Nostrum Oil & Gas PLC

Interim condensed consolidated financial statements (unaudited)

For the three and nine months ended 30 September 2018

Contents

Interim condensed consolidated statement of financial position

As at 30 September 2018

In thousands of US dollars	Notes	30 September 2018 (unaudited)	31 December 2017 (audited)
ASSETS			
Non-current assets			
Exploration and evaluation assets	4	**49,891**	47,828
Goodwill		**32,425**	32,425
Property, plant and equipment	5	**2,020,559**	1,941,895
Restricted cash	9	**6,939**	6,663
Advances for non-current assets	6	**11,442**	14,598
		2,121,256	2,043,409
Current assets			
Inventories		**27,836**	29,746
Trade receivables	7	**72,439**	34,520
Prepayments and other current assets	8	**22,031**	27,103
Income tax prepayment		**3,945**	3,380
Current investments		**45,000**	–
Cash and cash equivalents	9	**50,498**	126,951
		221,749	221,700
TOTAL ASSETS		**2,343,005**	2,265,109
EQUITY AND LIABILITIES			
Share capital and reserves	10		
Share capital		**3,203**	3,203
Treasury capital		**(1,660)**	(1,660)
Retained earnings and reserves		**688,111**	668,010
		689,654	669,553
Non-current liabilities			
Long-term borrowings	12	**1,093,179**	1,056,541
Abandonment and site restoration provision		**24,458**	23,590
Due to Government of Kazakhstan		**5,280**	5,466
Deferred tax liability		**424,600**	381,596
		1,547,517	1,467,193
Current liabilities			
Current portion of long-term borrowings	12	**14,267**	31,337
Employee share option plan liability	21	**805**	2,086
Trade payables	13	**45,267**	56,855
Advances received		**263**	1,279
Income tax payable		**119**	499
Derivative financial instruments	23	**9,031**	–
Current portion of due to Government of Kazakhstan		**1,031**	1,031
Other current liabilities	14	**35,051**	35,276
		105,834	128,363
TOTAL EQUITY AND LIABILITIES		**2,343,005**	2,265,109

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

Kai-Uwe Kessel	Tom Richardson
Chief Executive Officer ___________________	*Chief Financial Officer* ___________________

The accounting policies and explanatory notes on pages 7 through 23 are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of comprehensive income

For the three and nine months ended 30 September 2018

In thousands of US dollars	Notes	Three months ended 30 September 2018 (unaudited)	Three months ended 30 September 2017 (unaudited, restated*)	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited, restated*)
Revenue					
Revenue from export sales		**96,566**	50,009	**241,437**	192,414
Revenue from domestic sales		**23,348**	43,684	**69,971**	111,300
	15	**119,914**	93,693	**311,408**	303,714
Cost of sales	16	**(43,020)**	(42,796)	**(125,786)**	(131,194)
Gross profit		**76,894**	50,897	**185,622**	172,520
General and administrative expenses	17	**(5,202)**	(8,996)	**(18,739)**	(25,602)
Selling and transportation expenses	18	**(13,505)**	(14,934)	**(39,184)**	(52,016)
Taxes other than income tax	19	**(8,730)**	(4,537)	**(23,113)**	(15,303)
Finance costs	20	**(8,733)**	(27,327)	**(37,939)**	(47,389)
Employee share options - fair value adjustment	21	**(403)**	1,304	**1,281**	632
Foreign exchange loss, net		**(600)**	(3,385)	**(731)**	(435)
Loss on derivative financial instruments	23	**(1,164)**	(6,934)	**(13,126)**	(6,627)
Interest income		**58**	137	**198**	305
Other income		**912**	928	**2,331**	2,741
Other expenses		**969**	(12,854)	**(4,185)**	(20,013)
Profit/(loss) before income tax		**40,496**	(25,701)	**52,415**	8,813
Current income tax beneift / (expense)		**(194)**	(6,233)	**21**	(33,418)
Deferred income tax benefit / (expense)		**(25,950)**	(6,036)	**(39,991)**	(2)
Income tax expense	22	**(26,144)**	(12,269)	**(39,970)**	(33,420)
Profit/(loss) for the period		**14,352**	(37,970)	**12,445**	(24,607)
Other comprehensive income that could be reclassified to the income statement in subsequent periods					
Currency translation difference		**(678)**	688	**(669)**	804
Other comprehensive (loss)/income		**(678)**	688	**(669)**	804
Total comprehensive income/(loss) for the period		**13,674**	(37,282)	**11,776**	(23,803)
Profit/(loss) for the period attributable to the shareholders (in thousands of US dollars)				**11,776**	(23,803)
Weighted average number of shares				**185,234,079**	185,068,917
Basic and diluted earnings per share (in US dollars)				**0.06**	(0.13)

** Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the nine months ended 30 September 2017 and reflect adjustments made, please refer to Note 3 for more details.*

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

The accounting policies and explanatory notes on pages 7 through 23 are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows

