



## **Interim financial report**

*For the six months ended 30 June 2016*

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**Nostrum Oil & Gas PLC**

Interim Management report

*For the six months ended 30 June 2016*

# Interim management report

## BUSINESS REVIEW

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*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 Oil & Gas PLC (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 hydrocarbons. Through its indirectly wholly-owned subsidiary Zhaikmunai LLP, Nostrum is the owner and operator of four fields in North-Western Kazakhstan: the Chinarevskoye production field and the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye exploration fields.

The Group's primary field and license area is the Chinarevskoye field, located in the northern part of the oil-rich Pre-Caspian Basin, close to the main international railway lines in and out of Kazakhstan as well as to several major oil and gas pipelines. Based on the 2015 Ryder Scott Report, as at 31 December 2015, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye field were 383 million boe, of which 148 million boe was crude oil and condensate, 51 million boe was liquefied petroleum gas ("LPG") and 184 million boe was sales gas.

Nostrum's exploration fields are located in the vicinity of Chinarevskoye field and according to the 2015 Ryder Scott Report, as at 31 December 2015, the estimated net probable hydrocarbon reserves at these three fields were 87.2 million boe.

Nostrum's operational facilities are located in the Chinarevskoye field and consist of up to 41 active production and injection wells, multiple gathering and transportation lines, an oil treatment unit capable of processing 400,000 tonnes of crude oil per year, a raw gas treatment facility with a throughput capacity of 1.7 billion cubic meters raw gas, for the production of condensate, LPG and dry gas, an oil/condensate pipeline from the treatment facilities to its loading rail terminal in Rostoshi near Uralsk, a 17 kilometer gas pipeline from the treatment facility to the Orenburg-Novoposkov pipeline, a gas powered electricity generation system, warehouse facilities and an employee field camp.

Nostrum's range of products includes crude oil, stabilized condensate, dry gas and LPG. The Group exports 100% of its condensate, and approximately 85-95% of its LPG. The Group sells all of its dry gas to export destinations through state owned company KTG. As for the crude oil, pursuant to the Production Sharing Agreement (the "PSA"), the Group is required to deliver 15% of its crude oil production sourced from wells in production in the domestic Kazakhstan market at government-regulated prices. The remainder of the Group's crude oil is free to be exported.

### Business strategy

The Company is in a phase of consolidation at a production level of close to 40,000 boe/day until inception of an expansion of the gas treatment capacities for a total capacity up to 100,000 boe/day.

As stated in the Group's most recent annual report, Nostrum's long-term objective is to further consolidate its position as one of the leading independent oil and gas exploration and production companies in the former Soviet Union (FSU).

In pursuit of this objective the Group identifies the following key focus areas:

#### *Delivering near term production growth*

The Group aims to complete the construction of a third unit for the gas treatment facility (GTU3) in the vicinity of the existing two units by the end of 2017 and to more than double the Company's annual production from the 2015 level by the end of 2019.

#### *Appraising and developing near term projects*

Over the last five years, drilling has focused mainly on production wells in order to secure feedstock for the gas treatment facility. Now the focus will be on transferring more of the Group's possible and probable reserves into proved reserves.

#### *Exploration upside through M&A*

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 costs. The acquisition of the Rostoshinskoye, Darjinskoye

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and Yuzhno-Gremyachinskoye fields, all within a 120 kilometer radius of Chinarevskoye, represented the first such acquisition pursuant to this strategy. The acquisition of data on these three fields commenced in 2013.

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. Nostrum will continue to look for further acquisitions which have the potential to further improve shareholder value.

## *Linking corporate responsibility to the growth of the Company*

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 will remain a priority in the second half of 2016 and onwards.

## *Focusing on delivering shareholder value*

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

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## OPERATIONAL AND FINANCIAL PERFORMANCE

### Results of operations for the six months ended 30 June 2016 and 2015

#### Financial highlights

<i>In millions of US\$ (unless mentioned otherwise)</i>	Six months ended 30 June			Variance in %
	2016 (unaudited)	2015 (unaudited)	Variance	
Revenue	163.5	274.1	(110.6)	(40.4)%
EBITDA	100.9	152.6	(51.7)	(33.9)%
EBITDA margin	61.7%	55.7%	6.1%	–
Cash Position	111.9	238.1	(126.2)	(53.0)%
Net Debt	844.3	710.1	134.1	18.9%

#### 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 2016 and 2015 in US dollars and as a percentage of revenue.

<i>In thousands of US dollars</i>	Six months ended 30 June			
	2016 (unaudited)	% of revenue	2015 (unaudited)	% of revenue
Revenue	163,459	100.0%	274,053	100.0%
Cost of sales	(94,494)	57.8%	(100,766)	36.8%
<b>Gross profit</b>	<b>68,965</b>	<b>42.2%</b>	<b>173,287</b>	<b>63.2%</b>
General and administrative expenses	(19,462)	11.9%	(24,952)	9.1%
Selling and transportation expenses	(37,264)	22.8%	(52,614)	19.2%
Finance costs	(21,190)	13.0%	(24,055)	8.8%
Finance costs - reorganisation	–	0.0%	(1,053)	0.4%
Employee share option plan fair value adjustment	1,983	1.2%	(2,730)	1.0%
Foreign exchange loss, net	(6,787)	4.2%	(1,244)	0.5%
Loss on derivative financial instruments	(40,729)	24.9%	(3,776)	1.4%
Interest income	241	0.1%	111	0.0%
Other income	4,002	2.4%	2,999	1.1%
Other expenses	(6,323)	3.9%	(14,131)	5.2%
<b>(Loss)/profit before income tax</b>	<b>(56,564)</b>	<b>34.6%</b>	<b>51,842</b>	<b>18.9%</b>
Income tax expense	746	0.5%	(36,609)	13.4%
<b>(Loss)/profit for the period</b>	<b>(55,818)</b>	<b>34.1%</b>	<b>15,233</b>	<b>5.6%</b>

Group's profit decreased by US\$71.1 million from US\$15.2 million for H1 2015 to a loss of US\$55.8 million for the six months ended 30 June 2016 (the "reporting period") mainly due to decrease in the Group's revenue and loss on derivative financial instruments.

#### Revenue

The Group's revenue decreased by 40.4% to US\$163.5 million for the reporting period (H1 2015: US\$274.1). This is mainly explained by the decrease in the average Brent crude oil price from 59.4US\$/bbl during the first half of 2015 to 41.0 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\$41.3 million, US\$33.8 million and US\$25.2 million respectively (H1 2015: US\$99.6 million, US\$61.3 million and US\$51.6 million respectively).

