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Oil & Gas



# FY 2014 Results

March 2015

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Oil & Gas



V-442A

# FULL YEAR 2014 RESULTS

## Solid financial and operational results in challenging oil price environment

- 1 Stable production volumes — 16.2 mboe / 44,400 boepd (2013: 16.8 mboe / 46,178 boepd)
- 2 Maintenance of superior margins — US\$495m EBITDA<sup>1</sup> on revenues of US\$782m (63% margin)
- 3 Resilient at low oil prices — 7,500 boepd production hedged at US\$85 / bbl
- 4 Robust capital position — \$400m cash and equivalents<sup>2</sup> (1.1x net debt / LTM EBITDA<sup>1</sup>)
- 5 Fully funded and on track for GTU III — doubling production by end of 2018
- 6 Substantial asset base — 2P reserves 571 mboe as at 31 December 2014 (+60% replacement ratio)

**Nostrum Board proposes US\$0.27 dividend<sup>3</sup>**

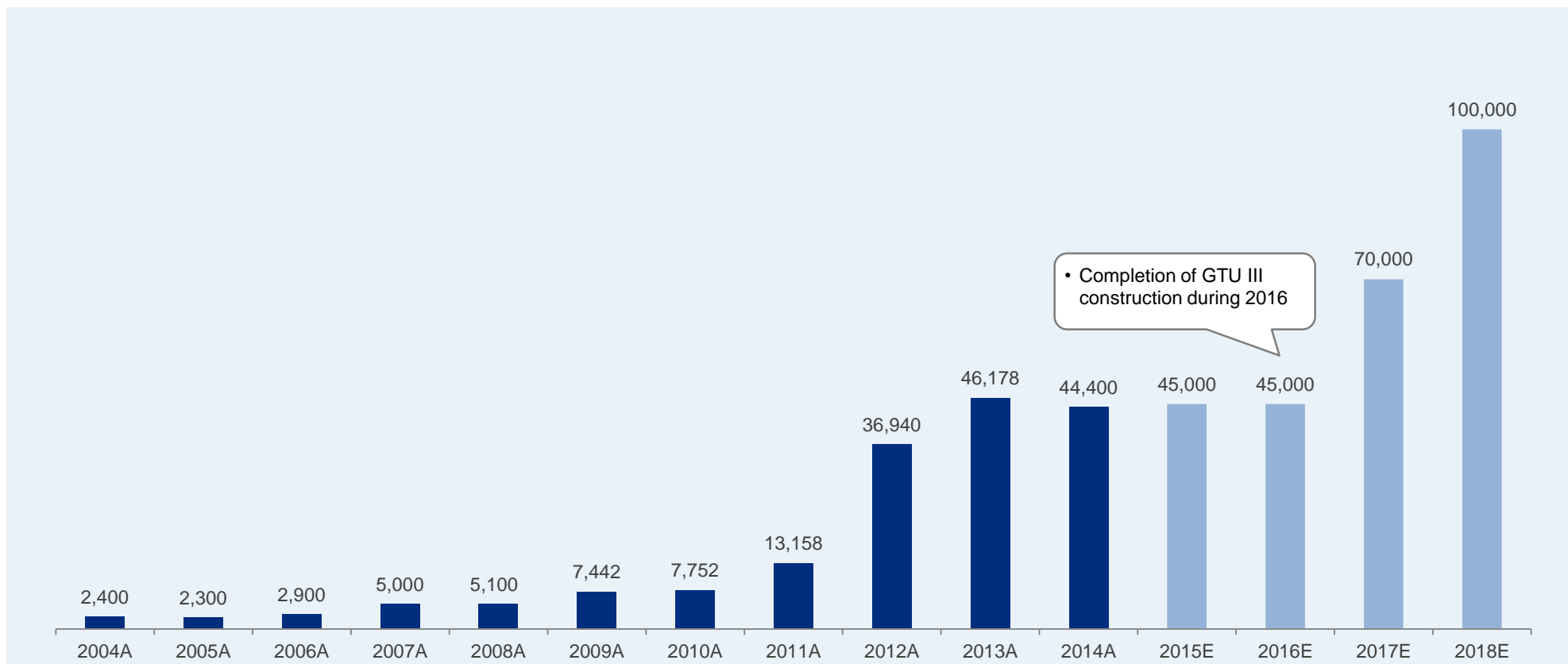
<sup>1</sup> Defined as Profit Before Tax + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation, Depletion & Amortisation – Interest Income + Other Expenses / (Income)

