2019 ANNUAL REPORT

Sustainable processing infrastructure

Empowering North-western Kazakhstan

nostrum
Oil & Gas

Nostrum Oil & Gas is an independent oil and gas exploration and production company based in North-western Kazakhstan.

For more details please visit www.nog.co.uk

Our purpose

To work as a team with people who constantly strive to develop their business and technical skills to ensure excellence across our value chain.

Our vision

We have a new vision to add value to the region through the utilisation of our state-of-the-art infrastructure.

Our story

Over the last 15 years, we have built a world-class infrastructure hub that has allowed for the exploration and development of the Chinarevskoye field, and can continue to support the production and sale of billions of cubic meters of gas in North-western Kazakhstan for years to come.

Our strategy

We, as management and employees, together with our local partners, are committed to working towards delivering sustainable long-term cash flows by commercialising our gas processing infrastructure, mitigating sub-surface reservoir risk and applying stringent cost control.

Our values

We are a trustworthy and reliable partner, externally (to our customers, suppliers and the Kazakh government), as well as internally (to our employees). Corporate and social responsibility is integral to all that we do and where we are all committed to the safety of all our employees.

"After a challenging 2019, the Company will now embark on a strategy to commercialise its world-class infrastructure. We believe this infrastructure has significant value and the management team is working hard to realise its potential."

Kaat Van Hecke
Chief Executive Officer

Contents

World-class infrastructure with the potential to increase cash flow by fully utilising our spare capacity

Safety is at the core of our operations

In 2019, we formed the Health, Safety, Environment and Communities Committee which has oversight over health, safety and environmental matters. By operating safe facilities, we aim that every employee will go home healthy after a day's work. We want to ensure the safety of employees, contractors and the environment.

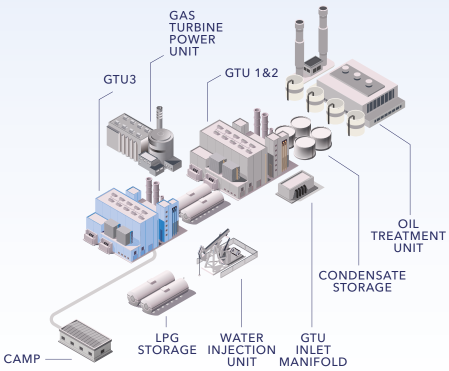
See more on p. 4

Hazard observation card

Infrastructure, including a 4.2 bcm gas processing facility

Our processing infrastructure has more than doubled in capacity. We are utilising under 20% of this and will now focus on third parties to fill the spare capacity as we no longer see the Chinarevskoye field being able to do this.

See more on p. 6

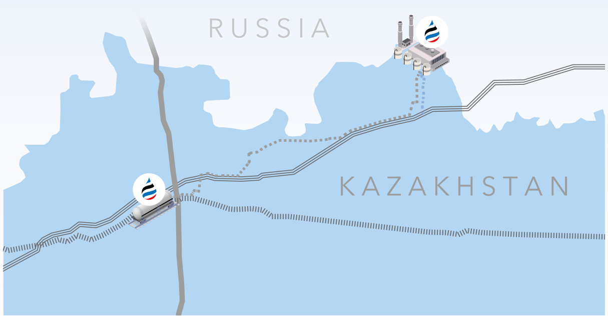


Nostrum has invested over US$1bn into its infrastructure in North-western Kazakhstan. The current production levels utilise under 20% of its capacity. Our focus is to try to fill the spare capacity with third-party gas. Unlocking this potential is critical to our ability to grow stakeholder value.

Well-established transport links to export markets

Our infrastructure is linked to both major oil export pipelines and gas export pipelines, as well as a good rail network. This allows us to sell our products in the export markets and achieve export prices.

See more on p.8



Cost optimisation

With over US$1bn of debt and declining production levels, Nostrum has been focused on reducing its cost base. This is a critical part of the new vision to maintain liquidity.

See more on p.10

G&A
(US$m)

2019	19.4
2018	20.3
2017	31.0

US$19.4m

Safety is at the core of our operations

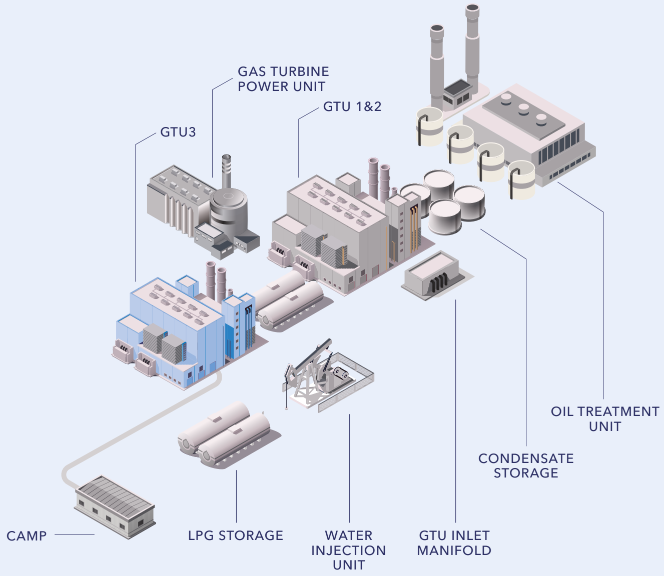
- Safety is a core value of our operations; we believe that all accidents are preventable and everyone at the Nostrum Group has a right to work in a safe environment. 'Golden Rules' rolled out across the Group to ensure awareness of company guidelines.
- All employees are accountable and responsible to ensure safe working conditions. We strive to ensure all employees work in a healthy and safe environment by operating prudent logistics and facilities.