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The Group's revenue breakdown by products and sales volumes for the reporting period and H1 2015 is presented below:

<i>In thousands of US dollars</i>	Six months ended 30 June			
	2016 (unaudited)	2015 (unaudited)	Variance	Variance, %
Oil and gas condensate	106,326	183,952	(77,626)	(42.2)%
Gas and LPG	57,133	90,101	(32,968)	(36.6)%
<b>Total revenue</b>	<b>163,459</b>	<b>274,053</b>	<b>(110,594)</b>	<b>(40.4)%</b>
<b>Sales volumes (boe)</b>	<b>7,038,399</b>	<b>7,832,609</b>	<b>(794,210)</b>	<b>(10.1)%</b>
Average Brent crude oil price (US\$/bbl)	41.0	59.4		

The following table shows the Group's revenue breakdown by export/domestic sales for the reporting period and H1 2015:

<i>In thousands of US dollars</i>	Six months ended 30 June			
	2016 (unaudited)	2015 (unaudited)	Variance	Variance, %
Revenue from export sales	136,869	259,348	(122,479)	(47.2)%
Revenue from domestic sales	26,590	14,705	11,885	80.8%
<b>Total</b>	<b>163,459</b>	<b>274,053</b>	<b>(110,594)</b>	<b>(40.4)%</b>

## Cost of sales

<i>In thousands of US dollars</i>	Six months ended 30 June			
	2016 (unaudited)	2015 (unaudited)	Variance	Variance, %
Depreciation, depletion and amortisation	62,917	56,055	6,862	12.2%
Repair, maintenance and other services	10,511	14,050	(3,539)	(25.2)%
Payroll and related taxes	5,599	10,038	(4,439)	(44.2)%
Royalties	4,169	9,772	(5,603)	(57.3)%
Other transportation services	3,356	1,258	2,098	166.8%
Change in stock	3,159	277	2,882	1040.4%
Materials and supplies	1,943	3,668	(1,725)	(47.0)%
Well workover costs	1,342	1,874	(532)	(28.4)%
Government profit share	899	1,251	(352)	(28.1)%
Environmental levies	215	1,007	(792)	(78.6)%
Other	384	1,516	(1,132)	(74.7)%
<b>Total</b>	<b>94,494</b>	<b>100,766</b>	<b>(6,272)</b>	<b>(6.2)%</b>

Cost of sales decreased by 6.2% to US\$94.5 million for the reporting period (H1 2015: US\$100.8 million). The decrease is primarily explained by the change in royalties, referred to below, payroll and related taxes and repair, maintenance and other services partially offset by higher depreciation, depletion and amortisation costs. On a boe basis, cost of sales increased marginally by US\$0.57 or 4.4% to US\$13.43 for the reporting period (H1 2015: US\$12.86) and cost of sales net of depreciation per boe increased by US\$1.22, or 21.4%, to US\$4.49 (H1 2015: US\$5.71).

Depreciation, depletion and amortisation increased by 12.2% to US\$62.9 million for the reporting period (H1 2015: US\$56.1 million). Increase of depreciation for H1 2016 in comparison to H1 2015 is a consequence of the ratio change between the volume produced and the proven developed reserves.

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*Repair, maintenance and other services* decreased by 25.2% to US\$10.5 million for the reporting period (H1 2015: US\$14.1 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of the Group, engineering and geophysical study expenses. These costs fluctuate depending on the planned works on certain objects. The decrease in the reporting period is mainly attributable to Tenge devaluation.

*Payroll and related taxes* decreased by 44.2% to US\$5.6 million for the reporting period (H1 2015: US\$10.0 million). This mainly resulted from the Tenge devaluation over the reporting period as the majority of payroll costs are denominated in Tenge.

*Royalties*, which are calculated on the basis of production and market prices for the different products, decreased by 57.3% to US\$4.2 million for the reporting period (H1 2015: US\$9.8 million). This decrease follows the decline of revenues for sold products.

*Other transportation services* increased by 166.8% to US\$3.4 million for the reporting period (H1 2015: US\$1.3million). Such an increase is explained by the fact that transportation services previously provided within the Group have been outsourced since Q4 2015 and these outsourced costs now include for example, vehicle rental fees.

## General and administrative expenses

<i>In thousands of US dollars</i>	Six months ended 30 June			
	2016 (unaudited)	2015 (unaudited)	Variance	Variance, %
Payroll and related taxes	7,238	9,238	(2,000)	(21.6)%
Professional services	4,052	6,178	(2,126)	(34.4)%
Business travel	2,350	2,706	(356)	(13.2)%
Training	1,918	1,767	151	8.5%
Depreciation and amortisation	985	832	153	18.4%
Insurance fees	621	818	(197)	(24.1)%
Sponsorship	452	867	(415)	(47.9)%
Lease payments	366	404	(38)	(9.4)%
Communication	285	442	(157)	(35.5)%
Bank charges	206	315	(109)	(34.6)%
Materials and supplies	166	303	(137)	(45.2)%
Other taxes	160	220	(60)	(27.3)%
Social program	157	150	7	4.7%
Other	506	712	(206)	(28.9)%
<b>Total</b>	<b>19,462</b>	<b>24,952</b>	<b>(5,490)</b>	<b>(22.0)%</b>

*General and administrative expenses* decreased by 22.0% to US\$19.5 million for the reporting period (H1 2015: US\$25.0 million). This was primarily due to decrease in professional services, principally legal costs, and payroll and related taxes. The decrease in payroll and related taxes was driven by the tenge devaluation during the reporting period and the Group's ongoing staff optimisation program.

## Selling and transportation expenses

<i>In thousands of US dollars</i>	Six months ended 30 June			
	2016 (unaudited)	2015 (unaudited)	Variance	Variance, %
Loading and storage costs	17,759	22,249	(4,490)	(20.2)%
Transportation costs	14,333	26,835	(12,502)	(46.6)%
Payroll and related taxes	612	1,036	(424)	(40.9)%
Management fees	70	69	1	1.4%
Other	4,490	2,425	2,065	85.2%
<b>Total</b>	<b>37,264</b>	<b>52,614</b>	<b>(15,350)</b>	<b>(29.2)%</b>



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*Selling and transportation expenses* decreased by 29.2% to US\$37.3 million for the reporting period (H1 2015: US\$52.6 million), due primarily to decreases in rail tariffs and rail tank car (RTC) leasing costs and lower quantities sold during the reporting period when compared to H1 2015.