<sup>2</sup> Defined as Cash & Cash Equivalents + Current Investments

<sup>3</sup> Payable in sterling

# Stable production combined with significant near term production growth

## Production summary & guidance<sup>1</sup> (boepd)

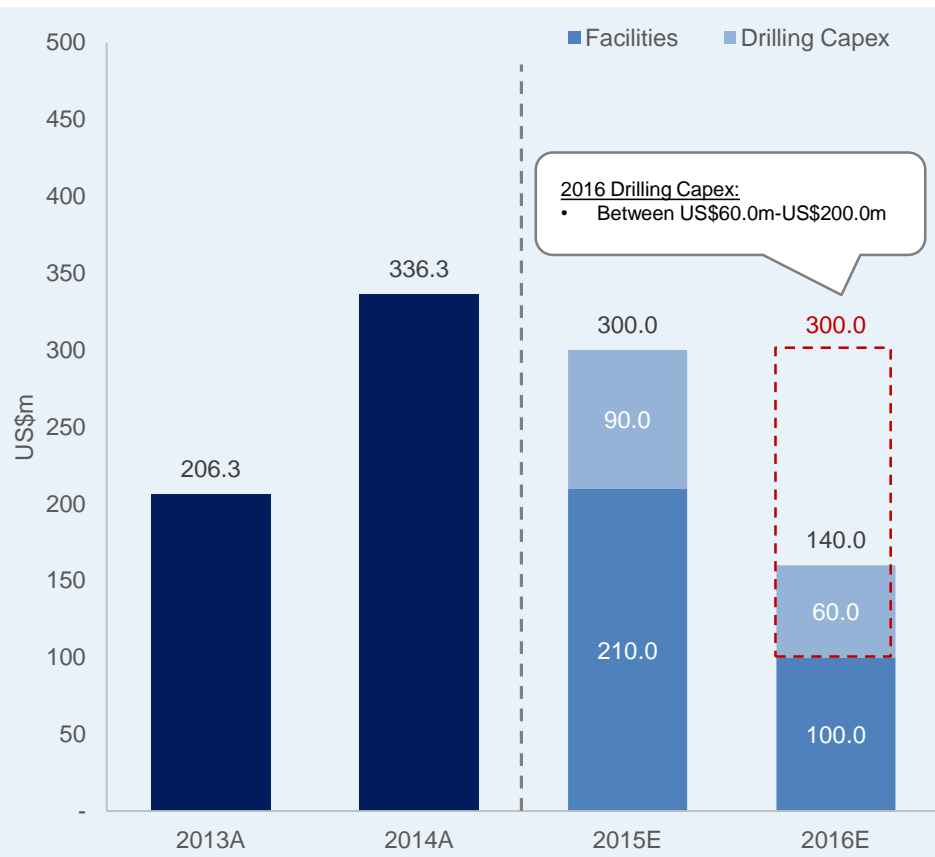


## Chinarevskoye Field alone provides significant and scalable near term production growth

<sup>1</sup> Based on the production profile of both proved and probable reserves reported in the Ryder Scott report as of December 2014 and assuming the successful completion of the second phase of the gas treatment facility by the end of 2016