For the nine months ended 30 September 2018

		Nine months ended 30 September	
In thousands of US dollars	**Notes**	**2018 (unaudited)**	2017 (unaudited, restated*)
Cash flow from operating activities:			
Profit before income tax		**52,415**	8,813
Adjustments for:			
Depreciation, depletion and amortisation	**16,17**	**87,235**	93,358
Finance costs	**20**	**37,939**	47,389
Employee share option plan fair value adjustment		**(1,281)**	(632)
Interest income		**(198)**	(305)
Foreign exchange gain on investing and financing activities		**(901)**	(1,766)
Impairment of property, plant and equipment		**1,481**	650
Payments on derivative financial instruments		**(4,095)**	–
Loss on derivative financial instruments	**23**	**13,126**	6,627
Provision for doubtful debts		**68**	1,751
Accrued expenses		**–**	2,633
Operating profit before working capital changes		**185,789**	158,518
Changes in working capital:			
Change in inventories		**1,910**	(601)
Change in trade receivables		**(37,919)**	(5,159)
Change in prepayments and other current assets		**5,004**	(1,886)
Change in trade payables		**(743)**	629
Change in advances received		**(1,016)**	(917)
Change in due to Government of Kazakhstan		**(773)**	(1,031)
Change in other current liabilities		**580**	(1,509)
Payments under Employee share option plan		**–**	(1,162)
Cash generated from operations		**152,832**	146,882
Income tax paid		**(1,494)**	(15,187)
Net cash flows from operating activities		**151,338**	131,695
Cash flow from investing activities:			
Interest received		**198**	305
Purchase of property, plant and equipment		**(133,396)**	(128,538)
Exploration and evaluation works	**4**	**(2,453)**	(1,576)
Placement of bank deposits		**(45,000)**	–
Loans granted		**–**	(1,223)
Net cash used in investing activities		**(180,651)**	(131,032)
Cash flow from financing activities:			
Finance costs paid		**(81,111)**	(51,018)
Fees and premium paid on arrangement of notes	**12**	**(9,496)**	(26,116)
Repayment of notes		**(353,192)**	(606,808)
Issue of notes		**397,280**	725,000
Payment of finance lease liabilities		**(110)**	(616)
Transfer to restricted cash		**(275)**	(379)
Treasury shares sold/(purchased)		**–**	1,853
Other finance costs		**(214)**	–
Net cash (used in)/from financing activities		**(47,118)**	41,916
Effects of exchange rate changes on cash and cash equivalents		**(22)**	677
Net (decrease)/increase in cash and cash equivalents		**(76,453)**	43,256
Cash and cash equivalents at the beginning of the period	**9**	**126,951**	101,134
Cash and cash equivalents at the end of the period	**9**	**50,498**	144,390

** Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the nine months ended 30 September 2017 and reflect adjustments made, please refer to Note 3 for more details.*

The accounting policies and explanatory notes on pages 7 through 23 are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity

For the nine months ended 30 September 2018

In thousands of US dollars	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
As at 1 January 2017 (audited, restated*)		**3,203**	**(1,846)**	**260,918**	**429,537**	**691,812**
Loss for the period		–	–	–	(24,607)	(24,607)
Other comprehensive income		–	–	804	–	804
Total comprehensive loss for the period		**–**	**–**	**804**	**(24,607)**	**(23,803)**
Sale of treasury capital		–	186	674	–	860
Transaction costs		–	–	–	(26)	(26)
As at 30 September 2017 (unaudited, restated*)		**3,203**	**(1,660)**	**262,396**	**404,904**	**668,843**
Profit for the period		–	–	–	726	726
Other comprehensive income		–	–	21	–	21
Total comprehensive income for the period		**–**	**–**	**21**	**726**	**747**
Transaction costs		–	–	–	(37)	(37)
As at 31 December 2017 (audited)		**3,203**	**(1,660)**	**262,417**	**405,593**	**669,553**
Impact of adopting IFRS 9		–	–	–	8,325	8,325
Restated opening balance under IFRS 9		**3,203**	**(1,660)**	**262,417**	**413,918**	**677,878**
Profit for the period		–	–	–	12,445	12,445
Other comprehensive loss		–	–	(669)	–	(669)
Total comprehensive income for the period		**–**	**–**	**(669)**	**12,445**	**11,776**
As at 30 September 2018 (unaudited)		**3,203**	**(1,660)**	**261,748**	**426,363**	**689,654**

** Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the nine months ended 30 September 2017 and reflect adjustments made, please refer to Note 3 for more details.*

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Notes to the interim condensed consolidated financial statements

1. General

Overview

Nostrum Oil & Gas PLC ("the Company" or "the Parent") is a public limited company incorporated on 3 October 2013 under the Companies Act 2006 and registered in England and Wales with registered number 8717287. The registered address of Nostrum Oil & Gas PLC is: 9th Floor, 20 Eastbourne Terrace, London, W2 6LG, UK.

The Parent became the holding company of the remainder of the Group (via its subsidiary Nostrum Oil Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange ("LSE") on 20 June 2014. On the same date the former parent of the Group, Nostrum Oil & Gas LP, was delisted from the LSE. In addition to the subsidiaries of Nostrum Oil & Gas LP, Nostrum Oil Coöperatief U.A. acquired substantially all of the assets and liabilities of Nostrum Oil & Gas LP on 18 June 2014. The Parent does not have an ultimate controlling party.

These interim condensed consolidated financial statements include the financial position and the results of the operations of Nostrum Oil & Gas PLC and its following wholly owned subsidiaries:

Company	Registered office	Form of capital	Ownership, %
Nostrum Associated Investments LLP	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC	Liteyniy Prospekt 26 A 191028 St. Petersburg Russian Federation	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A.	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Members' interests	100
Nostrum Oil & Gas BV	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	9 th Floor, 20 Eastbourne Terrace London W2 6LG United Kingdom	Ordinary shares	100
Nostrum Services Central Asia LLP	Aksai 3a, 75/38 050031 Almaty Republic of Kazakhstan	Participatory interests	100
Nostrum Services N.V.[1]	Kunstlaan 56 1000 Brussels Belgium	Ordinary shares	100
Zhaikmunai LLP	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	100

[1] *Merged with Nostrum Services CIS BVBA during 2016*

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

As at 30 September 2018, the Group employed 799 employees (9M 2017: 985).

