# Interim financial report

*For the six months ended 30 June 2017*

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**Nostrum Oil & Gas PLC**

# Interim Management report

*For the six months ended 30 June 2017*

# Interim management report

## BUSINESS REVIEW

*Some of the statements in this Interim Financial Report are forward-looking. Forward-looking statements include statements regarding the intent, belief and current expectations of the Group or its officers with respect to various matters. When used in this document, the words "expects," "believes," "anticipates," "plans," "may," "will," "should" and similar expressions, and the negatives thereof, are intended to identify forward-looking statements. Such statements are not promises or guarantees, and are subject to risks and uncertainties that could cause actual outcomes to differ materially from those suggested by any such statements.*

### Overview

Nostrum (the “Company” and together with its subsidiaries the “Group” or “Nostrum”) is an independent oil and gas enterprise engaged in the exploration and production of oil and gas products in North-Western Kazakhstan. Nostrum, through its indirectly wholly-owned subsidiary Zhaikmunai LLP, is the owner and operator of four fields in Kazakhstan, the Chinarevskoye Field and the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye development fields. The Group’s primary field and licence area, which has been the Group’s sole source of production to date, is the Chinarevskoye Field located in the northern part of the oil-rich Pre-Caspian Basin.

The Chinarevskoye Field, approximately 274 square kilometres in size, is located in the West-Kazakhstan Oblast, near the border between Kazakhstan and Russia, and close to the main international railway lines in and out of Kazakhstan as well as to several major oil and gas pipelines. The Group conducts its operations in the Chinarevskoye Field pursuant to a subsoil use licence (the “Licence”) and an associated production sharing agreement (“PSA”). Based on the 2017 Ryder Scott Report, as at 1 January 2017, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye Field were 379.3 million boe, of which 144.1 million bbl was crude oil and condensate, 56.3 million bbl was LPG and 178.8 million boe was sales gas.

Nostrum’s operational facilities in the Chinarevskoye Field consist of an oil treatment unit currently capable of processing 400,000 tonnes per year of crude oil, multiple oil gathering and transportation lines including a 120 kilometre oil pipeline from the field to its oil loading rail terminal in Rostoshi near Uralsk, a 17 kilometre gas pipeline from the field to the Orenburg-Novopskov pipeline, a gas powered electricity generation system, warehouse facilities, storage facilities, an employee field camp and a gas treatment facility. The first phase of the gas treatment facility, consisting of two gas treatment units, became fully operational in 2011 and has enabled Nostrum to produce marketable liquid condensate (a product lighter than Brent crude oil) and LPG from the gas condensate stream. During 2017, the Company completed an extension to its existing oil pipeline to connect it into the Atyrau-Samara international export pipeline operated by KAZTRANSOIL (“KTO pipeline”). Currently the Company exports all of its crude oil via the KTO pipeline.

Following the successful completion of the first phase of its gas treatment facility, Nostrum commenced the building of a third gas treatment unit to increase the operating capacity and production of liquid hydrocarbons. Nostrum expects the third gas treatment unit to be completed by the end of 2017. Management estimates that when fully operational, the third unit will double the Group’s current production capacity.

The Group’s three oil and gas development fields, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye, are also located in the Pre-Caspian basin to the North-West of Uralsk, approximately 60 to 120 kilometres from the Chinarevskoye Field. These development fields are approximately 139 square kilometres in size. During the development phase, the Group will explore the three fields under short term exploratory licenses which are subject to periodic renewal. In 2016, the Group drilled one appraisal well in the Rostoshinskoye field, which changed the geological model of the Rostoshinskoye field and also increased the reserves potential of the Bashkirian section of the adjacent Darjinskoye field. The test of this appraisal well will be completed in 2017 and the reserves will be re-estimated in the Group’s subsequent reserves report. Further, preparations for re-entering an existing well on the Darjinskoye field are currently underway. According to the 2017 Ryder Scott Report, as at 1 January 2017, the estimated net probable hydrocarbon reserves at these three fields were 87.2 million boe and estimated contingent resources of 12.7 million boe of liquids and 202.5 billion cubic feet of sales gas.

### Business strategy

Nostrum’s long-term objective is to further consolidate its position as one of the leading independent oil and gas companies in Kazakhstan. The first phase of development of the Chinarevskoye Field has now been completed. Its infrastructure, including the first phase of development of the gas treatment facility consisting of two units, is fully operational and average daily production volumes averaged 46,685 boepd for the six-month period ending 30 June 2017.
The Group has commenced the construction of a third unit for the gas treatment facility as part of the development of the Chinarevskoye Field. Nostrum expects the third gas treatment unit to be completed by the end of 2017 and estimates that when fully operational, the third unit will double the Group’s current production capacity. In addition, the Group has

opportunities for further expansion of operations through the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye development fields.
The constituents of the Group's strategy in delivering the future growth potential of the Group comprise:

*Delivering near term organic production growth*

The Group aims to double production levels from the Chinarevskoye Field by the end of 2020. To enable this, it is constructing a third unit for the gas treatment facility in the vicinity of the existing two units, each with the capacity to treat 850 million cubic metres of raw gas per year (total 1.7 billion cubic metres). The Group plans for the third unit to increase production capacity by 2.5 billion cubic metres of gas, bringing the total capacity of the gas treatment facility to 4.2 billion cubic metres of gas annually once all three units are fully operational.
The Group has benefited from the technical expertise and significant experience gained from the construction of the first two units of the gas treatment facility in the construction of the third unit. The development and construction plan for the third gas treatment unit includes the front end engineering design, the selection of third parties, construction, commissioning and production ramp-up. The target completion date was revised from 2016 to 2017 in order to phase construction payments to match the proceeds received under Nostrum's oil hedging contract, which is in place until December 2017.
Management estimates that the capital expenditure required to build the third gas treatment unit will not exceed US$532 million (excluding VAT) and the unit is planned to be fully funded from operational cash flow which will also cover items such as renewing and expanding the oil treatment facility as required. Management believes that all other existing infrastructure owned and operated by the Group, such as pipelines and rail terminals, has sufficient capacity to accommodate double the Group's current production levels, to over 100,000 boepd.
Once the third gas treatment unit is operational, the focus of the Group will move towards ramping up the drilling programme in order to fill the gas treatment facility. The Group's independent oil and gas consultants, Ryder Scott, estimate that under the existing oil price environment, Nostrum will need to drill 50 to 60 wells, between 2017 and 2020, to ramp up average daily production volumes to over 100,000 boe per day. Under the existing oil price environment, the current drilling plan foresees drilling seven wells in 2017. Management estimates, based on the production profile of both proved and probable reserves reported in the 2017 Ryder Scott Report and assuming the successful completion of the third phase of the gas treatment facility by the end of 2017, that annual production will reach approximately 50,000 to 80,000 boepd in 2018, and approximately 100,000 boepd by the end of 2020.

*Actively pursuing reserve growth*

The 2017 Ryder Scott Report reported estimated gross proved reserves of 147 million boe as at 1 January 2017. During 2016 this represented a proved reserve replacement ratio of 97%, notwithstanding a reduction in the drilling programme over the first three quarters of 2017 in response to the oil price environment. The Group's ongoing appraisal programme will focus on the Chinarevskoye Field's probable reserves (232 million boe as at 1 January 2017) and the ongoing appraisal of the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye development fields. Nostrum's long-term target is to increase the Group's proved reserves base to up to 700 million boe, by converting existing probable reserves, adding reserves from the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye development fields and potential further acquisitions.
In addition, Nostrum currently estimates that it will cost approximately US$55 million to conduct the necessary appraisal activities for the appraisal and development of the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye development fields, which commenced in 2013, initially through 3D seismic acquisition. In 2016, Nostrum drilled one appraisal well in the Rostoshinskoye field. This appraisal well changed the geological model of the Rostoshinskoye field and also increased the reserves potential of the Bashkirian section of the adjacent Darjinskoye field. The test of this well will be completed in 2017 and the reserves will be re-estimated in the Group's subsequent reserves report. Preparations for re-entering an existing well on the Darjinskoye field are also currently underway. The results of the reserves report will determine the development programme as well as provide greater detail on reservoir size and fluid composition. The licence providing for the exploration of hydrocarbons from the Rostoshinskoye field expired in February 2017, and an application for extension has been submitted to the Competent Authority. Likewise, the exploration licences for Darjinskoye and Yuzhno-Gremyachenskoye expire in December 2017, and the Group intends to apply for extension to the exploration licences.

*Ramp-up Drilling Programme*

The Group maintains a strategy of optimising its drilling programme to ensure the full utilisation of the third unit of the gas treatment facility, whilst not jeopardising the Group's financial position. In 2016 the Group focused on preserving cash in a low oil price environment, drilling three production wells at Chinarevskoye to achieve the Group's production targets, and entering 2017 with the gas treatment facility at full capacity. The three production wells were delivered on time and on budget enabling the Group to achieve its average production target of 40,000 boe during 2016. In 2017, the Group plans to drill seven wells at Chinarevskoye (including one appraisal well) as the Group aims to balance increasing production with moving some probable reserves into the proven category. This will allow the Group to ramp-up production as quickly as possible once the third unit of the gas treatment facility is complete. The scale of the Group's drilling programme will be contingent on the prevailing oil price environment, allowing the Group to maintain financial flexibility during periods of volatility and increase activity if there is a material increase in prices.

# Interim management report

*Developing a Multi-Field Model*

The Group is also pursuing a strategy of growth through value-accretive acquisitions. This is in line with its desire to leverage existing infrastructure to add further reserves at low finding costs. The acquisition of the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields, all of which are located between 60 kilometres and 120 kilometres from the existing gas treatment facility, for total consideration of US$16 million, represented the first such acquisition pursuant to this strategy. The acquisition of data on these three fields commenced in 2013 and appraisal on the Rostoshinskoye (the largest of the three fields) concluded in 2016. The appraisal well which was drilled on the Rostoshinskoye field during 2016 will be tested in 2017 once a flaring permit is obtained from the ministry.