QHSE pillars which define our approach to sustainable operations

Infrastructure, including a 4.2 bcm gas processing facility

- Extensive infrastructure allows Nostrum to process raw gas deposits in North-western Kazakhstan, where there is a shortage of processing capacity.
- Fully commissioned gas treatment facility with a combined nameplate processing capacity of 4.2 bcm per year.

Processing infrastructure



Well-established transport links to export markets

- Access to multiple transportation routes.
- Full control of liquid transportation logistics with 120km liquids pipeline and automated rail loading terminal owned by Nostrum.


Area shown
RUSSIA
KAZAKHSTAN
Chinarevskoye field
Rozhkovskoye
Sinopec
MOLGROUP
KazMunayGas
Nostrum gas export pipeline
Gas export pipeline
Orenburg-Novopskov
40KM
60KM
Karachaganak
Shell
Eni
Lukoil
Chevron
KazMunayGas
Aksai
LPG exports via rail
KAZAKHSTAN

Cost optimisation

- With over US$1bn of debt and declining production levels, Nostrum continues to focus on reducing its cost base and to try to preserve capital.
- More than 200 employees released during 2019.
- All non-core projects ceased.


G&A (US$m)
OPEX (US$m)
2019
19.4
44.4
2018
20.3
49.8
2017
31.0
56.3

Overcoming challenges

> I am proud of our people and the culture at Nostrum. That culture must be harnessed to focus on delivery against our targets, whilst ensuring Nostrum is an attractive place to work with an inclusive environment that celebrates diversity.

Q: What have been the main challenges for Nostrum during 2019?

A: We have faced several challenges in 2019 which have not allowed us to fully accomplish some of our priority goals for 2019.

- Despite finding hydrocarbons in more zones than expected, the appraisal wells in the North of the Chinarevskoye licence did not flow at commercial rates.
- Our own studies and the results of the Schlumberger and PML Lucas reports concluded that well productivity is a major concern, particularly in those reservoirs currently classified as Probable. We therefore have taken the decision to reclassify most of these reserves to contingent resources.
- We had a higher than anticipated decline in production from our existing producing wells, which meant we had to revise production guidance down during the year.

Q: How has the Board sought to address these challenges?

A: On the back of our disappointing operational performance and the various associated analytical studies, the Board has taken the decision to halt all drilling this year whilst we look for ways to mitigate the identified reservoir risks. We cannot afford to spend on drilling unless we are confident that we are able to drill commercially viable wells.

Our primary focus is now on securing third-party volumes to fill the spare capacity in our world-class gas treatment facility. We already have one third-party, Ural Oil & Gas LLP, signed up to supply raw gas. At the time of writing, we are in discussions with potential other third parties who are interested in utilising our infrastructure. Should these discussions prove successful, the anticipated gas processing contracts would ensure our gas treatment facility can work at capacity and provide long-term stable cash flows for Nostrum.

We appointed Kaat Van Hecke as interim CEO as soon as our previous CEO decided to step down. She has intimate knowledge of the Company, a strong track record of delivering projects in these geographies and understands the challenges we are facing, so is well placed to help the Company through this period of transformation.

We have reduced our cost base to reflect the revised scope of our operations and will continue to stringently monitor costs.

Q: How has the Board responded to shareholders and bondholders in 2019?

A: We recognise how challenging it has been for our shareholders and bondholders as the company has missed guidance, written down significant amount of reserves and had to stop drilling. This has clearly led to a lot of frustration from all our stakeholders and has also led to a significant shift in our shareholder register. The Board and I are acutely aware of the frustrations of our stakeholders and are doing all we can to try to improve performance. We hope we can start to make some progress during 2020 that will demonstrate to our stakeholders the value of our existing assets and how these can be monetised in the future.

Q: Where do you see the biggest risks to Nostrum in 2020?

A: Executing a third-party agreement on additional volumes for our gas treatment facility with enough time to also present the value proposition to our stakeholders well in advance of the bond repayment in 2022.

- Given the disappointing reservoir performance of the last few years, worse than anticipated future behaviour cannot be ruled out.

Focus for 2020

Priorities

- Ensure the safety of employees, contractors, the environment and our communities;
- Advance discussions with third parties interested in supplying raw gas to completely fill our spare capacity;
- Reduce cost base in line with new strategy to focus on processing third-party volumes; and
- Continue studies to identify viable technologies to mitigate sub-surface risks.