Subsoil use rights terms

Zhaikmunai LLP carries out its activities in accordance with the Contract for Additional Exploration, Production and Production-Sharing of Crude Hydrocarbons in the Chinarevskoye oil and gas condensate field (the "Contract") dated 31 October 1997 between the State Committee of Investments of the Republic of Kazakhstan and Zhaikmunai LLP in accordance with the license MG No. 253D for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On 17 August 2012 Zhaikmunai LLP signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye – all located in the Western Kazakhstan region. On 1 March 2013 Zhaikmunai LLP has acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the authority now known as the Ministry of Energy (the "MOE") of the Republic of Kazakhstan.

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

Notes to Interim condensed consolidated financial statements / continued

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. Subsequently, the exploration period was extended until 8 February 2019.

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 2021.

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 2021.

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 nine months ended 30 September 2018 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 2017 prepared in accordance with IFRS as adopted by the European Union.

The interim financial information for the nine months ended 30 September 2018 and 2017 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 2017 has been derived from the statutory financial statements for that year. Statutory accounts for the year ended 31 December 2017 were approved by the Board of directors on 23 March 2018 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.

3. Changes in accounting policies and disclosures

New standards, interpretations and amendments thereof, 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 2017, except for the adoption of the new standards and interpretations effective as of
1 January 2018. The effects of transition to IFRS 9 Financial Instruments (further referred to as IFRS 9) is described further below. None of the other amendments that are effective as of 1 January 2018 had significant impact on the Group’s interim condensed consolidated financial statements.

Standards issued, but not yet effective, as at 1 January 2018, have not been adopted early by the Group.

Notes to Interim condensed consolidated financial statements / continued

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (further referred to as IAS 39) for annual periods on or after 1 January 2018. As permitted by IFRS 9 the Group elected not to restate comparative information for the nine months ended 30 September 2017 for the financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018.

(a) Classification and measurement

The measurement and accounting treatment of the Group's financial assets and financial liabilities is materially unchanged on application of the new standard with the exception of borrowings accounted at amortised cost.
The impact of adopting IFRS 9 on the statement of financial position, and retained earnings includes the effect of measurement of gains or losses on modification applied to 2012 Notes, 2014 Notes and 2017 Notes in accordance with definitions and requirements of IFRS 9. For the modified part the Group recognized gains and losses on modification in profit and loss, while the premium paid on early redemption and the transaction costs and fees were capitalized under the long-term borrowings. The unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is as follows:

In thousands of US dollars	**As previously reported**	**Remeasurement**	**As adjusted**
Property, plant and equipment	1,941,895	2,361	1,944,256
Total non-current assets	**2,043,409**	**2,361**	**2,045,770**
Total assets	**2,265,109**	**2,361**	**2,267,470**
Retained earnings	668,010	8,325	676,335
Total equity	**669,553**	**8,325**	**677,878**
Long-term borrowings	1,056,541	(9,065)	1,047,476
Deferred tax liabilities	381,596	3,101	384,697
Total non-current liabilities	**1,467,193**	**(5,964)**	**1,461,229**
Total equity and liabilities	**2,265,109**	**2,361**	**2,267,470**

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group applies the simplified approach and record lifetime expected losses on all trade receivables. There was no significant impact on Group's equity due to the average short collection period of trade receivables as well as anticipation of low trade impairment losses on trade receivables based on the historical data.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 (amended in April 2016) and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group has adopted
IFRS 15 with effect from January 1, 2018, which did not represent a change from the Group's existing practice and did not have a significant effect on the Group's accounting or disclosures, and therefore no transition adjustment is presented.

(a) Sale of goods

The Group is in the business of production and sale of oil and gas products. All goods are sold in separate identified contracts with customers. For such contracts with customers in which the sale of goods is the only performance obligation, adoption of IFRS 15 had no significant impact on the revenues and profit or loss.

(b) Variable consideration

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Historically, the goods sold by the Group were not returned by customers, neither were there material volume rebates in contracts. Therefore, application of IFRS 15 has not resulted in a different amount of revenue being recognised than under current IFRS.

Notes to Interim condensed consolidated financial statements / continued

(c) Advances received from customers

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in IFRS 15, and did not adjust the promised amount of the consideration for the effects of significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group does not account for a financing component. The Group receives only short-term advances from its customers. However, the Group may receive from customers long-term advances in the future. Therefore, close monitoring of the advances from customers will be made to reveal any significant financing component because of the length of time.

IFRS 16 Leases

IFRS 16 Leases will be effective for the Group from 1 January 2019, replacing IAS 17 Leases. The main impact of IFRS 16 is expected be the change of accounting treatment by lessees of leases currently classified as operating leases. Lease agreements will give rise to the recognition by the lessee of a right-of-use asset and a related liability for future lease payments.

The Group is in process of assessing the impact of the new accounting requirements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of railway tanks and pumping stations.

The impact of the standard on underlying earnings and profit before tax following adoption is not expected to be significant although the income statement presentation of the cost of leases is expected to be changed. Instead of a rent expenses, the cost of leases will be allocated between the depreciation of right-of-use assets, and a finance charge representing the unwinding of the discount on lease liabilities.

The Group has not yet quantified the impact on its reported assets and liabilities of the adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into. The Group expects to disclose its transition approach and quantitative information before adoption.

