive acquisitions, in line with our goal to leverage existing infrastructure to further add reserves at low finding costs. The recent US\$16 million acquisition of the Rostoshinskoye, Darzhinskoye and Yuzhno-Gremyachenskoye fields, all of which are located between 60 and 120 kilometres from the existing GTF, marked a first step in this direction.

Following completion of appraisal work on these three fields by the end of 2015, a development plan will be submitted to the Kazakh state.

Opportunities for acquisitive growth in Kazakhstan are being evaluated on a continuous basis. We are building on our enviable development and operational track record in Kazakhstan by continuing to look for compelling acquisitions, which will further improve shareholder value.

Linking corporate responsibility directly to the growth of the Company



Our long presence in Kazakhstan has led to a natural, gradual and ambitious involvement in sustainable development. Over the years, we have built a comprehensive corporate social responsibility (CSR) roadmap focused on employee security and welfare, investment in community building, and environmental protection and reporting. Each of these priorities is now part of the overall yearly management plan and is monitored against specific voluntary as well as compliance objectives.

As such, we continue to strive to improve and implement new policies each year, in order to further bring sustainability to the core of all of our operations.

We see CSR as an important indicator of non-financial risk and are constantly developing internal best practices to improve our standards. This is an important standalone part of our strategy, as well as complementary to all our other strategic initiatives. Sustainable development will remain a priority in 2014 and beyond.

Focusing on delivering shareholder value



Our strategy is centred on a balanced approach to investment in growth. This entails both a prudent cash management policy and returns to shareholders.

We are in a strong financial position, with both revenue and EBITDA at record levels. For the next five years, our capital expenditure (CAPEX) programme can be fully funded from our operational cash flow. In addition, we intend to hedge all our non-scalable CAPEX components against oil price fluctuations. Finally, we aim to keep our net debt to EBITDA ratio of 1.5x, in addition to a healthy cash position, in order to offset the impact of any volatility in the oil price.

Our distribution policy was adopted in 2012, and distributions increased by 5% during 2013. This will be pursued over the coming years, assuming it does not impact our cash balance or growth strategy in a fluctuating oil price environment. We also started implementing a GDR buyback programme in 2013. Finally, we continue to take significant steps towards achieving our goal of an alternative listing in 2014.

WHAT WE HAVE ACHIEVED IN 2013

- 1** Record production levels with near-term production growth of 25% over 2012.
- 2** 2P reserve growth of 15% rising to 582 mboe.
- 3** First steps in M&A, with acquisition of three licences in close proximity to our existing infrastructure, allowing us to extend its production further.

DEVELOPMENT PLANS OVER THE NEXT THREE YEARS

- 1** Complete construction of our second GTF by mid-2016 and end 2016 with production greater than 100,000 boepd.
- 2** Move Probable and Possible reserves to the Proven category.
- 3** Appraise three new fields and submit development programme to the state.
- 4** Construct new oil treatment facility (OTF).

Strategic report

Market overview

The oil and gas market in Kazakhstan⁽¹⁾

Kazakhstan is a vast country, the size of western Europe. Its substantial reserves of natural resources ensure its enormous economic potential.



Kazakhstan is both geographically and ethnically diverse, with a population of 15.7 million. Kazakh and Russian are the main spoken languages and Islam and Christianity the dominant religions. Landscapes vary wildly from mountainous regions to low-lying fertile plains and arid steppes. Its new capital, Astana, is an exercise in modernity.

Foreign investment in the Caspian oil sector has brought an economic boom, with GDP per capita having increased more than tenfold since the mid-90s. Inequality is less pronounced compared to its Central Asian neighbours, and unemployment low. Politically stable and with good infrastructure, Kazakhstan is a reliable operational environment.

Kazakhstan's landlocked position means it is reliant on pipelines, as well as on its extensive rail network, for transporting oil. Kazakhstan's dependence on Russia for export capacity is set to be further reduced with the proposed Kazakhstan Caspian Transportation System (KCTS).

(1) This information has, unless otherwise stated, been extracted from documents, websites and other publications released by the President of Kazakhstan, the Statistics Agency of Kazakhstan, the Ministry of Finance of Kazakhstan, the Competent Authority and other public sources.

Some of the market and competitive position data has been obtained from US government publications and other third-party sources, including publicly available data from the World Bank, the Economist Intelligence Unit, and the annual BP Statistical Review of World Energy 2013, as well as from Kazakh press reports and publications, and edicts and resolutions of the Kazakh government. In the case of statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

Certain sources are only updated periodically. This means that certain data for current periods cannot be obtained and we cannot assure you that such data has not been revised or will not be subsequently amended.

OVERVIEW - THE WIDER CASPIAN REGION

The Caspian region includes those parts of countries (including Russia and Iran) adjacent to the Caspian Sea. A part of Uzbekistan is also considered to be part of the Caspian region due to its proximity to the Caspian Sea. To date, the two significant crude oil-producing countries in the Caspian region have been Kazakhstan and Azerbaijan.

It is expected that these countries will continue to lead the region in crude oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields. Turkmenistan and Uzbekistan are the predominant gas producers in the Caspian region but do not produce significant crude oil volumes relative to Kazakhstan and Azerbaijan.

In addition, the areas of Russia and Iran near the Caspian Sea are not a source of substantial crude oil production for these countries. Russia, however, plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea.

ECONOMIC GROWTH IN THE REGION

Since 2000, Kazakhstan has experienced significant economic growth. Two of the main catalysts for this have been economic reform and foreign investment, much of which has been concentrated in the energy sector. Exports of crude oil have grown significantly since 2000, and most of the oil from Kazakhstan is currently delivered to international markets using pipelines which run through Russia to shipping points on the Black Sea. The opening of the Caspian Pipeline Consortium (CPC) pipeline in 2001 substantially increased Kazakhstan's crude oil export capacity.

INVESTMENT IN KAZAKHSTAN'S OIL AND GAS INDUSTRY

International investment into the Kazakh oil and gas sector has largely taken the form of joint ventures, including co-operation with the state-owned oil and gas company JSC National Company KazMunayGas ("NC KMG"), as well as production-sharing agreements and direct grants of exploration/production rights to subsoil users. Major projects in Kazakhstan include the Tengiz, Karachaganak and Kashagan fields.

In May 2003, President Nazarbayev approved a Caspian Sea development programme (currently not in effect) through 2015, to create new offshore blocks (potential oil fields) that were auctioned by the Competent Authority between 2003 and 2010. NC KMG has a mandatory share of at least 50% in all projects related to the new offshore blocks.

OIL SUPPLY AND DEMAND

According to BP's *Statistical Review of World Energy 2012*, Kazakhstan ranked 11th in the world by oil reserves and 21st by gas reserves. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet republics and has the Caspian region's largest recoverable oil reserves. Kazakhstan's Proven oil and gas reserves were 4.2 billion tonnes and 2.4 trillion cubic metres as at 31 December 2013.

The Kazakh government has stated that it expects oil and gas production to increase, respectively, to 150 million tonnes per year and 79.4 billion cubic metres per year in 2015. Most of this growth is expected to come from the Tengiz, Karachaganak and Kashagan fields.

There are three major refineries in Kazakhstan supplying the northern region (at Pavlodar), the western region (at Atyrau) and the southern region (at Shymkent). All three major refineries are either in the control or joint control of NC KMG. Crude oil is also processed at mini refineries (private small refineries).

The refinery at Pavlodar is supplied mainly by crude oil from western Siberia; the Atyrau refinery runs solely on domestic crude from the western region of Kazakhstan, and the Shymkent refinery generally uses oil from the southern region of Kazakhstan. The Atyrau refinery is undergoing modernisation to provide some additional capacity and to allow the refinery to meet current European fuel standards.

**Kazakhstan
has 4.2 billion
proven
hydrocarbon
reserves**

Strategic report

Market overview

continued

CRUDE OIL

Historically, the lack of pipeline capacity providing access to international markets has limited Kazakhstan's ability to exploit its oil reserves. Currently, more than 7,920 kilometres of Kazakhstan's 20,238 kilometres of pipeline are used in oil transportation. The three main pipelines are the Uzen-Atyrau-Samara ("UAS") pipeline, the CPC pipeline, and the Kazakhstan-China pipeline. The UAS pipeline transports oil from fields in the Atyrau and Mangistau regions to Russia. The pipeline system runs for approximately 1,500 kilometres, from Uzen in south-west Kazakhstan to Atyrau, before crossing into Russia and linking with Russia's Transneft system

at Samara. The CPC pipeline is a major export route, extending over 1,150 kilometres, originating in the Tengiz field, running through Russia and terminating at the CPC marine terminal on the Black Sea near the Russian port of Novorossiysk. The Kazakhstan-China pipeline comprises two existing Soviet-era pipeline sections and three major new pipeline sections with a total length of around 2,800 kilometres from Atyrau in western Kazakhstan to Alashankou on the Kazakhstan-China border. In addition, the 1,768-kilometre Baku-Tbilisi-Ceyhan pipeline delivers crude oil from Baku in Azerbaijan to a new marine terminal in the

Turkish port of Ceyhan, and is the first direct pipeline link between the Caspian Sea and the Mediterranean Sea.

Other pipeline routes from Kazakhstan are being considered, such as routes through the Caucasus region to Turkey and routes through Iran and Afghanistan.

Rail transportation was the primary export route for Kazakhstan crude production before the development of the UAS and CPC pipelines, and it remains an alternative transportation option.

GAS SUPPLY AND DEMAND

Increases in Kazakhstan's gas production are expected to come primarily from associated gas at the Tengiz, Karachaganak and Kashagan fields. Most of Kazakhstan's gas reserves are located in the west of the country near the Caspian Sea, with more than half of those reserves located in the Karachaganak field. Another important gas field, Amangeldy, is situated in the south of the country and is being developed by KazTransGas, a subsidiary of NC KMG.

Gas production has increased significantly since 2004, when the Parliament passed a law prohibiting the industrial production of oil and gas deposits without the utilisation of natural and associated gas.

According to the projections of the Competent Authority, Kazakhstan expects to increase its gas production to 79.4 billion cubic metres per year by 2015.

NATURAL GAS

Most of the gas pipelines in western Kazakhstan, with the exception of Makat-Atyrau-Astrakhan, are designed to provide gas to CAC. The pipeline has two branches that meet in the south-western Kazakh city of Beyneu, before crossing into Russia and connecting with the Russian pipeline system.

In December 2010, Kazakhstan started the construction of the Beineu-Bozoi-Shymkent gas pipeline, designed to transport gas from west Kazakhstan for use in the southern regions of the country and for export to China.

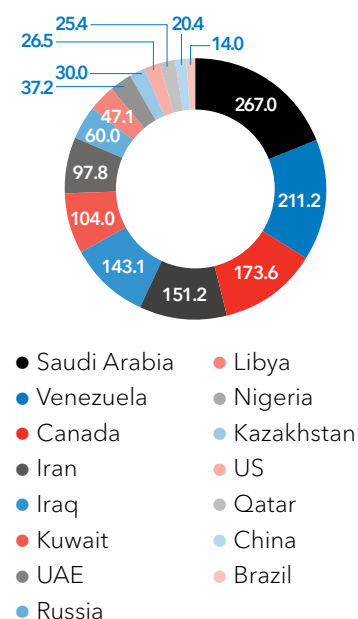
The Bukhara Urals gas pipeline originates in Uzbekistan and was initially built to supply gas from Uzbekistan to north-east Kazakhstan and Russia's south-east Urals region.

Bukhara-Tashkent-Bishkek-Almaty is a transit pipeline that provides gas from Uzbekistan to Kazakhstan's main southern population centre.

TRANSPORTATION

An important aspect of increasing hydrocarbon production in Kazakhstan has been the development of transportation infrastructure, as this in turn has raised Kazakhstan's export capacity.

Proven reserves
 (billion barrels)



Source: EIA 2012

MAJOR OIL AND GAS PROJECTS IN KAZAKHSTAN

KARACHAGANAK PROJECT

The Karachaganak field is a large gas condensate field located in north-western Kazakhstan, with an area of about 280 square kilometres. The field was discovered in 1979 and the consortium developing it is party to a 40-year production-sharing agreement with the Kazakh government. The field is operated by KPO and the consortium includes affiliates of ENI SpA, BG Group, Chevron, LUKOIL Overseas and NC KMG. BG Group together with ENI are joint operators and each holds a 29.25% interest in the venture. The Karachaganak field is Kazakhstan's main gas field, holding an estimated nine billion barrels of gas condensate and 48 trillion cubic feet of gas.

NORTH CASPIAN PROJECT

The Kashagan field is located off the northern shore of the Caspian Sea, near the city of Atyrau. In 1997, a consortium of companies signed a 40-year production-sharing agreement covering five structures, namely Kashagan, Kalamkas, Aktoty, Kairan and Kashagan SW. The structures consist of 11 offshore blocks over an area of 5,600 square kilometres. The project is owned by the North Caspian Operating Company ('NCOC'), a consortium that includes ENI SpA, ExxonMobil Corporation, Shell, Total S.A., INPEX Corporation and NC KMG.

TCO JOINT VENTURE

The TCO joint venture was created in 1993 with the aim of developing the Tengiz and Korolev fields. The participants in the joint venture are Chevron Overseas Company, ExxonMobil Corporation, NC KMG and LukArco. The Tengiz field is located in the south-eastern part of the pre-Caspian Basin on the north-eastern edge of the Caspian Sea. It was discovered in 1979.

The Tengiz and Korolev fields have estimated recoverable reserves of between 750 million tonnes (5.5 billion barrels) and 1,100 million tonnes (8.1 billion barrels) of oil. The Future Growth Project is the next major oil production expansion in Tengiz, aiming to increase production to approximately 36 million tonnes (720,000 bopd) from 13.7 million tonnes in 2004.

MACROECONOMIC AND MICROECONOMIC CHANGES

Export duties increased from US\$40 per tonne to US\$60 per tonne as of 1 April 2013.

STRENGTHS AND WEAKNESSES OF OUR BUSINESS AGAINST PEERS

STRENGTHS

- 1 Advantageous location gives access to multiple transportation routes.
- 2 Investment in infrastructure gives the Company complete control of its liquids transportation.
- 3 Investment in gas plant allows Nostrum to produce raw gas in north-western Kazakhstan where there is a shortage of processing capacity.
- 4 High-quality light sweet crude and condensate.

WEAKNESSES

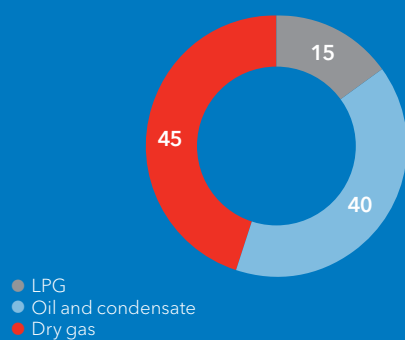
- 1 Nostrum is subject to fluctuations in the market prices for its products.
- 2 Geological risks are unavoidable in the oil and gas business.
- 3 The harsh operating environment means temperatures fluctuate significantly between summer and winter.
- 4 Lack of significant population reduces size of skilled workforce.

Strategic report
Performance review

Building a world-class portfolio of assets

The 274-square-kilometre Chinarevskoye field is located in the Batys province of north-western Kazakhstan, approximately 100 kilometres north-east of Uralsk and near the Russian border.

2P reserves breakdown for Chinarevskoye field



Annual BOE production

2013	16,854,970
2012	13,483,100
2011	4,802,670
2010	2,799,915
2009	2,716,300





Strategic report

Performance review

continued

Chinarevskoye field

STABLE BUSINESS ENVIRONMENT

Exploration and production licences

Zhaikmunai LLP was granted exploration and production licences for the Chinarevskoye field in May 1997. A production licence extension was received in December 2008, which is valid until 2033 for all oil and gas-bearing reservoirs and horizons covering 185 square kilometres of the licence area, except the north-eastern Tournaisian reservoir, which is valid until 2031. The production licence covers all Proven, Probable and Possible reserves, as reported by Ryder Scott as at 31 August 2013. An exploration permit extension was granted in 2013 until 2015.

Production-sharing agreement (PSA)

In October 1997, Zhaikmunai LLP entered into a PSA with the government of Kazakhstan. The agreement sets the parameters for the exploration and development of the Chinarevskoye field and the respective royalties, profit share and tax liabilities payable to the government.

Outlook

The licence and the PSA are currently valid until 2031-33, depending on the geographical and geological area. Nostrum must comply with the terms of the exploration permit, the production permit and the development plans during this period. To date, Nostrum has met all of its capital investment obligations under the PSA.

GEOLOGY, RESERVES & DRILLING

Geology

The Chinarevskoye field is a multi-layer structure with ten reservoirs and 44 segments spread over three areas: The western area contains 16 segments the northern area has 24 segments and the southern area four segments. Hydrocarbons have been found in the lower Permian, Tournaisian, Givetian, Mulinski, Biski-Afoninski, Ardatovski, Famennian and Vorobyovski reservoirs.

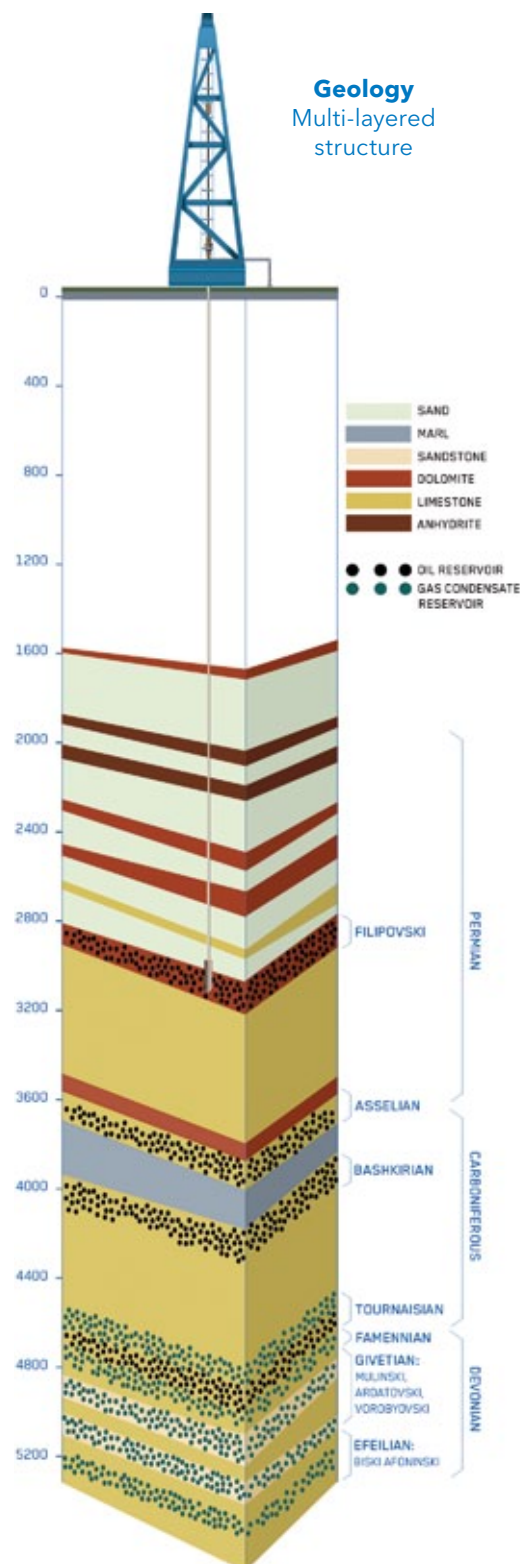
Reserves

Based on the 2013 Ryder Scott report, as at 31 August 2013, the estimated gross Proven plus Probable hydrocarbon reserves at the Chinarevskoye field were 483.3 million boe, of which 193.2 million bbl was crude oil and condensate, 72.4 million bbl was LPG and 216.8 million boe was sales gas. According to the 2013 Ryder Scott report, the Chinarevskoye field also contains approximately 76.2 million boe of gross Possible hydrocarbon reserves.

Drilling

Hydrocarbons were first discovered in the Chinarevskoye reservoirs during the drilling of nine wells in the Soviet era. 2004-2013 saw more than 50 wells drilled under the PSA.

2013 saw us meet our drilling target of 12-14 wells at Chinarevskoye, with a further 12 planned for 2014. The 2014 drilling programme includes 4-5 production wells to maintain existing production, and 6-7 appraisal wells targeting moving Probable reserves into the Proven category and building feedstock for the next GTF. One exploration well will be drilled in the exploration area.





Quarterly production 2013

Q1 46,273m boepd
Q2 46,534m boepd
Q3 43,522m boepd
Q4 48,458m boepd

Strategic report

Performance review

continued

Chinarevskoye field

ON-SITE FACILITIES

Location

All our facilities are close to the main international railway lines, as well as several major oil and gas pipelines. This advantageous location provides access to flexible transportation links for the off-takers of the products.