- Following recent events in the oil and gas sector where we have seen significant falls in the oil price – this has a material impact on the liquidity of the company as we are unhedged. As a result, we are considering further cost reductions across all areas of the business. In addition, we announced on March 31, 2020 that we will now seek to engage with our bondholders regarding a possible restructuring of the Company's outstanding bonds. We are in the process of selecting a financial advisor to commence negotiations with the bondholders. Whilst we believe that consensual agreement will be reached with our bondholders and shareholders, the outcome of the discussions is uncertain.
- In Q1 2020, we have also seen the outbreak of COVID-19, we will ensure the company monitors the impact of the virus on both its operations and the wellbeing of all its employees. At this stage, we can't quantify the impact this will have but it could be substantial. Currently our operations are continuing uninterrupted and to our expected high and safe standards.

Q: How are you positioning your business for a sustainable future?

- ESG (Environmental, Social and Governance) performance has and will always be central to how Nostrum operates as a business.
- This includes maintaining high standards of QHSE (Quality, Health, Safety and the Environment), with the health and safety of our employees being paramount.
- To demonstrate that we take our responsibility with regards to the environment and climate change seriously, we completed the CDP (formerly the Carbon Disclosure Project) initiative in 2019 and plan to continue with this in the coming years so we are fully accountable and comparable.
- We established a new Board committee to focus entirely on Health, Safety, Environment and Communities, and attention to climate change issues is among the responsibilities of this committee.
- The Audit Committee and the Board have recognised that climate change should be included among the risks and uncertainties faced by Nostrum, and we will continue to seek to quantify climate change-related risks.

Q: What is the company strategy to create shareholder value in the medium to long term?

A: Our fundamental mission is to maximise the value of our assets, particularly that of the infrastructure we have built. We need to seek additional third-party volumes, on top of Ural potential volumes, that can allow us to monetise the full capacity we have available in our state-of-the-art gas treatment facility. The infrastructure we have built will last for many years and the quicker we can fill it, the higher the value will be for Nostrum's stakeholders. We also need to overcome the reservoir productivity issues that we have faced over recent years so that we can recover the significant volumes of discovered hydrocarbons within the licenses we own. We recognise that any value we create needs to be done in a sustainable manner, and we need to be considerate of any social or environmental impact our business has. We continue to invest in social development, as well as education and training. We will continue to improve our reporting in this area and ensure our future growth is carried out in a responsible manner.

I am proud of our people and the culture at Nostrum. That culture must be harnessed to focus on operational excellence in 2020 and on delivery against our targets, whilst ensuring Nostrum is an attractive place to work with an inclusive environment that celebrates diversity. We will continue to focus on diversity, particularly gender diversity, across all levels throughout the Group. We are setting up a mechanism for regular reporting by our human resources team to the Board on diversity. We are grateful for the quality and commitment of our employees.

I look forward to sharing our story with you over the coming months and thank you for your support.

Atul Gupta

Atul Gupta
Executive Chairman

Value potential

Our story

Over the last 15 years, we have built a world-class infrastructure hub that has allowed for the exploration and development of the Chinarevskoye field and can continue to support production and sale of billions of cubic meters of gas in North-western Kazakhstan for years to come.

Our strategy

We, as management and employees, together with our local partners, are committed to working towards delivering sustainable long-term cash-flows by commercialising our gas processing infrastructure, mitigating sub-surface reservoir risk and applying stringent cost control.