4. Correction of an error and changes in presentation

In 2017, the Group carried out a detailed review of the expenditures on construction of its facilities and drilling of wells. As result of the review, certain errors that affects both annual and interim periods were identified. For annual periods, these errors were corrected in the annual consolidated financial statements for the year ended 31 December 2017. However, since these errors were identified and corrected after interim condensed consolidated financial statements for the nine months ended 30 September 2017 were issued, the Group decided to correct them in these interim condensed consolidated financial statements by restating comparative information for the nine months then ended 30 Septembere 2017. In addition, consistently to the annual consolidated financial statements, the Group decided to make certain reclassifications in the interim condensed consolidated statement of comprehensive income. These errors and reclassifications are described below.

As part of the review, it was discovered that there was an error in capitalization of borrowing costs under IAS 23 Borrowing Costs resulting in understatement of Property, plant and equipment and respective overstatement of Finance costs.

On the other hand, the Group has been providing catering and accommodation services to its providers of construction, drilling and operational services on which Other income has been recognized. At the same time respective expenditures of the suppliers were recharged to the Group and accordingly either capitalized as part of Property, plant and equipment or expensed as Cost of sales or Other expenses, leading to overstatement of these line items.

In 2017, the Group revised the treatment of the transaction costs incurred on 2017 refinancing of the Notes. As a result only for the modified part of Notes of the Group the premium paid on early redemption and the transaction costs and fees were capitalized under the long-term borrowings. The unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed.

In the interim condensed consolidated financial statements for the nine months ended 30 September 2018, the Group presents "training", "sponsorship" and "social program" expenses within Other expenses in the statement of comprehensive income. Previously, the Group presented these expenses within General and administrative expenses.

In the interim condensed consolidated financial statements for the nine months ended 30 September 2018, the Group also presents Taxes other than income tax, a new line item in the consolidated statement of comprehensive income. This new line item includes "royalties" and "government profit share" previously presented within Cost of sales, "export customs duties" previously presented in Other expenses and "other taxes" previously presented within General and administrative expenses.

Notes to Interim condensed consolidated financial statements / continued

These corrections and changes in presentation have been reflected by restating each of the affected financial statement line items for the nine months ended 30 September 2017, as follows:

In thousands of US dollars	Reported	Interest capitalization correction	Catering and accomodation correction	Transaction costs adjustment	Reclassi-fications	As adjusted
As at 1 January 2017 (audited)						
Retained earnings and reserves	690,617	5,366	(5,528)	–	–	690,455
For the nine months ended 30 September 2017 (unaudited)						
Cost of sales	(146,259)	167	1,951	–	12,947	(131,194)
General and administrative expenses	(27,869)	–	–	–	2,267	(25,602)
Taxes other than income tax		–	–	–	(15,303)	(15,303)
Finance costs	(34,479)	2,227	–	(15,137)	–	(47,389)
Other income	9,373	–	(6,632)	–	–	2,741
Other expenses	(21,690)	–	1,588	–	89	(20,013)
Deferred income tax expense benefit	47	(668)	619	–	–	(2)
As at 30 September 2017 (unaudited)						
Retained earnings and reserves	683,348	7,092	(8,002)	(15,137)	-	667,301
Interim condensed consolidated statement of cash flows for the nine months ended 30 September 2017						
Profit before income tax	24,697	1,726	(2,473)	(15,137)	–	8,813
Depreciation, depletion and amortisation	93,967	(167)	(442)	–	–	93,358
Finance costs	34,479	(2,227)	–	15,137	–	47,389
Business development	9,295	–	–	–	(9,295)	-
Change in prepayments and other current assets	(11,180)	–	–	–	9,295	(1,885)
Purchase of property, plant and equipment	(132,074)	–	3,536	–	–	(128,538)

The Group has not included a third balance sheet as at 1 January 2017 because the adjustment to opening balances was not considered to be material.

5. Exploration and evaluation assets

In thousands of US dollars	**30 September 2018 (unaudited)**	31 December 2017 (audited)
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**34,056**	31,993
	49,891	47,828

During the nine months ended 30 September 2018 the Group had additions to exploration and evaluation assets of US$2,063 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (9M 2017: US$1,550 thousand). Interest was not capitalised on exploration and evaluation assets.

6. Property, plant and equipment

During the nine months ended 30 September 2018 the Group had additions of property, plant and equipment of US$115,688 thousand (9M 2017: US$186,019 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US$38,239 thousand (9M 2017: US$24,610 thousand).

As at 30 September 2018 the net carrying amount of property, plant and equipment held under finance lease was US$12,110 thousand (31 December 2017: 12,632).

See Note 25 for capital commitments.

7. Advances for non-current assets

In thousands of US dollars	**30 September 2018 (unaudited)**	31 December 2017 (audited)
Advances for construction services	**11,143**	9,512
Advances for pipes and construction materials	**299**	5,086
	11,442	14,598

Notes to Interim condensed consolidated financial statements / continued

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.

8. Trade receivables

As at 30 September 2018 and 31 December 2017 trade receivables were not interest-bearing and were mainly denominated in US dollars. Their average collection period is 30 days.

As at 30 September 2018 and 31 December 2017 there were neither past due nor impaired trade receivables.

9. Prepayments and other current assets

As at 30 September 2018 and 31 December 2017 prepayments and other current assets comprised the following:

In thousands of US dollars	**30 September 2018 (unaudited)**	31 December 2017 (audited)
VAT receivable	**13,006**	14,960
Advances paid	**4,137**	6,826
Other taxes receivable	**3,762**	4,279
Other	**1,126**	1,038
	22,031	27,103

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2017 and 30 September 2018, advances paid in the amount of US$ 1,756 thousand were impaired and fully provided for.