# Growth fully funded from existing cash on hand and cash flow from operations

## Chinarevskoye capex guidance (2015-2018)



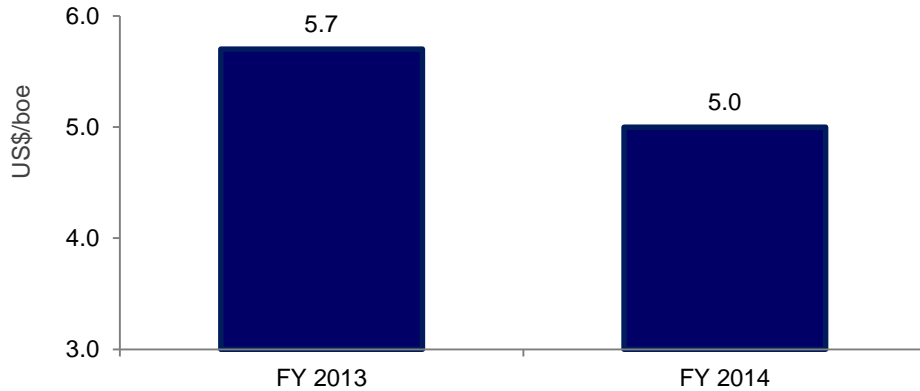
## Commentary

- Drilling capex scalable according to oil price environment
  - US\$60.0m – US\$200.0m drilling programme
- Fully funded capex programme both to maintain current production in 2015 and 2016 and complete construction of the GTU3 in 2016 at a breakeven oil price of US\$31
- High yielding production zones being targeted at Chinarevskoye in reduced drilling programme
- Securing adequate feedstock for GTU III top priority
- 2015E drilling capex for Nostrum scheduled to complete 8 wells in 2015

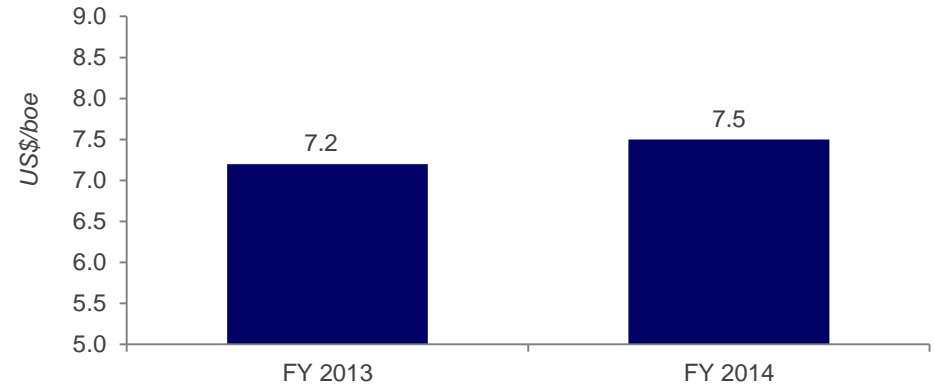
Fully funded to execute production growth strategy