The facilities on-site have grown substantially, with two major capital investment phases of approximately US\$1.2 billion each, one completed in 2011 and one currently underway.

Crude oil facilities

Our oil infrastructure consists of an oil treatment and gathering facility (OTF), capable of processing 400,000 tonnes of crude oil per year, as well as a 120-kilometre oil pipeline, multiple oil gathering and transportation lines within the licence area, an oil-loading facility at the rail terminal, facilities with 30,000 cubic metres of oil storage space and railway cars for the associated crude oil and stabilised liquid condensate.

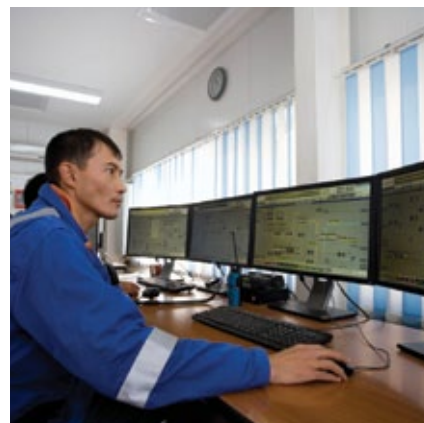
Oil and stabilised condensate pipeline and railway loading terminal

Our 120-kilometre oil pipeline and railway loading terminal were successfully completed in 2008. Since 2009, the crude oil has been transported via the pipeline from the Chinarevskoye field site to the railway-loading terminal at a rail connection at Rostoshi, near Uralsk. Here it is stored and subsequently transported by railcar to final off-takers.

Stabilised liquid condensate is also transported in the same pipeline, using a "PIG" system which separates the crude oil from the stabilised liquid condensate, protecting the product's quality, which would otherwise be reduced in a multi-purpose pipeline. This ensures the products command higher export prices.

The oil pipeline has a maximum throughput of three million tonnes per year. The rail-loading terminal, which receives the crude oil and stabilised liquid condensate, has a capacity of 3-4 million tonnes per year. Infrastructure also includes crude oil storage tanks on site and at the rail terminal, condensate tanks on site and at the terminal and a loading facility at the railway terminal. The loading terminal allows for 32 railcars to be loaded simultaneously. The facility is also equipped with a vapour recovery unit, the first in Kazakhstan's history.

The entire infrastructure has the capacity to handle the planned increase in throughput, in line with our strategy to more than double production by the end of 2016.





Over
US\$1.2 billion
investment
phase over
next 3-5 years

Strategic report

Performance review

Assessing the potential of our new fields

Part of our strategy includes value-accretive mergers and acquisitions to complement the organic growth of the Chinarevskoye field. 2013 saw the acquisition of three fields – Rostoshinskoye, Darzhinskoye and Yuzhno-Gremyachenskoye – all of which are located in the vicinity of the Chinarevskoye field.

ROSTONSHINSKOYE, DARZHINSKOYE & GREMYACHENSKOYE FIELDS

60-120km

distance from Chinarevskoye,
to add to reserves

Approximate square
kilometres in size

139

3

additional
licences

2P reserves of

98
mboe

\$85m

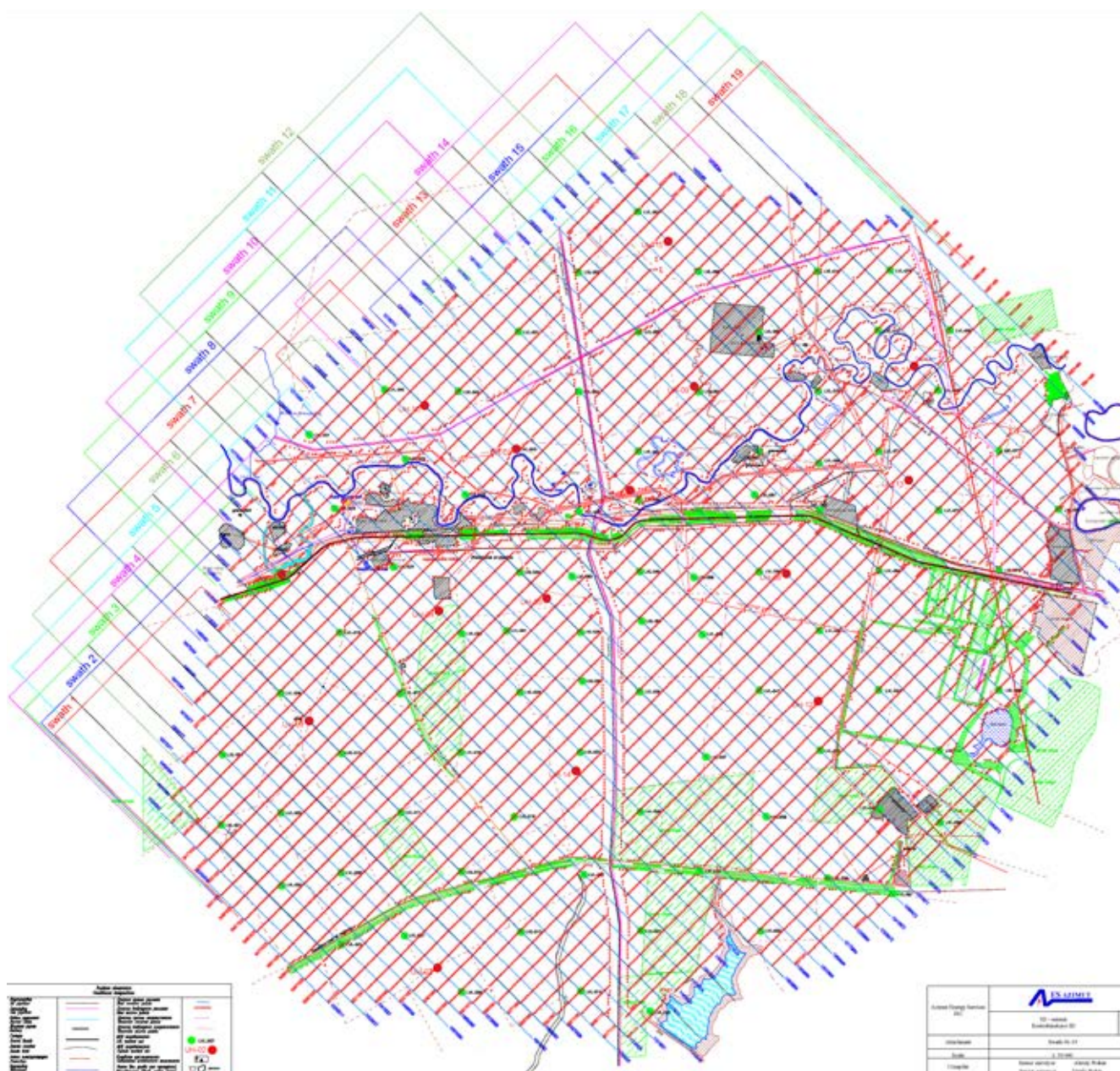
appraisal
programme
planned





Strategic report
Performance review
continued

Rostoshinskoye, Darzhinskoye and Yuzhno-Gremyachenskoye fields



ROSTOSHINSKOYE, DARZHINSKOYE AND YUZHNO-GREMYACHENSKOYE FIELDS

Subsoil rights acquisition completed

In 2013 Nostrum signed an asset purchase agreement to acquire 100% of the subsoil use rights related to three oil and gas fields in the pre-Caspian basin to the north-west of Uralsk. The signing of the supplementary agreements by the Ministry of Oil & Gas became effective from 1 March 2013, officially transferring subsoil use rights for the three fields to Nostrum.

Geology

Exploration activities during the last decades have successfully proven that the three fields contain hydrocarbons which are suitable for commercial production in several reservoirs of Permo-Carboniferous age. More specifically, the bulk of the hydrocarbons are located in the Visean and Bashkirian stages of the Carboniferous. Significant appraisal of the existing accumulations and exploration of deeper intervals is still required prior to development.

For more detail on the geology of the fields, please refer to our website.

Appraisal programme

The cost of appraisal activities in the three fields over the next 2-3 years is expected to be approximately US\$85 million. These activities will include the acquisition of new 3D seismic data, as well as appraisal drilling in order to validate and expand the existing reserves reports, the results of which will determine the development programme and ensure the highest possible accuracy in hydrocarbon targeting.

Dedicated appraisal drilling during the period will provide greater detail on reservoir size and fluid composition, which cannot be resolved with the existing data.

The targets are the Permo-Carboniferous carbonate reservoirs, which are similar to those in the Chinarevskoye field. These were deposited under sub-tropical conditions in a bay formation.

Total combined reserves

Nostrum has an outstanding track record of converting reserves. An updated reserve report of 31 August 2013, carried out by external auditor Ryder Scott, has shown significant increases in estimations for Proven and Probable reserves compared with the December 2012 report and, for the first time, takes into account the three adjacent fields.

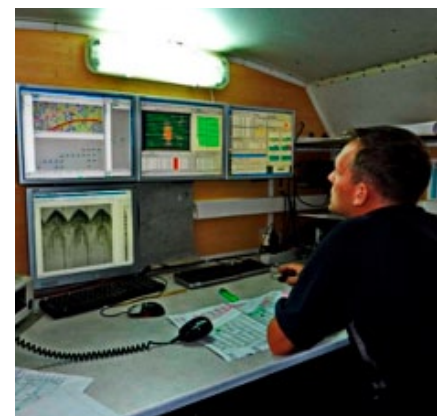
1P reserves were more than 100% replaced, growing to 199 mboe. 2P reserves increased by 75 mboe to 582 mboe.

This shows that, in line with our strategy, Nostrum is continuing to grow its reserve base and is successfully moving towards its goal of 100,000 boepd production by the end of 2016.



Please see our website for more detail on the Ryder Scott reports

Development Programme submitted during 2018



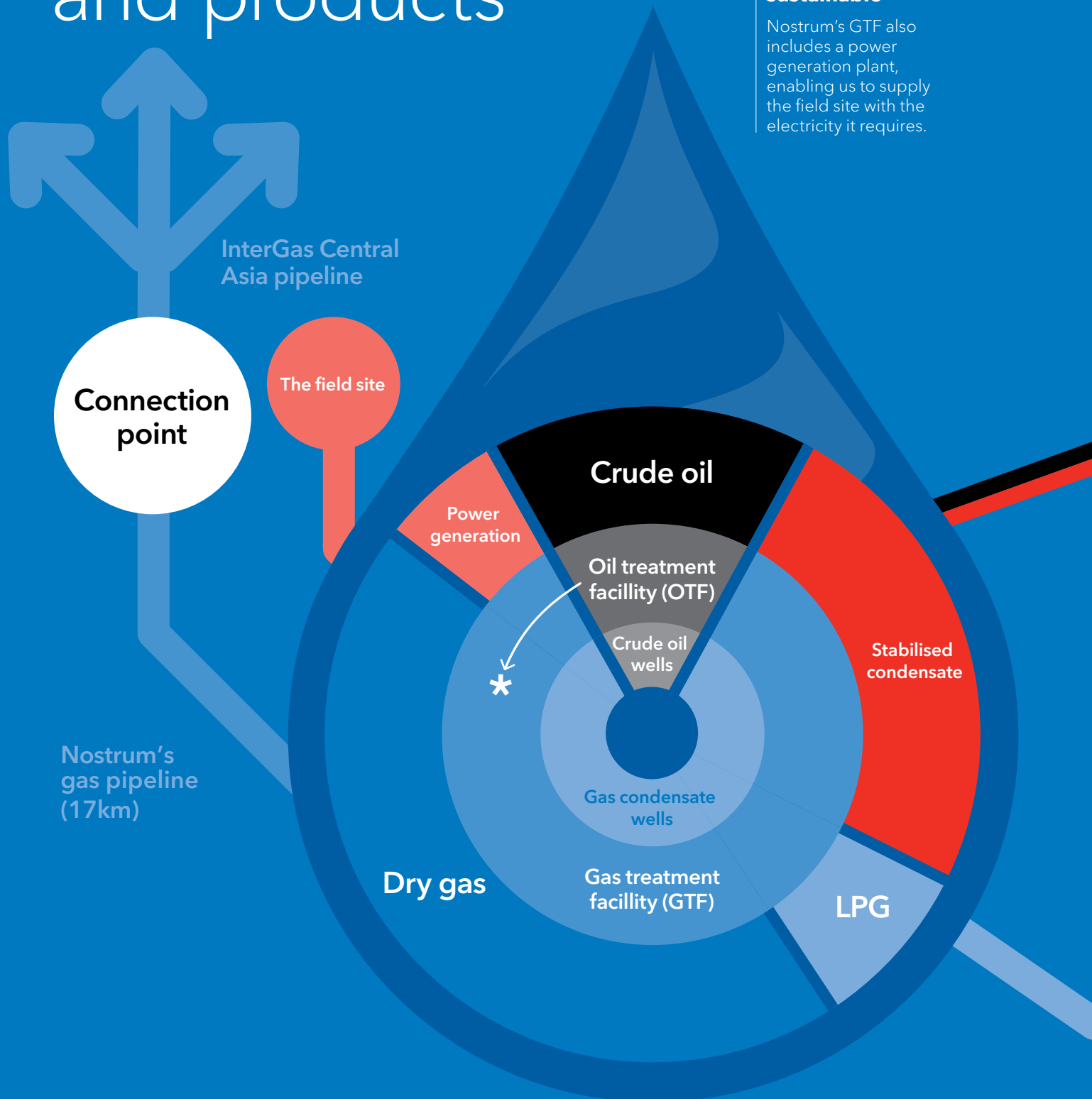
Strategic report
Performance review

Processes and products



How we've made our operations sustainable

Nostrum's GTF also includes a power generation plant, enabling us to supply the field site with the electricity it requires.



* Associated gas



Strategic report

Performance review

continued

Processes and products

HIGH-QUALITY PRODUCTS

Crude oil

The crude oil extracted from the Chinarevskoye field has an average API gravity of 42-43 degrees and sulphur content of approximately 0.4%. This is superior in quality to other primary benchmark crude oils produced in Kazakhstan.

Stabilised liquid condensate

The condensate extracted from the Chinarevskoye field has an average API gravity of 56 degrees and sulphur content below 0.2% – also of superior quality for the region.

LPG

The LPG produced by Nostrum is of field grade quality, does not contain any olefins and has a low sulphur content.

SALES AND PRICING POLICY

The production, marketing and transportation of our liquid products are closely monitored and controlled by Nostrum, and make up the largest share of our revenues. The commercial production of dry gas adds significant benefits through the easy off-take of dry gas volumes using straightforward pipeline logistics, the generation of our own power supply and the partially sponsored supply of dry gas to neighbouring communities.

Liquids

Crude oil – shipped through our own 120-kilometre pipeline from the Chinarevskoye field to our own rail terminal in Uralsk, from where it is shipped in railcars to off-takers at various destinations. The benchmark price for our crude oil is Brent. In accordance with the PSA, we export 85% of our crude oil production.

Stabilised liquid condensate

– shipped through the same 120km pipeline to the rail terminal in Uralsk, from where it is shipped in railcars to off-takers at various destinations. The benchmark price for our stabilised liquid condensate is also Brent and 100% of production is exported.

LPG – shipped in special LPG trucks from the Chinarevskoye field to rail terminals in Uralsk. From here it is shipped in railcars to end consumers and traders. The benchmark price for our LPG is the International Mediterranean LPG price Sonatrach for Black Sea deliveries, or the Brest quotation for Eastern European deliveries. More than 90% of our LPG is exported.

Liquids are transported and sold to countries such as Finland, the Ukraine and Turkey, or sold on an FOB Black Sea basis.

Dry gas – shipped through our own 17-kilometre pipeline from the Chinarevskoye field to the connection point with the Intergas Central Asia gas pipeline (Orenburg-Novoposkov), from where it is distributed by the off-taker. Prices for gas products are negotiated annually with the off-takers in a long-term framework agreement. All the gas is sold domestically at this connection point.

We are able to achieve a relatively high netback for our export production due to transportation of our products through our own infrastructure and the resulting quality guarantees.

Sales

- Crude oil production 85% exported
- Condensate 100% exported
- LPG over 90% exported
- Dry gas 100% domestic

DEVELOPMENT OF INFRASTRUCTURE

Gas treatment facility (GTF) and related infrastructure

The GTF was designed to treat raw gas from gas condensate reservoirs, as well as the associated gas coming from the OTF, into a mix of stabilised liquid condensate, LPG and dry gas, using a gas utilisation concept, to add to the crude oil production. The GTF associated infrastructure includes a power generation station, an LPG storage tank farm, an LPG loading facility at the rail terminal, LPG railcars and a 17-kilometre dry gas pipeline.

GTF 1 (Trains 1&2/GTU 1&2)

GTF 1 included the construction of two gas treatment units (GTUs). Each has the capacity to treat approximately 850 million cubic metres of raw gas. Both units are equipped with sweetening and dehydration units, and a sulphur recovery unit.

GTF 1 is now producing at capacity, with an average annual production of 46,178 boepd in 2013.

GTF 2 (Train 3/GTU 3)

GTF 2 will add 2.5 billion cubic metres, bringing the total GTU capacity to 4.2 billion cubic metres, more than doubling production by the end of 2016. Until this time, average production is expected to remain constant.

Power generation plant

The GTF also includes a gas-fired power generation plant with an output of 15 megawatts. This provides the field site with its required electricity.

Gas pipeline

Nostrum completed its own 17-kilometre gas pipeline in 2011, linking to the Orenburg-Novopskov gas pipeline. The maximum annual throughput of this gas pipeline is several billion cubic metres.

New field camp facilities

A new employee field camp was completed in 2012, with more than 460 beds and modern facilities. The dormitories, canteen, recreational areas and a health clinic provide comfortable indoor living conditions throughout the year.

Marketing

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

Production

%

Crude and condensate	2013	42
	2012	43
LPG	2013	8
	2012	9
Dry gas	2013	48
	2012	49

Production

boepd

Crude and condensate	2013	19,384
	2012	15,764
LPG	2013	4,259
	2012	2,940
Dry gas	2013	22,535
	2012	18,237

The increase in production from 2012 to 2013 was a result of linking up the new well to GTF 1.



Strategic report
Corporate social responsibility

A responsible business

"Our focus extends beyond the obvious financial and operational parameters to include health, safety and the quality of life of our workforce and their families, as well as the responsible management of the environment in which we operate."

Kai-Uwe Kessel, CEO



Our approach to corporate social responsibility (CSR)

We encourage making a positive impact, through our activities, on our numerous stakeholders, i.e. investors, business partners, regulators, employees, customers, local communities and, ultimately, the environment and society at large. This naturally means that public interest is at the core of our business decision-making, as is honouring a triple bottom line.

Our continued development as a successful and sustainable E&P partnership in the region has created economic growth, increasing our presence and influence on the local and regional community, as well as increasing our environmental footprint. This is clearly recognised by the members of the board of directors and the management team, who have developed a thorough understanding of, a strong commitment to and a deep connection with Kazakhstan.



First Prize in Kazakhstan's Environmental Protection Contest - highlighting Nostrum's strong environmental protection record, ambitious social development programme and dedication to community-building.

Arnat Abzhanov, Member of the Management Board, JSC Halyk Finance, commented: "Companies who are listed on more than one stock exchange are faced with different and sometimes conflicting reporting requirements. The KASE award demonstrates that Nostrum manages these challenges efficiently every day and is fully committed to all of its security holders."



Special Award by the Kazakhstan Stock Exchange (KASE) for Zhaikmunai LLP's highlighting transparency record and commitment to all its stakeholders.

Key facts and figures

Total workforce growth

+9.3%

Percentage local nationals in total workforce

98.5%

Staff turnover rate

7.2%

Total number of training days

829

Social infrastructure investment

US\$650,000

Sustained community support and charitable work projects

US\$466,400

Liquidation fund contributions

US\$492,000

Greenhouse gas reporting

First disclosure

Strategic report

Corporate social responsibility

continued

QHSE

OUR APPROACH

Quality, health, safety and environment (QHSE) at Nostrum focuses on improving the management of health, safety and the environment, controlling risks and preventing any injury or ill health to employees and contractors, by providing a set of rules and guidelines based on a series of well-defined strategic objectives.

Centralised function

The QHSE role was thoroughly revisited and restructured in 2012. This effort led to the creation of a centralised function with a flexible organisational structure. A new position of Head of QHSE was created and filled in 2013.



Please see our website for further details.

QHSE priorities for 2014

In line with QHSE developments in 2013, the focus for 2014 will be to expand the QHSE policy to include initiatives that go beyond our day-to-day activities. In particular, the following five elements have been identified as specific areas of focus where dedicated objectives and actions will be developed:

- HSE leadership and supervision;
- Contractor HSE management;
- Hazard awareness and risk control;
- Driving and transportation safety; and
- Environmental reporting.