10. Cash and cash equivalents

In thousands of US dollars	**30 September 2018 (unaudited)**	31 December 2017 (audited)
Current accounts in US dollars	**46,183**	106,487
Current accounts in tenge	**1,383**	17,342
Current accounts in other currencies	**2,918**	3,110
Petty cash	**14**	12
	50,498	126,951

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$ 689 thousand with Sberbank in Kazakhstan and US$ 6,250 thousand with Halyk bank (31 December 2017: a total of US$6,663 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

11. Share capital and reserves

As at 30 September 2018 the ownership interests in the Parent consist of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

Number of GDRs/shares	**In circulation**	**Treasury capital**	**Total**
As at 1 January 2017 (audited)	**184,903,754**	**3,279,204**	**188,182,958**
Share options exercised	330,325	(330,325)	–
As at 31 December 2017 (audited)	**185,234,079**	**2,948,879**	**188,182,958**
Share options exercised	–	–	–
As at 30 September 2018 (unaudited)	**185,234,079**	**2,948,879**	**188,182,958**

Treasury shares are held by the Nostrum Oil & Gas Benefit Trust ("Trust") to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and the Long-Term Incentive Plan ("LTIP"). The trustee of the Trust is Intertrust Employee Benefit Trustee Limited. Upon request from employees to exercise options under ESOP, the Trust sells shares on the market and settles respective obligations under the ESOP. The Trust constitutes a special purpose entity under IFRS and therefore, these shares are recorded as treasury capital of the Company.

Notes to Interim condensed consolidated financial statements / continued

Other reserves of the Group include foreign currency translation reserve accumulated before 2009, when the functional currency of Zhaikmunai LLP was Kazakhstani Tenge and the difference between the partnership capital, treasury capital and additional paid-in capital of Nostrum Oil & Gas LP and the share capital of Nostrum Oil & Gas PLC amounting to US$255,459, that arose during the reorganisation of the Group (Note 2).

Distributions

During the periods ended 30 September 2018 and 2017 there were no distributions made.

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 30 September 2018 the book value per share amounted to US$3.49 (31 December 2017: US$3.39).

12. 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.

	Nine months ended 30 September	
In thousands of US dollars	**2018 (unaudited)**	2017 (unaudited, restated*)
Profit/(loss) for the period attributable to the shareholders (in thousands of US dollars)	**11,776**	(23,803)
Weighted average number of shares	**185,234,079**	185,068,917
Basic and diluted earnings per share (in US dollars)	**0.06**	(0.13)

13. Borrowings

Borrowings comprise the following as at 30 September 2018 and 31 December 2017:

In thousands of US dollars	**30 September 2018 (unaudited)**	31 December 2017 (audited)
Notes issued in 2017 and maturing in 2022	**711,733**	731,474
Notes issued in 2018 and maturing in 2025	**394,908**	–
Notes issued in 2012 and maturing in 2019	**–**	167,731
Notes issued in 2014 and maturing in 2019	**–**	187,863
Finance lease liability	**805**	810
	1,107,446	1,087,878
Less amounts due within 12 months	**(14,267)**	(31,337)
Amounts due after 12 months	**1,093,179**	1,056,541

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 a 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.

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 a 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.

Notes to Interim condensed consolidated financial statements / continued

2017 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2017 Issuer") issued US$ 725,000 thousand notes (the "2017 Notes"). The 2017 Notes bear interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year. The issue of the 2017 Notes was used primarily to fund the purchase from bondholders
US$ 390,884 thousand in principal amount of the outstanding 2012 Notes and US$ 215,924 thousand in principal amount of the outstanding 2014 Notes. Total tender consideration was US$ 102.60 per US$ 100 for the outstanding 2012 Notes and US$ 100.60 per US$ 100 for the outstanding 2014 Notes validly tendered during the Early Bird window. In addition, a consent payment of US$ 40c per US$ 100 was paid for all 2012 Notes and 2014 Notes validly tendered during the Early Bird window or if a Consent Only Instruction was received during the Early Bird window. Both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to US$ 12,256 thousand. For the purposes of the accounting treatment Nostrum considers part of the purchased 2012 Notes and 2014 Notes to be modified and the remainder is treated as extinguished. For the modified part the Group recognized gains and losses on modification in profit and loss, while the premium paid on early redemption and the transaction costs and fees were capitalized under the long-term borrowings. The unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed.

2018 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. (the "2018 Issuer") issued US$ 400,000 thousand notes (the "2018 Notes"). The 2018 Notes bear interest at a rate of 7.00% per year, payable on 16 August and 16 February of each year.

On and after 16 February 2021, the 2018 Issuer shall be entitled at its option to redeem all or a portion of the 2018 Notes upon not less than 10 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2018 Note), plus accrued and unpaid interest on the 2018 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on 16 February of the years set forth below:

Period	Redemption Price
2021	105.25%
2022	103.50%
2023	101.75%
2024 and thereafter	100.00%

The 2018 Notes are jointly and severally guaranteed (the "2018 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2018 Guarantors"). The 2018 Notes are the 2018 Issuer's and the 2018 Guarantors' senior obligations and rank equally with all of the 2018 Issuer's and the 2018 Guarantors' other senior indebtedness.

The issue of the 2018 Notes was used primarily to fund Call of the 2012 Notes and the 2014 Notes, as described below.