In addition, the Group is currently in the planning stage for the drilling of a re-entry well on the Darjinskoye field in 2017. The Group evaluates opportunities for acquisitive growth on a continuous basis, with a focus on North- Western Kazakhstan where practicable, but it will also consider opportunities in the surrounding regions. Having appraised, developed and produced both crude oil and gas condensate in North-Western Kazakhstan for over a decade, Nostrum has accumulated a considerable amount knowledge of both the Chinarevskoye asset and also the surrounding regional geology, which it seeks to leverage to enhance its commercial reserve base and to achieve the Group's average daily production volumes in excess of 100,000 boepd which the Group intends to reach by 2020. Nostrum will continue to look for further acquisitions which have the potential to further improve Group value.

*Linking corporate responsibility to the growth of the Company*

The Group's long presence in Kazakhstan has led to a natural, gradual and ambitious involvement in sustainable development. Over the years, it has built a comprehensive corporate social responsibility roadmap comprised of employee security and welfare, investment in community building and environmental protection and reporting. Each of these priorities is now taken up in the overall yearly management plan and monitored against specific voluntary as well as compliance objectives. As such, the Group continues to strive to improve and implement new policies each year in order to integrate further sustainability in all of its operations. The Group sees corporate social responsibility as an important indicator of non-financial risk and is regularly developing internal best practices to improve its standards. This is an important standalone part of Nostrum's strategy while it is also complementary to all of the other strategic initiatives. Sustainable development remains a priority for the Group going forward.

*Focusing on delivering shareholder value*

The Group aims to strike a balance between reinvesting in future growth and returning cash to the shareholders.

# Interim management report

## MATERIAL EVENTS

### Nostrum replaces US$ 607 milion of its 2019 debt

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2017 Issuer") issued USD 725,000 thousand notes (the "2017 Notes").
The 2017 Notes bear interest at the rate of 8.00% per year, payable on 25 January and 25 July of each year.
The 2017 Notes may be redeemed, in whole or part, by the 2017 Issuer upon not less than 30 nor more than 60 days' notice, at 106.000% of the principal amount plus accrued interest in the 12 month period beginning on 25 July 2019, at 104.000% of the principal amount plus accrued interest in the 12 month period beginning on 25 July 2020, or at 100.000% of the principal plus accrued interest after 25 July 2021. The 2017 Issuer may also redeem the 2017 Notes in other circumstances as set out in the relevant indenture relating to the 2017 Notes.
The 2017 Notes are jointly and severally guaranteed (the "2017 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2017 Guarantors"). The 2017 Notes are the 2017 Issuer's and the 2017 Guarantor's senior obligations and rank equally with all of the 2017 Issuer's and the 2017 Guarantor's other senior indebtedness.
The issue of the 2017 Notes was used primarily to fund the Tender Offer and Consent Solicitation, as described below.
Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to USD 14,000 thousand.

*Tender Offer and Consent Solicitation for the 2012 Notes and the 2014 Notes*

On 29 June 2017, Nostrum Oil & Gas Finance B.V., a subsidiary of Nostrum Oil & Gas PLC, announced a tender offer and consent solicitation in respect of the 2012 Notes and the 2014 Notes (the "Tender and Consent"). The Tender and Consent closed at 11:59 NY time on 27 July 2017, and was settled on 31 July 2017.
As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders USD 390,884 thousand in principal amount of the outstanding 2012 Notes and USD 215,924 thousand in principal amount of the outstanding 2014 Notes. In addition, both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

# Interim management report

## OPERATIONAL AND FINANCIAL PERFORMANCE

### Results of operations for the six months ended 30 June 2017 and 2016

***Financial highlights***

| *In millions of US$ (unless mentioned otherwise)* | **Six months ended 30 June** **2017 (unaudited)** | **2016 (unaudited)** | **Variance** | **Variance, %** |
|---|---|---|---|---|
| Revenue | **210.0** | 163.5 | *46.5* | *28.5%* |
| EBITDA* | **119.8** | 100.9 | *18.9* | *18.7%* |
| EBITDA margin | **57.0%** | 61.7% | *(4.7)%* | – |
| Cash Position | **97.5** | 111.9 | *(14.4)* | *(12.8)%* |
| Net Debt | **864.3** | 844.3 | *20.0* | *2.4%* |

** Profit before tax + non-recurring/one-time charges +finance costs + foreign exchange loss (-gain) + ESOP + depreciation and amortisation - interest income + other expenses/(-income).*

***Overview***

The table below sets forth the line items of the Group's interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2017 and 2016 in US dollars and as a percentage of revenue.

| *In thousands of US dollars* | **Six months ended 30 June** **2017 (unaudited)** | **% of revenue** | **2016 (unaudited)** | **% of revenue** |
|---|---|---|---|---|
| Revenue | **210,021** | **100.0%** | 163,459 | 100.0% |
| Cost of sales | **(98,474)** | **46.9%** | (94,494) | 57.8% |
| **Gross profit** | **111,547** | **53.1%** | 68,965 | 42.2% |
| General and administrative expenses | **(18,418)** | **8.8%** | (19,462) | 11.9% |
| Selling and transportation expenses | **(37,082)** | **17.7%** | (37,264) | 22.8% |
| Finance costs | **(21,473)** | **10.2%** | (21,190) | 13.0% |
| Employee share option plan fair value adjustment | **(673)** | **0.3%** | 1,983 | 1.2% |
| Foreign exchange gain/(loss), net | **2,949** | **1.4%** | (6,787) | 4.2% |
| Gain/(loss) on derivative financial instrument | **308** | **0.1%** | (40,729) | 24.9% |
| Interest income | **167** | **0.1%** | 241 | 0.1% |
| Other income | **5,476** | **2.6%** | 4,002 | 2.4% |
| Other expenses | **(8,357)** | **4.0%** | (6,323) | 3.9% |
| **Profit/(loss) before income tax** | **34,444** | **16.4%** | (56,564) | 34.6% |
| Income tax expense | **(20,973)** | **10.0%** | 746 | 0.5% |
| **(Loss)/profit for the period** | **13,471** | **6.4%** | (55,818) | 34.1% |
| Other comprehensive income | **544** | **0.3%** | 93 | 0.1% |
| **Total comprehensive income/(loss) for the period** | **14,015** | **6.7%** | (55,725) | 34.1% |

Group's profit increased by US$69.3 million from a loss of US$55.8 million for H1 2016 to a profit of US$13.5 million for the six months ended 30 June 2017 (the "reporting period") mainly due to increase in the Group's revenue and H1 2016 being impacted by a loss on the value of Nostrum's oil price hedge which matures in December 2017.

***Revenue***

The Group's revenue increased by 28.5% to US$210.0 million for the reporting period (H1 2016: US$163.5). This is mainly explained by the increase in the average Brent crude oil price from 41.0US$/bbl during the first half of 2016 to 52.7 US$/bbl during the reporting period. The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil.

Revenues from sales to the Group's largest three customers amounted to US$98.8 million, US$53.6 million and US$21.0 million respectively (H1 2016: US$41.3 million, US$33.8 million and US$25.2 million respectively).

The Group's revenue breakdown by products and sales volumes for the reporting period and H1 2016 is presented below:

| In thousands of US dollars | Six months ended 30 June 2017 (unaudited) | 2016 (unaudited) | Variance | Variance, % |
|---|---|---|---|---|
| Oil and gas condensate | **136,119** | 106,326 | *29,793* | *28.0%* |
| Gas and LPG | **73,902** | 57,133 | *16,769* | *29.4%* |
| **Total revenue** | **210,021** | 163,459 | *46,562* | *28.5%* |
| **Sales volumes (boe)** | **7,440,448** | 7,038,399 | *402,049* | *5.7%* |
| Average Brent crude oil price (US$/bbl) | **52.7** | 41.0 | | |

The following table shows the Group's revenue breakdown by export/domestic sales for the reporting period and H1 2016:

| In thousands of US dollars | Six months ended 30 June 2017 (unaudited) | 2016 (unaudited) | Variance | Variance, % |
|---|---|---|---|---|
| Revenue from export sales | **142,405** | 136,869 | *5,536* | *4.0%* |
| Revenue from domestic sales | **67,616** | 26,590 | *41,026* | *154.3%* |
| **Total** | **210,021** | 163,459 | *46,562* | *28.5%* |

***Cost of sales***

| In thousands of US dollars | Six months ended 30 June 2017 (unaudited) | 2016 (unaudited) | Variance | Variance, % |
|---|---|---|---|---|
| Depreciation, depletion and amortisation | **62,543** | 62,917 | *(374)* | *(0.6)%* |
| Repair, maintenance and other services | **9,923** | 10,511 | *(588)* | *(5.6)%* |
| Payroll and related taxes | **8,712** | 5,599 | *3,113* | *55.6%* |
| Royalties | **7,823** | 4,169 | *3,654* | *87.6%* |
| Other transportation services | **3,779** | 3,356 | *423* | *12.6%* |
| Change in stock | **(202)** | 3,159 | *(3,361)* | *(106.4)%* |
| Materials and supplies | **2,899** | 1,943 | *956* | *49.2%* |
| Well workover costs | **912** | 1,342 | *(430)* | *(32.0)%* |
| Government profit share | **1,890** | 899 | *991* | *110.2%* |
| Environmental levies | **178** | 215 | *(37)* | *(17.2)%* |
| Other | **17** | 384 | *(367)* | *(95.6)%* |
| **Total** | **98,474** | 94,494 | *3,980* | *4.2%* |

*Cost of sales* increased by 4.2% to US$98.5 million for the reporting period (H1 2016: US$94.5 million). The increase is primarily explained by the higher royalties and government profit share which are driven by higher oil prices, and higher payroll and related taxes due to increase in the headcount and the indexation of salaries. Also costs of materials and supplies increased by 49.2% to US$2.9 million for the reporting period (H1 2016: US$1.9 million) due to the higher amount of spare parts used for the GTU1 and GTU2 maintenace and for the gas turbine power plant that was put into opration in 2017.