Health and safety

In 2014, further rules and guidelines will be developed according to our QHSE strategic objectives, resulting in specific indicators which will be monitored over time. These aim to improve the management of health, safety and the environment, as well as controlling risk and preventing injury or ill health to employees and contractors.

Key safety and labour safety indicators

New indicators will be added to the current number of man-hours without loss of working time (2013: 1.83 million), such as the total recordable incident frequency (TRIF), lost time injury, and lost time injury frequency (LTIFR).

Other KPIs

Other KPIs will include employment and training indicators, community involvement indicators, and the new regulatory environmental indicators linked to greenhouse gas emissions.



QHSE objectives	Processes	Results
Integrate QHSE imperatives within the framework of all critical business activities	Identification of QHSE business processes within the Company, mapping of these processes, identification of standards and procedures, implementation of them across the whole Company and contracting organisations	Full QHSE policy in its final developmental stage; QHSE general and supporting processes will be mapped accordingly; next step will be the mapping of QHSE processes as a supporting function within the Company activities
Set KPIs to measure and report performance based on objectives and targets	Development and roll-out of a 2014 HSE performance monitoring system based on KPIs, with monthly reporting	HSE performance monitoring on a monthly basis; internal communication of monthly HSE statistics (Company and contractors); analysis of HSE statistics and HSE performance and benchmarking for identification of weak areas, areas for improvement or for further planning and setting of HSE targets
Review compliance, identify improvement areas and develop specific action plans accordingly	Development of an internal Audits and Inspections Manual to outline the aims and objectives of this process internally; implementation of internal audits and inspections; engagement of management in the process	Internal HSE Leadership Inspections schedule under development. These aim to involve Company management in inspections of internal facilities, together with HSE personnel, to ensure compliance with HSE standards and to demonstrate management's visibility and commitment to HSE
Implement best practice with a view to promoting a forward-looking QHSE policy and HSE culture	Improvement of HSE communication processes through the roll-out of regular induction programmes, internal HSE meetings, joint HSE meetings with contracting organisations and development of visual support materials	Regular presentations scheduled with contractor personnel working on the facilities; induction programmes around facilities are under review; the programmes will be delivered to all Company and contractor personnel based in the field
Ensure involvement from all stakeholders for a concerted effort	Identification of issues and areas where the involvement of stakeholders and that of other interested parties is required	Action scheduled in the general QHSE plan
Promote an enterprise culture based on the full endorsement and communication of these commitments by all	Development of promotional programmes, incentive schemes and reporting systems	Action scheduled in the general QHSE plan
Develop and implement an HSE management process for contractors and ensure the selection of quality and compliance-driven contractors	Definition of HSE requirements related to contractors' scope of work completed with a preliminary split by high and low HSE risk requirements	The HSE requirements for the high and low HSE risk schedules have been developed and will be reviewed and discussed prior to further pilot implementation
Assist in the development and diffusion of relevant appropriate local QHSE programmes	Development of promotional programmes, incentive schemes and reporting systems	Action scheduled in the general QHSE plan
Further promote the necessary actions from management in line with the QHSE vision and policy work	Development of promotional programmes, incentive schemes and reporting systems	Action scheduled in the general QHSE plan

Strategic report

Corporate social responsibility

continued

Our people

A safe working environment

Health and safety at Kazakh oil and gas companies is subject to state legislation and regulation. Our PSA also requires that our operations meet applicable health and safety requirements (see our website for more details).

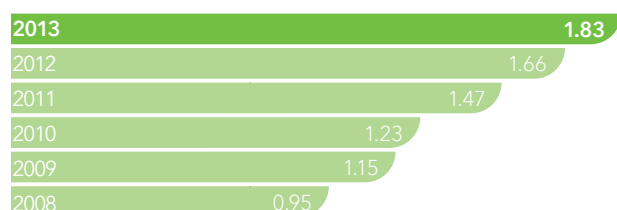
Nostrum's HSE Code of Conduct

All of us must comply with all applicable laws and regulations, as well as best practice with regard to health, safety and environmental issues. Nostrum is responsible for preventing harm to the health and safety of its people, including our employees and members of the community as well as our environment. Nostrum also seeks to minimise and mitigate the environmental impact of its operations.

Examples of steps to ensure the well-being of employees and their families:

- frequent fire drills
- safety training
- implementing a proactive prevention culture
- written plans and policies with regard to the mandatory supply of personal protective equipment including protective clothes, adapted footwear, and special tools.

Number of man-hours without loss of working hours (in millions)*

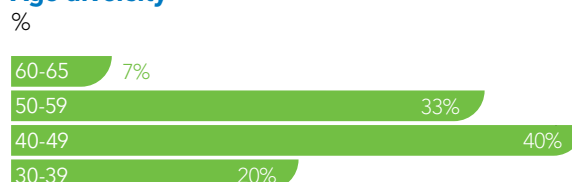


* Number of man-hours without loss of working hours: total number of man-hours worked by the Company and contractors' personnel without any injuries resulting in a lost working day, while performing activities on Company premises or on non-Company premises subject to Company management controls applied through contractual terms, if they are executed on behalf of the Company.

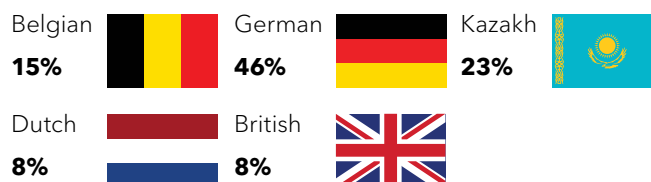
A DIVERSE MANAGEMENT TEAM

Between Nostrum and Zhaikmunai LLP, our management team has 15 members and covers the following diversity (see the corporate governance section for more details).

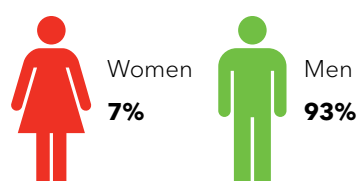
Age diversity



Nationality diversity



Gender diversity



A large team of dedicated employees

	2007	2008	2009	2010	2011	2012	2013
Chinarevskoye							
Field	329	396	439	500	552	631	633
Uralsk	130	142	117	144	170	207	274
Other NOG	14	17	22	33	36	46	56
Total	473	555	578	677	758	884	963

A significant presence in Kazakhstan

One of our greatest contributions to Kazakhstan's society is the wealth generated by hundreds of employees working in our fields and in Uralsk. This number has more than doubled since 2005, making us one of the largest employers in the Batys province.

Number of employees (full-time equivalent) in Kazakhstan during the periods indicated below:

Location	2007	2008	2009	2010	2011	2012	2013
Chinarevskoye field	329	396	439	500	552	631	633
Uralsk	130	142	177	144	170	207	274
Total	459	538	616	644	722	838	907

NOSTRUM OIL & GAS

Age diversity

%



Nationality diversity

Local nationals
(Kazakhstan)
98.5%

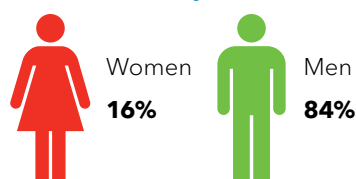


International
1.5%



In 2013, the total workforce grew by 9.3% and the staff turnover rate was 7.2%.

Gender diversity



Labour relations

We consider our relations with our employees to be good and has not experienced any work stoppages, strikes or similar actions to date. Relations with our employees are a key priority for our business.

Salary package and growth rates

Nostrum offers competitive remuneration packages to its employees and is in full compliance with all regulatory bodies, guidelines and requirements.

Description	2009	2010	2011	2012	2013
Average number of people (FTE) employed by the Group in Kazakhstan	574	619	722	838	907
Change in average monthly salary of employees		9%	16%	28%	6%

Effective social guarantees

- **Social security**
 - Contribution of 22% of employees' gross income, 21% social taxes and 1% social security, to the Government of the Republic of Kazakhstan;
 - Sick pay and medical leave (after five years of service).
- **Pension fund**
 - Up to 10% of employees' salaries as contribution to their designated pension funds.
- **Medical assistance and care**
 - Medical care in line with the partnership's health insurance;
 - Expenses from medical centres, and refunds for expenses not directly covered by our health insurance scheme, are often covered by the enterprise
 - Own first-aid post.
- **Insurance plans**
 - Compliant with all mandatory insurance requirements under Kazakh law as well as those existing under a number of voluntary contracts;
 - Directors' and officers' liability insurance through a third-party insurer.



Please see the website for more detail on insurance.

Strategic report

Corporate social responsibility

continued

Our people

Training

The PSA and the ensuing Supplementary Agreement No. 9 with the government of Kazakhstan specify the following in terms of training:

- a commitment to make an accrual of 1% per annum of the financial obligations with regard to the Chinarevskoye field; and
- adherence to a spending schedule on education up to and including 2020, for purposes of educating Kazakh citizens.

Number of employees benefiting from education and training programmes at Nostrum

281

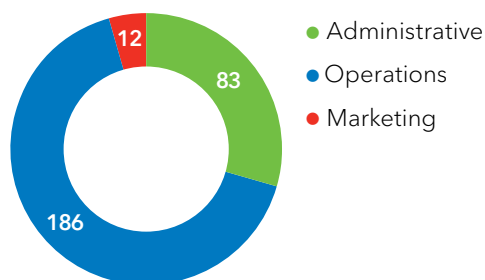
Number of additional Kazakh citizens benefiting from education and training programmes at Nostrum

50

Total training days

829

Categories of personnel trained



Human rights

The partnership group Code of Conduct sets out certain principles that guide business conduct and provides a non-exhaustive outline of what the Group considers permissible conduct by its employees, including secondees and independent contractors who devote a substantial amount of their working time to Nostrum businesses (as used in the Code, collectively, "employees"). Violations of this Code of Conduct may result in disciplinary action, including dismissal from employment, or criminal prosecution.

The Code of Conduct contains, among others, equal opportunity and personal conduct provisions, as detailed below.

Equal opportunity

Each Nostrum employee is expected to comply with all applicable laws that prohibit discrimination in employment practices. No Nostrum employee should ever be subjected to illegal discrimination on the basis of race, religion, national origin, age, gender, disability, sexual orientation or political opinion.

Personal conduct

Nostrum employees are expected to conduct business and interact in a respectful manner with their colleagues, business contacts and others. This includes being sensitive to and respecting foreign cultures and customs. Nostrum does not tolerate any form of actual or threatened harassment, discrimination or other behaviour that colleagues or business contacts might reasonably regard as threatening or degrading.



Our community

An integrated space

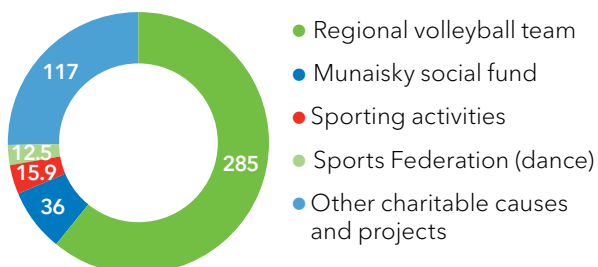
The rapidly expanding activities surrounding Nostrum have attracted a wide variety of competencies and skills. This success is largely due to a flexible and well-integrated team of professionals. Nostrum's community policy places great emphasis on creating an integrated, caring and secure community for its personnel and subcontractors.

Social infrastructure

Under the terms of the PSA linked to the Chinarevskoye field, as well as the new subsoil agreements linked to the additional fields, we spend US\$300,000 and US\$350,000 per annum respectively to finance social infrastructure. Significant investments in the repair and maintenance of roads inside and outside the licence areas were also implemented in the course of last year, at an additional cost of US\$2,196,238.

Sponsoring activities, charitable work and participation in social projects

US\$'000s



Please see the website for more detail.

Nostrum Oil & Gas is pleased to take part in sponsoring activities, charitable work and social projects in an effort to:

- Develop a common social responsibility framework for the company focusing on its interaction with society at large (ex: sponsoring of two new school buses);
- Strengthen the positive image of the company and further support its good reputation;
- Promote a healthy and active lifestyle through the development of sports activities in the region, such as the installation of the local football field;
- Support active participation in the social and political life of the city and of the region;
- Nurture useful local and regional business cooperation opportunities.



New camp

Construction and commissioning of a new field camp for more than 700 people was completed in 2013, resulting in a significant improvement in living conditions at the field site for our employees.

Liquidation fund

Under the terms of the PSA, Nostrum is building up a liquidation fund of US\$12 million by making contributions to the fund of US\$100,000 per year during the exploration phase and US\$452,000 per year during the production phase. The liquidation fund will provide funds for the removal of Nostrum property and equipment at the end of the PSA. In 2013, the required US\$452,000 contribution was set aside for this purpose.

Strategic report

Corporate social responsibility

continued

Our environment

Environmental protection approach

Our environmental protection approach follows a structured commitment to a series of yearly environmental objectives, selected as key priorities in line with strategic, regulatory and communication imperatives, and is prepared in accordance with Kazakh regulations:

- Air pollution control
- Water resources protection and rational use
- Land protection
- Control and sustainable subsurface use
- Flora and fauna protection
- Radiological, biological and chemical safety
- Ecological education and information
- Research and development, exploratory development and other works.

In 2013, specific monitoring activities were carried out in these areas in order to establish benchmarks which will be integrated into our environmental targets.

Technologies used to monitor the environment

Nostrum has developed a site environmental monitoring programme to organise and monitor our environmental activities, identify any potential operational impact on the environment, and enabling us to take prompt corrective measures should there be any violation of environmental legislation.

The Site Environmental Monitoring Programme includes:

- obtaining relevant information for environmental policy decision-making, including environment quality target values;
- information on regulatory instruments applicable to production processes which may have an environmental impact;
- ensuring full compliance with the environmental legislation of the Republic of Kazakhstan;
- reducing the impact of production processes on the environment and on human health;
- increasing the efficiency of natural and energy resource use;
- developing a pre-emptive operational emergency response;
- increasing environmental awareness and responsibility among managers and employees;
- reporting on environmental activities and community health risks;

- increasing compliance with environmental requirements;
- increasing the efficiency of the QHSE management system; and
- taking account of environmental risks in investment and finance decisions.

QHSE system maintenance

Nostrum's QHSE department manages the site environmental monitoring programme, which includes the following:

- compulsory criteria to be followed in site monitoring;
- time, duration and frequency of site monitoring activities and measurements;
- detailed site monitoring methodologies;
- sampling points and places of measurement;
- methods and frequency of data accounting, analysis and reporting;
- schedule of internal checks and procedures for remedying violations of national environmental laws, including the internal response to any violations;
- monitoring quality assurance procedures;
- emergency action plans;
- organisational and functional structure of internal employee responsibilities for carrying out site environmental monitoring; and
- other data on organising and carrying out site environmental monitoring.

Compliance with legislation

The Site Environmental Monitoring Annual Report (2013) is a comprehensive document detailing the content, methodology and results of the environmental efforts at Nostrum. In 2013, the conclusions section noted the following:

"It can be concluded from the report presented that in 2013, as in previous years, the enterprise did not exceed the established standards for environmental pollution in the region in which its production facilities are located."



Please see the website for more details.

Nostrum's environmental management system

Our environmental management system is currently being developed in line with our environmental monitoring programme. The monitoring activity is leading to the development of valuable data, which can be used for benchmark development. These will be linked with the priority policy areas in 2014.

Independent third parties carry out audits on a regular basis on behalf of the company in order to assist us in developing our environmental management system. These include environmental, health and safety compliance, and assurance audits.

Industrial waste management and contaminated soil reclamation

Nostrum substantially complies with all current Kazakh legislation with regard to industrial waste management and contaminated soil reclamation.

Greenhouse gas (GHG) reporting

Nostrum has been monitoring and reporting its greenhouse gas emissions over the last few years in accordance with Kazakh regulatory requirements. Starting in 2013, the Company, with the assistance of AMEC Earth & Environment UK Ltd, has also developed its GHG reporting in line with new regulations, which amend existing company law requirements in the UK. The data is reported on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within the Company's consolidated financial statements. No responsibility is taken for any emission sources that are not included in the consolidated financial statements. The results of the GHG emissions inventory are presented in the format recommended by the GHG Protocol.

Direct GHG emissions (Scope 1)

The following direct GHG emissions (Scope 1) sources have been identified: flares, heaters, incinerators, boilers, gas turbine plants, electric power stations, compressors and fugitive emissions. Table 1 presents Scope 1 emissions for 2013 and the previous three years. All six GHGs are presented separately and expressed in metric tonnes of CO₂ equivalent (mtCO₂e). 2010 was chosen as the base year as per the National Plan for GHG Quota Distribution for 2013 pursuant to the Republic of Kazakhstan government resolution 1588 dated 13 December 2012.

Historically, the major part of stationary combustion emissions was attributed to flaring of associated gas at the oil treatment unit (OTU) and the gas treatment facility (GTF). The situation changed considerably after the GTF was completed.

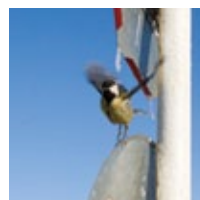
Table 1: Scope 1 GHG emissions subdivided by gas types

GHG emissions (mtCO ₂ e)	2010	2011	2012	2013
Carbon dioxide (CO ₂)	240,259.4	420,992.8	256,050.4	182,325.0
Methane (CH ₄)	81.4	15,419.7	805.2	28,708.0
Nitrous oxide (N ₂ O)	1,308.4	1,188.4	283.1	209.3
Hydrofluorocarbons (HFCs)	3.0	3.0	16.1	16.1
Perfluorocarbons (PFCs)	-	-	-	-
Sulphur hexafluoride (SF ₆)	-	-	-	-
Total	241,652.2	437,603.9	257,154.8	211,258.4

Table 2 presents Scope 1 emissions subdivided by source types.

Table 2: Scope 1 GHG emissions subdivided by source types

GHG emissions (mtCO ₂ e)	2010	2011	2012	2013
Stationary combustion	240,383.3	433,132.5	252,138.9	207,400.8
Mobile combustion	1,194.3	2,086.7	2,312.1	2,876.2
Process sources	-	-	-	-
Fugitive sources	74.6	2,384.7	2,703.8	981.4
Agricultural sources	-	-	-	-
Total Scope 1	241,652.2	437,603.9	257,154.8	211,258.4



How we've made our operations Successful

In 2013, total GHG emissions, in Mt CO₂e have reduced by 21.3%.

Strategic report

Corporate social responsibility

continued

Our environment

Indirect GHG emissions (Scope 2)

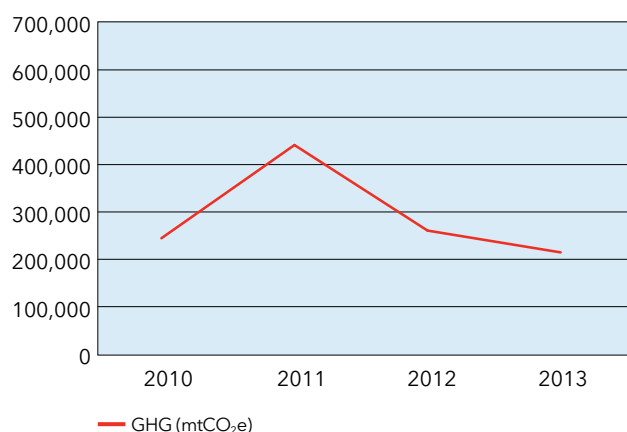
Nostrum does not use purchased steam, heating or cooling. The only purchased power related to indirect GHG emissions is electrical power, which is supplied to Nostrum facilities via the Zelenovskaya distribution network (ZapKazREK JSC) through its subsidiary Batys Energoresursy LLC. The regional emission factor (0.27086 tCO₂/MWh) was calculated using Methodical Guidelines for the Calculation of GHG Emissions from Electrical Power Stations and Boiler Houses (Astana, 2010) and regional net thermal efficiency of Urals Natural Gas Fired Power Plants (73.3%).