Business model inputs

World-class infrastructure

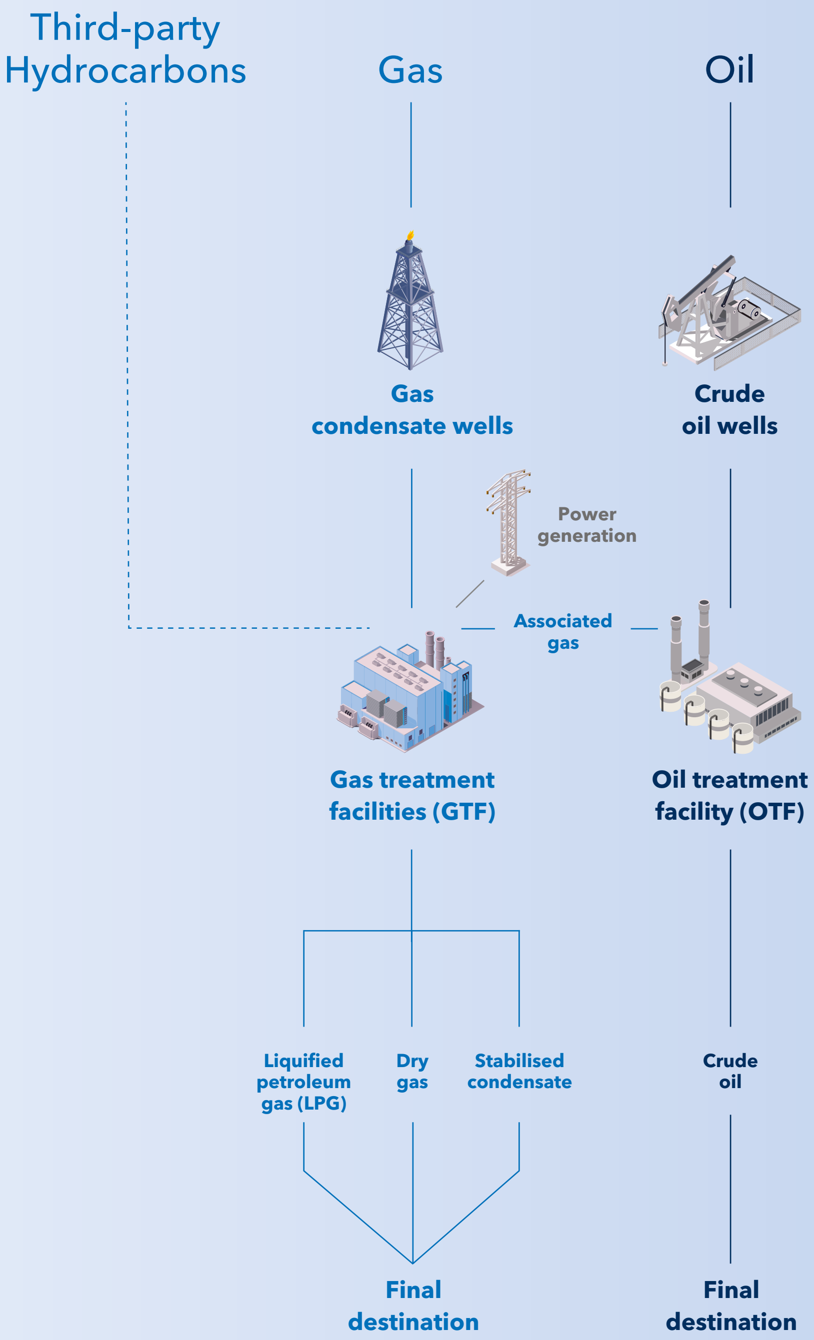
Low operating costs

Attractive fiscal terms

Experienced management team

Responsible operations

Value chain



Stakeholder value

Workforce

We are one of the leading employers in North-western Kazakhstan, delivering sustainable benefits to the local community.

Investors

2019 was an extremely challenging time for investors – the Company is working hard with a new vision to improve this.

Local Communities

We are a proud community partner and strive to foster a culture of openness and engagement, offering social and financial support to promote the well-being of local residents.

Suppliers, Contractors & Customers

Established safety audits to ensure trusted partnerships. Constant communication with our key customers.

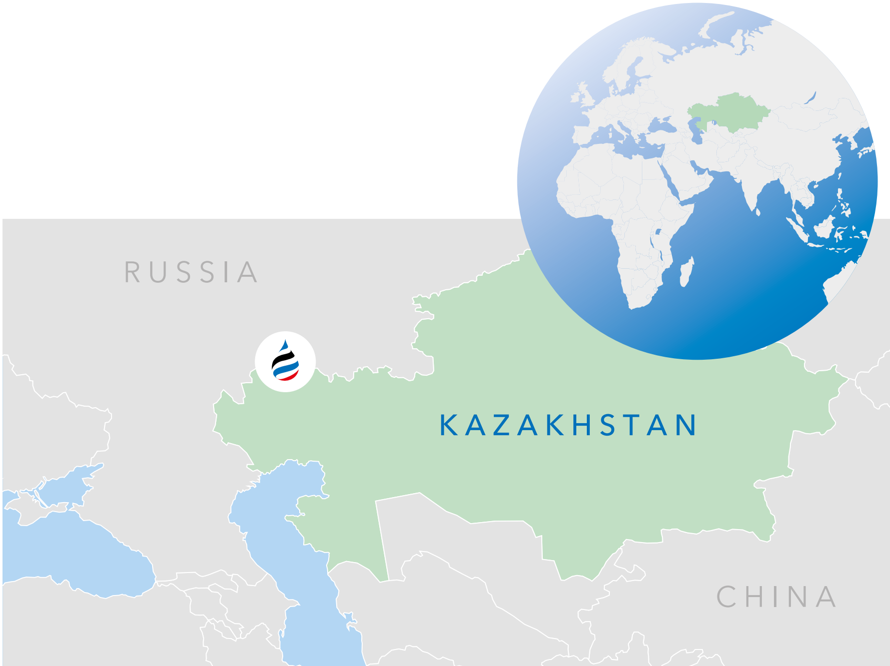
Governments & Regulators

We paid US$42,883,995 of tax in 2019 to governments. Please see our website for more information at www.nog.co.uk.

Nostrum's markets

Solid export potential

Since its independence in 1991, Kazakhstan has established itself as one of the world's most prolific hydrocarbon centres.