On a boe basis, cost of sales increased marginally by US$0.20 or 1.5% to US$13.23 for the reporting period (H1 2016: US$13.43) and cost of sales net of depreciation per boe increased by US$0.34, or 7.6%, to US$4.83 (H1 2016: US$4.49).

***General and administrative expenses***

| In thousands of US dollars | Six months ended 30 June 2017 (unaudited) | 2016 (unaudited) | Variance | Variance, % |
|---|---|---|---|---|
| Payroll and related taxes | **7,255** | 7,238 | *17* | *0.2%* |
| Professional services | **4,999** | 4,052 | *947* | *23.4%* |
| Training | **1,362** | 1,918 | *(556)* | *(29.0)%* |
| Depreciation and amortisation | **1,215** | 985 | *230* | *23.4%* |
| Business travel | **809** | 2,350 | *(1,541)* | *(65.6)%* |
| Insurance fees | **744** | 621 | *123* | *19.8%* |
| Lease payments | **416** | 366 | *50* | *13.7%* |
| Sponsorship | **322** | 452 | *(130)* | *(28.8)%* |
| Communication | **199** | 285 | *(86)* | *(30.2)%* |
| Materials and supplies | **193** | 166 | *27* | *16.3%* |
| Social program | **158** | 157 | *1* | *0.6%* |
| Bank charges | **117** | 206 | *(89)* | *(43.2)%* |
| Other taxes | **31** | 160 | *(129)* | *(80.6)%* |
| Other | **598** | 506 | *92* | *18.2%* |
| **Total** | **18,418** | 19,462 | *(1,044)* | *(5.4)%* |

*General and administrative expenses* decreased by 5.4% to US$18.4 million for the reporting period (H1 2016: US$19.5 million). This was primarily due to decrease in business travel.

***Selling and transportation expenses***

| In thousands of US dollars | Six months ended 30 June 2017 (unaudited) | 2016 (unaudited) | Variance | Variance, % |
|---|---|---|---|---|
| Loading and storage costs | **15,636** | 17,759 | *(2,123)* | *(12.0)%* |
| Transportation costs | **11,423** | 14,333 | *(2,910)* | *(20.3)%* |
| Payroll and related taxes | **946** | 612 | *334* | *54.6%* |
| Marketing services | **7,779** | 3,431 | *4,348* | *126.7%* |
| Other | **1,298** | 1,129 | *169* | *15.0%* |
| **Total** | **37,082** | 37,264 | *(182)* | *(0.5)%* |

*Selling and transportation expenses* decreased by 0.5% to US$37.1 million for the reporting period (H1 2016: US$37.3 million). Deacrease in Loading and storage costs and Transportation costs is a consequence of change in destinations of crude oil sales. Marketing services increased as a result of a dry gas consulting agreement being signed only in August 2016.

***Finance costs***

| In thousands of US dollars | Six months ended 30 June 2017 (unaudited) | 2016 (unaudited) | Variance | Variance, % |
|---|---|---|---|---|
| Interest expense on borrowings | **20,831** | 20,554 | *277* | *1.3%* |
| Unwinding of discount on amounts due to Government of Kazakhstan | **351** | 370 | *(19)* | *(5.1)%* |
| Unwinding of discount on abandonment and site restoration provision | **163** | 215 | *(52)* | *(24.2)%* |
| Unwinding of discount on social obligations liability | **40** | – | *40* | - |
| Finance charges under finance leases | **88** | 51 | *37* | *72.5%* |
| **Total** | **21,473** | 21,190 | *283* | *1.3%* |

*Finance costs* increased by 1.3% to US$21.5 million for the reporting period (H1 2016: US$21.2 million). These costs were lower in H1 2016 due to higher capitalised interest.

***Other***

*Foreign exchange gain* amounted to US$2.9 million for the reporting period (H1 2016: loss of US$6.8 million). The losses in H1 2016 are explained by the tenge devaluation during the period.

*Other expenses* that mainly represent export duties paid by the Group increased by 32.2% to US$8.4 million for the reporting period (H1 2016: US$6.3 million). The export duties are custom duties for the export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc. The decrease in mainly driven by the change in destination of crude oil sales. Crude oil sold in the Eurasian Economic Union is exempt of export duty and Nostrum increased its sales of oil in EEU countries in H1 2017.

*Income tax expense* increased by 2911.4% to US$21.0 million for the reporting period (H1 2016: US$0.7 million). The increase in income tax expense was driven by higher taxable profit.

## Liquidity and capital resources

During the period under review, Nostrum's principal sources of funds were cash from operations.

***Cash Flows***

The following table sets forth the Group's consolidated cash flow statement data for the reporting period and H1 2016:

| | **Six months ended 30 June** | |
|---|---|---|
| *In thousands of US dollars* | **2017** | 2016 |
| **Cash and cash equivalents at the beginning of the period** | **101,134** | 165,560 |
| Net cash flows from operating activities | **118,463** | 78,907 |
| Net cash used in investing activities | **(91,390)** | (99,184) |
| Net cash used in financing activities | **(31,658)** | (33,409) |
| Effects of exchange rate changes on cash and cash equivalents | **974** | 1 |
| **Cash and cash equivalents at the end of the period** | **97,523** | 111,875 |

*Net cash flows from operating activities*

Net cash flow from operating activities was US$118.5 million for the reporting period (H1 2016: US$78.9 million) and was primarily attributable to:

- profit before income tax for the reporting period of US$34.4 million (H1 2016: loss of US$56.6 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$63.8 million (H1 2016: US$63.9 million), and finance costs of US$21.5 million (H1 2016: US$21.2 million).
- a US$7.3 million change in working capital (H1 2016: US$2.1 million) primarily attributable to a decrease in trade receivables of US$8.2 million (H1 2016: a decrease of US$8.2 million), an increase in prepayments and other current assets of US$1.7 million (H1 2016: an increase of US$5.5 million), and an increase in trade payables of US$2.5 million (H1 2016: an increase of US$3.5 million).
- income tax paid of US$10.0 million (H1 2016: US$8.5 million).

*Net cash used in investing activities*

Net cash used in investing activities for the reporting period was US$91.4 million (H1 2016: US$99.2 million) due primarily to costs associated with the drilling of new wells of US$21.8 million for the reporting period (H1 2016: US$34.1 million), costs associated with the third unit of the gas treatment facility of US$66.8 million (H1 2016: US$60.5 million) and costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US$0.9 million (H1 2016: US$4.4 million).

*Net cash (used in)/provided by financing activities*

Net cash used in financing activities during the reporting period was US$31.7 million, and was mainly represented by the finance costs paid on the Group's 2012 Notes and 2014 Notes (H1 2016: US$33.4 million).

***Commitments***

Liquidity risk is the risk that the Group will encounter difficulty raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management seeks to ensure that sufficient funds

are available to meet any commitments as they arise. The table below summarises the maturity profile of the Group's financial liabilities as at 30 June 2017 based on contractual undiscounted payments:

| *As at 30 June 2017* | **On demand** | **Less than 3 months** | **3-12 months** | **1-5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Borrowings | – | 16,390 | 49,007 | 1,030,944 | 1,968 | **1,098,309** |
| Trade payables | 35,863 | – | 10,374 | – | – | **46,237** |
| Other current liabilities | 18,884 | – | – | – | – | **18,884** |
| Due to Government of Kazakhstan | – | 258 | 773 | 4,124 | 9,020 | **14,175** |
| | **54,747** | **16,648** | **60,154** | **1,035,068** | **10,988** | **1,177,605** |

***Capital commitments***

During the reporting period, Nostrum's cash used in capital expenditures for purchase of property, plant and equipment (excluding VAT) was approximately US$90.2 million (H1 2016: US$98.7 million). This reflects drilling costs, field infrastructure development projects and development costs for the oil treatment facility and the gas treatment facility.

## Primary factors affecting results of operations

The primary factors affecting the Group's results of operations during the reporting period are the following:

***Pricing***

The pricing for all of the Group's crude oil, condensate, dry gas and LPG is, directly or indirectly, related to the price of Brent crude oil. During the reporting period the price of Brent crude oil experienced significant fluctuations. According to Bloomberg, international Brent oil prices have varied between a low of approximately US$27.9 per barrel and a high of approximately US$52.5 per barrel in the first half of 2016, and between US$44.8 per barrel and US$57.1 per barrel during the reporting period.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| Average Brent crude oil price (US$/bbl) | **52.7** | 41.0 |

The Group has a hedging policy whereby it hedges against adverse oil price movements during times of considerable non scalable capital expenditure. Based on the contracts Zhaikmunai LLP has entered into with various equipment suppliers for the third gas treatment unit, Nostrum is closely monitoring the hedging market.

On 14 December 2015, Zhaikmunai LLP entered, at cost of US$ 92,000 thousand, into a long-term hedging contract covering oil sales of 14,674 bbls/day for the first calculation period and 15,000 bbls/day for the subsequent calculation periods or a total of 10,950,000 bbls running through 14 December 2017. The counterparty to the hedging agreement is VTB Capital Plc. Based on the hedging contract Zhaikmunai LLP bought a put, which protects it against any fall in the price of oil below US$ 49,16/bbl.

***Production***

The Group's results from operations are directly affected by production because, except for a portion of the dry gas that is utilised in the operations of the gas treatment facility, all of Nostrum's production is sold. The table below sets forth Nostrum's production for the reporting period and H1 2016.

| | **Six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2017** | **2016** | **Variance (boepd)** | **Variance (%)** |
| Total average production (boepd) | **46,685** | 38,993 | *7,692* | *19.7%* |
| Total production (boe) | **7,673,563** | 7,096,792 | *576,771* | *8.1%* |

***Cost of sales***

The Group's oil and gas prices are based on a mix of fixed and quotation pricing, and therefore Nostrum's ability to control costs is critical to its profitability. Nostrum's cost of sales comprise various costs including depreciation of oil and gas properties, repair, maintenance and other services, royalties, payroll and related taxes, materials and supplies, other transportation services, government profit share, environmental levies, and well workover costs.