Call of the 2012 Notes and the 2014 Notes

On 18 January 2018, Nostrum issued conditional call notices for all outstanding 2012 Notes and 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries. The 2012 Notes were called at a price of 101.78125% plus accrued interest and the 2014 Notes were called at a price of 100.00% plus accrued interest.

On 16 February 2018, Nostrum announced that the conditions to the call notices had been satisfied by the issue of the 2018 Notes by Nostrum Oil & Gas Finance B.V. (see above). Therefore, with effect on 17 February 2018 (the "Call Date"), the outstanding 2012 Notes and the 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries were purchased from the bondholders by Nostrum Oil & Gas Finance B.V.

Transaction costs and discounts

For the purpose of the accounting treatment the purchased 2012 Notes and 2014 Notes were treated as extinguished and related unamortised transaction costs of US$ 3,636 thousand and premiums paid on early redemption of US$ 3,012 thousand expensed in profit and loss (Note 20). Fees and expenses of US$ 6,141 thousand directly attributable to the issue of 2018 Notes and discount on issue of the notes amounting to US$ 2,720 thousand were capitalized under the long-term borrowings.

Covenants contained in the 2012 Notes, 2014 Notes, 2017 Notes and 2018 Notes

The indentures governing the 2012 Notes, 2014 Notes, 2017 Notes and the 2018 Notes contain a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of the Issuer, the 2012 Guarantors, the 2014 Guarantors, the 2017 Guarantors and the 2018 Guarantors to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;

Notes to Interim condensed consolidated financial statements / continued

- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to Nostrum Oil & Gas PLC or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses; and
- consolidate or merge with other entities.

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

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

Finance lease

On 12 April 2016 Zhaikmunai LLP entered into a finance lease agreement for the main administrative office in Uralsk for a period of 20 years for a fee of US$ 66 thousand per month. As at 30 September 2018 the finance lease prepayment amounted to US$ 11,563 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	30 September 2018 (unaudited)		31 December 2017 (audited)	
In thousands of US dollars	**Minimum payments**	**Present value of payments**	**Minimum payments**	**Present value of payments**
No later than one year	**142**	131	**144**	131
Later than one year and no later than five years	**558**	344	**558**	345
Later than five years	**1,794**	332	**1,900**	334
Total minimum lease payments	**2,494**	807	**2,602**	810
Less amounts representing finance charges	**(1,689)**		**(1,792)**	
Present value of minimum lease payments	**805**	807	**810**	810

14. Trade payables

Trade payables comprise the following as at 30 September 2018 and 31 December 2017:

In thousands of US dollars	**30 September 2018 (unaudited)**	31 December 2017 (audited)
Tenge denominated trade payables	**19,912**	27,153
US dollar denominated trade payables	**20,593**	22,861
Euro denominated trade payables	**3,580**	5,393
Russian rouble denominated trade payables	**972**	1,098
Trade payables denominated in other currencies	**210**	350
	45,267	56,855

15. Other current liabilities

Other current liabilities comprise the following as at 30 September 2018 and 31 December 2017:

In thousands of US dollars	**30 September 2018 (unaudited)**	31 December 2017 (audited)
Training obligations accrual	**13,869**	11,592
Taxes payable, other than corporate income tax	**7,335**	6,278
Accruals under the subsoil use agreements	**5,365**	9,941
Due to employees	**5,144**	3,627
Other current liabilities	**3,338**	3,838
	35,051	35,276

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.

Notes to Interim condensed consolidated financial statements / continued

16. 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 nine months ended 30 September 2018 was US$72.7 (9M 2017: US$52.7).

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Oil and gas condensate	**86,538**	57,601	**221,202**	193,720
Gas and LPG	**33,376**	36,092	**90,206**	109,994
	119,914	93,693	**311,408**	303,714

During the nine months ended 30 September 2018 the revenue from sales to three major customers amounted to US$ 213,734 thousand, US$ 59,204 thousand and US$ 8,878 thousand, respectively (nine months ended 30 September 2017: three major customers: US$ 139,761 thousand, US$ 79,280 thousand and US$ 24,875 thousand, respectively).

17. Cost of sales

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US dollars	**2018 (unaudited**	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Depreciation, depletion and amortisation	**28,742**	29,450	**85,799**	91,587
Payroll and related taxes	**4,440**	4,523	**14,644**	13,235
Repair, maintenance and other services	**3,525**	4,808	**11,617**	14,005
Other transportation services	**1,343**	1,878	**4,826**	5,657
Materials and supplies	**1,374**	3,130	**3,680**	5,750
Well workover costs	**948**	182	**2,025**	1,094
Environmental levies	**73**	97	**309**	276
Change in stock	**2,156**	698	**2,002**	495
Other	**419**	(1,970)	**884**	(905)
	43,020	42,796	**125,786**	131,194

18. General and administrative expenses

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Payroll and related taxes	**2,490**	3,914	**9,322**	11,169
Professional services	**1,258**	2,777	**4,872**	7,805
Depreciation and amortisation	**458**	556	**1,436**	1,771
Insurance fees	**436**	448	**1,089**	1,192
Lease payments	**194**	200	**643**	616
Business travel	**153**	324	**512**	1,132
Communication	**74**	107	**272**	306
Bank charges	**19**	75	**113**	192
Materials and supplies	**28**	93	**101**	286
Other	**92**	502	**379**	1,133
	5,202	8,996	**18,739**	25,602

Notes to Interim condensed consolidated financial statements / continued

19. Selling and transportation expenses

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Loading and storage costs	**5,180**	5,811	**14,715**	21,447
Transportation costs	**4,351**	4,533	**12,203**	15,956
Marketing services	**2,816**	3,478	**8,574**	11,257
Payroll and related taxes	**579**	528	**1,771**	1,474
Other	**579**	584	**1,921**	1,882
	13,505	14,934	**39,184**	52,016

During 2017 the construction of a secondary crude oil pipeline was completed, enabling export sales via the Atyrau-Samara international export pipeline operated by KazTransOil. As a result, loading and storage costs and transportation costs were reduced.