The oil & gas market in Kazakhstan

The foundation of Kazakhstan's oil & gas industry consists of three supergiant fields situated in the north-west of the country (Tengiz, Karachaganak and Kashagan). Together, these fields hold the majority of the country's reserves and production, and have allowed Kazakhstan to attract more foreign direct investment than any other country in the FSU over the past three decades, including Russia. Together, the three fields produced over 60% of the country's output during 2019.

As the world's largest landlocked country, Kazakhstan depends on an extended network of pipelines and railways to deliver its products to export markets. Pipeline exports are primarily delivered via Russia (Atyrau-Samara and the Caspian Pipeline Consortium pipelines); via Azerbaijan and Turkey (the Baku-Tbilisi-Ceyhan pipeline); and one via China (Atasu-Alashankou). Rail exports utilise Kazakhstan's extensive rail network, reaching markets throughout the CIS and beyond.

Production from the three supergiant fields was near or at record levels during 2019. Kashagan resumed full production during 2017 and underwent a successful maintenance program during 2019. Expansion projects at the Tengiz and Karachaganak fields, which have been producing for over two decades, are currently being developed to increase liquid recovery rates as the fields mature. For Karachaganak, in particular, which is located approximately 70km from the Chinarevskoye field, this will require increased gas handling capacity.

What it means for us

Nostrum's assets are located in the Pre-Caspian Basin close to the Russian border and in close proximity to some of the most significant hydrocarbon resources in the Former Soviet Union. This advantageous position means that the Company has access to multiple export markets for its products, as well as labour and specialist equipment providers. In addition, Nostrum has a substantial amount of spare processing capacity in a region where there is a significant amount of stranded gas and a growing need for gas processing.

Competitive analysis and market share – Benchmarking our business against our peers

Strengths and opportunities	Weaknesses and threats
• Multiple export routes	• Nostrum is subject to fluctuations in the market prices for its products, although we have a variety of sales products.
• 100% ownership of Chinarevskoye licence, infrastructure on the field, pipelines and rail loading terminal used for transportation to export routes.	• Increased geological risks due to deep, tight, highly fractured reservoirs.
• Extensive infrastructure allows Nostrum to process raw gas deposits in North-western Kazakhstan, where there is a shortage of processing capacity.	• Seasonal temperature fluctuations in a harsh operating environment.
• Onshore field with low operating costs.	• Lack of significant population reduces the size of the skilled workforce locally.

Key macroeconomic and microeconomic trends

Oil prices

Oil prices were range-bound during 2019, with a low of US$55/bbl in January and a high of US$75/bbl in April. Coordinated efforts to reduce production by OPEC+ were mitigated by increased trade tensions between the US and China and increasing political uncertainty in the Middle East. Although supply and demand fundamentals appear to be broadly balanced, missile and drone attacks, which caused more than half of Saudi Arabia's production to be temporarily suspended for around a month during September, have increased the risk premium in the crude market. Consensus fundamental views of long-term prices remain around US$60-70/bbl although volatility is bound to persist.

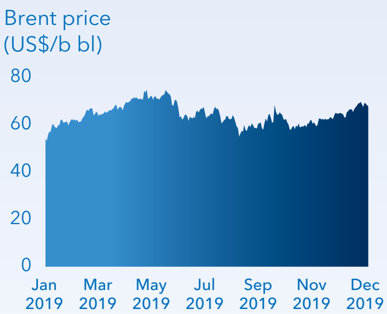
Kazakh economy

During 2019, Kazakhstan's economy grew by 3.8% (2018: 3.7%). The KZT/USD average exchange rate weakened to 383KZT to USD (2018: 345KZT to USD), although inflationary pressures remained subdued with CPI at 5.2% (2018: 6.1%).

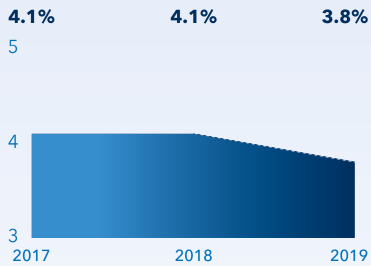
Competitive environment

Kazakhstan and Azerbaijan are the two main oil producing countries in the Caspian region, producing 1.9 million bopd and 0.8 million bopd in 2018 respectively. It is expected these countries will continue to lead the region in oil production. Turkmenistan and Uzbekistan are the predominant gas producers in the region, producing 6.0 billion cubic feet per day and 5.5 billion cubic feet per day in 2018 respectively. Russia plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea, although this part of Russia is not a substantial source of crude oil.

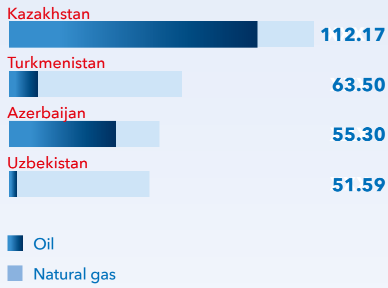
Oil prices



Real GDP growth Y-on-Y



Total 2018 production (mmtoe)



What it means for us

With no debt maturities until 2022, approximately US$90million of cash on our balance sheet, the Company continues to focus on reducing its cost base to ensure it can maintain adequate liquidity while its strategic options are being assessed.