Depreciation and amortisation costs represent 63.5% of total cost of sales for the reporting period (H1 2016: 66.6%). These costs fluctuate according to the level of Nostrum's proved developed reserves, the volume of oil and gas it produces and the net book value of its oil and gas properties.
Repair, maintenance and other services are related to the repair and maintenance of the Group's infrastructure, including the gas treatment facility but do not include ongoing repair and maintenance of production and exploration wells. These costs represent 10.1% of the total costs of sales (H1 2016: 11.1%) and fluctuate depending on the planned works on certain objects.
Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 0.9% and 1.4% for the six months ended 30 June 2017 and 2016, respectively.

### *Finance costs*

Finance costs in the reporting period consisted of interest expenses in relation to the 2012 Notes issued by Zhaikmunai International B.V. in November 2012 and the 2014 Notes issued by Nostrum Oil & Gas Finance B.V. in February 2014, unwinding of discount on amounts due to the Kazakh Government and unwinding of discount on abandonment and site restoration liability.
Interest expense in the reporting period consisted solely of interest on the 2012 Notes and 2014 Notes. Capitalised borrowing costs (including a portion of the interest expense and amortisation of the arrangement fees) amounted to US$15.1 million in the reporting period (H1 2016: US$15.3 million). Non-capitalised interest amounted to US$20.8 million in the reporting period (H1 2016: US$20.6 million).

### *Royalties, Government share and taxes payable pursuant to the PSA*

Nostrum operates and produces pursuant to the PSA. The PSA has, during the periods under review, and will continue to have both a positive and negative effect on Nostrum's results of operations as a result of (i) the tax regime applicable to Nostrum under the PSA (discussed below) (ii) increasing royalty expenses payable to the State, (iii) the share of profit oil and the share of gas that Nostrum pays to the State and (iv) recovery bonus payable to the State.
Under the PSA, the Kazakh tax regime that was in place in 1997 applies to the Group for the entire term of the PSA and the Licence (as to VAT and social tax, the regime that was in place as of 1 July 2001 applies). As of 1 January 2009, the new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code did not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Articles 308 and 308-1 of the Tax Code. Despite the stabilisation clauses (providing for general and tax stability) provided for by the PSA, in 2008, in 2010 and again in 2013, Nostrum was required to pay new crude oil export duties introduced by the Kazakh Government. Despite Nostrum's efforts to show that the new export duties were not applicable to it, the State authorities did not accept this position and Nostrum was required to pay the export duties.
For the purposes of corporate income tax from 1 January 2007, the Group considers its revenue from oil and gas sales related to the Tournaisian horizon as taxable revenue and its expenses related to the Tournaisian horizon as deductible expenses, except those expenses which are not deductible in accordance with the tax legislation of Kazakhstan. Assets related to the Tournaisian reservoir that were acquired during the exploration phase are then depreciated for tax purposes at a maximum rate of 25.0% per annum. Assets related to the Tournaisian reservoir that were acquired after the commencement of the production phase are subject to the depreciation rate in accordance with the 1997 Kazakh tax regime, which is between 5% and 25% depending on the nature of the asset. The Kazakhstan Ministry of Energy approved an extension to the Chinarevskoye exploration period on 11 March 2016, with the exploration period extended until 26 May 2018. Assets related to the other horizons will depreciate in the same manner as those described above for the Tournaisian reservoir.
Under the PSA, Nostrum is obliged to pay to the State royalties on the volumes of crude oil and gas produced, with the royalty rate increasing as the volume of hydrocarbons produced increases. In addition, Nostrum is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State also increases as annual production levels increase. Pursuant to the PSA, the Group is currently able to effectively deduct a significant proportion of production (known as Cost Oil) from the sharing arrangement. Cost Oil reflects the deductible capital and operating expenditures incurred by the Group in relation to its operations. Royalties represented 7.9% of total cost of sales for the reporting period (H1 2016: 4.4%). As for the government profit share, it represented 1.9% of total cost of sales for the reporting period (H1 2016: 1.0%).

## RELATED PARTIES AND RELATED PARTY TRANSACTIONS

The following is a description of the material transactions with related parties to which the Company or its subsidiaries are a party. The Company believes that it has executed all of its transactions with related parties on terms no less favorable to the Group than those it could have obtained from unaffiliated third parties.

Save as disclosed in the Note 22 to the interim condensed consolidated financial statements, there were no related party transactions entered into during the reporting period.

# Interim management report

## PRINCIPAL RISKS AND UNCERTAINTIES

Key risks are reviewed by the executive committee and the Board of Nostrum Oil & Gas PLC on a regular basis and where appropriate, actions are taken to mitigate the key risks that are identified.
The key risks and uncertainties are unchanged from those disclosed in the Group's 2015 Annual Report. The Group believes that its principal risks and uncertainties for the remaining six months are:

### Principal financial risks and uncertainties

| *Strategic risks* | *Description of risk* | *Risk management* |
|---|---|---|
| Development projects | The Group's planned development projects, in particular GTU3 and well drilling, are subject to customary risks related to delay, non-completion and cost overruns, which could impact future production and the Group's performance. | The Group has formed an experienced project management team and expects to benefit from the technical expertise and significant experience gained from the construction of GTU1 and GTU2 in the construction of GTU3. The project management team reports on a monthly basis to senior management and the Board on the progress of engineering, procurement and construction.<br>The Group has concluded the majority of the procurement process in relation to GTU3 and monitors logistics, engineering, expedition of materials and equipment on an ongoing basis. JSC "OGCC KazStroyService" has been engaged to construct GTU3, having gained experience on similar projects including GTU1 and GTU2 and other large projects in Kazakhstan.<br>Senior management and the Board constantly monitor the timing, scope and performance of the drilling program and tailor it taking into account the status of the GTU3 project and current oil prices. For each well a detailed drilling program is approved by senior management, which is the basis against which the progress of works and costs are reported. |
| Commodity price risk | The Group is exposed to the risk that its future earnings will be adversely impacted by changes in the market price of crude oil, given that all sales prices of crude oil and condensate are based on market prices. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals.<br>The Group could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve. | The Group's hedging policy is that, upon entering into longer-term non-scalable capital expenditure commitments, it will hedge its liquids production.<br>In December 2015, Nostrum rolled its pre-existing hedge into a new hedge of 15,000 boepd with a strike price of US$49.16 per barrel. The cost of the hedge was paid entirely from the sale of the Company's previous hedge for US$92m.<br>The new hedge has 24-month tenor, maturing in December 2017, with cash settlement on a quarterly basis.<br>Senior management and the Board continuously monitor the timing, scope and performance of the drilling program taking into account the oil price environment. |

| *Operational risks* | *Description of risk* | *Risk management* |
|---|---|---|
| Single revenue source and business interruption | The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue. | The Group has a team of dedicated specialists who assess possible acquisitions of oil and gas fields and assets. In 2013 the Group acquired subsoil use rights for three oil and gas fields near the Chinarevskoye field. In 2016, the drilling programme will initially be set targeting the addition of three new production wells at Chinarevskoye as well as the completion of an appraisal well on the Rostoshinskoye field. The drilling programme is reviewed on a quarterly basis and can be scaled up at short notice. A supplementary agreement for the Rostoshinskoye field has been signed extending the exploration period until February 2017. Subsequently, the exploration period for Darjinskoye and Yuzhno-Gremyachinskoye fields was extended until 31 December 2017. |
| Estimation of oil and gas reserves | The Group is subject to the risk that if there are inaccurate assessments and overstatement of the oil and gas reserves the Group's non-current assets and goodwill may be overstated or impaired. This may also be a consequence of unsuccessful exploration of the new fields and may also result in inappropriate decision-making. | The Group has a department of highly skilled geologists, who perform periodic assessments of the oil and gas reserves in accordance with international standards on reserve estimations. The results of the assessments are reviewed by the Group's independent reserve consultant, Ryder Scott. |
| *Compliance risks* | *Description of risk* | *Risk management* |
| 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 PSA for the Chinarevskoye field and maintains an open dialogue with Kazakh governmental authorities regarding all of its subsoil use agreements. In the event of non-compliance with a provision of any such agreement the Group endeavours to have such terms modified and pays any penalties and fines that may apply. |
| 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's QHSE department was strengthened during 2015. The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Key indicators such as GHG emissions, lost-time injuries, waste management, etc., as well as progress of work is reported to senior management on a monthly basis. Periodic training on the requirements of policies and regulations are held for employees. The Group is working towards obtaining ISO 14001 Environmental Management Systems and ISO 50001 Energy Management Systems certification. The Group also regularly commissions independent environmental audits to monitor its compliance and best practice in this area. |
| Perceived risk of non-compliance with anti-bribery legislation | There is a risk that the Group's employees will unintentionally or deliberately take actions prohibited by anti-bribery legislation given the perceived heightened risk in the jurisdiction in which the Group operates. | The Group has adopted an anti-bribery and corruption policy, and has included a provision on this subject in the Group's Code of Conduct and conducted training for employees in relation to their obligations in this area. |

# Interim management report

| *Financial risks* | *Description of risk* | *Risk management* |
|---|---|---|
| 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 are inapplicable to it. | 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. |
| Going concern and liquidity risk | The Group is subject to the risk of encountering difficulties in raising funds to meet commitments associated with its financial liabilities and respective inappropriateness of going concern assumptions. | 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 provides for the Group to maintain a minimum level of cash of US$50 million. |

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

## GOING CONCERN

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

## RESPONSIBILITY STATEMENT

To the best of our knowledge

a) the interim condensed set of financial statements, which has been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4 R;
b) the interim management report includes a fair review of the information required by DTR 4.2.7 R; and
c) the interim management report includes a fair review of the information required by DTR 4.2.8 R.