20. Taxes other than income tax

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US dollars	**2018 (unaudited)**	2017 (unaudited)	**2018 (unaudited)**	2017 (unaudited)
Royalties	**4,796**	3,453	**11,953**	11,275
Export customs duty	**2,918**	320	**8,477**	1,344
Government profit share	**1,033**	742	**2,620**	2,632
Other taxes	**(17)**	22	**63**	52
	8,730	4,537	**23,113**	15,303

21. Finance costs

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Interest expense on borrowings	**8,270**	11,244	**30,203**	30,663
Transaction costs	**(8)**	15,709	**6,751**	15,709
Unwinding of discount on amounts due to Government of Kazakhstan	**258**	258	**587**	608
Unwinding of discount on abandonment and site restoration provision	**67**	82	**186**	245
Unwinding of discount on social obligations liability	**–**	–	**–**	40
Finance charges under finance leases	**34**	35	**101**	123
Other finance costs	**112**	(1)	**111**	1
	8,733	27,327	**37,939**	47,389

For more information on the transaction costs please see Note 12.

Notes to Interim condensed consolidated financial statements / continued

22. Employee share options

Employee share option plan

The Group operates an 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 2,211,153 shares remain outstanding (the "Subsisting Options"), 946,153 options with a Base Value of US$4.00 and 1,265,000 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.

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:

	30 September 2018 (unaudited)	31 December 2017 (audited)
Price at the reporting date (US$)	**3.2**	4.4
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**42.2%**	41.4%
Risk-free interest rate (%)	**0.9%**	0.7%
Expected life (years)	**10**	10
Option turnover (%)	**10%**	10%
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.

2017 Long-term incentive plan

In 2017 the Group started operating a Long-term incentive plan ("the LTIP"), that was approved by the shareholders of the Company on 26 June 2017 and adopted by the board of directors of the Company on 24 August 2017. The LTIP is a discretionary benefit offered by the Company for the benefit of selected employees. Its main purpose is to increase the interest of the employees in the Company's long-term business goals and performance through share ownership. The LTIP is an incentive for the employees' future performance and commitment to the goals of the Company. The remuneration committee of the board of the Company has the right to decide, in its sole discretion, whether or not further awards will be granted in the future and to which employees those awards will be granted. On 23 March 2018 the remuneration committee of the board of the Company determined the level of performance conditions that were met for the performance conditions set upon issue of the share options in 2017.

Employees (including senior executives and executive directors) of members of the Group or their associates may receive an award, which is a "nominal cost option" over a specified number of ordinary shares in the capital of the Company. The option has an exercise price of 1p per share (but the Company has the discretion to waive this prior to exercise). In addition, under the Rules of the LTIP the Company has discretion to settle awards other than by transfer of shares such as by way of cash settlement. Generally, the awards are classified as equity-settled transactions. The share options are treated as equity-settled since the treasury shares held in the Trust can be used for settlement of share options, the Group has a choice of settlement and the intention is to settle them in equity. However, in certain jurisdictions due to regulatory requirements the Company may not be able to settle the awards other than by transfer of cash, in which case the awards are classified as cash-settled transactions, and accounted for similar to SARs.

Notes to Interim condensed consolidated financial statements / continued

23. Income tax expense

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US dollars	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
Corporate income tax	**12**	6,134	**408**	33,227
Withholding tax	**182**	99	**423**	324
Deferred income tax (benefit) / expense	**25,950**	6,036	**39,990**	1
Adjustment in respect of the current income tax for the prior periods	**–**	–	**(851)**	(132)
Total income tax expense	**26,144**	12,269	**39,970**	33,420

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

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US dollars	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
Profit/(loss) before income tax	**40,496**	(25,701)	**52,415**	8,813
Tax rate applicable to the suboil use rights	**30%**	30%	**30%**	30%
Expected tax provision	**12,149**	(7,710)	**15,725**	2,644
Effect of exchange rate on the tax base	**6,995**	4,828	**8,766**	2,344
Adjustments in respect of current income tax of previous years	**–**	–	**(851)**	(132)
Effect of loss / (income) taxed at different rate[1]	**(264)**	(203)	**(793)**	(609)
Non-deductible interest expense on borrowings	**8,802**	5,050	**22,478**	15,829
Deferred tax asset not recognised	**(2,025)**	9,180	**(5,050)**	11,615
Other non-deductible expenses	**487**	1,124	**(305)**	1,729
Income tax expenses reported in the consolidated financial statements	**26,144**	12,269	**39,970**	33,420

[1] Jurisdictions which contribute significantly to this item are Republic of Kazakhstan with an applicable statutory tax rate of 20% (for activities not related to the Contract), Belgium with applicable statutory tax rate of 34% and the Netherlands with an applicable statutory tax rate of 25%.

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the income before tax for the nine months ended 30 September 2018. 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.