What it means for us

While the Kazakh economy has experienced considerable development and a degree of diversification since independence, the oil & gas industry still dominates the economy. Given its prominence, the government has proven to be supportive of operators over time in its attempts to foster the development of the country's resources and attract foreign investment.

What it means for us

Vast distances between Central Asian markets, long-established trading relationships and in-place infrastructure promote co-dependency between FSU exporters. Kazakhstan naturally benefits from its geo-strategic position between Russia and China. Nostrum is situated at the heart of the export corridor that exists between Russia and multiple markets to the west of the Caspian.

A strategy for the future

Nostrum is focused on realising the significant value of its gas processing infrastructure

Our purpose

To work as a team with people who constantly strive to develop their business and technical skills, to ensure excellence across our value chain.

Our vision

We have a new vision to add value to the region through the utilisation of our state-of-the-art infrastructure.

Strategic pillars	2020 priorities
Commercialise world-class gas processing infrastructure	• Advance ongoing discussions with third parties interested in supplying raw gas to completely fill the Group's spare capacity
Safety at the core of operations	• Ensure the safety of employees, contractors and the environment • Continue roll-out of 'Golden Rules' • Implement contractor management framework
Reduce costs and preserve capital	• Reduce cost base in line with new strategy to focus on processing third-party volumes • Reductions to be realised in all cost categories against 2019 levels (operating, G&A, CAPEX)
Reservoir management & well productivity	• Utilise workover rigs and other technologies to manage existing production decline in a cost-effective way • Continue studies to identify viable technologies to mitigate sub-surface risks for future drilling planning

KPIs	Risks	Forecasts, objectives and prospects for 2020-2022
See KPIs section on p. 22	See Risks section on p. 44	
• Conclude commercial processing contracts such as Ural Oil & Gas LLP in 2018	• Ongoing negotiations with various counterparties are complex and commercially sensitive, and there can be no certainty that agreement will be reached	• Execute binding commercial contracts to fill the Group's spare gas processing capacity with third-party volumes
• Lost time injury frequency • Total recordable injury frequency	• Legal framework for environmental protection and operational safety still being developed in Kazakhstan • Impact of equipment failure	• Improve contractor safety management • Improve Supervisor HSE competence
• G&A below US$20 million • Operating costs below US$50 million	• Sustained higher prices can lead to cost inflation in Kazakhstan • Restructuring charges may offset effect of some cost reductions • Further spend on reservoir assessment might be needed • The halting of drilling will have a negative short-term impact on working capital	• Manage cash resources to ensure that the Company remains a going concern
• Finalised construction of potential second Low Pressure System to prolong life of ageing gas-condensate wells • Maximised uptime of existing wells and production facilities	• At low production levels, unexpected sub-surface events could severely impact the Group's operating cash flow forecasts	• Reduce decline rates in existing producing wells • Identify technologies to increase well productivity and reduce sub-surface risk for future drilling programmes at Chinarevskoye

Reshaping operations and restructuring the cost base

"Despite the operational challenges, G&A has continued to fall, and operational expenses are reducing. We believe there are opportunities where we can fill the spare capacity of the gas treatment facility in the future."

Q: 2019 was a tough year in terms of production and missed guidance. What were the main issues and how can this be turned around?

A: In 2019, we drilled three wells in the Northern area of our field. This decision was based on the success we had from Well 40, which was in a similar location. Unfortunately, none of the wells drilled delivered commercial levels of production. This meant we were unable to add any new production during the full year 2019.

In 2019, we also encountered steeper than expected decline in our core producing reservoir, Biski North East. This is largely due to the pressure declining more quickly than anticipated and the resulting impact on the condensate to gas ratio. This results in lower gas, LPG and condensate production from our existing wells.

In 2020, we will continue to use one workover rig at field site. We will use the rig to unlock productivity from existing closed-in wells or enhance recovery from existing producers. Our target for workovers is to try to reduce the rate of production decline and better understand what techniques will work in the future to realise full potential at the Chinarevskoye field.

Additionally, in 2019, we approved the extension of our low-pressure-system (LPS), which will allow us to prolong the life of those wells where the pressure has declined below the inlet pressure required to feed the gas treatment facility. From the main gas reservoir, we currently have the first group of wells linked to the low pressure system with good results. We will look to increase the number of wells once the LPS second phase is complete by year-end.

Q: How strong is Nostrum's financial position?

A: Despite the operational challenges, G&A has continued to fall, and operational expenses are reducing with the halted drilling and completion of GTU3.

In 2020, we will look to reshape the operational make-up of the business as we restructure the cost base towards a midstream infrastructure Company versus a pure E&P company. We expect significant operational cost savings as a result of the ceasing of all drilling during 2020.

We are acutely aware that the recent fall in oil prices will mean we need to find further cost savings. We are working hard to cut costs across the Group. Given we have halted drilling, we don't expect capex cuts to materially impact production during 2020.