Signed on behalf of the Board:

| Kai-Uwe Kessel | Tom Richardson |
| --- | --- |
| Chief Executive Officer | Chief Financial Officer |

# Nostrum Oil & Gas PLC

# Interim condensed consolidated financial statements (unaudited)

*For the six months ended 30 June 2017*

# Independent review report to Nostrum Oil & Gas PLC

**Introduction**

We have been engaged by Nostrum Oil & Gas plc to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of cash flows, the interim condensed consolidated statement of changed in equity and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

**Directors' Responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

**Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

**Scope of Review**

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

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
25 August 2017

# Interim condensed consolidated financial statements

# Interim condensed consolidated statement of financial position

**As at 30 June 2017**

| *In thousands of US dollars* | Notes | 30 June 2017 (unaudited) | 31 December 2016 (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Exploration and evaluation assets | 3 | **45,401** | 44,271 |
| Goodwill | | **32,425** | 32,425 |
| Property, plant and equipment | 4 | **1,856,758** | 1,807,768 |
| Restricted cash | 8 | **6,303** | 5,981 |
| Advances for non-current assets | 5 | **21,849** | 28,676 |
| | | **1,962,736** | 1,919,121 |
| **Current assets** | | | |
| Inventories | | **28,607** | 28,326 |
| Trade receivables | 6 | **20,846** | 29,052 |
| Prepayments and other current assets | 7 | **21,890** | 21,171 |
| Derivative financial instruments | 20 | **6,966** | 6,658 |
| Income tax prepayment | | **28** | 1,062 |
| Cash and cash equivalents | 8 | **97,523** | 101,134 |
| | | **175,860** | 187,403 |
| **TOTAL ASSETS** | | **2,138,596** | 2,106,524 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Share capital and reserves** | 9 | | |
| Share capital | | **3,203** | 3,203 |
| Treasury capital | | **(1,660)** | (1,846) |
| Retained earnings and reserves | | **705,282** | 690,617 |
| | | **706,825** | 691,974 |
| **Non-current liabilities** | | | |
| Long-term borrowings | 11 | **946,722** | 943,534 |
| Abandonment and site restoration provision | | **20,509** | 19,635 |
| Due to Government of Kazakhstan | | **5,466** | 5,631 |
| Deferred tax liability | | **338,474** | 344,689 |
| | | **1,311,171** | 1,313,489 |
| **Current liabilities** | | | |
| Current portion of long-term borrowings | 11 | **15,098** | 15,518 |
| Employee share option plan liability | | **4,857** | 4,339 |
| Trade payables | 12 | **46,237** | 43,320 |
| Advances received | | **2,056** | 1,810 |
| Income tax payable | | **17,131** | 1,124 |
| Current portion of due to Government of Kazakhstan | | **1,031** | 1,289 |
| Other current liabilities | 13 | **34,190** | 33,661 |
| | | **120,600** | 101,061 |
| **TOTAL EQUITY AND LIABILITIES** | | **2,138,596** | 2,106,524 |

The interim condensed consolidated financial statements of Nostrum Oil & Gas PLC, registered number 8717287, were approved by the Board of Directors. Signed on behalf of the Board:

| Kai-Uwe Kessel | | Tom Richardson | |
|---|---|---|---|
| *Chief Executive Officer* | ______________ | *Chief Financial Officer* | ______________ |

*The accounting policies and explanatory notes on pages 24 through 38 are an integral part of these interim condensed consolidated financial statements*

# Interim condensed consolidated financial statements

## Interim condensed consolidated statement of comprehensive income

**For the six months ended 30 June 2017**

| | | Six months ended 30 June | |
|---|---|---|---|
| *In thousands of US dollars* | **Notes** | **2017 (unaudited)** | 2016 (unaudited) |
| **Revenue** | | | |
| Revenue from export sales | | **142,405** | 136,869 |
| Revenue from domestic sales | | **67,616** | 26,590 |
| | **14** | **210,021** | 163,459 |
| Cost of sales | **15** | **(98,474)** | (94,494) |
| **Gross profit** | | **111,547** | 68,965 |
| General and administrative expenses | **16** | **(18,418)** | (19,462) |
| Selling and transportation expenses | **17** | **(37,082)** | (37,264) |
| Finance costs | **18** | **(21,473)** | (21,190) |
| Employee share option plan fair value adjustment | | **(673)** | 1,983 |
| Foreign exchange gain/(loss), net | | **2,949** | (6,787) |
| Gain/(loss) on derivative financial instrument | **20** | **308** | (40,729) |
| Interest income | | **167** | 241 |
| Other income | | **5,476** | 4,002 |
| Other expenses | | **(8,357)** | (6,323) |
| **Profit/(loss) before income tax** | | **34,444** | (56,564) |
| Current income tax expense | | **(27,185)** | (15,535) |
| Deferred income tax benefit / (expense) | | **6,212** | 16,281 |
| **Income tax expense** | **19** | **(20,973)** | 746 |
| **(Loss)/profit for the period** | | **13,471** | (55,818) |
| **Other comprehensive income that could be reclassified to the income statement in subsequent periods** | | | |
| Currency translation difference | | **544** | 93 |
| **Other comprehensive income** | | **544** | 93 |
| **Total comprehensive income/(loss) for the period** | | **14,015** | (55,725) |
| Profit/(loss) for the period attributable to the shareholders (in thousands of US dollars) | | **14,015** | (55,725) |
| Weighted average number of shares | | **185,068,917** | 184,828,819 |
| Basic and diluted earnings per share (in US dollars) | | **0.08** | (0.30) |

All items in the above statement are derived from continuous operations.

*The accounting policies and explanatory notes on pages 24 through 38 are an integral part of these interim condensed consolidated financial statements*

# Interim condensed consolidated financial statements

# Interim condensed consolidated statement of cash flows

**For the six months ended 30 June 2017**

| | | Six months ended 30 June | |
|---|---|---|---|
| *In thousands of US dollars* | **Notes** | **2017 (unaudited)** | 2016 (unaudited) |
| **Cash flow from operating activities:** | | | |
| Profit/(loss) before income tax | | **34,444** | (56,564) |
| *Adjustments for:* | | | |
| Depreciation, depletion and amortisation | **15,16** | **63,758** | 63,902 |
| Finance costs | **18** | **21,473** | 21,190 |
| Employee share option plan fair value adjustment | | **673** | (1,983) |
| Interest income | | **(167)** | (241) |
| Foreign exchange gain on investing and financing activities | | **(1,041)** | (1,228) |
| Loss on disposal of property, plant and equipment | | **396** | 53 |
| Proceeds from derivative financial instruments | **20** | **–** | 24,783 |
| Loss/(gain) on derivative financial instruments | **20** | **(309)** | 40,729 |
| Provision for doubtful debts | | **1,751** | – |
| Accrued expenses | | **254** | (1,163) |
| **Operating profit before working capital changes** | | **121,232** | 89,478 |
| *Changes in working capital:* | | | |
| Change in inventories | | **(233)** | 2,322 |
| Change in trade receivables | | **8,206** | (8,164) |
| Change in prepayments and other current assets | | **(1,688)** | 5,525 |
| Change in trade payables | | **2,459** | 3,513 |
| Change in advances received | | **246** | 184 |
| Change in due to Government of Kazakhstan | | **(774)** | (516) |
| Change in other current liabilities | | **197** | (4,927) |
| Payments under Employee share option plan | | **(1,162)** | – |
| **Cash generated from operations** | | **128,483** | 87,415 |
| Income tax paid | | **(10,020)** | (8,508) |
| **Net cash flows from operating activities** | | **118,463** | 78,907 |
| **Cash flow from investing activities:** | | | |
| Interest received | | **167** | 241 |
| Purchase of property, plant and equipment | | **(90,155)** | (98,671) |
| Exploration and evaluation works | **3** | **(1,156)** | (754) |
| Loans granted | | **(246)** | – |
| **Net cash used in investing activities** | | **(91,390)** | (99,184) |
| **Cash flow from financing activities:** | | | |
| Finance costs paid | | **(32,809)** | (32,812) |
| Payment of finance lease liabilities | | **(379)** | (221) |
| Transfer to restricted cash | | **(323)** | (376) |
| Treasury shares sold/(purchased) | | **1,853** | – |
| **Net cash used in financing activities** | | **(31,658)** | (33,409) |
| Effects of exchange rate changes on cash and cash equivalents | | **974** | 1 |
| **Net decrease in cash and cash equivalents** | | **(3,611)** | (53,685) |
| Cash and cash equivalents at the beginning of the period | **8** | **101,134** | 165,560 |
| **Cash and cash equivalents at the end of the period** | **8** | **97,523** | 111,875 |

*The accounting policies and explanatory notes on pages 24 through 38 are an integral part of these interim condensed consolidated financial statements*

# Interim condensed consolidated financial statements

# Interim condensed consolidated statement of changes in equity

**For the six months ended 30 June 2017**

| *In thousands of US dollars* | Notes | Share capital | Treasury capital | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2016 (audited)** | | **3,203** | **(1,888)** | **260,833** | **511,608** | **773,756** |
| Loss for the period | | – | – | – | (55,818) | (55,818) |
| Other comprehensive income | | – | – | 93 | – | 93 |
| **Total comprehensive loss for the period** | | **–** | **–** | **93** | **(55,818)** | **(55,725)** |
| Transaction costs | | – | – | – | (15) | (15) |
| **As at 30 June 2016 (unaudited)** | | **3,203** | **(1,888)** | **260,926** | **455,775** | **718,016** |
| Loss for the period | | – | – | – | (26,087) | (26,087) |
| Other comprehensive loss | | – | – | (163) | – | (163) |
| **Total comprehensive loss for the period** | | **–** | **–** | **(163)** | **(26,087)** | **(26,250)** |
| Sale of treasury capital | | – | 42 | 155 | – | 197 |
| Transaction costs | | – | – | – | 11 | 11 |
| **As at 31 December 2016 (audited)** | | **3,203** | **(1,846)** | **260,918** | **429,699** | **691,974** |
| Profit for the period | | – | – | – | 13,471 | 13,471 |
| Other comprehensive income | | – | – | 544 | – | 544 |
| **Total comprehensive income for the period** | | **–** | **–** | **544** | **13,471** | **14,015** |
| Sale of treasury capital | | – | 186 | 674 | – | 860 |
| Transaction costs | | – | – | – | (24) | (24) |
| **As at 30 June 2017 (unaudited)** | | **3,203** | **(1,660)** | **262,136** | **443,146** | **706,825** |