## *Finance costs*

<i>In thousands of US Dollars</i>	<b>Six months ended 30 June</b>			
	<b>2016 (unaudited)</b>	<b>2015 (unaudited)</b>	<b>Variance</b>	<b>Variance, %</b>
Interest expense on borrowings	<b>20,554</b>	23,558	(3,004)	(12.8)%
Unwinding of discount on amounts due to Government of Kazakhstan	<b>370</b>	386	(16)	(4.1)%
Unwinding of discount on abandonment and site restoration provision	<b>215</b>	111	104	93.7%
Finance charges under finance leases	<b>51</b>	–	51	-
<b>Total</b>	<b>21,190</b>	24,055	(2,865)	(11.9)%

*Finance costs* decreased by 11.9% to US\$21.2 million for the reporting period (H1 2015: US\$24.1 million). These costs were higher in H1 2015 due to lower capitalised interest.

## *Finance costs – reorganisation*

The “finance costs – reorganisation” are represented by additional costs associated with introduction of the Nostrum Oil & Gas PLC as the new holding company of the Group and respective reorganisation that took place in June 2014. No such costs were recognised in this reporting period.

## *Other*

*Foreign exchange losses* amounted to US\$6.8 million for the reporting period (H1 2015: US\$1.2 million). Higher losses in H1 2016 are explained by the tenge devaluation during the reporting period.

*Other expenses* decreased by 55.3% to US\$6.3 million for the reporting period (H1 2015: US\$14.1 million). Other expenses mainly represent export duties paid by the Group. The export duties represent custom duties for the export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc. Since 1 January 2016 the Kazakhstan customs authorities changed custom duties on oil exports from US\$60 per ton to US\$40 per ton.

*Income tax expense* decreased by 102.0% to US\$0.7 million for the reporting period (H1 2015: US\$36.6 million). The decrease in income tax expense was driven by lower taxable profit.

## **Liquidity and capital resources**

During the period under review, Nostrum’s principal sources of funds were cash from operations and amounts raised under the 2012 Notes and the 2014 Notes. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2012 Notes and the 2014 Notes) and to funding capital expenditures and working capital requirements.

## *Cash Flows*

The following table sets forth the Group’s consolidated cash flow statement data for the reporting period and H1 2015:

<i>In thousands of US dollars</i>	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash and equivalents at the beginning of the period</b>	<b>165,560</b>	375,443
Net cash flows from operating activities	<b>78,907</b>	55,616
Net cash used in investing activities <sup>1</sup>	<b>(99,184)</b>	(151,841)
Net cash from / (used in) financing activities	<b>(33,409)</b>	(83,120)
Effects of exchange rate changes on cash and cash equivalents	<b>1</b>	(38)
<b>Cash and equivalents at the end of the period</b>	<b>111,875</b>	196,060

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<sup>1</sup> Net cash used in investing activities during the six months ended 30 June 2015 includes the redemption of bank deposit in the amount of US\$25 million, and the placement of bank deposits in the amount of US\$25 million and US\$17 million. These deposits were not included in cash and cash equivalents since they were expected to mature in more than three months after the end of the respective reporting date.

## Net cash flows from operating activities

Net cash flow from operating activities was US\$78.9 million for the reporting period (H1 2015: US\$55.6 million) and was primarily attributable to:

- loss before income tax for the reporting period of US\$56.6 million (H1 2015: profit of US\$51.8 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US\$63.9 million (H1 2015: US\$56.9 million), and finance costs of US\$21.2 million (H1 2015: US\$24.1 million).
- a US\$2.1 million change in working capital (H1 2015: US\$53.3 million) primarily attributable to a decrease in trade receivables of US\$8.2 million (H1 2015: an increase of US\$61.7 million), an increase in prepayments and other current assets of US\$5.5 million (H1 2015: an increase of US\$4.6 million), an increase in trade payables of US\$3.5 million (H1 2015: an increase of US\$10.3 million) and a decrease in other current liabilities of US\$4.9 million (H1 2015: a decrease of US\$2.6 million).
- income tax paid of US\$8.5 million (H1 2015: US\$31.9 million).

## Net cash used in investing activities

A substantial portion of cash used in investing activities is related to the drilling program and the construction of a third unit of the gas treatment facility.

Net cash used in investing activities for the reporting period was US\$99.2 million (H1 2015: US\$151.8 million) due primarily to costs associated with the drilling of new wells of US\$34.1 million for the reporting period (H1 2015: US\$42.3 million), costs associated with the third unit of the gas treatment facility of US\$60.5 million (H1 2015: US\$48.7 million) and costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US\$4.4 million (H1 2015: US\$3.5 million).

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

Net cash used in financing activities during the reporting period was US\$33.4 million, and was mainly represented by the finance costs paid on the Group's 2012 Notes and 2014 Notes. Net cash used in financing activities during H1 2015 was US\$83.1 million, which was primarily attributable to the payment of US\$49.1 million in distributions and the finance costs paid on the Group's 2012 Notes and 2014 Notes.

## 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 2016 based on contractual undiscounted payments:

	Six months ended 30 June					Total
	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	
Borrowings	–	16,670	49,564	1,096,207	2,089	1,164,530
Trade Payables	38,900	–	6,152	–	–	45,052
Other current financial liabilities	18,879	–	–	–	–	18,879
Due to the government of Kazakhstan	–	258	773	4,124	10,051	15,206
<b>Total</b>	<b>57,779</b>	<b>16,928</b>	<b>56,489</b>	<b>1,100,331</b>	<b>12,140</b>	<b>1,243,667</b>

## 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\$98.7 million (H1 2015: US\$131.3 million). This reflects drilling costs, field infrastructure development projects and development costs for the oil treatment facility and the gas treatment facility.

## Drilling

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Drilling expenditures amounted to US\$34.1 million for the reporting period (H1 2015 US\$40.5 million).

## Gas Treatment Facility

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, the Group is constructing a third unit for it. The construction of GTU3 is important for implementing the Group's strategy to increase operating capacity and production of liquid hydrocarbons. Nostrum continues to make steady progress on GTU3. Following the fall in the oil price over the period from H2 2015 onwards, Nostrum took the decision to phase the payments of GTU3 over 2016 and 2017 in order to match the payment profile of the hedge put in place in December 2015. Completion remains scheduled for 2017. Total budget for the completion of GTU3 remains at US\$500 million (US\$317 million of which had already been incurred as at 30 June 2016).

## 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\$45.2 per barrel and a high of approximately US\$69.6 per barrel in the first half of 2015, and between US\$27.9 per barrel and US\$52.5 per barrel during the reporting period.