Q: What is the strategy to fill the Gas treatment facility now that the third train is complete, and you have approximately 80% of your capacity free?

A: This is the single most important focus for the entire Board and Company. We believe there are opportunities where we can fill the spare capacity of the gas treatment facility in the future. The infrastructure is located in a region rich in raw gas hydrocarbons that need to be processed in order to maximise their value. We are very proud of our facilities, and now need to realise their value by ensuring we fill them as soon as possible. We have already entered into agreements with Ural Oil and Gas. We are actively working to try and agree more third party processing agreements that can deliver further value from our infrastructure. I hope that during 2020 we can provide more concrete information in relation to these opportunities.

Whilst we see the third party volumes as being the core focus of our strategy today, we also plan to continue to supply equity barrels from Chinarevskoye.

Q: What is your production and sales guidance for 2020, and how much risk do you see to missing the guidance again this year?

A: After reviewing the results of various third party studies conducted last year, including that of Schlumberger, and all the in-house work to analyse drilling and production performance, we have concluded that whilst significant discovered resources exist within our reservoirs, well productivity in certain areas remains challenging. The Company has therefore decided to halt all drilling in 2020 whilst it carries out further analysis to identify viable technologies to mitigate sub-surface risk. The directors and I have also concluded that it would be prudent to transfer higher risk hydrocarbons, identified above, from the Reserve category to the Contingent Resources category. Nostrum will continue to operate a workover rig and focus on investigating which technologies could be appropriate to increase well productivity in the future.

Our forecast average sales volume for 2020 is 19,000 boepd corresponding to average production of 20,000 boepd. The Company is reviewing its capex programme for 2020 following the recent oil price fall. We are focused on ensuring the Group remains a going concern through 2020.

We hope that there are limited risks of missing guidance, as we aim to have lower decline rates in 2020 compared with 2019 and less downtime.

Q: How did Nostrum deliver against its QHSE commitments in 2019?

A: In 2019, we had a Lost Time Incident Rate of 1.39.

We have set up, at Board level, a new Health, Safety, Environment and Communities Committee under my chair that is working closely with management to improve overall health, safety, environmental and social performance, and better address important issues such as climate change and gender diversity.

In 2019, we sharpened the "Golden Rules" to clearly communicate the safety requirements to each person working for us. When serious incidents happen, an improved transparent investigation is conducted in-house, with root cause analysis, to learn from the events and take actions to prevent future occurrence.

We are constantly reviewing our contractor management systems. As such, we have improved the supplier selection process in 2019.

We also reported our environmental performance under the CDP framework last year for the first time. We are committed to reporting in 2020 and to improving the quality of our submissions going forward.

Section 172(1) statement

The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with s172 of the Companies Act and have regard to the interests of the Company's employees and other stakeholders, including the impact of its activities on the community and the environment when making decisions at Board-level. The directors, acting fairly between members, and acting in good faith, consider what is most likely to promote the success of the Company for its members in the long-term.

Read more about our stakeholder engagement on pages 61 and 70.

Read more about our governance on pages 66-68.

Read more about delivering our responsible business practices on pages 34-43.

Kaat Van Hecke
Chief Executive Officer

"In 2020, we will look to reshape the operational make-up of the business as we restructure the cost base towards a midstream infrastructure company."

Increasingly challenging position

Financial KPIs

Whilst Nostrum has successfully built infrastructure and produced over 100m boe from the Chinarevskoye field, it has incurred substantial debts of over US$1bn and is now facing declining production from its producing field. This increases the pressure on its financial position, and 2020 will be a key year in addressing those challenges. The Company needs to execute its new strategy to be able to go forward.

Revenue (US$m)

2019	322
2018	390
2017	406
2016	348
2015	449

US$322m

-17.4%

EBITDA (see page 56) **(US$m)**

2019	200
2018	231
2017	232
2016	194
2015	215

US$200m

-13.5%

Net loss (US$m)

2019	(990)
2018	(121)
2017	(24)
2016	(83)
2015	(94)

US$(990)m

-718%

Operating cash flow (US$m)

2019	197
2018	214
2017	183
2016	202
2015	153

US$197m

-16.9%

Investing cash flow (US$m)

2019	120
2018	172
2017	192
2016	200
2015	245

US$120m

-30.1%

Operating costs (US$m)

2019	44
2018	50
2017	57
2016	53
2015	63

US$44.4m

-11.2%

2019 milestones

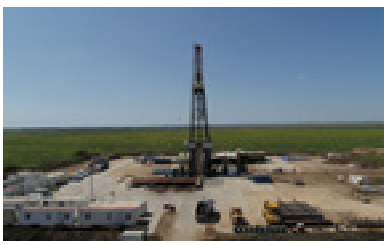
December – Mechanical completion of GTU3

May – First gas through GTU3 and commencement of hot commissioning

June – Commencement of review of strategic and operational options

Agreement to acquire 100% of Positive Invest LLP

July – Completed drilling of wells 41 & 42



Non-financial KPIs

Performing responsibly and safely is integral to our strategy and to the sustainability of our business. We believe that long-term value comes from seeing success as a part of a bigger picture, encompassing people and the environment. We have set ourselves specific non-financial KPIs to track our progress, as we believe it to be the best way to monitor our achievements in relation to environmental, social and governance matters.