*The accounting policies and explanatory notes on pages 24 through 38 are an integral part of these interim condensed consolidated financial statements*

# Notes to the interim condensed consolidated financial statements

## 1. GENERAL

### Overview

Nostrum Oil & Gas PLC ("the Company" or "the Parent") is a public limited company incorporated on 3 October 2013 under the Companies Act 2006 and registered in England and Wales with registered number 8717287. The registered address of Nostrum Oil & Gas PLC is: 9th Floor, 20 Eastbourne Terrace, London, W2 6LG, UK.
The Parent became the holding company of the remainder of the Group (via its subsidiary Nostrum Oil Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange ("LSE") on 20 June 2014. On the same date the former parent of the Group, Nostrum Oil & Gas LP, was delisted from the LSE. In addition to the subsidiaries of Nostrum Oil & Gas LP, Nostrum Oil Coöperatief U.A. acquired substantially all of the assets and liabilities of Nostrum Oil & Gas LP on 18 June 2014. The Parent does not have an ultimate controlling party.
These interim condensed consolidated financial statements include the financial position and the results of the operations of Nostrum Oil & Gas PLC and its following wholly owned subsidiaries:

| Company | Registered office | Form of capital | Ownership, % |
|---|---|---|---|
| Grandstil LLC | Tamozhenny lane 6/3<br>111033 Moscow<br>Russian Federation | Participatory interests | **100** |
| Nostrum Associated Investments LLP[1] | 43/1 Karev street<br>090000 Uralsk<br>Republic of Kazakhstan | Participatory interests | **100** |
| Nostrum E&P Services LLC[2] | Liteyniy Prospekt 26 A<br>191028 St. Petersburg<br>Russian Federation | Participatory interests | **100** |
| Nostrum Oil & Gas Coöperatief U.A.[3] | Gustav Mahlerplein 23B<br>1082MS Amsterdam<br>The Netherlands | Members' interests | **100** |
| Nostrum Oil & Gas BV[4] | Gustav Mahlerplein 23B<br>1082MS Amsterdam<br>The Netherlands | Ordinary shares | **100** |
| Nostrum Oil & Gas Finance B.V. | Gustav Mahlerplein 23B<br>1082MS Amsterdam<br>The Netherlands | Ordinary shares | **100** |
| Nostrum Oil & Gas UK Ltd. | 20 Eastbourne Terrace<br>London W2 6LA<br>United Kingdom | Ordinary shares | **100** |
| Nostrum Services Central Asia LLP[5] | Aksai 3a, 75/38<br>050031 Almaty<br>Republic of Kazakhstan | Participatory interests | **100** |
| Nostrum Services N.V.[6] | Brand Whitlocklaan 42<br>1200 Brussel<br>Belgium | Ordinary shares | **100** |
| Zhaikmunai LLP | 43/1 Karev street<br>090000 Uralsk<br>Republic of Kazakhstan | Participatory interests | **100** |

[1] *Formerly Condensate Holding LLP*
[2] *Formerly Investprofi LLC*
[3] *Formerly Nostrum Oil Coöperatief U.A.*
[4] *Formerly Zhaikmunai Netherlands B.V, which was also merged with Nostrum Oil & Gas Finance BV and Nostrum Oil BV during 2015*
[5] *Formerly Amersham Oil LLP*
[6] *Formerly Probel Capital Management N.V., which was also merged with Nostrum Services CIS BVBA during 2016*

Nostrum Oil & Gas PLC and its wholly-owned subsidiaries are hereinafter referred to as "the Group". The Group's operations comprise of a single operating segment with three exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

As at 30 June 2017, the Group employed 974 employees (H1 2016: 1,029).

### Subsoil use rights terms

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 31 October 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 17 August 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 1 March 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 authority now known as the Ministry of Energy (the "MOE") of the Republic of Kazakhstan.

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. Subsequently on 28 December 2016 the thirteenth supplementary agreement to the Contract was signed extending the exploration period for the Bobrikovski reservoir to 26 May 2018.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. Subsequently, the exploration period was extended until 8 February 2017. Zhaikmunai LLP's application for further extension of the exploration period is under approval by the MOE.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2017.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2017.

### Royalty payments

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

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

### Government "profit share"

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

## 2. BASIS OF PREPARATION AND CONSOLIDATION

### Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as adopted by the European Union and the requirements of the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to interim financial reporting. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRS as adopted by the European Union.

The interim financial information for the six months ended 30 June 2017 and 2016 is unaudited and does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The comparative financial information for the year ended 31 December 2016 has been derived from the statutory financial statements for that year. Statutory accounts for the year ended 31 December 2016 were approved by the Board of directors on 23 March 2017 and filed with the Registrar of Companies. The Independent Auditors' Report on those accounts was unqualified.

### Group reorganisation

The Group has been formed through a reorganisation in which Nostrum Oil & Gas PLC became a new parent entity of the Group. The reorganisation is not a business combination and does not result in any change of economic substance of the Group. Accordingly, the interim condensed consolidated financial statements of Nostrum Oil & Gas PLC are a continuation of the existing group (Nostrum Oil & Gas LP and its subsidiaries).

### Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis. The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the following new standards and interpretations effective as of 1 January 2017, and which did not have an impact on the Group:

- Amendments to IAS 7 *Statement of Cash Flows*: Disclosure Initiative
- Amendments to IAS 12 *Income Taxes*: Recognition of Deferred Tax Assets for Unrecognised Losses
- Amendments to IFRS 12 *Disclosure of Interests in Other Entities*: Clarification of the scope of disclosure requirements in IFRS 12

## 3. EXPLORATION AND EVALUATION ASSETS

| *In thousands of US dollars* | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| Subsoil use rights | **15,835** | 15,835 |
| Expenditures on geological and geophysical studies | **29,566** | 28,436 |
| | **45,401** | 44,271 |

During the six months ended 30 June 2017 the Group had additions to exploration and evaluation assets of US$1,130 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (H1 2016: US$579 thousand). Interest was not capitalised on exploration and evaluation assets.

## 4. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017 the Group had additions of property, plant and equipment of US$113,029 thousand (H1 2016: US$188,412 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US$14,428 thousand (H1 2016: US$14,704 thousand).
As at 30 June 2017 the net carrying amount of property, plant and equipment held under finance lease was US$12,979 thousand (31 December 2016: 13,327).
See Note 22 for capital commitments.

## 5. ADVANCES FOR NON-CURRENT ASSETS

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

| *In thousands of US dollars* | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| Advances for construction services | **19,607** | 20,801 |
| Advances for pipes and construction materials | **2,242** | 7,875 |
| | **21,849** | 28,676 |

## 6. TRADE RECEIVABLES

As at 30 June 2017 and 31 December 2016 trade receivables were not interest-bearing and were mainly denominated in US dollars. Their average collection period is 30 days.
As at 30 June 2017 and 31 December 2016 there were neither past due nor impaired trade receivables.

## 7. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 30 June 2017 and 31 December 2016 prepayments and other current assets comprised the following:

| *In thousands of US dollars* | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| VAT receivable | **11,744** | 10,564 |
| Advances paid | **5,781** | 6,487 |
| Other taxes receivable | **2,607** | 2,322 |
| Other | **1,758** | 1,798 |
| | **21,890** | 21,171 |

Advances paid consist primarily of prepayments made to service providers.

## 8. CASH AND CASH EQUIVALENTS

| *In thousands of US dollars* | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| Current accounts in US dollars | **75,321** | 72,537 |
| Current accounts in tenge | **11,478** | 17,206 |
| Current accounts in other currencies | **10,716** | 6,375 |
| Petty cash | **8** | 16 |
| Bank deposits with maturity less than three months | **–** | 5,000 |
| | **97,523** | 101,134 |

Bank deposits as at 31 December 2016 were represented by an interest-bearing deposit placed on 19 October 2016 for a three-month period with an interest rate of 0.68% per annum.
In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as liquidation fund deposit in the amount of US$ 598 thousand with Sberbank in Kazakhstan and US$ 5,705 thousand with Halyk bank (31 December 2016: a total of US$5,981 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

## 9. SHARE CAPITAL AND RESERVES

As at 30 June 2017 the ownership interests in the Parent consist of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

| *Number of GDRs/shares* | **In circulation** | **Treasury capital** | **Total** |
|---|---|---|---|
| **As at 1 January 2016 (audited)** | **184,828,819** | **3,354,139** | **188,182,958** |
| Share options exercised | 74,935 | (74,935) | – |
| **As at 31 December 2016 (audited)** | **184,903,754** | **3,279,204** | **188,182,958** |
| Share options exercised | 330,325 | (330,325) | – |
| **As at 30 June 2017 (unaudited)** | **185,234,079** | **2,948,879** | **188,182,958** |

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and are held by Intertrust Employee Benefit Trustee Limited, which upon request from employees to exercise options, sells shares on the market and settles respective obligations under the ESOP. This trust constitutes a special purpose entity under IFRS and therefore, these shares are recorded as treasury capital of the Company.
Other reserves of the Group include foreign currency translation reserve accumulated before 2009, when the functional currency of Zhaikmunai LLP was Kazakhstani Tenge and the difference between the partnership capital, treasury capital and additional paid-in capital of Nostrum Oil & Gas LP and the share capital of Nostrum Oil & Gas PLC amounting to US$255,459, that arose during the reorganisation of the Group (Note 2).