	Six months ended 30 June	
	2016	2015
Average Brent crude oil price (US\$/bbl)	41.0	59.4

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 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\$ 92,255 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 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 2015.

	Six months ended 30 June			
	2016	2015	Variance (boepd)	Variance (%)
Total average production (boepd)	38,993	44,337	(5,344)	(12.1)%
Total production (boe)	7,096,792	8,025,041	(928,249)	(11.6)%

### *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.

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Depreciation and amortisation costs represent 66.6% of total cost of sales for the reporting period (H1 2015: 55.6%). 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 11.1% of the total costs of sales (H1 2015: 13.9%) 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 1.4% and 1.9% for the six months ended 30 June 2016 and 2015, 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\$15.3 million in the reporting period (H1 2015: US\$12.3 million). Non-capitalised interest amounted to US\$20.6 million in the reporting period (six months ended 30 June 2014: US\$23.6 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. During January 2009, the Kazakh Government revised and established the rate of the export duties at US\$nil per tonne of crude oil, but reimposed a US\$20 per tonne duty in August 2010, which was increased to US\$40 per tonne in January 2011, to US\$60 per tonne in April 2013 and to US\$80 per tonne in March 2014 and was decreased to US\$60 per tonne in March 2015 and further decreased to US\$40 per tonne in January 2016.

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 4.4% of total cost of sales for the reporting period (H1 2015: 9.7%). As for the government profit share, it represented 1.0% of total cost of sales for the reporting period (H1 2015: 1.2%).

# Interim management report

## **RELATED PARTIES AND RELATED PARTY TRANSACTIONS**

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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

<i>Strategic risks</i>	<i>Description of risk</i>	<i>Risk management</i>
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.	<p>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.</p> <p>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.</p> <p>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.</p>
Commodity price risk	<p>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.</p> <p>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.</p>	<p>The Group's hedging policy is that, upon entering into longer-term non-scalable capital expenditure commitments, it will hedge its liquids production.</p> <p>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. The new hedge has 24-month tenor, maturing in December 2017, with cash settlement on a quarterly basis.</p> <p>Senior management and the Board continuously monitor the timing, scope and performance of the drilling program taking into account the oil price environment.</p>

# Interim management report

<i>Operational risks</i>	<i>Description of risk</i>	<i>Risk management</i>
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.
<i>Compliance risks</i>	<i>Description of risk</i>	<i>Risk management</i>
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

<i>Financial risks</i>	<i>Description of risk</i>	<i>Risk management</i>
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 aims to make sufficient funds 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.



# Interim management report

## **GOING CONCERN**

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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.

# Interim management report

## RESPONSIBILITY STATEMENT

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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:

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Kai-Uwe Kessel

Chief Executive Officer

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Jan-Ru Muller

Chief Financial Officer

**Nostrum Oil & Gas PLC**

Interim condensed consolidated financial statements (unaudited)

*For the six months ended 30 June 2016*

# Interim condensed consolidated financial statements

## Interim condensed consolidated statement of financial position

As at 30 June 2016

<i>In thousands of US dollars</i>	Notes	30 June 2016 (unaudited)	31 December 2015 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	3	37,496	36,917
Goodwill		32,425	32,425
Property, plant and equipment	4	1,730,189	1,605,756
Restricted cash	8	5,751	5,375
Advances for non-current assets	5	58,214	130,660
Derivative financial instruments	21	13,492	43,005
		<b>1,877,567</b>	<b>1,854,138</b>
<b>Current assets</b>			
Inventories		26,630	28,951
Trade receivables	6	39,501	31,337
Prepayments and other current assets	7	36,947	27,411
Derivative financial instruments	21	18,096	54,095
Income tax prepayment		5,503	26,926
Cash and cash equivalents	8	111,875	165,560
		<b>238,552</b>	<b>334,280</b>
<b>TOTAL ASSETS</b>		<b>2,116,119</b>	<b>2,188,418</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
	9		
Share capital		3,203	3,203
Treasury capital		(1,888)	(1,888)
Retained earnings and reserves		716,701	772,441
		<b>718,016</b>	<b>773,756</b>
<b>Non-current liabilities</b>			
Long-term borrowings	11	940,726	936,470
Abandonment and site restoration provision		16,143	15,928
Due to Government of Kazakhstan		5,631	5,777
Deferred tax liability		331,502	347,769
		<b>1,294,002</b>	<b>1,305,944</b>
<b>Current liabilities</b>			
Current portion of long-term borrowings	11	15,421	15,024
Employee share option plan liability	19	2,301	4,284
Trade payables	12	45,052	41,463
Advances received		428	245
Income tax payable		1,119	1,692
Current portion of due to Government of Kazakhstan		1,031	1,031
Other current liabilities	13	38,749	44,979
		<b>104,101</b>	<b>108,718</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,116,119</b>	<b>2,188,418</b>

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

*Chief Executive Officer*

Jan-Ru Muller

*Chief Financial Officer*

The accounting policies and explanatory notes on pages 22 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 2016

<i>In thousands of US dollars</i>	Notes	Three months ended 30 June		Six months ended 30 June	
		2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
<b>Revenue</b>					
Revenue from export sales		88,187	183,722	136,869	259,348
Revenue from domestic sales		1,352	(10,008)	26,590	14,705
	14	89,539	173,714	163,459	274,053
Cost of sales	15	(48,213)	(54,709)	(94,494)	(100,766)
<b>Gross profit</b>		41,326	119,005	68,965	173,287
General and administrative expenses	16	(9,214)	(12,668)	(19,462)	(24,952)
Selling and transportation expenses	17	(21,111)	(31,235)	(37,264)	(52,614)
Finance costs	18	(10,658)	(11,686)	(21,190)	(24,055)
Employee share option plan fair value adjustment	19	(577)	(257)	1,983	(2,730)
Foreign exchange loss, net		(3,176)	(258)	(6,787)	(1,244)
Loss on derivative financial instruments	21	(44,287)	(13,781)	(40,729)	(3,776)
Interest income		141	75	241	111
Other income		2,346	1,884	4,002	2,999
Other expenses		(3,444)	(7,020)	(6,323)	(14,131)
<b>(Loss)/profit before income tax</b>		(48,654)	43,006	(56,564)	51,842
Current income tax expense		(13,975)	(33,066)	(15,535)	(40,212)
Deferred income tax expense		19,118	6,542	16,281	3,603
<b>Income tax expense</b>	20	5,143	(26,524)	746	(36,609)
<b>(Loss)/profit for the period</b>		(43,511)	16,482	(55,818)	15,233
<b>Other comprehensive income that could be reclassified to the income statement in subsequent periods</b>					
Currency translation difference		151	–	93	–
<b>Other comprehensive income</b>		151	–	93	–
<b>Total comprehensive (loss)/income for the period</b>		(43,360)	16,482	(55,725)	15,233
(Loss)/profit for the period attributable to the shareholders (in thousands of US dollars)				(55,725)	15,233
Weighted average number of shares				184,828,819	184,828,819
Basic and diluted earnings per share (in US dollars)				(0.30)	0.08