# Key performance indicators

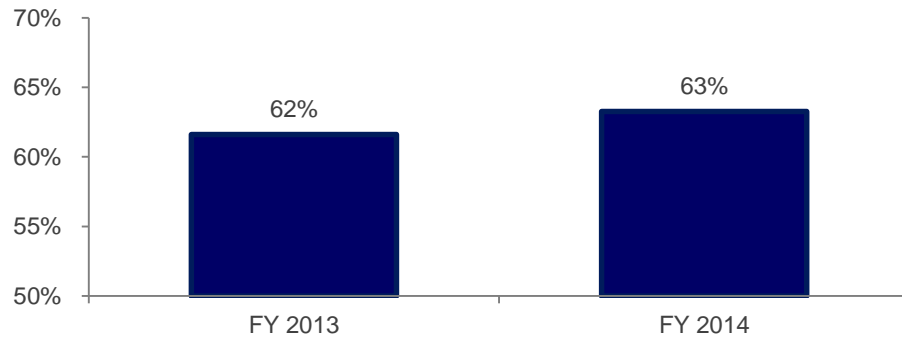
## Opex/boe<sup>1</sup>



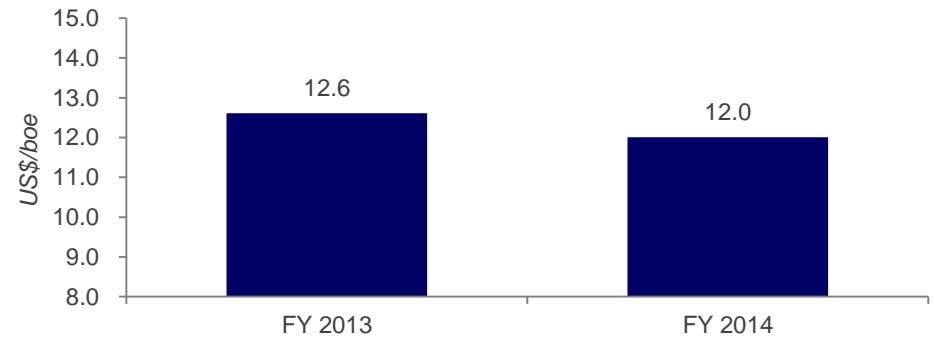
## Transport costs/boe<sup>4</sup>



## EBITDA<sup>3</sup> margin



## Tax/boe<sup>2</sup>



Operating metrics remain well controlled

<sup>1</sup> Opex defined as Cost of Sales – Depreciation – Royalties – Government profit share

<sup>2</sup> Total income tax expense + Royalties + Government profit share

<sup>3</sup> Defined as Profit Before Tax + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation – Interest Income + Other Expenses / (Income)

<sup>4</sup> Transportation Costs include: Loading and storage costs, transportation costs, payroll and related taxes, management fees, and other

# Capital discipline remains a core element of Nostrum's strategy

## **Balance sheet strength**

- US\$400.4m cash and cash equivalents<sup>2</sup> on balance sheet at year end
- US\$400.0m 6.375% Notes maturing in 2019 with no maintenance covenants
- US\$560.0m 7.125% Notes maturing in 2019 with no maintenance covenants
- No additional credit facilities with banks or borrowing based facilities
- Leverage metrics remain conservative with 1.1x Net Debt / EBITDA<sup>1</sup>

## **Existing hedging programme – Zero Cost Collar**

- 7,500 boepd of liquid production hedged at US\$85.0 / bbl until February 2016
- Fair Value of the hedge at 31 December 2014 – US\$60.3mm

## **Capex flexibility**

- Existing financing, hedging arrangements and cash flow from operations ensures GTU III is fully funded
- Drilling capex scalable up/down according to prevailing oil price environment and outlook

- **Dividend Policy**

- Minimum 20% Net Profit
- Board proposes US\$0.27 per ordinary share<sup>3</sup> (35% Net Profit vs. 30% in 2013)

<sup>1</sup> Defined as Profit Before Tax + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation, Depletion & Amortisation – Interest Income + Other Expenses / (Income)

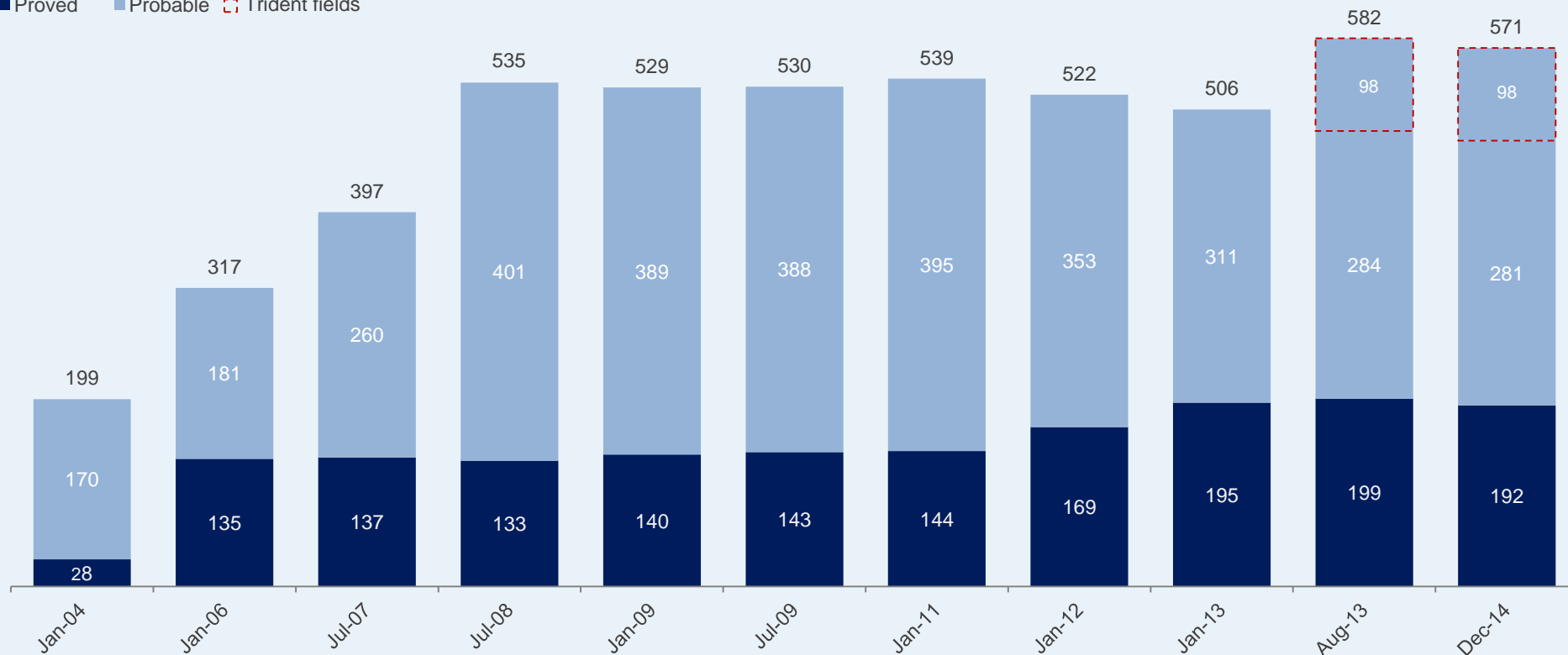
<sup>2</sup> Defined as Cash & Cash Equivalents + Current Investments