### Distributions

During the periods ended 30 June 2017 and 2016 there were no distributions made.

### Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 30 June 2017 the book value per share amounted to US$3.58 (31 December 2016: US$3.50).

## 10. EARNINGS PER SHARE

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period.
The basic and diluted EPS are the same as there are no instruments that have a dilutive effect on earnings.
There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

| | **Six months ended 30 June** | |
|---|---|---|
| *In thousands of US dollars* | **2017 (unaudited)** | 2016 (unaudited) |
| Profit/(loss) for the period attributable to the shareholders (in thousands of US dollars) | **14,015** | (55,725) |
| Weighted average number of shares | **185,068,917** | 184,828,819 |
| **Basic and diluted earnings per share (in US dollars)** | **0.08** | (0.30) |

## 11. BORROWINGS

Borrowings comprise the following as at 30 June 2017 and 31 December 2016:

| *In thousands of US dollars* | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| Notes issued in 2012 and maturing in 2019 | **553,368** | 550,943 |
| Notes issued in 2014 and maturing in 2019 | **407,584** | 406,931 |
| Finance lease liability | **868** | 1,178 |
| | **961,820** | 959,052 |
| Less amounts due within 12 months | **(15,098)** | (15,518) |
| **Amounts due after 12 months** | **946,722** | 943,534 |

### 2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US$ 560,000 thousand notes (the "2012 Notes").
On 24 April 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 14 May and 13 November of each year, beginning on 14 May 2013.
On and after 13 November 2016, the 2012 Issuer shall be entitled at its option to redeem all or a portion of the 2012 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2012 Note), plus accrued and unpaid interest on the 2012 Notes, if any, 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), if redeemed during the twelvemonth period commencing on 13 November of the years set forth below:

| **Period** | **Redemption Price** |
|---|---|
| 2016 | 103.56250% |
| 2017 | 101.78125% |
| 2018 and thereafter | 100.00% |

The 2012 Notes are jointly and severally guaranteed (the "2012 Guarantees") on a senior basis by Nostrum Oil & Gas PLC 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 are unsecured. Claims of secured creditors of the 2012 Issuer or the 2012 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2012 Notes.

### 2014 Notes

On 14 February 2014, Nostrum Oil & Gas Finance B.V. (the "2014 Initial Issuer") issued US$ 400,000 thousand notes (the "2014 Notes").
On 6 May 2014, Zhaikmunai LLP (the "2014 Issuer") replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes, whereupon it assumed all of the obligations of the 2014 Initial Issuer under the 2014 Notes.
The 2014 Notes bear interest at the rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and 14 August of each year, beginning on 14 August 2014.
On and after 14 February 2017, the 2014 Issuer shall be entitled at its option to redeem all or a portion of the 2014 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2014 Note), plus accrued and unpaid interest on the 2014 Notes, if any, 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), if redeemed during the twelve month period commencing on 14 February of the years set forth below:

| **Period** | **Redemption Price** |
|---|---|

| | |
|---|---:|
| 2017 | 103.1875% |
| 2018 and thereafter | 100.00% |

The 2014 Notes are jointly and severally guaranteed (the "2014 Guarantees") on a senior basis by Nostrum Oil & Gas PLC and all of its subsidiaries other than the 2014 Issuer (the "2014 Guarantors"). The 2014 Notes are the 2014 Issuer's and the 2014 Guarantors' senior obligations and rank equally with all of the 2014 Issuer's and the 2014 Guarantors' other senior indebtedness. The 2014 Notes and the 2014 Guarantees are unsecured. Claims of secured creditors of the 2014 Issuer or the 2014 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2014 Notes.
Costs directly attributable to the 2014 Notes arrangement amounted to US$6,525 thousand.

### Covenants contained in the 2012 Notes and the 2014 Notes

The indentures governing the 2012 Notes and the 2014 Notes contain a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of the Issuer, the 2012 Guarantors and the 2014 Guarantors to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to Nostrum Oil & Gas PLC or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses; and
- consolidate or merge with other entities.

Each of these covenants is subject to certain exceptions and qualifications.
In addition, the indentures impose certain requirements as to future subsidiary guarantors, and certain customary information covenants and events of default.

### Finance lease

On 12 April 2016 Zhaikmunai LLP entered into a finance lease agreement for the main administrative office in Uralsk for a period of 20 years for a fee of US$ 66 thousand per month. As at 30 June 2017 the finance lease prepayment amounted to US$ 12,151 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

| | **30 June 2017 (unaudited)** | | **31 December 2016 (audited)** | |
|---|---:|---:|---:|---:|
| *In thousands of US dollars* | **Minimum payments** | **Present value of payments** | **Minimum payments** | **Present value of payments** |
| No later than one year | **197** | 191 | **525** | 496 |
| Later than one year and no later than five years | **561** | 348 | **561** | 349 |
| Later than five years | **1,968** | 329 | **2,039** | 333 |
| **Total minimum lease payments** | **2,726** | 868 | **3,125** | 1,178 |
| Less amounts representing finance charges | **(1,858)** | | **(1,947)** | |
| **Present value of minimum lease payments** | **868** | 868 | **1,178** | 1,178 |

## 12. TRADE PAYABLES

Trade payables comprise the following as at 30 June 2017 and 31 December 2016:

| *In thousands of US dollars* | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| Tenge denominated trade payables | **18,766** | 22,315 |
| US dollar denominated trade payables | **17,114** | 11,846 |
| Euro denominated trade payables | **7,195** | 7,470 |
| Russian rouble denominated trade payables | **2,862** | 1,347 |
| Trade payables denominated in other currencies | **300** | 342 |
| | **46,237** | 43,320 |

## 13. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 30 June 2017 and 31 December 2016:

| *In thousands of US dollars* | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| Training obligations accrual | **11,859** | 12,018 |
| Taxes payable, other than corporate income tax | **6,514** | 7,041 |
| Accruals under the subsoil use agreements | **7,905** | 6,462 |
| Due to employees | **5,371** | 5,495 |
| Other current liabilities | **2,541** | 2,645 |
| | **34,190** | 33,661 |

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

## 14. REVENUE

The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the six months ended 30 June 2017 was US$52.7 (H1 2016: US$41.0)

| | **Six months ended 30 June** | |
|---|---|---|
| *In thousands of US dollars* | **2017 (unaudited)** | **2016 (unaudited)** |
| Oil and gas condensate | **136,119** | 106,326 |
| Gas and LPG | **73,902** | 57,133 |
| | **210,021** | 163,459 |

During the six months ended 30 June 2017 the revenue from sales to three major customers amounted to US$98,826 thousand, US$53,557 thousand and US$20,996 thousand respectively (H1 2016: US$41,347 thousand, US$33,816 thousand and US$25,167 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.

## 15. COST OF SALES

| | Six months ended 30 June | |
|---|---|---|
| *In thousands of US dollars* | **2017 (unaudited)** | **2016 (unaudited)** |
| Depreciation, depletion and amortisation | **62,543** | 62,917 |
| Repair, maintenance and other services | **9,923** | 10,511 |
| Payroll and related taxes | **8,712** | 5,599 |
| Royalties | **7,823** | 4,169 |
| Other transportation services | **3,779** | 3,356 |
| Materials and supplies | **2,899** | 1,943 |
| Government profit share | **1,890** | 899 |
| Well workover costs | **912** | 1,342 |
| Environmental levies | **178** | 215 |
| Change in stock | **(202)** | 3,159 |
| Other | **17** | 384 |
| | **98,474** | 94,494 |

## 16. GENERAL AND ADMINISTRATIVE EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| *In thousands of US dollars* | **2017 (unaudited)** | **2016 (unaudited)** |
| Payroll and related taxes | **7,255** | 7,238 |
| Professional services | **4,999** | 4,052 |
| Training | **1,362** | 1,918 |
| Depreciation and amortisation | **1,215** | 985 |
| Business travel | **809** | 2,350 |
| Insurance fees | **744** | 621 |
| Lease payments | **416** | 366 |
| Sponsorship | **322** | 452 |
| Communication | **199** | 285 |
| Materials and supplies | **193** | 166 |
| Social program | **158** | 157 |
| Bank charges | **117** | 206 |
| Other taxes | **31** | 160 |
| Other | **598** | 506 |
| | **18,418** | 19,462 |

## 17. SELLING AND TRANSPORTATION EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| *In thousands of US dollars* | **2017 (unaudited)** | **2016 (unaudited)** |
| Loading and storage costs | **15,636** | 17,759 |
| Transportation costs | **11,423** | 14,333 |
| Payroll and related taxes | **946** | 612 |
| Marketing services | **7,779** | 3,431 |
| Other | **1,298** | 1,129 |
| | **37,082** | 37,264 |

## 18. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| *In thousands of US dollars* | **2017 (unaudited)** | **2016 (unaudited)** |
| Interest expense on borrowings | **20,831** | 20,554 |
| Unwinding of discount on amounts due to Government of Kazakhstan | **351** | 370 |
| Unwinding of discount on abandonment and site restoration provision | **163** | 215 |
| Unwinding of discount on social obligations liability | **40** | – |
| Finance charges under finance leases | **88** | 51 |
| | **21,473** | 21,190 |

## 19. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| *In thousands of US dollars* | **2017 (unaudited)** | **2016 (unaudited)** |
| Corporate income tax | **27,093** | 16,605 |
| Withholding tax | **225** | 257 |
| Deferred income tax (benefit) / expense | **(6,212)** | (16,281) |
| Adjustment in respect of the current income tax for the prior periods | **(133)** | (1,327) |
| **Total income tax expense** | **20,973** | (746) |

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the income before tax for the six months ended 30 June 2017. Differences between the recognition criteria in IFRS and under the statutory taxation regulations give rise to a temporary difference between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the change in temporary differences is recorded at the applicable statutory rates, including the prevailing Kazakhstani tax rate of 30% applicable to income derived from the Chinarevskoye subsoil use license.