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

The accounting policies and explanatory notes on pages 22 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 2016

<i>In thousands of US dollars</i>	Notes	Six months ended 30 June	
		2016 (unaudited)	2015 (unaudited)
<b>Cash flow from operating activities:</b>			
(Loss)/profit before income tax		(56,564)	51,842
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	15,16	63,902	56,887
Finance costs - reorganisation		–	1,053
Finance costs		21,190	24,055
Employee share option plan fair value adjustment		(1,983)	2,730
Interest income		(241)	(111)
Foreign exchange gain on investing and financing activities		(1,228)	(93)
Loss on disposal of property, plant and equipment		53	7
Proceeds from derivative financial instruments	21	24,783	–
Loss on derivative financial instruments	21	40,729	3,776
Accrued expenses		(1,163)	625
<b>Operating profit before working capital changes</b>		<b>89,478</b>	<b>140,771</b>
<i>Changes in working capital:</i>			
Change in inventories		2,322	(970)
Change in trade receivables		(8,164)	(61,655)
Change in prepayments and other current assets		5,525	4,593
Change in trade payables		3,513	10,300
Change in advances received		184	(2,425)
Change in due to Government of Kazakhstan		(516)	(515)
Change in other current liabilities		(4,927)	(2,611)
<b>Cash generated from operations</b>		<b>87,415</b>	<b>87,488</b>
Income tax paid		(8,508)	(31,872)
<b>Net cash flows from operating activities</b>		<b>78,907</b>	<b>55,616</b>
<b>Cash flow from investing activities:</b>			
Interest received		241	111
Purchase of property, plant and equipment		(98,671)	(131,338)
Exploration and evaluation works		(754)	(1,318)
Acquisition of subsidiaries		–	(2,296)
Placement of bank deposits		–	(42,000)
Redemption of bank deposits		–	25,000
<b>Net cash used in investing activities</b>		<b>(99,184)</b>	<b>(151,841)</b>
<b>Cash flow from financing activities:</b>			
Finance costs paid		(32,812)	(32,809)
Transfer to restricted cash		(376)	(264)
Distributions paid		–	(49,060)
Finance costs - reorganisation		–	(987)
Payment of finance lease liabilities		(221)	–
<b>Net cash used in financing activities</b>		<b>(33,409)</b>	<b>(83,120)</b>
Effects of exchange rate changes on cash and cash equivalents		1	(38)
<b>Net decrease in cash and cash equivalents</b>		<b>(53,685)</b>	<b>(179,383)</b>
Cash and cash equivalents at the beginning of the period	8	165,560	375,443
<b>Cash and cash equivalents at the end of the period</b>	<b>8</b>	<b>111,875</b>	<b>196,060</b>

The accounting policies and explanatory notes on pages 22 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 2016

<i>In thousands of US dollars</i>	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
<b>As at 1 January 2015 (audited)</b>		<b>3,203</b>	<b>(1,888)</b>	<b>261,289</b>	<b>655,076</b>	<b>917,680</b>
Profit for the period		–	–	–	15,233	15,233
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>15,233</b>	<b>15,233</b>
Profit distribution		–	–	–	(49,060)	(49,060)
Transaction costs		–	–	–	(14)	(14)
<b>As at 30 June 2015 (unaudited)</b>		<b>3,203</b>	<b>(1,888)</b>	<b>261,289</b>	<b>621,235</b>	<b>883,839</b>
Loss for the period		–	–	–	(109,598)	(109,598)
Other comprehensive loss		–	–	(456)	–	(456)
<b>Total comprehensive loss for the period</b>		<b>–</b>	<b>–</b>	<b>(456)</b>	<b>(109,598)</b>	<b>(110,054)</b>
Transaction costs		–	–	–	(29)	(29)
<b>As at 31 December 2015 (audited)</b>		<b>3,203</b>	<b>(1,888)</b>	<b>260,833</b>	<b>511,608</b>	<b>773,756</b>
Loss for the period		–	–	–	(55,818)	(55,818)
Other comprehensive income		–	–	93	–	93
<b>Total comprehensive loss for the period</b>		<b>–</b>	<b>–</b>	<b>93</b>	<b>(55,818)</b>	<b>(55,725)</b>
Transaction costs		–	–	–	(15)	(15)
<b>As at 30 June 2016 (unaudited)</b>		<b>3,203</b>	<b>(1,888)</b>	<b>260,926</b>	<b>455,775</b>	<b>718,016</b>

The accounting policies and explanatory notes on pages 22 through 38 are an integral part of these interim condensed consolidated financial statements

# 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: 4th Floor, 53-54 Grosvenor Street, London, UK, W1K 3HU.

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	Country of registration or incorporation	Form of capital	Ownership, %
Claydon Industrial Limited	British Virgin Islands	Ordinary shares	100
Grandstil LLC	Russian Federation	Participatory interests	100
Jubilata Investments Limited	British Virgin Islands	Ordinary shares	100
Nostrum Associated Investments LLP <sup>1</sup>	Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC <sup>2</sup>	Russian Federation	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A. <sup>3</sup>	Netherlands	Members' interests	100
Nostrum Oil & Gas BV <sup>4</sup>	Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	England and Wales	Ordinary shares	100
Nostrum Services Central Asia LLP <sup>5</sup>	Republic of Kazakhstan	Participatory interests	100
Nostrum Services CIS BVBA <sup>6</sup>	Belgium	Ordinary shares	100
Nostrum Services N.V. <sup>7</sup>	Belgium	Ordinary shares	100
Zhaikmunai LLP	Republic of Kazakhstan	Participatory interests	100

<sup>1</sup> Formerly Condensate Holding LLP

<sup>2</sup> Formerly Investprofi LLC

<sup>3</sup> Formerly Nostrum Oil Coöperatief U.A.

<sup>4</sup> Formerly Zhaikmunai Netherlands B.V, which was also merged with Nostrum Oil & Gas Finance BV and Nostrum Oil BV during 2015

<sup>5</sup> Formerly Amersham Oil LLP

<sup>6</sup> Formerly Prolag BVBA

<sup>7</sup> Formerly Probel Capital Management N.V.