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

Table 3: Scope 1, Scope 2, and total GHG emissions

GHG emissions (mtCO ₂ e)	2010	2011	2012	2013
Direct (Scope 1)	241,652.2	437,603.9	257,154.8	211,258.4
Indirect energy (Scope 2)	3,464.0	3,766.5	4,094.5	4,053.9
Total emissions (mtCO ₂ e)	245,116.2	441,370.4	261,249.3	215,312.3

Total GHG emissions (mtCO₂e)



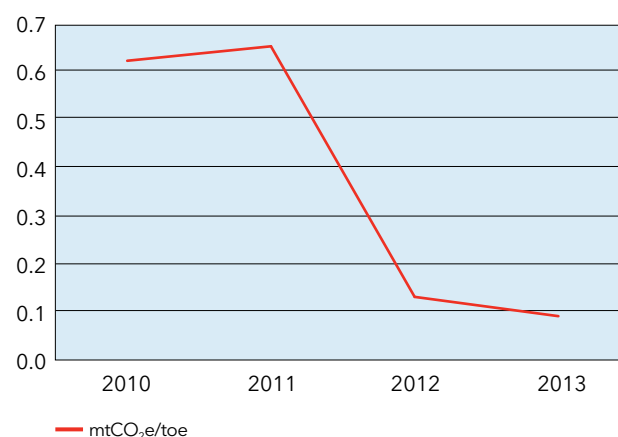
Emissions intensity ratio

Tonnes of CO₂e per tonne of output is a recommended intensity ratio for the oil and gas sector, as per Appendix F of the Defra Environmental Reporting Guidelines (2013). Taking into account the variety of Nostrum Oil & Gas's products – crude oil, stabilised condensate, LPG and dry gas – the chosen intensity ratio is expressed in metric tonnes of CO₂e (mtCO₂e) per tonne of oil equivalent (toe) or millions of barrels of oil equivalent (mmboe). Table 4 shows intensity ratios for total (Scope 1 + Scope 2) emissions in the period 2010 to 2013.

Table 4: Emissions intensity ratios for total GHG emissions

Production - intensity ratio	2010	2011	2012	2013
Production, toe	392,000	672,000	1,890,000	2,307,748
mtCO ₂ /toe	0.62	0.65	0.13	0.09
Production, mmboe	2.8	4.8	13.5	16.48
mtCO ₂ /mmboe	87,541.50	91,952.17	19,351.80	13,065.07

Emission intensity ratios (mtCO₂/toe)



GHG emissions were considerably reduced after the GTF came into operation in 2012. Further reductions in 2013 were related to decreased volumes of fuel gas consumed, despite putting into operation additional energy facilities. A justification of the GHG emission factor for gas combustion was introduced in 2013 using JSC Zhasyl Damu spreadsheet software.

Developing a GHG reduction capacity

According to its GHG emissions reduction strategy, Nostrum will determine its potential for GHG emissions reduction with the subsequent introduction of energy- and resource-saving measures. To establish this reduction potential we will:

- create a conceptual framework for our greenhouse gas emissions enterprise management system (GHG EMS);
- create a consistent information system for GHG emissions monitoring;
- perform an energy audit at the Company's production facilities;
- develop an action plan to improve energy efficiency at industrial sites;
- develop the concept of transition to low-carbon development;
- consider the participation of the Company in carbon finance activities; and
- demonstrate the efficiency of the Company's GHG emissions reduction measures.

To meet these ambitious targets, Nostrum plans to strengthen its QHSE department, conduct training for managers, and identify contractors able to provide effective assistance in improving energy efficiency and reducing GHG emissions.

External audits

AMEC Earth & Environment UK Ltd carried out its first environmental study for Nostrum in 2007. From 2012, this has become an annual exercise, and the now yearly audit also includes an extensive health and safety assessment, over and above the standard environmental assessment.

AMEC Report (2013)

The AMEC Report 2013 can be summarised as follows:

- LLC Nostrum demonstrated a significant number of positive developments in environmental and industrial safety and integrity of approach to the development and improvement of its relevant management system;
- the audit of the Company's production entities did not reveal significant noncompliance with state laws and regulations and international standards;
- AMEC notes that production activities of the Company comply with high standards of industrial and environmental safety; and
- the Company generally complies with the requirements established by state laws and regulations and international standards related to onshore oil and gas development.



How we've been Sustainable

In accordance with our PSA, we contributed US\$452,000 in 2013 to a liquidation fund which will ensure the safe removal of property and equipment at the end of the licence period.

Strategic report

Financial review

Financial review by the Chief Financial Officer, Jan-Ru Muller



KEY PERFORMANCE INDICATORS

Net cash from operating activities (US\$ million)

2013: 358.6

2012: 291.8

2011: 132.2

Net cash from operating activities is the total of all cash receipts and payments associated with Nostrum Oil & Gas's sales. This indicator reflects the Group's ability to generate cash for investment and distribution.

Net income (US\$ million)

2013: 219.5

2012: 162.0

2011: 81.6

Income for the period is the total of all Nostrum Oil & Gas's earnings, and is of fundamental importance for a sustainable commercial enterprise.

Net cash used in investing activities (US\$ million)

2013: 239.0

2012: 269.7

2011: 103.7

Net cash used in investing activities is capital investment (capital expenditure, exploration expense, new equity and loans in equity-accounted investments and leases and other adjustments), less divestment proceeds.

Production (mboe)

2013: 16.9

2012: 13.5

2011: 4.8

Production is the sum of all average daily volumes of unrefined oil products (crude oil and stabilised condensate) and gas products (LPG and dry gas) produced for sale. Changes in production have a significant impact on the Group's cash flow.

Proven oil and gas reserves
(mboe)

2013:	199.2
2012:	194.8
2011:	169.1

Proven oil and gas reserves are the total estimated quantities of oil and gas, as at August 31, that can, with reasonable certainty, be recovered in future years from known reservoirs under existing economic and operating conditions. Gas volumes are converted into barrels of oil equivalent (boe). Reserves are crucial to an oil and gas company, since they constitute the source of future production.

Cash distributions
(US\$ per common unit)

2013:	0.34
2012:	0.32
2011:	-

In September 2012, the board of directors approved the implementation of an ongoing distribution policy with the intention of making an annual distribution of not less than 20% of the partnership's consolidated net profit. This policy reflects Nostrum Oil & Gas's desire to recognise the growth and cash generation inherent in the business. In the future the policy will be progressively reviewed by the board of directors in line with the achievement of Nostrum Oil & Gas's strategic milestones.

REVENUE, EXPENSES AND RESULTS**Results for the year**

The Group realised a net income of US\$219.5 million in 2013, an increase of US\$57.5 million on the net income of US\$162.0 million in 2012. This higher profitability was driven by increased revenue from increased production of hydrocarbons.

Revenue increased by US\$157.9 million, or 21.4%, to US\$895.0 million in the year ended 31 December 2013, up from US\$737.1 million in the year ended 31 December 2012, primarily due to the increase in output from the GTF.

Cost of sales increased by US\$48.0 million, or 20.2%, to US\$286.2 million in the year ended 31 December 2013, up from US\$238.2 million in the year ended 31 December 2012, primarily due to an increase in depreciation, depletion and amortisation, royalties, government profit share, materials and supply expenses and changes in stock, partially offset by a decrease in payroll and related taxes, well workover costs and repair and maintenance expenses. The increase of 20% in the cost of sales is in line with the increase in revenue in 2013 of 21% compared to 2012. On a boe basis, cost of sales decreased marginally by US\$0.5, or 2.86%, to US\$16.98 in the year ended 31 December 2013 down from US\$17.48, and cost of sales net of depreciation per boe decreased by US\$0.12, or 1.12%, to US\$9.92 in the year ended 31 December 2013, down from US\$10.04 in the year ended 31 December 2012.

Depreciation, depletion and amortisation increased by 17.3%, or US\$17.6 million, in the year ended 31 December 2013 to US\$119.0 million up from US\$101.4 million in the year ended 31 December 2012. The increase is due to an increase in production without a similar increase in Proven developed reserves during the period.

Royalty costs are calculated on the basis of production and market prices for the different products. Royalties rose 15.1% to US\$39.4 million in the year ended 31 December 2013, up from US\$34.2 million, whereas production was up 25% to an average production of 46,178 boepd in 2013, from 36,940 boepd in 2012. The average Brent price for the year was down 0.5% to US\$108.41 per bbl, from US\$109.03 per bbl in 2012.

Costs for government profit share increased by US\$22.8 million, or 289.3%, to US\$30.8 million in the year ended 31 December 2013, up from US\$7.9 million in the year ended 31 December 2012, mainly due to the fact that the cost oil balance which had been carried forward from previous years was depleted in August 2013, causing the government share to substantially rise in the second half of 2013.

Materials and supply expenses, taken together with repair, maintenance and other services and well workover costs, increased 8% to US\$70.5 million in 2013, up from US\$65.3 million in 2012. The increase of 130% in materials and supplies from US\$5.3 million in 2012 to US\$12.2 million in 2013 is the result of repair and maintenance works in 2013 being focused on the facilities, specifically the GTF, and to a lesser extent on wells.

General and administrative expenses decreased by US\$4.4 million, or 7.3%, to US\$60.4 million in the year ended 31 December 2013, from US\$64.9 million in the year ended 31 December 2012, due primarily to a decrease in social programme expenditures of US\$21.5 million in the year ended 31 December 2013, from US\$21.8 million in the year 31 December 2012. This decrease was related to the completion in 2012 of the construction of a 37-kilometre asphalt road accessing the field site, with no similar expense incurred in 2013. The decrease in social costs was primarily offset by increased management fees and professional services.

Strategic report

Financial review

continued

Selling and transportation expenses increased by US\$18.1 million, or 17.5%, to US\$121.7 million in the year ended 31 December 2013, up from US\$103.6 million in the year ended 31 December 2012. This was driven primarily by an increase of US\$15.4 million in loading and storage costs to US\$37.0 million in the year ended 31 December 2013, up from US\$21.6 million in the year ended 31 December 2012. This increase was primarily driven by the rise in output of LPG and condensate volumes.

Finance costs decreased by US\$3.2 million to US\$43.6 million in the year ended 31 December 2013, down from US\$46.8 million in the year ended 31 December 2012. The decrease in costs was primarily driven by the raising of a new bond in November 2012 with a significantly lower interest rate, with which an earlier bond was repaid.

Foreign exchange loss amounted to US\$636,000 in the year ended 31 December 2013, compared to a gain of US\$776,000 in the year ended 31 December 2012.

Other expenses increased to US\$25.6 million in the year ended 31 December 2013, up from US\$6.6 million in the year ended 31 December 2012. The increase in other expenses was due to the increase in export duties paid by the Group. The export duties represent custom duties for the export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc. The Kazakh custom authorities, based on their interpretation of CIS free-trade legislation, have imposed custom duties on oil exports from Kazakhstan to Ukraine starting from December 2012.

Profit before income tax amounted to a profit of US\$362.0 million in the year ended 31 December 2013, compared to a profit of US\$282.4 million in the year ended 31 December 2012. The higher profitability was driven primarily by the increased revenue due to the increase in output of the GTF.

Income tax expense increased to US\$142.5 million in the year ended 31 December 2013, compared to US\$120.4 million in the year ended 31 December 2012, an 18.4% increase. The increase in income tax expense was primarily due to the increase in profit before income tax.

The following table shows the Group's revenue, sales volumes and the commodity price of Brent crude oil for the years ended 31 December 2013 and 2012:

Year ended 31 December	2013	2012
Revenue		
Sales volume (boe)	16,854,970	13,629,245
Average Brent crude oil price on which Nostrum Oil & Gas based its sales (US\$/bbl)	108.4	107.4
Total revenue (US\$ million)	895.0	737.1

The following table shows the Group's revenue breakdown by product for the years ended 31 December 2013 and 2012:

Year ended 31 December (US\$ '000s)	2013	2012
Revenue		
Oil and gas condensate	709.1	587.4
Gas and liquefied petroleum gas	185.9	149.7
Total revenue (US\$ million)	895.0	737.1

The following table shows the Group's revenue breakdown by export/domestic markets for the years ended 31 December 2013 and 2012:

Year ended 31 December (US\$ '000s)	2013	2012
Revenue		
Revenue from export sales	765.0	630.4
Revenue from domestic sales	130.0	106.7
Total revenue (US\$ million)	895.0	737.1

LIQUIDITY AND CAPITAL RESOURCES

General

During the period under review, Nostrum Oil & Gas's principal sources of funds were cash from operations and amounts raised under the 2010 Notes and the 2012 Notes. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2010 Notes and the 2012 Notes) and to funding capital expenditures and working capital requirements.

Net cash flows from operating activities

Net cash flows from operating activities were US\$358.6 million for the year ended 31 December 2013, as compared to US\$291.8 million for the year ended 31 December 2012 and were primarily attributable to:

- profit before income tax for the year of US\$362.0 million, adjusted by a non-cash charge for depreciation, depletion and amortisation of US\$120.4 million, and finance costs of US\$43.6 million
- a US\$14.5 million increase in working capital primarily attributable to:
 - (i) an increase in receivables of US\$12.6 million,
 - (ii) an increase in prepayments and other current assets of US\$6.8 million and
 - (iii) an increase other current liabilities of US\$8.8 million; and
- income tax paid of US\$145.5 million.

Net cash used in investing activities

The substantial portion of cash used in investing activities is related to the drilling programme and the construction of GTUs 1, 2 and 3. During the period from 1 January 2010 through 31 December 2013, cash used in the drilling programme represented between 43% and 70% of total cash flow from investment activities.

Net cash (used in)/provided by financing activities

Net cash used in financing activities was US\$132.4 million for the year ended 31 December 2013, primarily attributable to the payment of US\$63.2 million in distributions and the interest paid on the Group's 2010 Notes and 2012 Notes.

Cost minimisation policy

The Group's cost control system allows it to closely monitor both capital expenditure and operational expenditure. The Group's policy is to minimise costs on a unit of production basis. With the completion of major pieces of infrastructure, and the ramping up of production capacity, costs per boe produced have come down considerable over the past five years.

Strategic report
Financial review
continued

Principal financial risks and uncertainties

Residual risk level
 High ■ Medium ■ Low ■

Description of risk	Risk management	Result 2013 and exposure 2014	
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 requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise. The treasury policy requires the Group to maintain a minimum level of cash of US\$100 million.	■
Commodity price risk	Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of crude oil. Commodity price risk is extremely significant to results of the Group's operations, given that all sales of crude oil are based on the commodity price. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals.	The Group's hedging policy is that, upon entering into longer term non-scalable capital expenditure commitments, it will hedge up to a maximum of 70% of its liquids production. The instrument the Group has employed in the past is a zero-cost-capped-collar. Such a contract fixes the floor price at a certain predetermined level while limiting the upside risk. The Group intends to maintain the same hedging policy going forward.	■
Foreign currency exchange rate risk	The Group is exposed to foreign currency risk associated with transactions entered into, and assets and liabilities denominated, in currencies other than the functional currency of its operating entities, being the US dollar since 1 January 2009. This exposure is primarily associated with transactions, contracts and borrowings denominated in KZT (Kazakh tenge). Most of the Group's cash inflows as well as its accounts receivable are denominated in US dollars, and most of the Group's expenses are primarily denominated in US dollars.	The Group does not hedge its exposure to foreign exchange rate risk. Foreign exchange rate risk is limited, as the vast majority of its income is denominated in US dollars and expenditures are largely indirectly linked to US dollars as well. Even if procurement contracts are legally required to be stated in KZT, most material contracts have clauses that stipulate a certain exchange rate of the KZT to the US dollars.	■
Interest rate risk	The Group's interest rate risk principally relates to interest receivable and payable on its cash deposits and borrowings.	The Group does not hedge interest rate risk, nor does it swap a fixed interest rate for a variable interest rate or vice versa. The Notes bear interest at a fixed coupon. The interest on the remaining portion of the 2010-2015 bond is 10.5%. The interest on the main 2012-2019 bond is 7.125%.	■
Credit risk	Nostrum Oil & Gas sells all of its crude oil pursuant to contracts with one or more oil trader(s) who purchase(s) its production.	Nostrum Oil & Gas's policy is to mitigate payment risk by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.	■

Five-year summary

In millions of dollars	2009	2010	2011	2012	2013
Revenue	116.0	178.2	300.8	737.1	895.0
Cost of sales	(44.0)	(53.9)	(70.8)	(238.2)	(286.2)
Gross profit	72.0	124.3	230.0	498.8	608.8
General and administrative expenses	(29.7)	(28.1)	(39.5)	(64.9)	(60.4)
Selling and transport expenses	(5.7)	(17.0)	(35.4)	(103.6)	(121.7)
Finance costs	(7.8)	(20.5)	(1.7)	(46.8)	(43.6)
Foreign exchange (loss)/gain, net	(2.2)	0.0	(0.4)	0.8	(0.6)
Gain/(loss) on derivative financial instrument	(16.9)	(0.5)	-	-	-
Other expense	(1.6)	(1.1)	(7.9)	(6.6)	(25.6)
Other income	0.7	3.3	3.4	3.9	4.4
Profit before income tax	8.8	60.8	149.0	282.4	362.0
Income tax expense	(27.6)	(37.9)	(67.3)	(120.4)	(142.5)
Net income	(18.8)	22.9	81.6	162.0	219.5
Non-current assets	819.8	965.1	1,126.9	1,251.6	1,426.0
Current assets	183.0	172.4	179.3	351.1	334.8
Total assets	1,002.8	1,137.6	1,306.2	1,602.7	1,760.8
Equity	477.8	500.7	585.2	695.1	832.5
Non-current liabilities	449.8	546.6	599.7	781.9	793.6
Current liabilities	75.3	90.3	121.3	125.7	134.7
Total liabilities	525.0	636.9	720.9	907.6	928.3
Liabilities and equity	1,002.8	1,137.6	1,306.2	1,602.7	1,760.8
Net cash flows from operating activities	45.9	99.0	132.2	291.8	358.6
Net cash used in investing activities ¹	(200.7)	(132.2)	(103.7)	(269.7)	(239.0)
Net cash used in financing activities	279.4	39.7	(47.4)	50.4	(132.4)
	2009	2010	2011	2012	2013
Profit margin %	(16.2%)	12.9%	27.1%	22.0%	24.5%
Equity/assets ratio %	47.6%	44.0%	44.8%	43.4%	47.3%
GDR price at end of period (US\$)	8.50	12.30	9.70	10.70	13.00
GDRs outstanding ('000s)	185.000	185.000	185.315	188.183	188.183
Options outstanding ('000s)	2.733	2.983	2.868	2.132	2.912
Dividend per GDR (US\$)	-	-	-	0.32	0.34

¹ IFRS term based on indirect cash flow methodology.

Strategic report

Principal risks and uncertainties

Principal risks and uncertainties

Residual risk level
High ■ Medium ■ Low ■

Risk category	Description of risk	Risk management	Impact	Likelihood of occurrence
Single revenue source	The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue.	In 2013 the Group completed the acquisition of subsurface use rights in three oil and gas fields near the Chinarevskoye field and will consider further acquisitions of oil and gas fields.	■	■
Development projects	The Group's planned development projects, in particular GTF phase 2, are subject to customary risks related to delay, non-completion and cost overruns, which could impact future production.	The Group has engaged Ferrostaal, an experienced international project management firm, to manage its development of GTF phase 2 and is contracting with reputable international equipment suppliers employing proven technologies for the project.	■	■
Commodity prices	The Group's current or future earnings could be adversely impacted by changes in the market price of crude oil. Commodity price risk is extremely significant to the Group's results given that all sales of crude oil are based on the commodity price. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals.	The Group's current hedging policy is that, upon entering into longer term non-scalable capital expenditure commitments, it will hedge up to a maximum of 70% of its liquids production. The instrument the Group has employed in the past is a zero-cost-capped-collar. Such a contract fixes the floor price at a certain predetermined level while limiting the upside risk.	■	■
Interest rates	This risk principally relates to interest receivable and payable on the Group's cash deposits and borrowings.	The Group does not hedge interest rate risk nor does it swap a fixed interest rate for a variable interest rate or vice versa. The Group's Notes bear interest at a fixed coupon.	■	■
Subsoil use agreements	The Group may have disagreements with the Kazakh government regarding its subsoil operations or compliance with the terms of its subsoil use agreements.	The Group believes that it is in full compliance with the terms of its subsoil use agreements and maintains an open dialogue with Kazakh governmental authorities in this regard.	■	■
Environmental compliance	The legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times.	The Group has strengthened its HSE department over the past 18 months and regularly commissions independent environmental audits to monitor its compliance and best practice in this area.	■	■
Tax law uncertainty	The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create a risk of additional payments of tax from assessments which the Group believes it is not subject to.	The Group regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.	■	■
Gas sale price	The Group could be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve.	Based on the terms of its PSA and applicable law the Group does not believe that such legislation is applicable in its subsoil use of the Chinarevskoye field and has conveyed such a view to the Kazakh government.	■	■

The risks listed above do not comprise all those associated with the Group's business and are not set out in any order of priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the Group's business. The risks listed above are constantly monitored by the management team and assessed when making business decisions.

The Group is exposed to a variety of risks and uncertainties in connection with its activities – the principal ones being listed in the table opposite – and actively seeks to eliminate or mitigate such risks and uncertainties.

Further information on the financial risks faced by the Group and how they are managed is provided in the notes to the financial statements attached to this annual report.



Corporate governance

Committed to excellence in our governance

- 65 Chairman's overview
- 66 Corporate governance
- 69 Remuneration report
- 70 Board of directors
- 72 Nostrum Oil & Gas
Management team
- 74 Zhaikmunai LLP
Management team
- 76 Audit committee report



Chairman's overview

"I am pleased that the Group has made significant progress toward achieving best practice in many areas of corporate governance."