<sup>3</sup> Payable in sterling

# Operational performance underpinned by substantial core asset base

## Chinarevskoye Field 2P reserve progression since 2004 (mboe)<sup>1,2</sup>

■ Proved ■ Probable ▤ Trident fields



Chinarevskoye asset continues to perform in line with expectations with 2P reserves of 571 mmboe

<sup>1</sup> Ryder Scott reserves reports from 2004-2014

<sup>2</sup> Gas reserves in cubic feet are converted at a rate of 5,326.5 cubic feet per boe





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# FY 2014 Financial Results

# Financial Overview

US\$mm (unless otherwise stated)	FY 2013	FY 2014	Change
Revenue	895	<b>782</b>	(12.6%)
Cost of Sales	(286)	<b>(222)</b>	(22.5%)
General & Administrative Expenses	(55)	<b>(56)</b>	(2.0%)
EBITDA <sup>1</sup>	551	<b>495</b>	(10.3%)
Profit Before Tax	362	<b>312</b>	(13.9%)
Net income	220	<b>146</b>	(33.3%)
Earnings per share (US\$c) <sup>2</sup>	118	<b>79</b>	(33.3%)
Capital expenditure <sup>3</sup>	(235)	<b>(336)</b>	42.9%
Net cash flows from operating activities	359	<b>349</b>	(2.6%)
Gross debt	628	<b>945</b>	50.4%
Cash & cash equivalents <sup>4</sup>	240	<b>400</b>	66.9%
Net debt <sup>5</sup>	389	<b>545</b>	40.2%
Net debt / LTM EBITDA <sup>1</sup>	0.7x	<b>1.1x</b>	56.3%

<sup>1</sup> Defined as Profit Before Tax + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation, Depletion & Amortisation – Interest Income + Other Expenses / (Income)

<sup>2</sup> Based on a weighted average no. of shares for FY 2014 of 188.2m and 188.2m for FY 2013

<sup>3</sup> Purchases of property, plant and equipment + purchase of exploration and evaluation assets + acquisition of subsidiaries

<sup>4</sup> Defined as Cash & Cash Equivalents + Current Investments

<sup>5</sup> Defined as Total Debt - Cash & Cash Equivalents - Current Investments - Non-Current Investments