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 2016, the Group employed 1,029 employees (H1 2015: 1,103).

#### 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



# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

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. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. On 28 July 2015 the eleventh supplementary agreement to the Contract was signed extending the exploration period to 26 May 2016. Zhaikmunai LLP's application for further extension of the Chinarevskoye exploration period was approved by the MOE on 11 March 2016 with extension till 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. On 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. Subsequently, the exploration period was extended until 8 February 2017.

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 2016 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 2015 prepared in accordance with IFRS as adopted by the European Union.

The interim financial information for the three months ended 30 June 2016 and 30 June 2015 was neither audited nor reviewed by the auditors. The interim financial information for the six months ended 30 June 2016 and 30 June 2015 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 2015 has been derived from the statutory financial

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

statements for that year. Statutory accounts for the year ended 31 December 2015 were approved by the Board of directors on 29 March 2016 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 2015, except for the following new standards and interpretations effective as of 1 January 2016, and which did not have an impact on the Group:

- Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 11- Accounting for Acquisition of Interests in Joint Operations
- IFRS 14 Regulatory Deferral Accounts
- Amendments to IAS 1 - Disclosure Initiative
- Amendments to IAS 16 and IAS 38 - Clarification of Accountable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41- Agriculture: Bearer Plants
- Amendments to IAS 27- Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs 2012-2014 Cycle

The standards and interpretations that are issued, but not yet applied, up to the date of issuance of the Group's interim condensed financial statements are disclosed below. The Group intends to adopt these standards, if applicable, from the effective dates adopted by EU.

- Amendments to IAS 7 - Disclosure Initiative (effective for annual periods beginning 1 January 2017)
- Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning 1 January 2017)
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning 1 January 2018)
- IFRS 9 Financial Instruments (issued in 2014) (effective for annual periods beginning 1 January 2018)
- IFRS 16 Leases (effective for annual periods beginning 1 January 2019).

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 3. EXPLORATION AND EVALUATION ASSETS

<i>In thousands of US dollars</i>	<b>30 June 2016 (unaudited)</b>	31 December 2015 (audited)
Subsoil use rights	<b>15,835</b>	15,835
Expenditures on geological and geophysical studies	<b>21,661</b>	21,082
	<b>37,496</b>	36,917

During the six months ended 30 June 2016 the Group had additions to exploration and evaluation assets of US\$579 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (H1 2015: US\$1,052 thousand). Interest was not capitalised on exploration and evaluation assets.

### 4. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016 the Group had additions of property, plant and equipment of US\$188,412 thousand (H1 2015: US\$126,804 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US\$14,704 thousand (H1 2015: US\$5,763 thousand).

As at 30 June 2016 the net carrying amount of property, plant and equipment held under finance lease was US\$13,666 thousand (31 December 2015: nil) (Note 23).

See Note 23 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.

### 6. TRADE RECEIVABLES

As at 30 June 2016 and 31 December 2015 trade receivables were not interest-bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 30 June 2016 and 31 December 2015 there were neither past due nor impaired trade receivables.

### 7. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 30 June 2016 and 31 December 2015 prepayments and other current assets comprised the following:

<i>In thousands of US dollars</i>	<b>30 June 2016 (unaudited)</b>	31 December 2015 (audited)
VAT receivable	<b>19,942</b>	18,709
Advances paid	<b>5,334</b>	4,254
Other taxes receivable	<b>9,459</b>	2,888
Other	<b>2,212</b>	1,560
	<b>36,947</b>	27,411

Advances paid consist primarily of prepayments made to service providers.

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 8. CASH AND CASH EQUIVALENTS

<i>In thousands of US dollars</i>	<b>30 June 2016 (unaudited)</b>	31 December 2015 (audited)
Current accounts in US dollars	<b>64,639</b>	114,346
Current accounts in tenge	<b>1,217</b>	2,038
Current accounts in other currencies	<b>8,006</b>	7,167
Petty cash	<b>13</b>	9
Bank deposits with maturity less than three months	<b>38,000</b>	42,000
	<b>111,875</b>	165,560

Bank deposits as at 31 December 2015 were represented by an interest-bearing deposit placed on 30 December 2015 for a one-month period with an interest rate of 0.25% per annum and an interest-bearing deposit placed on 23 June 2015 for a six-month period with an interest rate of 0.45% per annum.

Bank deposits as at 30 June 2016 were represented by an interest bearing deposit placed on 27 June 2016 for a one-month period with an interest rate 0.41 % per annum and an interest-bearing deposit placed on 26 April 2016 for a three-month period with an interest rate of 0.57% 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\$2,347 thousand with Sberbank in Kazakhstan and US\$3,404 thousand with Kazkommertsbank (31 December 2015: US\$5,375 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 2016 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.

<i>Number of GDRs/shares</i>	<b>In circulation</b>	<b>Treasury capital</b>	<b>Total</b>
<b>As at 1 January 2015 (audited)</b>	<b>184,828,819</b>	<b>3,354,139</b>	<b>188,182,958</b>
<b>As at 31 December 2015 (audited)</b>	<b>184,828,819</b>	<b>3,354,139</b>	<b>188,182,958</b>
<b>As at 30 June 2016 (unaudited)</b>	<b>184,828,819</b>	<b>3,354,139</b>	<b>188,182,958</b>

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and are held by Elian 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).

#### **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 2016 the book value per share amounted to US\$3.64 (31 December 2015: US\$3.94).

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 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.

<i>In thousands of US dollars</i>	Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)
(Loss)/profit for the period attributable to the shareholders (in thousands of US dollars)	(55,725)	15,233
Weighted average number of shares	184,828,819	184,828,819
<b>Basic and diluted earnings per share (in US dollars)</b>	<b>(0.30)</b>	<b>0.08</b>

### 11. BORROWINGS

Borrowings comprise the following as at 30 June 2016 and 31 December 2015:

<i>In thousands of US dollars</i>	30 June 2016 (unaudited)	31 December 2015 (audited)
Notes issued in 2012 and maturing in 2019	548,293	545,868
Notes issued in 2014 and maturing in 2019	406,279	405,626
Finance lease liability	1,575	–
	<b>956,147</b>	<b>951,494</b>
Less amounts due within 12 months	(15,421)	(15,024)
<b>Amounts due after 12 months</b>	<b>940,726</b>	<b>936,470</b>