Nostrum Oil & Gas is committed to implementing good corporate governance practices, in the interest of all of our stakeholders. Adopting and implementing good corporate governance is a core principle of the Group in how we conduct our relations with investors, employees, customers, suppliers and business partners.

I am pleased that the Group has made significant progress towards achieving best practice in many areas of corporate governance since the partnership's GDRs were first listed on the London Stock Exchange. The interim financial statements and operational updates that we now make available to the market are examples of our movement toward best practice in this area.

Our board committees have also become significantly more active over the past 12 months in carrying out their roles establishing processes, procedures and controls and informing and advising the board as a whole of the issues relevant to their terms of reference. In addition, the board itself carries out regular self-evaluations of its activity and effectiveness, and I believe that this process will make the board a more valuable asset and will guide the business going forward.

The board continuously takes into account corporate governance considerations when making plans and setting out the Group's strategy and priorities.

The board is committed to imbuing the Group's declared principles and values throughout our business, as we firmly believe that this will further contribute to the Group's long-term success as we grow.

As a limited partnership with GDRs admitted to the official list of the FCA, the partnership is not required to comply with the provisions of the UK Corporate Governance Code. There are no statutory corporate governance recommendations applicable to limited partnerships formed in the Isle of Man. However, the board has established a corporate governance code for the Group and, in developing such a code, the general partner has given consideration to the best practice provisions on corporate governance set out in the UK Corporate Governance Code. A copy of the partnership's corporate governance code is available on the partnership's website.

The general partner, in consultation with the partnership's independent accountants and legal advisers, has also put in place procedures to comply with the internal control aspects of its corporate governance code. The board believes that it has put in place sufficient controls to allow it to ensure that the Group is able to comply with its ongoing obligations under the UK Listing Rules and the Disclosure and Transparency Rules, and under the rules applicable in Kazakhstan and the other exchanges on which its securities are traded.

The board considers that the partnership has complied throughout the 2013 annual accounting period with all relevant provisions set out in its corporate governance code.

Our directors possess diverse sector experience, ages, geographic and ethnic backgrounds. We believe that the directors have the appropriate mix of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively. The Group is also committed to achieving gender diversity at board level, and whilst there are currently no women on our board we will actively seek to add women to the board. We will continue to add directors based on objective criteria, to avoid tokenism and ensure the most qualified individuals are appointed to this role.

We pride ourselves on taking a practical rather than formalistic approach to corporate governance, as we endeavour to act in the interests of all our stakeholders. I am pleased with the great strides the Group has made in this area as our governance framework has grown alongside the business as a whole.

A handwritten signature in black ink, appearing to read 'Frank Monstrey', written over a light blue horizontal line.

Frank Monstrey
Chairman

Corporate governance

Corporate structure

The Group's listed entity, Nostrum Oil & Gas LP, is a limited partnership which is organised under the laws of the Isle of Man, but which has its head office in Amsterdam and which is tax-resident in the Netherlands. The management of the Group is exercised by the board of directors of Nostrum Oil & Gas Group Limited, the general partner of the limited partnership. The board sets the strategy, policies and values applicable to all Group companies.

The management of the Group's principal operating subsidiary, Zhaikmunai LLP, a limited liability partnership organised under the laws of Kazakhstan, is exercised by its General Director on the basis of its articles of association (or charter) and decisions taken by the general meeting of its participants, which in each case are subject to the matters reserved for decision by the board of the general partner of the partnership.

This section of the annual report describes how the board of directors of the general partner has applied the main principles set out in the Group's corporate governance code.

The board of directors of the general partner

The board of directors of the general partner of the partnership considers all important management and policy matters in relation to the partnership and the Group. This includes setting the partnership's strategic aims, ensuring that the necessary financial and human resources are in place for the partnership to meet its objectives, and reviewing Group management performance. The board also sets the Group's values and standards and ensures that its obligations to all stakeholders are understood and met. A number of key matters are reserved for the board's decision and are not delegated to management. A schedule of matters reserved for the board's decision, along with the terms of reference of the board's committees, can be found on the Group's website.

The board currently has eight members, two executive directors and six non-executive directors, of whom three are considered by the board to be independent non-executive directors. There is a wide mix of nationalities represented on the Board, namely Belgian, English, German, Russian and Indian.

Board roles and responsibilities

Within the board, the roles of the chairman and chief executive officer are separate, with each having distinct and clearly defined responsibilities. The chairman, Frank Monstrey, is responsible for leadership of the board and for ensuring its effectiveness in all aspects of its role. The chairman sets the agenda for board meetings in consultation with the chief executive officer and the Group general counsel. The chairman is also responsible for ensuring that the directors receive accurate, timely and clear information, and that there is effective communication with the limited partners. The chief executive officer, Kai-Uwe Kessel, provides leadership to the Group which enables the successful planning and execution of the objectives and strategies agreed by the board. He is also responsible for care of the Group's assets and, jointly with the chairman, representation of the Group to third parties.

Eike von der Linden is the senior independent non-executive director on the board. He provides a sounding board for the chairman and serves as an intermediary for the other directors when necessary. He is available should the need arise to convey concerns to the board, other than through the chairman or the chief executive officer.

The other five non-executive members of the board are Piet Everaert, Atul Gupta (independent director) Mikhail Ivanov, Pankaj Jain and Steve McGowan (independent director). The board held five meetings in 2013, four of which were regular scheduled meetings. Messrs Monstrey, Kessel, McGowan, Everaert, von der Linden, Gupta and Ivanov attended five board meetings and Mr Jain attended four board meetings in 2013. Four board meetings are currently scheduled for 2014.

Board members also held a special meeting in Berlin on 17 February 2014 with geologists, reservoir engineers and drilling experts from the Group to review the geology of the Chinarevskoye field, reserves and field development plans. Various presentations were made to the directors and discussion sessions were held on the Group's strategy and activities in these areas.

The board remains firmly focused on identifying and understanding the risks, whether they be operational, financial, legal or reputational, faced by the Group, and developing our internal controls and approach to managing such risks, to put the Group in the best position to achieve its strategic objectives.

Board self-evaluation

The board conducts an annual self-evaluation of its performance and effectiveness and, in connection with that process, considers the independence of its non-executive directors. Following the 2013 review, the board considers that each of Messrs von der Linden, Gupta and McGowan continue to demonstrate their independence as directors of the general partner of the partnership.

In 2013 a detailed questionnaire was prepared by the Group general counsel and distributed to each board member for their feedback regarding the board's performance and effectiveness. The directors were asked to provide their views on a range of subjects, including multiple questions in four principal areas: leadership, effectiveness, accountability and engagement.

The responses to the questionnaires were then collected, reviewed by the chairman and discussed with the other directors. Key findings and action items coming out of the self-evaluation include:

- It was suggested that there should be additional information provided to the independent directors in relation to recruitment of personnel and human resources strategy. The executive directors have adopted an action item to provide additional information in this area to the board in 2014.
- It was suggested that more time should be devoted to strategic discussion, as opposed to operational and financial reporting. The executive directors have adopted an action item which seeks to shift the balance of information presented to the board, to focus more on strategic matters, and less on simple reporting of operational and financial developments.
- It was noted that materials for consideration by the board in board meetings are not being distributed to board members sufficiently in advance of meetings, and the general partner has adopted an action item to make significant improvement in this area in 2014.
- It was suggested that there should be more information provided to the board regarding the decision-making of the remuneration committee. This has been adopted as an action item for 2014.

Director induction

Each individual joining the board receives a full, formal induction package with materials on the Group's business, and operational, financial and legal matters. They also participate in discussions with members of the board and representatives of major shareholders in order to obtain a good understanding of the challenges and opportunities faced by the Group.

Board committees

The board can delegate any of its powers, authorities and discretions (with power to sub-delegate) for such time, on such terms, and subject to such conditions as it thinks fit to any committee consisting of one or more directors. The board has established an audit committee and a remuneration committee, and will utilise other committees as necessary to ensure effective governance.

Audit committee

The board has established an audit committee that operates pursuant to written terms of reference. The audit committee is required to consist of at least two independent directors and at least one member who has recent and relevant financial experience. The audit committee consists of Mr McGowan, Mr von der Linden and Mr Gupta, each of whom is considered to be an independent director, and Mr von der Linden serves as chairman. The board considers each member of the audit committee to have appropriate financial experience. Please see page 76 for more detail on the audit committee.

Remuneration committee

The remuneration committee assists the board in determining its responsibilities in relation to remuneration, including making recommendations to the board on its policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors and recommending and monitoring the remuneration of senior management below the level of the board.

The remuneration of the non-executive directors is a matter for the board as a whole. The remuneration committee is currently comprised of Mr Monstrey (as chairman), Mr McGowan, Mr von der Linden, and Mr Ivanov, and schedules meetings not less than twice per year. At least one member of the remuneration committee must be an independent director.

As noted above, the remuneration committee has adopted an action plan to increase information provided to the board as a whole regarding its decision-making in 2014.

Communication with shareholders

Nostrum is in regular contact with its shareholders. We regularly issue press releases, we attend investor conferences globally, and our quarterly, half-yearly and annual results are always followed by an investor call. We are available for shareholder meetings with management and welcome enquiries. We are continually reacting to feedback to ensure our communications are in line with requests. Extensive information is available on our website, where shareholders or those with an interest in the Group can log their details to receive email updates. All shareholders are encouraged to attend the AGM to discuss the progress of the Group.

Corporate governance

continued

Management team

The board delegates to the management team the responsibility for overseeing the implementation by the partnership and its subsidiaries of the policies and strategy that it sets, and for facilitating the prerequisites for successful ongoing operations. The chief executive officer, Kai-Uwe Kessel, who has extensive experience in the oil and gas industry, leads the management team. All of the other members of the management team have significant experience in the oil and gas sector in general, and in Kazakhstan in particular. The members of the management team include the Group chief financial officer, the Group deputy chief executive officer, the Group general counsel, and the Zhaikmunai LLP general director, chief financial officer, chief operating officer, director of geology, commercial director and drilling director.

Annual general meeting ('AGM')

The annual general meeting of limited partners of the partnership was held on 28 June 2013, and members of the board and senior management were available to speak to limited partners and answer questions before and at the meeting. During the meeting itself, all resolutions presented were passed with votes ranging from 98.18% to 99.98% of the votes cast.

The 2014 AGM will be held in Amsterdam on a date to be specified in the Notice of Meeting to be published later this year, together with the resolutions to be proposed at the meeting. Details of the Notice will be published on the Group's website. Shareholders unable to attend the AGM are encouraged to vote in advance of the meeting by using the proxy form sent with the Notice of Meeting.

Group Code of Conduct

The board has adopted a Code of Conduct for the Group that requires all Group personnel to act ethically and with integrity, to comply with all applicable laws and regulations and to act appropriately in the areas of personal conduct and equal opportunities. The Code of Conduct addresses conduct in the areas of health, safety and the environment, antitrust and competition, insider trading, maintaining records, controls and audits, conflicts of interest, prohibited payments, gifts and favours, interests in other businesses, activities in other businesses, use of Group assets, confidentiality, communication with outside parties, electronic security, personal data, personal conduct, equal opportunity, and controlled substances. The Code of Conduct can be found on the partnership's website.

Dealing Code

In addition, the board has adopted a Dealing Code for the members of the board, any persons discharging managerial responsibilities within the group and any relevant Group employees who may become aware of price-sensitive information, which is based upon the Model Code set out in the UK Listing Rules. The Dealing Code is designed to ensure that such persons do not deal in any of the Group's securities when they or the Group is in possession of inside information or during close periods in accordance the UK Disclosure and Transparency Rules. The general partner is committed to taking all reasonable steps to ensure compliance with this Code by members of the board, all persons discharging managerial responsibilities, and any relevant employees of the Group.

Takeover Code

As a matter of law the UK Takeover Code does not apply to the partnership. As a result, a takeover offer for the limited partnership will not be regulated by the UK takeover authorities. However the partnership's limited partnership agreement does include a number of takeover protections similar to those found in the UK Takeover Code, although these do not provide the full protections afforded by the Takeover Code.

No failures of corporate governance were identified in 2013.

Remuneration report

	Elected	Born	Executive director	Independent director	Board of directors fee (USD)	Audit committee fee (USD)	Remuneration committee fee (USD)	Total (USD)
Frank Monstrey	2007	1965	Yes	No	0*	-	0	0*
Kai-Uwe Kessel	2007	1961	Yes	No	0*	-	-	0*
Eike von der Linden	2007	1942	No	Yes	100,000	0	0	100,000
Steve McGowan	2007	1966	No	Yes	100,000	0	0	100,000
Piet Everaert	2007	1962	No	No	100,000	-	-	100,000
Atul Gupta	2009	1959	No	Yes	100,000	0	-	100,000
Mikhail Ivanov	2009	1969	No	No	100,000	-	0	100,000
Pankaj Jain	2012	1967	No	No	100,000	-	-	100,000

* Mr Monstrey and Mr Kessel are remunerated for their services as Group executives through management fees payable under a technical assistance agreement with Probel Capital Management nv.

Shareholding of directors and senior managers

On 27 March 2008, the board approved a grant of options pursuant to the Group's stock option plan in respect of GDRs representing 2.5% of the partnership interests outstanding immediately prior to the admission to listing of the GDRs (being 100,000,000 partnership interests). The board has subsequently issued certain additional options pursuant to the plan. As at 31 December 2013, Nostrum Oil & Gas LP had granted a total of 4,297,958 options, of which 2,912,348 were outstanding and 1,808,348 were exercisable.

As at 31 December 2013, the following directors and senior managers of Group companies (or their associates) held the following options over GDRs representing partnership interests, generally vesting over a five-year period, exercisable either at US\$4.00 or US\$10.00 per GDR and expiring ten years from the date of grant, pursuant to the plan:

Kai-Uwe Kessel	1,100,974 GDRs
Jan-Ru Muller	190,130 GDRs
Thomas Hartnett	250,325 GDRs
Alexei Erber	70,000 GDRs
Jörg Pahl	35,000 GDRs
Heinz Wendel*	200,000 GDRs
Berik Brekeshev	185,000 GDRs
Gudrun Wykrota	170,000 GDRs
Gernot Voigtländer	150,000 GDRs

* Mr Wendel – total compensation for 2013 – €311,000.

In addition, as at 31 December 2013, Mr Kessel owned 10,000 GDRs, Mr von der Linden owned 10,000 GDRs and Mr Everaert owned 12,940 GDRs.

Other disclosures – please see appendix on page 80.

Corporate governance

continued

Board of directors

Frank Monstrey
Chairman



- First appointed as director of Nostrum Oil & Gas in November 2007
- Reappointed as an executive director of the general partner on 28 June 2013
- Since September 2004: has served as chairman of the board of the general partner of the partnership
- Since 1991: chief executive officer of Probel Capital Management, a private equity and asset management firm based in Belgium specialising in long-term capital management in emerging markets
- Holds a degree in Business Economics from the University of Leuven (KUL), Belgium

Eike von der Linden
Independent non-executive director



- First appointed as director of Nostrum Oil & Gas in November 2007
- Reappointed as an independent non-executive director of the general partner on 1 July 2011
- Since 1988: managing director of Linden Advisory and Consulting Services
- Since 1985: independent adviser to financial institutions for equity investments and mezzanine and debt funding (project finance) in the field of natural resources.
- Holds a PhD in mining economics from the Technical University of Clausthal

Kai-Uwe Kessel
Chief executive



- First appointed as director of Nostrum Oil & Gas in November 2007
- Reappointed as an executive director of the general partner on 28 June 2013
- Since November 2004: has served as chief executive officer of the general partner of the partnership
- Since 2005: managing director of Probel Capital Management
- 2002-2005: director of Gaz de France's North African E&P Division
- 1992-2001: managing director of Erdgas Erdöl GmbH, an oil and gas company owned by Gaz de France, and director and chairman of the board of KazGermunai
- Graduate of the Gubkin Russian State University of Oil and Gas

Piet Everaert
Non-executive director



- First appointed as director of Nostrum Oil & Gas in November 2009
- Reappointed as a non-executive director of the general partner on 28 June 2013
- Since 1993: partner in the VWEW Advocaten law firm
- Since 1986: lawyer at the Brussels Bar (active in the field of Belgian business law)
- Graduate from the University of Leuven (KUL) (1984) and from the College of Europe (Bruges) (1985), Belgium

Atul Gupta
 Independent
 non-executive
 director



- First appointed as director of Nostrum Oil & Gas in November 2009
- Reappointed as an independent non-executive director of the general partner on 9 July 2012
- From 1999-2008: chief executive officer (2006-2008) and chief operating officer (1999-2006) of Burren Energy
- Wide experience (25 years) in the international upstream of oil and gas businesses: Charterhouse Petroleum, Petrofina, Monument and Burren Energy
- Graduate in chemical engineering (Cambridge University) and studied petroleum engineering (Heriot Watt University, Edinburgh)

Steve McGowan
 Independent
 non-executive
 director



- First appointed as director of Nostrum Oil & Gas in November 2007
- Reappointed as an independent non-executive director of ZGL on 1 July 2011
- Since 2007: executive chairman of SMP Partners Fiduciary and Trust Company in the Isle of Man
- 2001-2007: served as a member of the board of Edasco (a fiduciary company owned by UBS), and as managing director of Intertrust (Isle of Man)
- 1982: start of banking career at National Westminster Bank in London UK

Pankaj Jain
 Non-executive
 director



- First appointed as director of Nostrum Oil & Gas in November 2012
- Appointed as a non-executive director of ZGL on 28 June 2013
- Since 2009: chief executive officer of KazStroyService (KSS) Group
- Sizeable experience (more than 20 years) in EPC (engineering, procurement and construction) projects in India, Kazakhstan, the Middle East and the Far East.
- Graduate the Regional Engineering College, Trichy, India (BEng Hons in Civil Engineering (Major: oil and gas infrastructure))

Mikhail Ivanov
 Non-executive
 director



- First appointed as director of Nostrum Oil & Gas in November 2009
- Reappointed as a non-executive director of ZGL on 9 July 2012
- Currently: partner and director of oil and gas projects at Baring Vostok Capital Partners and chief executive officer at Volga Gas
- Wide experience (15 years) in the oil and gas industry: ten years with the Schlumberger Group in various management and technical positions in Russia, the USA and the United Kingdom, including operations responsibility in Iran, Georgia and Azerbaijan
- Graduate in Geophysics (MSc) from Novosibirsk State University and Management (MBA) from the Kellogg School of Management of Northwestern University
- Elected member of the Society of Petroleum Engineers

Corporate governance

continued

Nostrum Oil & Gas Management team

Frank Monstrey
Chairman



- First appointed as director of Nostrum Oil & Gas in November 2007
- Reappointed as an executive director of the general partner on 28 June 2013
- Since September 2004: has served as chairman of the board of the general partner of the partnership
- Since 1991: chief executive officer of Probel Capital Management, a private equity and asset management firm based in Belgium specialising in long-term capital management in emerging markets
- Holds a degree in Business Economics from the University of Leuven (KUL), Belgium

Kai-Uwe Kessel
Chief executive officer



- Appointed as an executive director of the general partner on 16 November 2007
- Since November 2004: has served as chief executive officer of the Group
- Since 2005: managing director of Probel Capital Management nv
- 2002-2005: director of Gaz de France's North African E&P Division
- 1992-2001: managing director of Erdgas Erdol GmbH, an oil and gas company owned by Gaz de France, and member and chairman of the board of KazGermunai
- Graduate of the Gubkin Russian State University of Oil and Gas

Jan-Ru Muller
Group chief financial officer



- Appointed as the partnership's chief financial officer on 16 November 2007
- Since 2000: served in various capacities at Probel Capital Management nv (e.g. oversaw Zhaikmunai's adoption of IFRS, implementation of SAP etc.)
- 1990-2000: founder and managing director of Axio Systems (information technology)
- 1988-1990: Andersen Consulting
- Holds a BEng. (Utrecht Municipal Institute of Technology) and an MBA (University of Leuven (KUL))

Thomas Hartnett
Group general counsel



- Appointed as Group general counsel on 5 September 2008
- Has worked on behalf of or with the partnership since 2004
- Previously a partner in White & Case LLP with more than 16 years' experience in cross-border corporate and M&A transactions based in the firm's New York, Istanbul, London, Brussels and Bangkok offices
- 1996-1998: senior corporate counsel for Intercontinental Hotels Group
- Holds a BA in Comparative and Developmental Politics (University of Pennsylvania) and a Juris Doctor degree (New York University School of Law)
- Member of the New York Bar

Jan Laga
Deputy CEO



- Appointed Deputy CEO on 1 January 2010
- Wide experience in industrial group management: Picanol, Berry Group, Ackermans & van Haaren and Koramic
- Holds a Master's degree in electro-mechanical engineering (University of Leuven), and an MBA (INSEAD)