# Strong Balance Sheet and Enhanced Credit Metrics

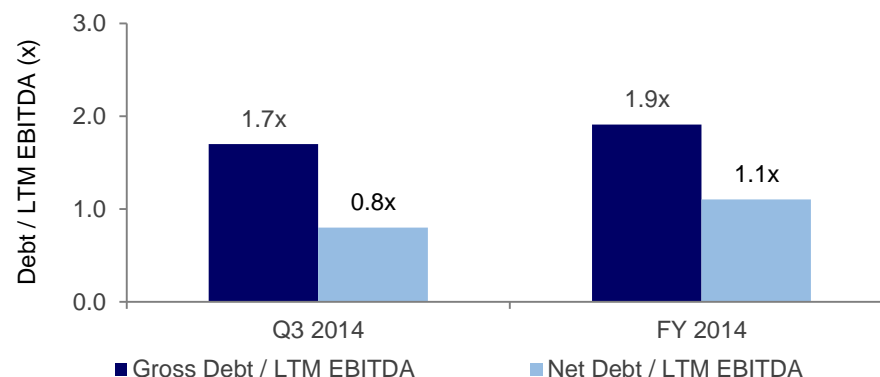
## Highlights

- +63% EBITDA<sup>1</sup> margin
- +67% increase in cash & cash equivalents during 2014 to US\$400m (FY 2013 US\$240m)
- Successful early repayment of 2010 Notes

## FY3 2014 Net Debt – US\$544.7m

	US\$m
<b>Total debt, including:</b>	<b>945.1</b>
2012 Notes (US\$560m, 7.125% annual coupon)	540.8
2014 Notes (US\$400m, 6.375% annual coupon)	404.3
<b>Cash &amp; cash equivalents<sup>2</sup></b>	<b>400.4</b>
<b>Net Debt</b>	<b>544.7</b>

## Credit Metrics



## Maturity Profile



**Robust capital structure ensures significant financial flexibility is maintained**

<sup>1</sup> Defined as Profit Before Tax + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation, Depletion & Amortisation – Interest Income + Other Expenses / (Income)

<sup>2</sup> Defined as Cash & Cash Equivalents + Current Investments



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## Supporting materials

# Consolidated Statement of Financial Position

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

<i>In thousands of US Dollars</i>	Notes	31 December 2014	31 December 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	7	24,380	20,434
Goodwill	6	32,425	30,386
Property, plant and equipment	8	1,442,157	1,330,903
Restricted cash	14	5,024	4,217
Advances for non-current assets	9	134,355	10,037
Derivative financial instruments	29	60,301	–
Non-current investments	13	–	30,000
		<b>1,698,642</b>	<b>1,425,977</b>
<b>Current assets</b>			
Inventories	10	25,443	22,085
Trade receivables	11	30,110	66,565
Prepayments and other current assets	12	39,642	31,192
Income tax prepayment		13,925	5,042
Current investments	13	25,000	25,000
Cash and cash equivalents	14	375,443	184,914
		<b>509,563</b>	<b>334,798</b>
<b>TOTAL ASSETS</b>		<b>2,208,205</b>	<b>1,760,775</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
Share capital	15	3,203	–
Treasury capital		(1,888)	(30,751)
Partnership capital		–	380,874
Additional paid-in capital		–	8,126
Retained earnings and reserves		916,365	474,202
		<b>917,680</b>	<b>832,451</b>
<b>Non-current liabilities</b>			
Long-term borrowings	17	930,090	621,160
Abandonment and site restoration provision	18	20,877	13,874
Due to Government of Kazakhstan	19	5,906	6,021
Deferred tax liability	31	206,784	152,545
		<b>1,163,657</b>	<b>793,600</b>
<b>Current liabilities</b>			
Current portion of long-term borrowings	17	15,024	7,263
Employee share option plan liability	28	6,449	12,016
Trade payables	20	49,619	58,518
Advances received		2,670	36
Income tax payable		1,459	1,232
Current portion of Due to Government of Kazakhstan	19	1,031	1,031
Other current liabilities	21	50,616	54,628
		<b>126,868</b>	<b>134,724</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,208,205</b>	<b>1,760,775</b>