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

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

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

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

The 2012 Notes are jointly and severally guaranteed (the "2012 Guarantees") on a senior basis by Nostrum Oil & Gas 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. Prior to 14 February 2017, the 2014 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2014 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 106.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2014 Notes (including Additional Notes as defined in the indenture relating to the 2014 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

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

The 2014 Notes are jointly and severally guaranteed (the "2014 Guarantees") on a senior basis by Nostrum Oil & Gas 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;

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

- 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 US\$ 66 thousand per month. As at 30 June 2016 the finance lease prepayment amounted to US\$ 11,993 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

<i>In thousands of US dollars</i>	<b>30 June 2016 (unaudited)</b>		31 December 2015 (audited)	
	<b>Minimum payments</b>	<b>Present value of payments</b>	Minimum payments	Present value of payments
No later than one year	<b>1,034</b>	<b>844</b>	–	–
Later than one year and no later than five years	<b>624</b>	<b>436</b>	–	–
Later than five years	<b>2,089</b>	<b>295</b>	–	–
Total minimum lease payments	<b>3,747</b>	<b>1,575</b>	–	–
Less amounts representing finance charges	<b>2,172</b>	–	–	–
Present value of minimum lease payments	<b>1,575</b>	<b>1,575</b>	–	–

## 12. TRADE PAYABLES

Trade payables comprise the following as at 30 June 2016 and 31 December 2015:

<i>In thousands of US dollars</i>	<b>30 June 2016 (unaudited)</b>	31 December 2015 (audited)
Tenge denominated trade payables	<b>22,288</b>	22,364
US dollar denominated trade payables	<b>17,045</b>	14,032
Euro denominated trade payables	<b>3,828</b>	2,875
Russian rouble denominated trade payables	<b>1,723</b>	1,928
Trade payables denominated in other currencies	<b>168</b>	264
	<b>45,052</b>	41,463

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 13. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 30 June 2016 and 31 December 2015:

<i>In thousands of US dollars</i>	<b>30 June 2016 (unaudited)</b>	31 December 2015 (audited)
Accruals under the subsoil use agreements	<b>16,666</b>	16,902
Training obligations accrual	<b>13,106</b>	11,443
Taxes payable, other than corporate income tax	<b>2,405</b>	9,748
Due to employees	<b>4,469</b>	3,992
Other current liabilities	<b>2,103</b>	2,894
	<b>38,749</b>	44,979

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 2016 was US\$41.0 (H1 2015: US\$59.4)

<i>In thousands of US dollars</i>	<b>Three months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2016 (unaudited)</b>	<b>2015 (unaudited)</b>	<b>2016 (unaudited)</b>	<b>2015 (unaudited)</b>
Oil and gas condensate	<b>62,603</b>	116,901	<b>106,326</b>	183,952
Gas and LPG	<b>26,936</b>	56,813	<b>57,133</b>	90,101
	<b>89,539</b>	173,714	<b>163,459</b>	274,053

During the six months ended 30 June 2016 the revenue from sales to three major customers amounted to US\$41,347 thousand, US\$33,816 thousand and US\$25,167 thousand respectively (H1 2015: US\$99,618 thousand, US\$61,312 thousand and US\$51,593 thousand respectively). The Group's exports are mainly represented by deliveries to Finland, the Black Sea ports of Russia and the United Arab Emirates.



# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 15. COST OF SALES

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Depreciation, depletion and amortisation	32,434	27,888	62,917	56,055
Repair, maintenance and other services	5,266	6,758	10,511	14,050
Payroll and related taxes	2,906	4,999	5,599	10,038
Royalties	2,917	5,999	4,169	9,772
Other transportation services	1,532	661	3,356	1,258
Change in stock	1,295	4,396	3,159	277
Materials and supplies	881	1,918	1,943	3,668
Well workover costs	177	571	1,342	1,874
Government profit share	576	479	899	1,251
Environmental levies	90	515	215	1,007
Other	139	525	384	1,516
	<b>48,213</b>	<b>54,709</b>	<b>94,494</b>	<b>100,766</b>

### 16. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Payroll and related taxes	3,587	4,782	7,238	9,238
Professional services	1,434	2,875	4,052	6,178
Business travel	1,179	1,726	2,350	2,706
Training	941	996	1,918	1,767
Depreciation and amortisation	538	421	985	832
Insurance fees	255	327	621	818
Sponsorship	437	294	452	867
Lease payments	173	207	366	404
Communication	158	227	285	442
Bank charges	78	42	206	315
Materials and supplies	85	150	166	303
Other taxes	(2)	171	160	220
Social program	79	75	157	150
Other	272	375	506	712
	<b>9,214</b>	<b>12,668</b>	<b>19,462</b>	<b>24,952</b>

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 17. SELLING AND TRANSPORTATION EXPENSES

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Loading and storage costs	8,682	11,719	17,759	22,249
Transportation costs	8,159	17,667	14,333	26,835
Payroll and related taxes	317	526	612	1,036
Management fees	35	69	70	69
Other	3,918	1,254	4,490	2,425
	<b>21,111</b>	<b>31,235</b>	<b>37,264</b>	<b>52,614</b>

### 18. FINANCE COSTS

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Interest expense on borrowings	10,247	11,372	20,554	23,558
Unwinding of discount on amounts due to Government of Kazakhstan	258	258	370	386
Unwinding of discount on abandonment and site restoration provision	102	56	215	111
Finance charges under finance leases	51	–	51	–
	<b>10,658</b>	<b>11,686</b>	<b>21,190</b>	<b>24,055</b>

### 19. EMPLOYEE SHARE OPTION PLAN

The Group operates one option plan (the Phantom Option Plan), that was adopted by the board of directors of the Company on 20 June 2014. The rights and obligations in relation to this option plan were transferred to Nostrum Oil & Gas PLC from Nostrum Oil & Gas LP following the reorganisation (Note 2).

To date, options relating to 2,611,413 shares remain outstanding (the "Subsisting Options"), 1,351,413 options with a Base Value of US\$4.00 and 1,260,000 options with a Base Value of US\$10.00.