Tom Richardson
Group head of
corporate finance



- Appointed group head of corporate finance on 31 August 2011
- Over seven years experience in banking covering the emerging markets
- BSc in Economics and Politics from Bristol University

Corporate governance

continued

Zhaikmunai LLP Management team

Heinz Wendel
General director



- Appointed as chief operating officer of Zhaikmunai LLP in January 2012, and general director of Zhaikmunai LLP in August 2013, (succeeding Mr Druzhinin)
- Wide experience (30 years) in exploration and production, primarily as an oil and gas engineer
- Served in various managerial and technical capacities in Germany, Poland, Russia and Kazakhstan with GDF Suez E&P, East German Erdöl-Erdgas Gommern (EEG), and others
- Graduate of the Oil & Gas Institute of Baku, Azerbaijan

Gudrun Wykrota
Chief financial officer (LLP)



- Appointed as chief financial officer of Zhaikmunai LLP in April 2010
- Prior experience in the energy field: head of asset management upstream (Gazprom Germania GmbH), finance and administration manager (Gaz de France Production Exploration Deutschland GmbH)
- Holds an MSc (Mining Engineering and Economy) from Moscow Geological Exploration University, and a Certificate in International Accounting from the German Chamber of Industry and Commerce in Berlin, Germany

Berik Brekeshev
Commercial director



- Appointed commercial director of Zhaikmunai LLP in January 2010
- Extensive experience (more than 10 years) in the oil and gas industry in Kazakhstan
- Previously held senior positions with Starleigh Ltd, Tallahassee Holdings Limited and JSC NNGRE, and commercial roles at Nelson Resources, KazakhOil Aktobe, Buzachi Operating, Atlas Global Investment and Western-Siberian Drilling Company
- Holds an MBA (International Marketing) from the Maastricht School of Management

Vyascheslav Druzhinin
Government authorities relations director



- Appointed Government authorities relations director
- Qualified mining engineer from the Polytechnical Institute, Tomsk (Russia) and the USSR Ministry of Geology
- Completed drilling engineer training at the Hughes Christensen Company, Houston, Texas
- Previous experience includes various positions in the Field Development Department of KazakhGaz State Holding Company, State Holding Company "Zharyk" and Volkovgeologia KGGP

Alexei Erber
Director of geology
and reservoir
management



- Appointed as director of geology of Zhaikmunai LLP in October 2007
- Extensive E&P experience (more than 20 years) with the geological and exploration departments of Erdöl-Erdgas Gommern GmbH and Gaz de France
- Graduate of the Gubkin Russian State University of Oil and Gas (Geology and Geology Engineering) and the Ernst Moritz Arndt University of Greiswald (Mathematical Methods in Geology)

Gernot Voigtländer
Director of geology
and reservoir
management



- Appointed as director of geology and reservoir management of Zhaikmunai LLP in 2013
- Previously at GDF Suez Exploration & Production Deutschland GmbH with experience in petroleum geology from 1984
- Extensive subsurface experience in the exploration, appraisal, development and production of hydrocarbons
- Diploma of Geology from the Technical University of Berlin and degree in Exploration Geology from Moscow Institute of Exploration Geology, Russia

Jörg Pahl
Drilling director



- Appointed as drilling director in 2005
- Extensive drilling experience (more than 10 years) in various positions in the Drilling/Workover Technology Department at Erdgas Erdöl GmbH and the Operation and Production Department at the E&P Division of Gaz de France
- Holds qualifications from the Technical School for Deep Drilling Techniques, Stralsund and from the Technical University, TU Bergakademie, Freiberg, Germany (Drilling Technology and Fluid Mining)

Zhomart Darkeev
Administrative
director



- Joined Zhaikmunai in LLP in 1997.
- Previous experience includes Derku Oil & Gas drilling as assistant driller and Kazakhgas State Holding Company as a leading reservoir engineer. At Zhaikmunai LLP, he has held positions of Assistant General Director, Chief Administrative Manager, Engineer Manager and Deputy General Manager.
- Graduate of Furmanov Secondary School with further education completed at the Ivano-Frankivsk Institute of Oil and Gas with a specialization in drilling of oil and gas wells.

Amankeldy Sanatov
Acting operations
director



- Appointed Acting Operations Office in 2013
- Diplomas in Operation of Oil and Gas fields and Oil and Gas Geology from Saraov Chernyshevsky State University
- Has previously worked in other positions within the company including Site Manager, Manager of oil and gas production department and ZKM LLP Field superintendent

Corporate governance

continued

Audit committee report



Eike von der Linden

Independent non-executive director

Introduction

The audit committee oversees the relationship with the external auditors. Ernst & Young has provided audit services to the company prior and subsequent to its listing in 2008 on the secondary GDR market. In May 2013, prior to the company's AGM of shareholders, the audit committee considered and recommended to the board the reappointment of Ernst & Young. This review took into account the results of the auditor assessment process, including the quality of the work and communication undertaken by the external auditor and the level of audit fees. The audit committee discusses the requirements for partner rotation with the external auditor to ensure appropriate independence and objectivity are maintained.

As part of its review of the financial statements prepared by the company, the audit committee reviewed the findings of the external auditor in respect of the financial statements.

The members of the audit committee at 31 December 2013 were Mr Eike von der Linden (Chairman of the Committee), Mr Steve McGowan and Mr Atul Gupta. All members of the Committee are considered to have recent and relevant financial experience.

Compliance with corporate governance standards

Nostrum's approach to corporate governance is primarily based on the UK Corporate Governance Code published by the Financial Reporting Council (FRC) and the Listing Rules of the UK Listing Authority.

As of 31 December 2013, Nostrum complied with all the principles and provisions of the UK Corporate Governance Code (2010 version), in relation to the audit committee.

Role of the audit committee

The audit committee has responsibility for monitoring the integrity of Nostrum plc's Group financial statements. It oversees the Group's relationship with the external auditors and reviews the effectiveness of the external audit process. The audit committee also monitors the activity of the Internal Audit Department and reviews the effectiveness of the Group's internal controls and business risk management systems. The terms of reference of the audit committee are available on the Company's website www.nostrumoilandgas.com, and its duties are categorised under the following headings:

- the accounting and financial reporting processes of Nostrum Oil & Gas LP;
- the integrity and audits of the financial statements of Nostrum Oil & Gas LP;
- the Issuer's compliance with legal and regulatory requirements; and
- the qualifications, performance and independence of the independent auditor of Nostrum Oil & Gas LP.

The audit committee met five times in 2013 and once between the beginning of 2014 and the publication date of this annual report. Committee members were present in person at two of the meetings, while three meetings were conducted by conference call. The external auditor was present at the two meetings where the Group's annual financial statements were discussed. Such presence provided the auditors with the opportunity to gain direct information relevant to the external audit process, as well as assist the audit committee with guidance on technical issues and factors relevant to the auditors when exercising their professional judgement.

The following sections summarise how the audit committee has fulfilled its duties in 2013, including the committee's review of the 2013 Annual Report and Financial Statements.

Financial reporting

At its meeting in March 2013, the audit committee reviewed the 2012 management letter from the auditors along with the Group's 2012 audited financial statements.

At its May 2013 meetings, the audit committee reviewed the 2013 first quarter interim unaudited condensed consolidated financial statements. Following the review, the audit committee recommended the interim unaudited condensed consolidated financial statements for approval by the directors.

At its August 2013 meeting, the audit committee reviewed the 2013 second quarter interim unaudited condensed consolidated financial statements. Following the review, the audit committee recommended the interim unaudited

condensed consolidated financial statements for approval by the directors.

At its November meeting the audit committee reviewed the 2013 third quarter interim unaudited condensed consolidated financial statements. Following the review, the audit committee recommended the interim unaudited condensed consolidated financial statements for approval by the directors.

The following table sets out the attendance of each director at scheduled Nostrum board and board committee meetings. Board meetings and committees attendance during 2013:

Subject of meeting	2012FY	Appointment of the Auditor	2013Q1	2013Q2	2013Q3
Date of meeting	12-03-'13	13-05-'13	14-05-'13	16-08-'13	14-11-'13
Mr E. von der Linden	V	V	V	V	V
Mr A. Gupta	V	V	V	V	V
Mr S. McGowan	V	-	-	-	-

Whistleblowing arrangements

Nostrum has established a whistleblowing policy and has also appointed two multi-lingual points of contact: one contact in Uralsk, easily accessible for employees working in Kazakhstan, and one contact in Brussels, easily accessible for employees working in western Europe.

Internal audit

The audit committee receives quarterly reports and monthly updates from the Group's CFO throughout the year. The monthly report summarises current business performance and issues. The quarterly reports encompass the results of audits and any consequential agreed management action with regard to significant audit findings.

The Group is in the process of establishing an internal audit function. The annual audit programme, across all operations, will be structured to complete annual audits of the key financial and operational cycles. The key business cycles include processes and activities in production, operational and capital expenditure, inventory management, marketing and sales, finance and reporting, treasury, fixed assets, human resources, HSE and IT.

Internal controls and risk management

As part of the Group's intended change to a primary listing, a comprehensive financial procedures report is being prepared detailing the Group's internal controls and risk management systems and activity. The Audit Committee requested that, following this report, a Group internal control manual be created. The Group has in place internal controls and risk management systems in relation

to the processes for both financial reporting and the preparation of consolidated statements. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with IFRS.

The board has overall responsibility for the Group's systems of internal control, which includes risk management, and for reviewing the effectiveness of these systems. The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's objectives. Because of the limitations inherent in any system of internal control, the Company's system is designed to meet its particular needs and address the risks to which it is exposed. It is designed to manage risk rather than to eliminate risk altogether. Consequently, it can only provide reasonable and not absolute assurance against material misstatement or loss.

Evaluation

In March 2014, the audit committee conducted its annual self-assessment of performance. This assessment included a review of the committee's membership, procedures and resources, its roles and responsibilities and its relationship with the board. Concern was raised as to the appropriateness of the induction material. The company secretary has therefore been requested to provide suitable and detailed material for future new members of the audit committee. Aside from this observation, the audit committee concluded that its mandate and oversight performance were appropriate.

Investor information

Investor relations

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+ 31 20 737 2288

Corporate Headquarters

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Gustav Mahlerplein 23B
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The Netherlands

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Registered Office

Nostrum Oil & Gas
7th Floor Harbor Court
Lord Street,
Douglas,
Isle of Man IM1 4LN

Corporate Office

Zhaikmunai LLP
59/2, Eurasia Prospect
Uralsk, 090002
Republic of Kazakhstan

Representative Office

Zhaikmunai LLP
Office 319, 2/2
Kurman Batyr Prospect
Astana, 010000
Republic of Kazakhstan

Auditors

Ernst & Young LLP
Almaty
Republic of Kazakhstan

Legal Counsel

White & Case LLP
London, UK

Approach to investor relations

Nostrum's board attaches great importance to maintaining good relationships with the Partnership's limited partners and maintains a regular dialogue with them to ensure the understanding of objectives.

The investor relations programme aims at developing an open and transparent communication between Nostrum and its stakeholders, providing information about the financial and operational performance of the company. The ambition of the department is to ensure all questions that any of our stakeholders have are dealt with in a timely manner and the company is viewed as being approachable and responsive to any potential future or existing stakeholders.

Electronic communication details

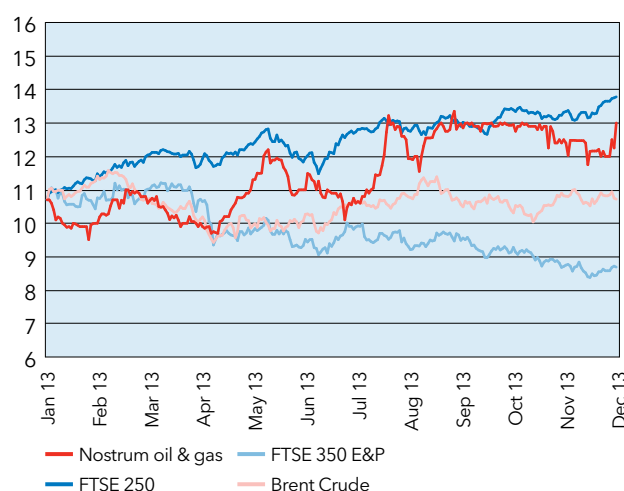
Nostrum's website provides valuable information on the activities of the company, both regulatory and other, as well as the opportunity to sign up to our mailing list to ensure stakeholders are kept up to date with the most recent information. Please see www.nog.co.uk for more information.

Share price information:

GDR Information – Listing details

Exchange	London Stock Exchange – Main market
Ticker	NOG.LI
Reuters instrument code	NOGNq.L
ISIN Code	US66978B2034

Nostrum Oil & Gas historic share price performance



Financial calendar - 2014

30 April 2014	Full year 2014 financial results and management report
30 May 2014	Q1 2014 financial results
31 July 2014	H1 2014 operational update
29 August 2014	H1 2014 financial results and management report
31 October 2014	Q3 2014 operational update
29 November 2014	Q3 2014 financial results

Equity financing

Equity raising	Timing	Amount	Lead manager
Initial Public Offering (IPO)	March 2008	US\$100m	ING Bank NV
Secondary Equity Issue	Sept 2009	US\$300m	ING Bank NV Mirabaud Securities Renaissance Securities

Debt financing

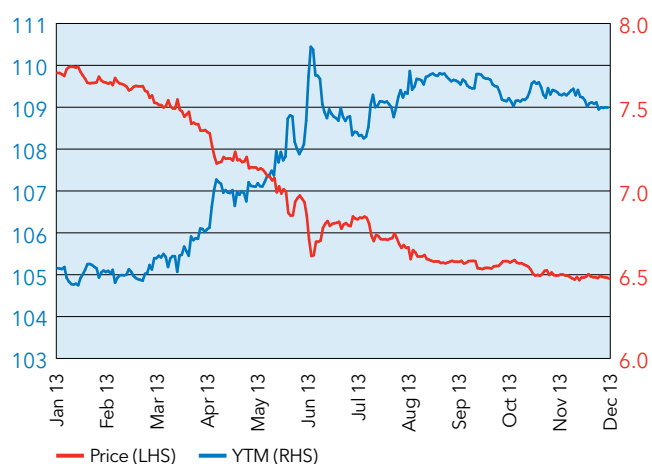
All bonds are listed on the Ireland and Kazakhstan stock exchanges.

Debt financing	Coupon/ annum	Timing	Amount US\$ m	Lead manager
Senior bond issue Maturity 2015	10.5%	October 2010	US\$450m	Citigroup ING JP Morgan
Senior Bond Issue Maturity 2019	7.125%	November 2012	US\$560m	BoAML Citigroup GMP Securities Halyk Finance VTB Capital

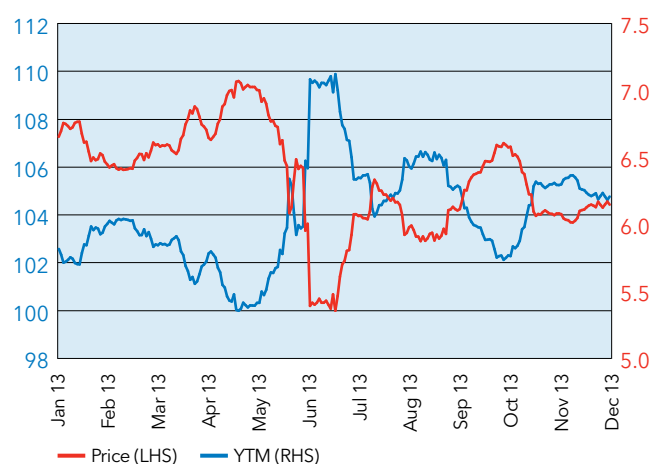
November 2012 – Successful tender offer in on October 2010 notes resulted in US\$358 million refinancing and provision of new cash for general corporate purposes.

Bond yield information

\$102.4m 10.5% '15 bond price/YTM performance from Jan'13-Dec'13



\$560m 7.125% '19 bond price/YTM performance from Jan'13-Dec'13

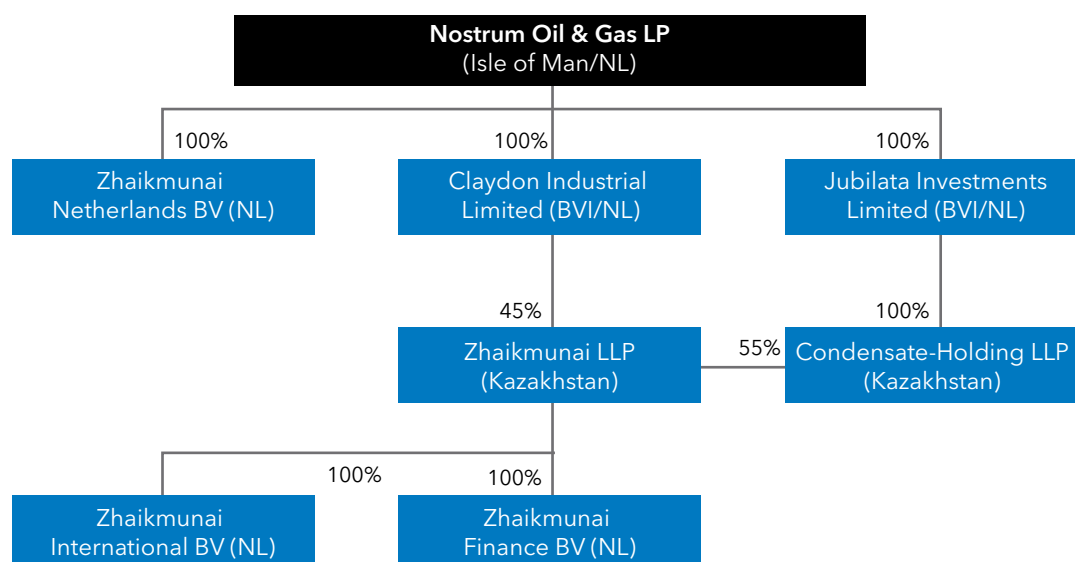


Appendix

Other disclosures

Management report

Nostrum Oil & Gas (the "partnership") is the holding company of the Nostrum Oil & Gas Group of companies (the 'group'). Group structure as of December 2013.



*Zhaikmunai LLP's equity is not listed [and the present share value, profit for one share and balance value of one share in Zhaikmunai LLP are not required to be published]. No material transactions were carried out in relations to Zhaikmunai LLP's equity in 2013.

The partnership's global depositary receipts are listed on the London Stock Exchange and at 31 December 2013 the partnership had a market capitalisation of US\$2.398m.

The UK Financial Conduct Authority's Disclosure and Transparency Rules (DTRs) require the group to set out in this report a fair review of the partnership's business during the financial year ended 31 December 2013 and a description of the principal risks and uncertainties facing the partnership. Such review must also include an analysis of the position of the partnership's business at the end of that year.

The information that fulfils these management report requirements is incorporated by reference and can be found in the following sections:

- Chairman's letter on page 14
- Strategic Review on page 22
- Our Business on page 20
- Recent Events on page 10
- Principal Risks and Uncertainties on page 60
- Financial Review on page 56
- Governance on page 64
- Health, Safety and Environmental Matters on page 44

Other information to be disclosed in the management report is set forth in this section.

Profit and distribution

The Partnership's profit for the financial year, after taxation, amounted to US\$219,519,000 (2012: US\$162,009,000). The board of the general partner declared a distribution as follows:

Common units	US\$
Paid distribution of \$0.34 per common unit (last year \$0.32 per common unit)	63,179,000

Partnership capital

The partnership's issued partnership capital as at 31 December 2013 comprised 188,182,958 common units representing limited partnership interests and 1 general partnership interest.

Powers for the partnership issuing or buying back its own common units

The partnership was authorised by its limited partners, at the 2013 AGM, to purchase in the market up to 18,818,295 of the partnership's GDRs and limited partnership interests (approximately 10% of the issued GDRs and limited partnership interests) on behalf of the partnership in on-market and off-market transactions. This authority will expire at the conclusion of the 2014 AGM or on December 31, 2014, if earlier and is renewable annually. The board may seek to renew this authority at the 2014 AGM.

Repurchases are effected by market purchases through the London Stock Exchange, in privately negotiated transactions or by a combination of the two. Any GDRs and limited partnership interests purchased pursuant to the GDR repurchase programme are either held as treasury GDRs or limited partnership interests, used to meet the partnership's obligations under the employee stock option programme or cancelled.

During the year ended 31 December 2013, 1,814,348 common units were repurchased by the partnership.