# Consolidated Statement of Comprehensive Income

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2014

<i>In thousands of US Dollars</i>	<b>Notes</b>	<b>2014</b>	<b>2013</b>
<b>Revenue</b>			
Revenue from export sales		676,064	765,029
Revenue from domestic sales		105,814	129,985
	<b>22</b>	<b>781,878</b>	<b>895,014</b>
<b>Cost of sales</b>	<b>23</b>	<b>(221,921)</b>	<b>(286,222)</b>
<b>Gross profit</b>		<b>559,957</b>	<b>608,792</b>
General and administrative expenses	<b>24</b>	(54,878)	(56,019)
Selling and transportation expenses	<b>25</b>	(122,254)	(121,674)
Finance costs	<b>26</b>	(61,939)	(43,615)
Finance costs - reorganisation	<b>27</b>	(29,572)	–
Employee share option plan fair value adjustment		3,092	(4,430)
Foreign exchange loss		(4,235)	(636)
Gain on derivative financial instruments	<b>29</b>	60,301	–
Interest income		986	764
Other expenses	<b>30</b>	(49,844)	(25,593)
Other income		10,086	4,426
<b>Profit before income tax</b>		<b>311,700</b>	<b>362,015</b>
Income tax expense	<b>31</b>	(165,275)	(142,496)
<b>Profit for the year</b>		<b>146,425</b>	<b>219,519</b>
<b>Total comprehensive income for the year</b>		<b>146,425</b>	<b>219,519</b>

# Consolidated Statement of Cash Flows

## CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 31 December 2014

<i>In thousands of US Dollars</i>	<i>Notes</i>	<i>2014</i>	<i>2013</i>
<b>Cash flow from operating activities:</b>			
Profit before income tax		311,700	362,015
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	23,24	111,869	120,370
Finance costs - reorganisation	27	29,572	–
Finance costs	26	61,939	43,615
Employee share option plan fair value adjustment		(3,093)	4,430
Interest income		(986)	(764)
Foreign exchange (gain)/loss on investing and financing activities		(574)	48
Gain on derivative financial instruments	29	(60,301)	–
Accrued liabilities		(2,296)	–
<b>Operating profit before working capital changes</b>		<b>447,830</b>	<b>529,714</b>
<i>Changes in working capital:</i>			
Change in inventories		(3,358)	2,879
Change in trade receivables		36,455	(12,561)
Change in prepayments and other current assets		(7,714)	(6,823)
Change in trade payables		(5,633)	(5,747)
Change in advances received		2,921	(23)
Change in due to Government of Kazakhstan		(1,032)	(1,031)
Change in other current liabilities		341	8,803
Payments under Employee share option plan		(2,475)	(2,202)
<b>Cash generated from operations</b>		<b>467,335</b>	<b>513,009</b>
Income tax paid		(118,213)	(154,455)
<b>Net cash flows from operating activities</b>		<b>349,122</b>	<b>358,554</b>
<b>Cash flow from investing activities:</b>			
Interest received		986	764
Purchase of property, plant and equipment		(325,462)	(201,306)
Purchase of exploration and evaluation assets	7	(10,445)	(5,045)
Acquisition of subsidiaries		372	(28,433)
Placement of bank deposits		(25,000)	(30,000)
Redemption of bank deposits		55,000	25,000
<b>Net cash used in investing activities</b>		<b>(304,549)</b>	<b>(239,020)</b>
<b>Cash flow from financing activities:</b>			
Finance costs paid		(62,229)	(49,613)
Issue of notes	17	400,000	–
Expenses paid on arrangement of notes		(6,525)	–
Repayment of notes		(92,505)	–
Transfer to restricted cash		(807)	(565)
Treasury shares sold/(purchased)		3,715	(18,993)
Distributions paid	15	(64,615)	(63,179)
Funds borrowed - reorganisation	27	2,350,405	–
Funds repaid - reorganisation		(2,350,405)	–
Finance costs - reorganisation		(29,572)	–
<b>Net cash from / (used in) financing activities</b>		<b>147,462</b>	<b>(132,350)</b>
Effects of exchange rate changes on cash and cash equivalents		(1,506)	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>190,529</b>	<b>(12,816)</b>
Cash and cash equivalents at the beginning of the year	14	184,914	197,730
<b>Cash and cash equivalents at the end of the year</b>	<b>14</b>	<b>375,443</b>	<b>184,914</b>

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