Each Subsisting Option is a right for its holder to receive on exercise a cash amount equal to the difference between the aggregate Base Value of the shares to which the Subsisting Option relates; and their aggregate market value on exercise. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for the plan for the six months ended 30 June 2016 and 2015:

	2016	2015
Price at the reporting date (US\$)	4.1	6.0
Distribution yield (%)	3.0%	3.0%
Expected volatility (%)	45.0%	45.0%
Risk-free interest rate (%)	1.0%	2.5%
Expected life (years)	10	10
Option turnover (%)	10.0%	10.0%
Price trigger	2.0	2.0

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

### 20. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
<i>In thousands of US dollars</i>				
Deferred income tax expense	(19,118)	(6,542)	(16,281)	(3,603)
Corporate income tax	15,100	30,730	16,605	37,395
Withholding tax	145	2,597	257	2,597
Adjustment in respect of the current income tax for the prior periods	(1,270)	(261)	(1,327)	220
<b>Total income tax expense</b>	<b>(5,143)</b>	<b>26,524</b>	<b>(746)</b>	<b>36,609</b>

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 2016. 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. The movement in the deferred tax income for the six months ended 30 June 2016 is mainly driven by the change in the fair value of the derivative financial instrument.

### 21. DERIVATIVE FINANCIAL INSTRUMENTS

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\$ 92,255 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 14 December 2017. The counterparty to the hedging agreement is

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## Notes to the interim condensed consolidated financial statements CONTINUED

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.

During the six months ended 30 June 2016 and 2015 the movement in the fair value of derivative financial instruments was presented as follows:

<i>In thousands of US dollars</i>	2016	2015
Derivative financial instruments at fair value at 1 January (audited)	97,100	60,301
Proceeds from sale of hedging contract	(24,783)	–
Loss on derivative financial instruments	(40,729)	(3,776)
<b>Derivative financial instruments</b>	<b>31,588</b>	<b>56,525</b>
Less current portion of derivative financial instruments	18,096	–
<b>Derivative financial instruments at fair value at 30 June (unaudited)</b>	<b>13,492</b>	<b>56,525</b>

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 24.

## 22. 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 2016 and 31 December 2015 consisted of the following:

<i>In thousands of US dollars</i>	30 June 2016 (unaudited)	31 December 2015 (audited)
<b>Trade receivables and advances paid</b>		
KazStroyService JSC	26,250	35,832
Cervus Business Services	–	132
Crest Capital Management N.V.	–	78
Telco B.V.	–	4

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 June 2016 and 31 December 2015 consisted of the following:

<i>In thousands of US dollars</i>	30 June 2016 (unaudited)	31 December 2015 (audited)
<b>Trade payables</b>		
KazStroyService JSC	5,051	4,144
Telco B.V.	38	–

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## Notes to the interim condensed consolidated financial statements CONTINUED

During the six months ended 30 June 2016 and 2015 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

<i>In thousands of US dollars</i>	<b>2016 (unaudited)</b>	<b>2015 (unaudited)</b>
<b>Purchases</b>		
KazStroyService JSC	<b>19,323</b>	1,377
<b>Management fees and consulting services</b>		
Cervus Business Services	<b>670</b>	702
Crest Capital Management N.V.	<b>388</b>	381
Telco B.V.	<b>212</b>	195

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 for a consideration of US\$ 150 million, which was amended with effect from 10 August 2015 by a supplementary agreement increasing that consideration to US\$ 160 million.

The technical support and service agreement with the Contractor that was originally valid until 31 December 2015 was extended until 30 September 2016.

The Contractor is an affiliate of Mayfair Investments B.V., which as at 30 June 2016 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

During the six months ended 30 June 2016 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, Crest Capital Management N.V. and Telco B.V.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$1,569 thousand for the six months ended 30 June 2016 (H1 2015: US\$1,508 thousand). There were no payments made under the ESOP during the six months ended 30 June 2016 and 2015.

### 23. 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 2016. As at 30 June 2016 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.

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## Notes to the interim condensed consolidated financial statements CONTINUED

### Environmental obligations

The Group may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. 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 2016 the Group had contractual capital commitments in the amount of US\$254,566 thousand (31 December 2015: US\$123,529 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:

<i>In thousands of US dollars</i>	<b>30 June 2016 (unaudited)</b>	31 December 2015 (audited)
No later than one year	<b>10,723</b>	12,471
Later than one year and no later than five years	<b>13,435</b>	4,623
Later than five years	–	–

Lease expenses of railway tank wagons for the six months ended 30 June 2016 amounted to US\$6,705 thousand (H1 2015: US\$7,845 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 3 July 2015) require the subsurface user to:

- spend US\$ 1,000 thousand for funding of development of Astana city in case of commercial discovery;
- invest at least US\$ 22,222 thousand for exploration of the field during the exploration period;
- reimburse historical costs of US\$ 383 thousand to the Government upon commencement of production stage;
- fund liquidation expenses equal to US\$ 9 thousand; and
- spend US\$ 150 thousand to finance social infrastructure.

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## Notes to the interim condensed consolidated financial statements CONTINUED

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 30 December 2015) require the subsurface user to:

- invest at least US\$ 21,466 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US\$ 118 thousand;
- spend US\$ 113 thousand to finance social infrastructure.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 30 December 2015) require the subsurface user to:

- invest at least US\$ 32,844 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US\$ 121 thousand;
- spend US\$ 112 thousand to finance social infrastructure.

### 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.

## 24. 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	
	30 June 2016 (unaudited)	31 December 2015 (audited)	30 June 2016 (unaudited)	31 December 2015 (audited)
<i>In thousands of US dollars</i>				
<b>Financial assets measured at fair value</b>				
Derivative financial instruments	31,588	97,100	31,588	97,100
<b>Financial liabilities measured at amortised cost</b>				
Interest bearing borrowings	(956,147)	(951,494)	(870,713)	(809,824)
<b>Total</b>	<b>(924,559)</b>	<b>(854,394)</b>	<b>(839,125)</b>	<b>(712,724)</b>

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.

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## Notes to the interim condensed consolidated financial statements CONTINUED

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 2016 and 31 December 2015:

	<b>30 June 2016 (unaudited)</b>	31 December 2015 (audited)
Future price at the reporting date (US\$)	<b>49.71-54.6</b>	37.19-48.75
Historical volatility (%)	<b>30.38</b>	30
Risk-free interest rate (%)	<b>0.32-0.69</b>	0.32-0.69
Maturity (months)	<b>1-17</b>	1-23

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:

	<b>Increase in the assumption</b>	<b>Decrease in the assumption</b>
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US\$2/bbl)	(5,246)	6,327
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	2,911	(2,687)

There were no movements between levels of fair value of derivative instrument during six months ended 30 June 2016.

### 25. EVENTS AFTER THE REPORTING PERIOD

As of 20 July 2016, Nostrum Services CIS BVBA was merged into Nostrum Services N.V. The surviving entity of the merger is Nostrum Services N.V., which continues to be a wholly owned subsidiary of the Group.

On 29 July 2016 Zhaikmunai LLP signed a supplemental gas offtake agreement.