Interests in voting rights

Information on notifiable interests in the partnership's common units is not required to be provided to the partnership by the holders thereof under the DTRs. As of 31 December 2013, based on the partnership's register of members and interests, the holders of the partnership's common units are as follows:

Holder	Common units	% of capital
BNY Mellon DR (LP)		
Nominees Limited	188,182,948	99.99%
Claremont Holdings Limited	10	0.01%

Appointment and retirement of directors

The structure, practices and committees of the board, including matters relating to the size, independence and composition of the board, the election and removal of directors, requirements relating to board action, the powers delegated to board committees and the appointment of executive officers, are governed by the general partner's articles of association, the limited partnership agreement of the partnership, and the terms of the partnership's relationship agreement and subscription agreement with the Claremont Group. The following summarises certain provisions of those documents.

Size, independence and composition of the board

The board may consist of such number of directors as may be determined from time to time by a resolution of the general partner's shareholders. Under the general partner's articles of association, at least one of the directors holding office must be independent of the partnership, the general partner, its shareholder and its affiliates, as determined by the full board. Upon the death, resignation or removal of an independent director, the vacancy must be filled promptly. The current sole shareholder of the general partner is Thyler Holdings B.V., a member of the Claremont Group, which is controlled by Frank Monstrey and his spouse.

In connection with Claremont's 2009 subscription for limited partnership interests, the partnership and the general partner agreed to appoint one director nominated by Claremont (such person in turn being nominated by Baring Vostok Capital Partners pursuant to the investment agreement between Claremont and BVCP), together with an additional independent director to be nominated by BVCP and Claremont (subject to approval by the independent limited partners). Mr Ivanov was nominated by BVCP to the board and Mr Gupta is the relevant independent director.

In addition, Claremont has agreed in connection with its 2010 sale of 50 million GDRs to KazStroyService Global B.V. that it would take reasonable steps, including voting as a limited partner in any general meeting of the limited partners, to procure that an individual nominated by KSS Global is appointed to the Board of the General Partner. Mr Jain was subsequently nominated as a director by KSS Global.

Election and removal of directors

At every annual general meeting, one-third of the directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third retire from office by rotation provided that if there is only one director who is subject to retirement by rotation, he shall retire. Vacancies on the board may be filled and additional directors may be added by a resolution of shareholders of the general partner or a vote of the directors then in office, provided that any new directors satisfy certain eligibility requirements. Those eligibility requirements generally provide, among other things, that:

- a person may not be appointed to the office of independent director unless he or she has been approved by a majority of the limited partners independent of Thyler and its affiliates; and a person may not be appointed to the office of director unless he or she has been approved by a majority of the limited partners.

A director, other than an independent director, may be removed from office for specified reasons, including for any reason by a written resolution requesting resignation signed by all other directors then holding office or by a resolution duly passed by the general partner's shareholder following the proposal by the general partner and subsequent approval of a majority of limited partners. An independent director may only be removed by a resolution duly passed by the general partner's shareholders following the proposal by the general partner and subsequent approval of a majority of limited partners independent of Thyler and its affiliates.

Claremont has undertaken pursuant to the relationship agreement, among other things, not to vote on any resolution to appoint or remove an independent director unless the term of appointment of such independent director has expired and such independent director is seeking re-election at a general meeting of limited partners or the board has determined (acting reasonably) that the independent director is no longer independent.

Alternate directors

A director may, by written notice to the general partner, appoint any person, including another director, who has been approved by the board and who meets any minimum standards that are required by applicable law, to serve as an alternate director who may attend and vote in such director's place at any meeting of the board at which the director is not personally present and to otherwise perform any duties and functions and exercise any rights that the director could perform or exercise personally. Michael Calvey has been approved, and has served, as an alternate director in the absence of Mikhail Ivanov.

Appendix

continued

Action by the board

The board may take action in a duly convened meeting in which a quorum is present or by a written resolution signed by all directors then holding office. When action is to be taken at a meeting of the board, subject to any requirements relating to the approval by independent directors, the affirmative vote of a majority of the directors then holding office is required for any action to be taken other than with respect to the enforcement of any contractual or other rights under the partnership agreement and the relationship agreement. Matters relating to the enforcement of any such rights, if considered at a meeting of the board, may be decided by the vote of a majority of directors then holding office that are independent of Thyler and its affiliates.

Actions requiring approval by independent directors

In addition to requiring approval by the board, the following matters require the additional approval of a majority of the independent directors in order for any action to be taken with respect thereto:

- dissolution;
- any amendment of the partnership agreement that is not ministerial in nature or that has not been consented to by the limited partners;
- the enforcement of any contractual or other rights that the general partner or the partnership may have against Thyler or any of its affiliates pursuant to any contract, arrangement or transaction entered into with Thyler or any of its affiliates, including the partnership agreement or the relationship agreement;
- any amendment of the relationship agreement with Thyler and Claremont; and
- any transaction with any related party not controlled by the general partner or the partnership.

Transactions in which a director has an interest

A director who directly or indirectly has an interest in a contract, transaction or arrangement with the general partner, the partnership or any member of the group is required to disclose the nature of his or her interest to the full board. With certain limited exceptions specified in the general partner's articles, a director may not vote on or be counted in the quorum in relation to any resolution of the board or of a committee of the board concerning any contract, arrangement, transaction or any proposal whatsoever to which the general partner or any of its subsidiaries is or is to be a party and in which he has (directly or indirectly) an interest which is material (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through the general partner or the partnership).

A director may not vote or be counted in the quorum on any resolution of the board or committee of the board concerning his or her own appointment as the holder of any office or place of profit with the general partner, the partnership or any company in which the partnership is interested. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or termination) of two or more directors to offices with the general partner, the partnership or any company in which the partnership is interested, such proposals may be divided and a separate resolution considered in relation to each director. In such case each of the directors concerned shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

Appointment of a new general partner

The partnership agreement generally provides that the general partner may not transfer its general partner interest in the partnership to any person other than Thyler or an affiliate of Thyler, unless (i) the holders of a majority representing not less than 75% of the holders of the common units attending and voting at the relevant meeting consent to the transfer or (ii) there is a transfer of common units or GDRs representing not less than 50% of the total number of common units in issue from a limited partner and its affiliates to a third party in accordance with Clause 18 of the partnership agreement. Upon such a transfer, the general partner may assign all or any of its general partner interests to such third party or, upon transfer of the entire share capital of the general partner to such third party, withdraw as the general partner of the partnership without the approval of the holders of common units from the partnership with effect from the date on which the replacement general partner assumes the rights and undertakes the obligations of the general partner under the partnership agreement.

In addition, following a proposal by the general partner, the prior approval of holders of 75% of the common units voting at a meeting of limited partners is required to permit the general partner to withdraw from the partnership upon appointment of a replacement general partner. For as long as the relationship agreement with the Claremont Group is effective control over the general partner may only be transferred to a third party other than Thyler or its affiliates with the consent of limited partners representing not less than 75% of the common units attending and voting at the relevant meeting, which has the same substantive effect as if the general partner withdrew or transferred its interest in the partnership directly, unless the transfer is done in accordance with the paragraph above.

Conflicts of interest and fiduciary duties

The partnership's organisational, ownership and investment structure involves a number of relationships that could give rise to conflicts of interest between the partnership, on the one hand, and affiliates of its general partner or limited partners and holders of GDRs, on the other hand. In particular, conflicts of interest could arise, among other reasons, because:

- the group's arrangements with Thyler and its affiliates were negotiated in the context of an affiliated relationship, which may have resulted in those arrangements containing terms that are less favourable than those which otherwise might have been obtained from unrelated parties; and
- conflicts of interest may arise between the partnership and the KazStroyService Group, which constructed the gas treatment facility for the partnership's Kazakh operating subsidiary Zhaikmunai LLP, because Pankaj Jain, chief executive officer of the KazStroyService Group, is a director of the general partner.

Pursuant to the relationship agreement, Thyler has undertaken to ensure that the partnership is capable at all times of carrying on its business independently of Thyler and its affiliates (other than the partnership and any of its subsidiaries) and that all of the partnership's transactions and relationships with Thyler and its affiliates (other than the partnership and any of its subsidiaries) are at arm's length and on normal commercial terms.

Indemnification and limitations on liability *The Partnership Agreement*

Under the partnership agreement, Nostrum Oil & Gas LP is required to indemnify to the fullest extent permitted by law the general partner and any of its affiliates (and their respective officers, directors, agents, shareholders, partners, members and employees), in each case, against all losses, claims or other amounts arising from any and all claims incurred by an indemnified person in connection with the group's business or by reason of their holding such positions, except to the extent that the same are determined to have resulted from the indemnified person's bad faith, fraud or wilful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful.

In addition, under the partnership agreement, (i) the liability of such persons has been limited to the fullest extent permitted by law, except to the extent that their conduct involves bad faith, fraud or wilful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful and (ii) any matter that is approved by a majority of the independent directors will not constitute a breach of any duties stated or implied by law or equity, including fiduciary duties.

The General Partner's Articles of Association

Under the general partner's articles of association, the general partner is required to indemnify, to the fullest extent permitted by law, its affiliates, directors, officers, shareholders and employees against any and all losses, claims or other amounts arising from any and all claims incurred by an indemnified person in connection with the group's business or in respect of or arising from their holding such positions, except to the extent that the same are determined to have resulted from the indemnified person's bad faith, fraud or wilful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful. In addition, under the general partner's articles of association, (i) the liability of such persons has been limited to the fullest extent permitted by law, except to the extent that their conduct involves bad faith, fraud or wilful misconduct, or in the case of a criminal matter, action that the indemnified person knew to have been unlawful and (ii) any matter that is approved by a majority of the independent directors will not constitute a breach of any duties stated or implied by law or equity, including fiduciary duties, or adversely affect the right of any indemnified person to an indemnity thereunder.

Insurance

The partnership and the general partner have obtained insurance under which the directors and officers of the general partner will be insured, subject to the limits of the policy, against certain losses arising from claims made against such directors and officers by reason of any acts or omissions covered under the policy in their respective capacities as directors or officers of the general partner, including certain liabilities under securities laws.

Related parties and related party transactions

Significant limited partners

As at the date of this report, the partnership has received notice that companies controlled by Frank Monstrey, the chairman of the general partner, beneficially own approximately 27.20% of the common units of the partnership (including those held through GDRs). In addition, companies indirectly controlled by Mr. Monstrey own 100% of the issued shares of the general partner.

The partnership understands that KazStroyService Global B.V., an entity which the partnership understands is indirectly controlled by Timur Kulibayev, Arvind Tikur, Lakshmi Mittal and Goldman Sachs, beneficially owns 26.6% of the partnership's common units (including those held through GDRs).

The partnership understands that Dehus Dolmen Nominees Limited, an entity which the partnership understands is affiliated with and controlled by Baring Vostok Capital Partners, holds a 15.4% interest in the voting rights of the partnership's common units (including those held through GDRs).

Appendix

continued

Relationship agreement

The partnership is party to a relationship agreement with Thyler Holdings B.V. ("Thyler"), the general partner and Claremont Holdings Limited ("Claremont") dated 28 March 2008 that regulates (in part) the degree of control that Thyler and Claremont and their affiliates (other than the general partner, the partnership and any subsidiary of the partnership) may exercise over the management of the partnership. The principal purposes of the relationship agreement are to ensure that the partnership is capable at all times of carrying on its business independently of Thyler and Claremont and their affiliates and that all of the partnership's transactions and relationships with Thyler and its affiliates are at arm's length and on normal commercial terms.

Pursuant to the relationship agreement, each of Thyler and Claremont undertake to allow the partnership to be operated in the best interests of the limited partners and holders of the GDRs as a whole; to allow the partnership and its affiliates at all times to carry on business independently of Claremont and Thyler and its affiliates; and to allow for the partnership's transactions and relationships with Thyler, Claremont and their affiliates to be at arm's length and on normal commercial terms.

In addition, (a) Thyler undertakes to comply with the terms of the partnership agreement (as though it were a party thereto), not to amend the articles of association of the general partner in respect of certain specified actions and not to pass a shareholder resolution in respect of Claremont that would violate the terms of the relationship agreement; (b) the partnership undertakes to treat all holders of GDRs that are in the same position equally in respect of the rights attaching to such GDRs; (c) Claremont undertakes that any voting rights it holds in respect of common units shall not be exercised in respect of any resolution relating to a transaction, arrangement, agreement or dispute between the partnership, on the one hand, and Claremont and its affiliates, on the other hand, or to make any variations to the partnership agreement that would be contrary to the maintenance of the partnership's ability to carry on its business independently of Claremont and its affiliates; and (d) each of Thyler and Claremont undertake not to vote on any resolution of the limited partners or the board of directors to appoint or remove any independent director unless the term of appointment of such independent director has expired and such independent director is seeking re-election or the board of directors has determined that the independent director is no longer independent.

Each of Thyler and Claremont has also undertaken that if Claremont (and/or its affiliates) agrees to sell, transfer or dispose of common units or GDRs representing not less than 50% of the total number of common units in issue to a third party in circumstances where the takeover provisions in the partnership agreement apply, they shall use their reasonable endeavours to procure that the acquiror (or its affiliates) shall also agree to purchase the entire issued share capital of the general partner (and Thyler has undertaken that, if required, it shall sell such shares in the general partner in such circumstances or otherwise permit the withdrawal of the general partner as the general partner of the partnership).

The relationship agreement will continue in full force and effect until the occurrence of the earliest of (i) the partnership's securities ceasing to be admitted to the official list of the FSA and to trading on the London Stock Exchange; or (ii) Thyler (and its affiliates) ceasing to own 25% or more of the outstanding common units of the partnership.

The directors believe that the terms of the relationship agreement enable the partnership to ensure that Thyler and its affiliates are not able to abuse their position as a holder of common units of the partnership and a shareholder in the general partner.

Gas treatment facility agreement

The partnership's operating subsidiary Zhaikmunai LLP entered into an agreement with JSC OGCC KazStroyService, an affiliate of KazStroyService Global B.V., on 10 August 2007 to engineer, design and construct Zhaikmunai LLP's first gas treatment facility. The total cost of the construction of such first gas treatment facility, which was completed in 2011, was approximately US\$260 million.

Services Agreements

Certain senior managers provide their services to the partnership's principal operating subsidiary Zhaikmunai LLP during the past year pursuant to a service agreement dated 27 March 2007 between Probel Capital Management N.V. and Zhaikmunai (the "Probel Services Agreement"). Probel was controlled by Mr Monstrey, the chairman of the general partner. Under the Probel Services Agreement, Zhaikmunai paid a fee to Probel calculated by multiplying the relevant executive's or manager's number of working days per month by the executive's or manager's daily rate as stipulated in the Probel Services Agreement. The aggregate compensation paid by Zhaikmunai to Probel under the Probel Services Agreement was US\$17.5 million for the year ended 31 December 2013 (US\$13.65 million for the year ended December 2012).

Certain personnel provide their services to Zhaikmunai pursuant to a service agreement dated 1 January 2009 between Amersham Oil Limited ("Amersham") and Zhaikmunai (the "Personnel Agreement"). Amersham is indirectly controlled by Mr Monstrey. Under the Personnel Agreement, Zhaikmunai pays a monthly fee to Amersham in return for Amersham's provision of personnel and consultancy services for management and related activities.

The fee is determined each month the Personnel Agreement remains in force. The aggregate compensation paid by Zhaikmunai to Amersham under the Personnel Agreement was US\$1.5 million for the year ended 31 December 2013 (US\$1.42 million for the year ended 31 December 2012).

Frank Monstrey, Kai-Uwe Kessel, Jan-Ru Muller and Thomas Hartnett provide their services to the partnership pursuant to a consultancy agreement between the general partner and Zhaikmunai Netherlands B.V. dated 1 September 2008 and as amended and restated on 17 September 2009, with effect from 20 December 2007 (the "Executive Services Agreement"). Zhaikmunai Netherlands B.V., formerly an affiliate of Probel, was subsequently transferred to the partnership on 1 January 2009. Under the terms of the Executive Services Agreement, Zhaikmunai Netherlands B.V. agrees to provide the consultancy services of these individuals to the general partner and its subsidiaries as consultants, rather than as employees of the general partner or any of its subsidiaries. Zhaikmunai Netherlands B.V. entered into a back-to-back services agreement with Probel dated 1 September 2008 and as amended and restated on 17 September 2009 (the "Probel Executive Services Agreement"), sub-contracting Zhaikmunai Netherlands B.V.'s responsibilities and obligations under the Executive Services Agreement to Probel, with effect from 20 December 2007, on materially the same terms as set out in the Executive Services Agreement.

On 28 February 2009, Zhaikmunai entered into a service agreement with Prolag, an affiliate of Probel, pursuant to which Prolag has agreed to provide certain commercial, marketing and other services to Zhaikmunai, including, but not limited to, consultations on Zhaikmunai's sales strategy and effective marketing policy, structuring its pricing policy and providing regular consultations and assistance on financial matters such as budgeting, credit policy and finance control. Fees are agreed per project on an ad hoc basis, or otherwise an agreed fee is paid, calculated for the specified period of the services with reference to an agreed schedule set out in the agreement. The aggregate compensation paid by Zhaikmunai to Prolag under the agreement was US\$1.3 million for the year ended 31 December 2013 (US\$2.2 million for the year ended 31 December 2012).

Other

Piet Everaert, a non-executive director, is a partner in the law firm VVEW Advocaten in Brussels, which has rendered legal services to Probel since 2006. This business relationship is ongoing to date.

The Group has undertaken certain other transactions with related parties as disclosed in the notes to the audited consolidated financial statements for the year ended 31 December 2013.

Any transaction with any related party not controlled by the general partner or the partnership must be approved by a majority of the independent directors of the general partner.

Responsibility statement

The directors of the general partner are responsible for preparing this annual report and the financial statements in accordance with applicable law and regulations. Each of the directors, whose names and functions are listed on pages 70 to 75 of this annual report, confirm that, to the best of their knowledge:

- the accompanying financial statements, prepared in accordance with the applicable reporting principles, give a true and fair view of the assets, liabilities, financial position and profit or loss of Nostrum Oil & Gas LP and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of Nostrum Oil & Gas LP and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the board

Signed on behalf of Nostrum Oil & Gas LP (acting by its general partner Nostrum Oil & Gas Group Limited) by:

Kai-Uwe Kessel
Group CEO

Jan-Ru Muller
Group CFO

Appendix

continued

Shareholder information

Corporate website

You can find additional information regarding the Nostrum Oil & Gas Group at our website www.nostrumoilandgas.com. The "Investors" section, in particular, contains a great deal of information of interest to our investors.

AGM 2014

The 2014 annual general meeting of limited partners of Nostrum Oil & Gas LP will be held in Amsterdam on a date to specified in the Notice of Meeting to be issued to the limited partners during 2014.

GDRs

The partnership's global depositary receipts are listed on the international order board of the London Stock Exchange under the symbol NOG.LI.

Corporate offices

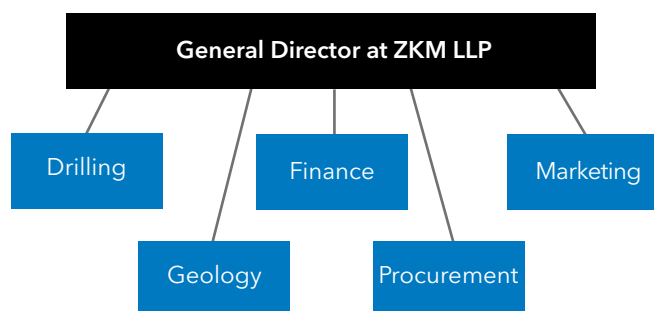
In 2013 the group moved its corporate headquarters and seat of effective management to Amsterdam, The Netherlands. The group continues to maintain the registered office of the partnership and the general partner in Douglas, Isle of Man, an office for investor relations and corporate finance matters in London and Zhaikmunai LLP's head office in Uralsk, Kazakhstan and a representative office in Astana, Kazakhstan. Details of these offices are set out below.

Zhaikmunai LP
Gustav Mahlerplein 23 B
1082 MS Amsterdam
The Netherlands

Tel: + 31 20 737 2288
Fax: + 31 20 737 2292

Operational structure

The main divisions involved in the operational activity at Zhaikmunai LLP can be summaries as follows:



All divisions report to the General Director of Zhaikmunai LLP. There were no changes to the above in 2013.

Management system

The Group deploys an Operations Management System (OMS) and a Financial Management System (FMS) in which it has documented the processes and procedures which ensure that the Group can fulfil the tasks required to achieve its objectives.