The major part of the Group's tax bases of non-monetary assets and liabilities is determined in tenge. Therefore, any change in the US dollar/tenge exchange rates results in a change in the temporary difference between the tax bases of non-current assets and their carrying amounts in the financial statements.

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

The movement in the fair value of derivative financial instruments was presented as follows:

| *In thousands of US dollars* | | Derivative financial instruments |
|---|---|---|
| **As at 1 January 2016 (audited)** | **current** | **54,095** |
| | **non-current** | **43,005** |
| Proceeds from sale of hedging contract | | (24,783) |
| Loss on derivative financial instruments | | (40,729) |
| **As at 30 June 2016 (unaudited)** | **current** | **18,096** |
| | **non-current** | **13,492** |
| Proceeds from sale of hedging contract | | (2,415) |
| Loss on derivative financial instruments | | (22,515) |
| **As at 31 December 2016 (audited)** | **current** | **6,658** |
| | **non-current** | **–** |
| Gain on derivative financial instruments | | 308 |
| **As at 30 June 2017 (unaudited)** | **current** | **6,966** |
| | **non-current** | **–** |

On 3 March 2014, in accordance with its hedging policy, Zhaikmunai LLP entered, at nil upfront cost, into a long-term hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through to 29 February 2016, which was sold before expiration for US$ 92,256 thousand on 14 December 2015.
On 14 December 2015, Zhaikmunai LLP entered, at cost of US$ 92,000 thousand, into a long-term hedging contract covering oil sales of 14,674 bbls/day for the first calculation period and 15,000 bbls/day for the subsequent calculation periods or a total of 10,950,000 bbls running through to 14 December 2017. The counterparty to the hedging agreement is VTB Capital Plc. Based on the hedging contract Zhaikmunai LLP bought a put, which protects it against any fall in the price of oil below US$ 49,16/bbl.
Gains and losses on the derivative financial instruments, which do not qualify for hedge accounting, are taken directly to profit or loss.
An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 23.

## 21. RELATED PARTY TRANSACTIONS

For the purpose of these interim condensed consolidated financial statements transactions with related parties mainly comprise transactions between subsidiaries of the Company and the shareholders and/or their subsidiaries or associated companies.

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 June 2017 and 31 December 2016 consisted of the following:

| *In thousands of US dollars* | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| **Trade receivables and advances paid** | | |
| JSC OGCC KazStroyService | **11,158** | 18,063 |

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 June 2017 and 31 December 2016 consisted of the following:

| *In thousands of US dollars* | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| **Trade payables** | | |
| JSC OGCC KazStroyService | **8,171** | 6,291 |

During the six months ended 30 June 2017 and 2016 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

| | **Six months ended 30 June** | |
|---|---|---|
| *In thousands of US dollars* | **2017 (unaudited)** | 2016 (unaudited) |
| **Purchases** | | |
| JSC OGCC KazStroyService | **29,455** | 19,323 |
| **Management fees and consulting services** | | |
| Cervus Business Services | **478** | 670 |
| VWEW Advocaten VOF | **2** | – |

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 30 June 2017 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

During the six months ended 30 June 2017 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA and VWEW Advocaten VOF.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$2,947 thousand for the six months ended 30 June 2017 (H1 2016: US$1,569 thousand). Payments to key management personnel under ESOP for the six months ended 30 June 2017 amounted to US$531 thousand (H1 2016: no payments under ESOP were made)

## 22. 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 30 June 2017. As at 30 June 2017 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

### Abandonment and site restoration (decommissioning)

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

### Environmental obligations

The Group may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. Kazakhstan's environmental legislation and regulations are subject to

ongoing changes and varying interpretations. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Group may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation.
However, depending on any unfavourable court decisions with respect to any claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Group's future results of operations or cash flow could be materially affected in a particular period.

### Capital commitments

As at 30 June 2017 the Group had contractual capital commitments in the amount of US$156,921 thousand (31 December 2016: US$96,990 thousand) mainly in respect to the Group's oil field exploration and development activities.

### Operating lease

In 2010 the Group entered into several agreements on lease of 650 railway tank wagons for transportation of hydrocarbon products for a period of up to seven years for KZT 6,989 (equivalent of US$ 47) per day per one wagon. The lease agreements may be terminated early either upon mutual agreement of the parties, or unilaterally by one of the parties if the other party does not fulfil its obligations under the contract.
The total of future minimum lease payments under non-cancellable operating lease was represented as follows:

| *In thousands of US dollars* | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| No later than one year | **7,581** | 9,589 |
| Later than one year and no later than five years | **19,004** | 28,795 |

Lease expenses of railway tank wagons for the six months ended 30 June 2017 amounted to US$4,246 thousand (H1 2016: US$6,705 thousand).

### Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement No. 9), the Group is obliged to:

- spend US$ 300 thousand per annum to finance social infrastructure;
- make an accrual of one percent per annum of the actual investments 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 fulfilment of several social and other obligations.
The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 26 December 2016) require the subsurface user to:

- spend US$ 1,000 thousand for funding of development of Astana city;
- reimburse historical costs of US$ 383 thousand to the Government upon commencement of production stage;
- fund liquidation expenses equal to US$ 96 thousand; and
- spend US$ 1,250 thousand to finance social infrastructure.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 26 December 2016) require the subsurface user to:

- invest at least US$ 19,643 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 191 thousand;

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 26 December 2016) require the subsurface user to:

- invest at least US$ 26,427 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 259 thousand;

### Domestic oil sales

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

## 23. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

| | **Carrying amount** | | **Fair value** | |
|---|---|---|---|---|
| *In thousands of US dollars* | **30 June 2017 (unaudited)** | **31 December 2016 (audited)** | **30 June 2017 (unaudited)** | **31 December 2016 (audited)** |
| **Financial assets measured at fair value** | | | | |
| Derivative financial instruments | **6,966** | 6,658 | **6,966** | 6,658 |
| **Financial liabilities measured at amortised cost** | | | | |
| Interest bearing borrowings | **(960,952)** | (957,874) | **(982,897)** | (955,924) |
| Finance lease liabilities | **(868)** | (1,178) | **(1,516)** | (1,799) |
| **Total** | **(954,854)** | (952,394) | **(977,447)** | (951,065) |

The management assessed that cash and cash equivalents, short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until December 2017.
The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 30 June 2017 and 31 December 2016:

| | **30 June 2017 (unaudited)** | 31 December 2016 (audited) |
|---|---|---|
| Future price at the reporting date (US$) | **53.53–54.18** | 56.82–58.84 |
| Expected volatility (%) | **24.34** | 27.33 |
| Risk-free interest rate (%) | **0.84** | 0.84 |
| Maturity (months) | **1–8** | 1–11 |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.
The following table reflects the results of the changes in volatilities and oil price assumptions on the fair value of the derivative financial instruments:

| | **Increase in the assumption** | **Decrease in the assumption** |
|---|---|---|
| Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl) | (1,705) | 2,322 |
| Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%) | **935** | (909) |

There were no movements between levels of fair value of derivative instrument during six months ended 30 June 2017.

## 24. EVENTS AFTER THE REPORTING PERIOD

### 2017 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2017 Issuer") issued USD 725,000 thousand notes (the "2017 Notes").

The 2017 Notes bear interest at the rate of 8.00% per year, payable on 25 January and 25 July of each year.

The 2017 Notes may be redeemed, in whole or part, by the 2017 Issuer upon not less than 30 nor more than 60 days' notice, at 106.000% of the principal amount plus accrued interest in the 12 month period beginning on 25 July 2019, at 104.000% of the principal amount plus accrued interest in the 12 month period beginning on 25 July 2020, or at 100.000% of the principal plus accrued interest after 25 July 2021. The 2017 Issuer may also redeem the 2017 Notes in other circumstances as set out in the relevant indenture relating to the 2017 Notes.

The 2017 Notes are jointly and severally guaranteed (the "2017 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2017 Guarantors"). The 2017 Notes are the 2017 Issuer's and the 2017 Guarantor's senior obligations and rank equally with all of the 2017 Issuer's and the 2017 Guarantor's other senior indebtedness.

The issue of the 2017 Notes was used primarily to fund the Tender Offer and Consent Solicitation, as described below.

Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to USD 14,000 thousand.

### Tender Offer and Consent Solicitation for the 2012 Notes and the 2014 Notes

On 29 June 2017, Nostrum Oil & Gas Finance B.V., a subsidiary of Nostrum Oil & Gas PLC, announced a tender offer and consent solicitation in respect of the 2012 Notes and the 2014 Notes (the "Tender and Consent"). The Tender and Consent closed at 11:59 NY time on 27 July 2017, and was settled on 31 July 2017.

As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders USD 390,884 thousand in principal amount of the outstanding 2012 Notes and USD 215,924 thousand in principal amount of the outstanding 2014 Notes. Total tender consideration was US$102.60 per US$100 for the outstanding 2012 Notes and US$100.60 per US$100 for the outstanding 2014 Notes validly tendered during the Early Bird window. In addition, a consent payment of US$40c per US$100 was paid for all 2012 Notes and 2014 Notes validly tendered during the Early Bird window or if a Consent Only Instruction was received during the Early Bird window. Both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

Accordingly, the 2012 Notes, 2014 Notes and 2017 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions, the ability of the 2012 Guarantors, the 2014 Guarantors, the 2017 Guarantors, and certain other members of the Group to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses; and
- consolidate or merge with other entities.

Each of these covenants is subject to certain exceptions and qualifications.

In addition, the indentures impose certain requirements as to future subsidiary guarantors, and certain customary information covenants and events of default.