Notes to Interim condensed consolidated financial statements / continued

24. Derivative financial instruments

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

In thousands of US dollars		Derivative financial instruments
As at 1 January 2017 (audited)	**current**	**6,658**
	non-current	**–**
Proceeds from sale of hedging contract		–
Loss on derivative financial instruments		(6,627)
As at 30 September 2017 (unaudited)	**current**	**31**
	non-current	**–**
Proceeds from sale of hedging contract		–
Loss on derivative financial instruments		(31)
As at 31 December 2017 (audited)	**current**	**–**
	non-current	**–**
Loss on derivative financial instruments		(13,126)
Payments on derivative financial instruments		4,095
As at 30 September 2018 (unaudited)	**current**	**(9,031)**
	non-current	**–**

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

On 4 January 2018, the Group entered into a hedging contract equating to production of 9,000 barrels of oil per day. The hedging contract is a zero-cost capped collar with a floor price of US$60.0/bbl. The Group has covered the cost of the floor price by selling a number of call options with different strike prices for each quarter: Q1:US$67.5/bbl, Q2:US$64.1/bbl, Q3:US$64.1/bbl, Q4:US$64.1/bbl. The amount of upside given away has been capped through the purchase of a number of call options with different strike prices: Q1:US$71.5/bbl, Q2:US$69.1/bbl, Q3:US$69.6/bbl, Q4:US$69.6/bbl. There were no upfront costs to the Group for the hedging contract. The hedging contract matures on 31 December 2018 and is settled in cash on a quarterly basis.

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 25.

25. 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 September 2018 and 31 December 2017 consisted of the following:

In thousands of US dollars	**30 September 2018 (unaudited)**	31 December 2017 (audited)
Trade receivables and advances paid		
JSC OGCC KazStroyService	**9,912**	7,573

Notes to Interim condensed consolidated financial statements / continued

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 September 2018 and 31 December 2017 consisted of the following:

In thousands of US dollars	**30 September 2018 (unaudited)**	31 December 2017 (audited)
Trade payables		
JSC OGCC KazStroyService	**11,142**	10,063

During the nine months ended 30 September 2018 and 2017 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

	Nine months ended 30 September	
In thousands of US dollars	**2018 (unaudited)**	2017 (unaudited)
Purchases		
JSC OGCC KazStroyService	**12,183**	43,088
Management fees and consulting services		
Cervus Business Services	–	793
VWEW Advocaten VOF	–	5

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 30 September 2018 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

During the nine months ended 30 September 2017 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA and VWEW Advocaten VOF. Starting from April 2017 these entities ceased to be considered related parties in accordance with IAS 24 definitions.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$2,713 thousand for the nine months ended 30 September 2018 (9M 2017: US$3,956 thousand). There were no payments to key management personnel under ESOP for the nine months ended 30 September 2018 (9M 2017: US$531 thousand).

26. 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 September 2018. As at 30 September 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

The Group may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. Kazakhstan's environmental legislation and regulations are subject to ongoing changes and varying interpretations. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Group may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation.

Notes to Interim condensed consolidated financial statements / continued

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 September 2018 the Group had contractual capital commitments in the amount of US$114,138 thousand (31 December 2017: US$139,462 thousand) mainly in respect to the Group's oil field exploration and development activities.

Operating lease

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

The total of future minimum lease payments under non-cancellable operating lease was represented as follows:

In thousands of US dollars	**30 September 2018 (unaudited)**	31 December 2017 (audited)
No later than one year	**5,417**	7,019
Later than one year and no later than five years	**6,797**	14,057

Lease expenses of railway tank wagons for the nine months ended 30 September 2018 amounted to US$4,000 thousand (9M 2017: US$5,883 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 12 April 2018) require the subsurface user to:

- invest at least US$ 12,309 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 133 thousand;
- spend US$ 1,000 thousand for funding of development of Astana city;
- reimburse historical costs of US$ 383 thousand to the Government upon commencement of production stage;
- spend US$ 1,239 thousand to finance social infrastructure.

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

- invest at least US$ 18,996 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 191 thousand;

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

- invest at least US$ 20,223 thousand for exploration of the field during the exploration period;
- spend US$ 300 thousand to finance social infrastructure.
- spend US$ 175 thousand for educating Kazakh citizens;
- fund liquidation expenses equal to US$ 202 thousand;

Domestic oil sales

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

Notes to Interim condensed consolidated financial statements / continued

27. Fair values of financial instruments

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

	Carrying amount		Fair value	
In thousands of US dollars	**30 September 2018 (unaudited)**	**31 December 2017 (audited)**	**30 September 2018 (unaudited)**	**31 December 2017 (audited)**
Financial liabilities measured at amortised cost				
Derivative financial instruments	**(9,031)**	–	**(9,031)**	–
Interest bearing borrowings	**(1,106,641)**	(1,087,068)	**(1,046,238)**	(1,141,803)
Finance lease liabilities	**(805)**	(810)	**(1,123)**	(1,267)
Total	**(1,116,477)**	(1,087,878)	**(1,056,392)**	(1,143,070)

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 2018.

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 September 2018:

	30 September 2018 (unaudited)
Future price at the reporting date (US$)	**81.53-82.73**
Expected volatility (%)	**22.91**
Risk-free interest rate (%)	**2.13**
Maturity (months)	**0-3**

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The following table reflects the results of the changes in volatilities and oil price assumptions on the fair value of the derivative financial instruments:

	Increase in the assumption	**Decrease in the assumption**
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	(77)	114
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	76	(66)

There were no movements between levels of fair value of derivative instrument during the nine months ended 30 September 2018.

28. Events after the reporting period

No significant events have occurred after the reporting period.