Glossary

3-D seismic survey	Seismic survey that is acquired, processed and interpreted to yield a three-dimensional picture of the subsurface.
2009 Ryder Scott Report	The report prepared by Ryder Scott relating to the Group's reserves and resources, dated 1 July 2009.
2010 / 2011 / 2012 Ryder Scott Report	The report prepared by Ryder Scott relating to the Group's reserves, dated 31 December.
2013 Ryder Scott Report	The report prepared by Ryder Scott relating to the Group's reserves and resources, dated 31 August 2013.
<hr/>	
A	
AMEC	AMEC Overseas (Cyprus) Limited.
AMEC Report	AMEC environmental, health and safety due diligence report "Health, Safety and Environmental Compliance and Assurance of Audit of Nostrum's Facilities" dated 31 July 2013.
Anti-Monopoly Agency	The Kazakh anti-monopoly authority.
API	American Petroleum Institute.
API gravity	The industry standard method of expressing specific density of crude oil or other liquid hydrocarbons as recommended by the American Petroleum Institute. Higher API gravities mean lower specific gravity and lighter oils. When the API gravity is greater than 10, the product is lighter and floats on water; if it is less than 10, it is heavier than water and sinks. Generally speaking, oil with an API gravity between 40 and 45 commands the highest prices.
appraisal well	A well or wells drilled to follow up a discovery and evaluate its commercial potential.
aquifer	Water bearing structure.
associated gas	Gas, which occurs in crude oil reservoirs in a gaseous state.
Authorised Oil and Gas Agency	The State's authorised agency in the area of oil and gas, acting on the instructions of the President and the Government, currently, the MOG.
<hr/>	
B	
barrel / bbl	The standard unit of volume: 1 barrel = 159 litres or 42 US gallons.
basin	A large area holding a thick accumulation of sedentary rock.
bcf	Billion cubic feet, a billion defined as 1,000,000,000. On average 1 bcf of sales gas = 1.055 petajoules.
boe	Barrels of (crude) oil equivalent, i.e. the factor used by Nostrum to convert volumes of different hydrocarbon production to barrels of oil equivalent.
bopd	Barrels of crude oil per day.
boepd	Barrels of (crude) oil equivalent per day.
bscf/d	Billion standard cubic feet per day.
btu	British Thermal Unit- measurement unit for energy.
<hr/>	
C	
C1	Methane.
C2	Ethane.
C3	Propane.
C4	Butane.
C5	Pentane.
C6	Hexane.
C7	Heptane.
casing	Relatively thin-walled, large diameter steel rods that are screwed together to form a casing string, which is run into a core hole or well and cemented in place.
Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
Christmas tree	The fittings, valves and gauges that are bolted to the wellhead to control flow from a producing well.
CNG	Compressed natural gas.
CO₂	Carbon dioxide.
coal	A sedimentary rock composed primarily of carbonaceous material formed by plant remains transformed by heat and time.

Glossary

continued

C

Common Units	Limited partner interests each representing a fractional part of the rights and obligations of all limited partners of Nostrum Oil & Gas LP.
Competent Authority	The State's central executive agency, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of subsoil use contracts, except for contracts for exploration and production of commonly occurring minerals. This was, until recently, the Ministry of Energy and Mineral Resources of Kazakhstan, which on 12 March 2010 was reorganised into the Ministry of Oil and Gas (MOG) with respect to the oil and gas industry.
Competition Law	The Kazakhstan Law "On Competition" (No 112-IV, dated 25 December 2008, which came into effect on 1 January 2009).
condensate	Hydrocarbons which are gaseous in a reservoir, but which condense to form a liquid as they rise to the surface where the pressure is much less.
contingent resources	Deposits that are estimated, on a given date, to be potentially recoverable from known accumulations but that are not currently considered commercially recoverable.
cost oil	Cost oil denotes an amount of crude oil produced in respect of which the market value is equal to Nostrum's monthly expenses that may be deducted pursuant to the PSA (include all operating costs, exploration costs and development costs up to an annual maximum of 90% of the annual gross realised value of hydrocarbon production).
crude oil	A mixture of liquid hydrocarbons of different molecular weights.
cuft	Cubic feet.

D

DAF	Sales made on delivery at frontier terms.
development	During development, engineering teams design the most efficient development options to build wells and associated infrastructure to produce hydrocarbons from a gas field within a proven productive reservoir (as defined by exploration and appraisal activities). The three phases of development are exploration and appraisal, development and production.
Development Plans	The development plans approved by the SCFD in March 2009.
Directors or Board	The directors of the General Partner.
downstream	Downstream refers to all petroleum operations occurring after delivery of crude oil or gas to refinery or fractionation plant.
downtime	Downtime is all time during which an operation is postponed, usually due to bad weather or mechanical failure.
drilling fluid/mud	A mixture of water and drilling additives used to cool the drill bit, lift cuttings and control swelling clays. Drilling fluid is stored in a sump during drilling.
dry gas	Dry gas is natural gas (methane and ethane) with no significant content of heavier hydrocarbons. It is gaseous at subsurface and surface conditions.

E

E&P	Exploration and production.
EBRD	European Bank for Reconstruction and Development.
EBIT	Earnings before interest and tax.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
ecological risks	Environmental stressors such as chemicals, land change, disease, invasive species and climate change.
EEA	European Economic Area.
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
ethane	Saturated hydrocarbon (alkane) with two carbon atoms in its molecule (C ₂ H ₆). The second member of the paraffin series. A gas under normal conditions. A basic feedstock for petrochemical industries.
Exploration Permit	The geological allotment (Annex to the Licence) issued by the Competent Authority to Zhaikmunai LLP.
exploration phase	The phase of operations which covers the search for oil or gas by carrying out detailed geological and geophysical surveys followed up where appropriate by exploratory drilling.
Exploration well	Well drilled purely for exploratory (information gathering) purposes in a particular area.

F

farm-in	Transfer of a percentage of an oil or gas permit held by the farmor in return for (partial or complete) delivery of the work program by the farmee(s). Note that this work would normally have had to have been delivered and paid for by the farmor.
farmee	Earns a percentage interest in an oil an gas permit by helping the company that holds the permit to deliver the work program required by permit.
farmor	A farmor holds an oil and gas permit and agrees to work with another company who can deliver the work program required by the permit. In return, the farmee is given a percentage interest in the permit.
farm-out	A contractual agreement with the holder of an oil and gas permit to assign all (or a percentage of) that interest to another party in exchange for delivering the work program required by the permit, or fulfilling other contractually specified conditions.
FCA	Sales made under free carrier terms.
FCA Uralsk	Sales made under free carrier terms according to which Nostrum delivers to the terminal in Uralsk and transportation risk and risk of loss are transferred to the buyer after delivery to the carrier.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition.
FOB	Sales made under free on board terms.
FSA	Financial Services Authority of the United Kingdom.
FSMA	The Financial Services and Markets Act 2000 (as amended).

G

gas	Petroleum that consists principally of light hydrocarbons. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.
gas condensate	The mixture of liquid hydrocarbons that results from condensation of petroleum hydrocarbons existing initially in a gaseous phase in an underground reservoir.
Gas Treatment Facility (GTF)	Facility for the treatment of all gas (associated gas and gas condensate) produced by Nostrum resulting in different products (stabilised condensate, LPG and dry gas) for commercial sales. Phase I GTF consists of two trains with a combined treatment capacity of 1.7 billion cm of raw gas per year.
GDRs	The global depository receipts of Nostrum Oil & Gas LP.
General Partner	NOGGL in its capacity as general partner of Nostrum Oil & Gas LP.
geology	The study of rocks.
geophysics	The study the earth using physics and mathematics. Geophysics uses methods such as seismic surveying, magnetic and gravity imaging to explore the subsurface.
GJ	Gigajoule.
GJ/d	Gigajoules per day.
Government	The government of Kazakhstan.
greenhouse gas	A gas that contributes to the greenhouse effect by absorbing infrared radiation, e.g. carbon dioxide.
gross (oil and gas) wells / acres	Gross oil and gas wells or gross acres are the total number of wells or acres in which the Group has an interest, without regard to the size of that interest.
Group	Nostrum Oil & Gas LP and, as the context requires, its direct and indirect consolidated subsidiaries.

Glossary

continued

H	
HSE	Health, safety and environment.
hydrocarbons	Compounds formed from the elements hydrogen (H) and carbon (C), which may be in solid, liquid or gaseous form.
hydrocarbon reserves	Hydrocarbon reserves have been proved, and are referred to as 3P, 2P and 1P depending on the likelihood of commercial production from that field.
I	
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
independent director	The independent directors of the General Partner as defined in the Articles of Association of the General Partner.
J	
joint venture	A joint venture is a set of trading entities who have agreed to act in concert to share the cost and rewards of exploring for and producing oil or gas from a permit.
joule	Unit of energy used for measuring gas volumes. <ul style="list-style-type: none"> • megajoules = 10⁶ • gigajoules = 10⁹ • terrajoules = 10¹² • petajoules = 10¹⁵
K	
Kazakhstan	The Republic of Kazakhstan.
KASE	Kazakhstan Stock Exchange.
KazMunaiGas	State-owned oil and gas company of Kazakhstan.
KazMunaiGas Exploration Production KMG EP	Onshore oil and gas exploration production subsidiary of KazMunaiGas.
kBOE	Thousand barrels of oil equivalent.
km	Kilometre(s).
Kyoto Protocol	The Kyoto Protocol to the United Nations Framework Convention on Climate Change.
L	
Licence	Licence series MG No. 253-D (Oil) issued to Zhaikmunai LLP by the Government on 26 May 1997.
Licensing Law	The Kazakhstan Law "On Licensing" (No. 214, dated 11 January 2007, as amended, which came into effect on 9 August 2007).
liquids	A sales product in liquid form produced as a result of further processing by the onshore plant; for example, condensate and LPG.
LNG	Liquefied natural gas. Comprises mainly methane.
LPG	Liquefied petroleum gas. Comprises mainly propane and butane.
Listing Rules	The listing rules made by the Financial Services Authority (FSA) under section 73A of the FSMA.
London Stock Exchange or LSE	London Stock Exchange.
LPG	Liquefied petroleum gas, the name given to the mix of propane and butane in their liquid state.

M	
m	Metre(s).
m3	Cubic metre.
m3/d	Cubic metres per day.
Man -hours	An hour regarded in terms of the amount of work that can be done by one person within this period.
mbbls	Thousands of barrels of crude oil.
mmbbls	Millions of barrels of oil.
MJ	Megajoules.
mboe	Thousands of barrels of oil equivalent.
mmboe	Millions of barrels of oil equivalent.
mmcm	Millions of cubic metres.
MEP	The Kazakhstan Ministry of Environmental Protection.
MINT	The Kazakhstan Ministry of Industry and New Technologies.
MOG	The Ministry of Oil and Gas of Kazakhstan, the State's central executive agency, acting based upon its Regulations approved by the Resolution of the Government (No. 254, dated 20 May 2010), which is currently the Competent Authority in oil and gas and the Authorised Oil and Gas Agency.
mmscf/d	Million standard cubic feet of dry gas per day.
mscf	One thousand cubic feet.
mtpa	Million tonnes per annum.
multilateral well	A well with several small branches (laterals) drilled out from the main well.
N	
NBK	National Bank of Kazakhstan.
Nostrum	Nostrum Oil & Gas LP, the operating company of the Group.
Nostrum Oil & Gas LP	Registered Office: Corporate Headquarters: 7th Fl. Harbour Court Amsterdam Symphony Lord Street Gustav Mahlerplein 23B Douglas, IM1 4LN 1082 MS Amsterdam Isle of Man The Netherlands
Nostrum Oil & Gas Group Limited (NOGGL)	Registered Office: Corporate Headquarters: 7th Fl. Harbour Court Amsterdam Symphony Lord Street Gustav Mahlerplein 23B Douglas, IM1 4LN 1082 MS Amsterdam Isle of Man The Netherlands
NOGGL	
O	
operator	The individual or company responsible for conducting oil and gas exploration, development and production activities on an oil and gas lease or concession on its own behalf and, if applicable, for other working interest owners, generally pursuant to the terms of a joint operating agreement or comparable agreement.

Glossary

continued

P

P&A

Plugged and abandoned- to place a cement plug into a dry hole or noneconomic well and abandon the well.

Partnership

Nostrum Oil & Gas LP.

Partnership Act

The Partnership Act 1909 of the Isle of Man.

petroleum

Hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.

PJ

Petajoule.

PJ/a

Petajoules per annum.

possible hydrocarbon reserves

Reserves less well defined by geological and geophysical control than probable hydrocarbon reserves and consisting of extensions to the proved hydrocarbon reserves and probable hydrocarbon reserves areas where so indicated by geophysical and geological studies. Note: The probability generally assigned to these reserves would be 25% but may be higher or lower.

PRMS

2007 Petroleum Resources Management System, which are a set of definitions and guidelines designed to provide a common reference for the international petroleum industry, sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers.

processing

Processing of saleable product from hydrocarbons sourced from oil wells and gas wells.

Production Permit

The mining allotment (Annex to the Licence), issued by the Competent Authority to Zhaikmunai LLP.

production phase

The phase of operations where hydrocarbons are extracted using wells and a gathering system to carry gas to a central compressor station.

production well

A well that has been drilled for producing oil or gas, or one that is capable of production once the producing structure and characteristics are determined.

profit oil

Profit oil is the difference between cost oil and the total amount of crude oil produced each month, which is shared between the State and Zhaikmunai LLP.

prospective resources

Quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.

Proven Reserves (1P)

Proven or proved reserves (1P) are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.

Proven plus Probable Reserves (2P)

Proven plus Probable reserves (2P) are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Proven plus Probable Reserves.

Proven, Probable plus Possible Reserves (3P)

Proven, Probable plus Possible reserves (3P) are those reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves.

PSA or Production Sharing Agreement

The contract for additional exploration, production and production sharing of crude oil hydrocarbons in the Chinarevskoye oil and gas condensate field in the West-Kazakhstan oblast No. 81, dated October 31, 1997, as amended, between Zhaikmunai LLP and the Competent Authority (currently MOG), representing the State.

PSA Law

Kazakhstan Law No. 68-III "On Production Sharing Agreements for Constructing Offshore Petroleum Operations", dated 8 July 2005.

Q

QIB

A qualified institutional buyer as defined in Rule 144A under the Securities Act.

R	
recovery	The second stage of hydrocarbon production during which an external fluid such as water or gas is injected into the reservoir to maintain reservoir pressure and displace hydrocarbons towards the wellbore.
reservoir	A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.
royalty	An interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production.
Ryder Scott	Independent petroleum consultants Ryder Scott Company LP, headquartered at 621 Seventeenth Street, Suite 1550, Denver, Colorado, 80293, USA.
S	
sales gas	Natural gas that has been processed by gas plant facilities and meets the required specifications under gas sales agreements.
scf	Standard cubic feet.
SEC	The United States Securities and Exchange Commission.
secondee	A person who is transferred temporarily to alternative employment, or seconded
Securities Act	The United States Securities Act of 1933, as amended.
seismic	The use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures.
shut in	Cease production from a well.
sidetrack well	A well or borehole that runs partly to one side of the original line of drilling.
social infrastructure	Assets that accommodate social services, i.e. hospitals, schools, community housing etc.
SPE	Society of Petroleum Engineers.
spud	The commencement of drilling operations.
stakeholder	A person or entity who may affect, be affected by or perceive themselves to be affected by an entity's decisions or activities.
State	Republic of Kazakhstan.
State Acceptance Commission	A State Acceptance Commission of the Republic of Kazakhstan is the competent body authorised to, among other things, confirm that permanent operations can commence for certain facilities, including the Gas Treatment Facility.
State Share	The share of hydrocarbon production due (in cash or kind) to the Republic of Kazakhstan under the PSA.
Subsoil Law:	
- Old Subsoil Law	The Kazakhstan Law "On Subsoil and Subsoil Use" (No. 2828, dated 27 January 1996, as amended), recently replaced with the New Subsoil Law.
- New Subsoil Law	The most recent Kazakhstan Law "On Subsoil and Subsoil Use" (No. 291-IV, dated 24 June 2010 as amended).
Substitution	The ability for Zhaikmunai LLP to elect to undertake, upon satisfaction of certain conditions, to be substituted for the Issuer as Issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes.
suspended well	A suspended well is not currently used for assessment or production and has been shut in. It will either be returned to assessment or production or plugged and abandoned.
T	
Takeover Code	The UK City Code on Takeovers and Mergers.
tcf	One trillion cubic feet.
Tenge or KZT	The lawful currency of the Republic of Kazakhstan.
titleholder	The titleholder is the party to whom a permit is granted by the government.
TJ	Terajoule.
tonne	Metric tonne.
trillion	10 to the power of 12.

Glossary

continued

U

UK Corporate Governance Code

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

UNGG

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

U.S. Dollars or US\$

The lawful currency of the United States of America.

W

well

A hole drilled to test an unknown reservoir or to produce from a known reservoir.

wellhead

The wellhead includes the forged or cast steel fitting on top of a well (welded or bolted to the top of the surface casing), as well as casing heads, tubing heads, Christmas tree, stuffing box and pressure gauges.

workover

Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.

work program

A schedule of works agreed between parties (permit holders, farminees and government) contracted to be delivered in a defined time frame.

Water Code

The Water Code of Kazakhstan (No. 481, dated 9 July 2003, as amended).

WUP or Water Use Permit

The permit granted by the relevant Government authority with respect to water use pursuant to the Water Code.

Z

Zhaikmunai LLP

Corporate Office:
59/2, Eurasia Prospect
Uralsk, 090002
Republic of Kazakhstan
Republic of Kazakhstan

Representative Office:
Office 319
2/2 Kurman Batyr Prospect
Astana, 010000

Consolidated financial statements

Year ended December 31, 2013
with independent auditors' report



CONTENTS

Independent auditors' report

Consolidated financial statements

Consolidated statement of financial position.....	1
Consolidated statement of comprehensive loss	2
Consolidated statement of cash flows	3
Consolidated statement of changes in equity	4
Notes to consolidated financial statements.....	
1. General.....	5
2. Basis of preparation and consolidation.....	6
3. Changes in accounting policies and disclosure.....	7
4. Summary of significant accounting policies	11
5. Business combinations	20
6. Exploration and evaluation assets	21
7. Property, plant and equipment	21
8. Advances for non-current assets	22
9. Inventories	23
10. Trade receivables	23
11. Prepayments and other current assets.....	23
12. Current and non-current investments	23
13. Cash and cash equivalents and restricted cash	23
14. Partnership capital	24
15. Borrowings	25
16. Abandonment and site restoration provision	26
17. Due to government of kazakhstan	26
18. Trade payables	27
19. Other current liabilities	27
20. Revenue	27
21. Cost of sales	27
22. General and administrative expenses	29
23. Selling and transportation expenses	29
24. Finance costs.....	29
25. Other expenses	29
26. Income tax	30
27. Employee share option plan	30
28. Related party transactions	32
29. Contingent liabilities and commitments	32
30. Financial risk management objectives and policies	34
31. Events after the reporting period	37

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

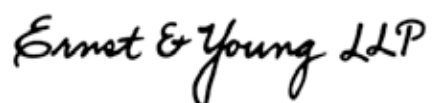
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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.



Paul Cohn
Audit Partner

Alexandr Nazarkulov
Auditor

Auditor Qualification Certificate
No. 0000059 dated 6 January 2012

20 March 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**As at December 31, 2013**

<i>In thousands of US Dollars</i>	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

*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**

<i>In thousands of US Dollars</i>	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

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

CONSOLIDATED STATEMENT OF CASH FLOWS**For the year ended December 31, 2013**

<i>In thousands of US Dollars</i>	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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**For the year ended December 31, 2013**

<i>In thousands of US Dollars</i>	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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended December 31, 2013****1. GENERAL**

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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

<i>In thousands of US Dollars</i>	As at December 31, 2012		
	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:

<i>In thousands of US Dollars</i>	As at January 1, 2012		
	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.

<i>In thousands of US Dollars</i>	Year ended December 31, 2012		
	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*;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- IFRS 13 *Fair Value Measurement*;
- IAS 19 *Employee Benefits* (Revised 2011)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**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, IFRS 12 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)***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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**Revenue recognition**

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

Revenue from the sale of crude oil, gas condensate, gas and LPG is 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:

<i>In thousands of US Dollars</i>	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	Total	Neither past due nor impaired	Past due but not 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:

<i>In thousands of US Dollars</i>	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

<i>In thousands of US Dollars</i>	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	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	184,914	197,730
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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"):

<i>Number of Common Units</i>	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:

<i>In thousands of US Dollars</i>	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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 **Error! Reference source not found.**16 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).

<i>In thousands of US Dollars</i>	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

<i>In thousands of US Dollars</i>	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	286,222	238,224
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**22. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of US Dollars</i>	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

<i>In thousands of US Dollars</i>	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

<i>In thousands of US Dollars</i>	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 **Error! Reference source not found.**

² See Note **Error! Reference source not found.** on **Error! Reference source not found.**

25. OTHER EXPENSES

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

<i>In thousands of US Dollars</i>	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:

<i>In thousands of US Dollars</i>	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**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:

<i>In thousands of US Dollars</i>	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.

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:

<i>In thousands of US Dollars</i>	Carrying amount		Fair value	
	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

<i>In thousands of US Dollars</i>	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.





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