Sales volumes (boepd)

2019	26,671
2018	29,516
2017	37,844
2016	39,043
2015	38,576

26,671 boepd

-10.0%

1P reserves (mmboe)

2019	54.3
2018	98
2017	124
2016	147
2015	147

54.3mmboe

-44.6%

2P reserves (mmboe)

2019	138
2018	410
2017	488
2016	466
2015	470

138mmboe

-66.3%

Total Recordable Injury Frequency (hours)[1]

2019	2.96
2018	1.39
2017	3.92
2016	2.59
2015	4.00

2.96 hours

+113.0%

1. Per 1 million man hours worked

Lost Time Injury Frequency (hours)[1]

2019	1.39
2018	1.05
2017	2.48
2016	1.99
2015	2.75

1.39 hours

+32.0%

1. Per 1 million man hours worked

Total GHG emissions ($ktCO_2e$)

2019	223
2018	255
2017	255
2016	210
2015	228

223 $ktCO_2e$

-12.0%

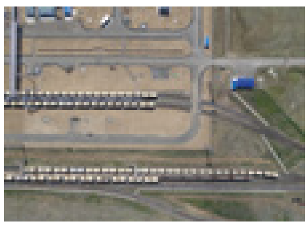
Aug
- Licence extension at Rostoshinskoye

Sept
- Licence extension at Chinareveskoye

October
- GTU3 Technical commissioning complete
- No commercial hydrocarbons confirmed at wells 41 & 42, drilling of well 361 continues
- 2019 Production guidance revised down to 28,000 boepd with sales volumes at 27,000
- PM Lucas and Schlumberger reports received by the Company

November
- No commercial flow indicated at well 361

December
- CDP completed, and 'C' grade awarded
- Kai-Uwe Kessel steps down as CEO and Kaat Van Hecke becomes interim CEO

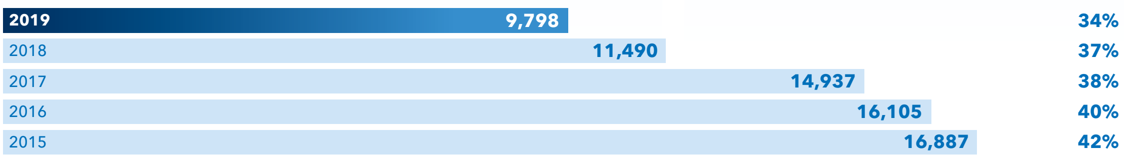


January 2020
- Stop drilling and focus on third party volumes

Our products

	Crude oil	Stabilised condensate
Quality	• Density – 0.815g/cm³. • API – 42-43 degrees. • Average Sulphur – 0.4%.	• Density – 0.750-0.790 g/cm³. • API – 56 degrees API. • Average sulphur – <0.2%.
Sales	• 85% exported in accordance with the PSA. • 15% sold domestically. • During 2019, all exported crude oil volumes were sold through the KTO pipeline.	• 100% exported. • Destinations are the Russian ports.
Pricing	• Urals-based pricing for pipeline exports. • Domestic sales at c.50% discount.	• Brent-based pricing.
Transportation	• Crude exports are delivered to the KTO pipeline through an extension to our own 120km pipeline from the field site. • From here it is delivered to Russian ports.	• Sent through our own 120km pipeline from the field site to our own rail loading terminal in Uralsk. • From here it is loaded onto railcars and sent to the Russian ports.

Crude and stabilised condensate production (boepd) and product split (%)



Oil treatment facility

Nostrum finalised the construction of an oil treatment facility in 2006 ("OTF"). Currently, the OTF has a maximum throughput capacity of 400,000 tonnes per annum.

Raw gas processing Infrastructure

The gas treatment facility ("GTF") uses a gas utilisation concept and was designed to treat raw gas from gas condensate reservoirs (and the associated gas coming from the OTF) into three separate products – stabilised condensate, LPG and dry gas. The GTF associated infrastructure includes a power generation station, an LPG storage tank farm, an LPG loading facility at the rail terminal, LPG railcars and a 17km dry gas pipeline.

GTU1,2 & 3

The gas treatment facility includes three gas treatment units, with the capacity to treat 4.2 billion cubic metres of raw gas per annum. The final train of this facility was commissioned during 2019.

Power generation plant

The gas-fired power generation plant is linked to the gas treatment facility with an output of 26 megawatts. The generation capacity from the plant is sufficient to meet the existing and anticipated energy needs of the field site and associated operations.

Gas pipeline

Nostrum has its own 17km gas pipeline which was completed in 2011 and is linked to the Orenburg Novopskov gas pipeline. Our own pipeline has a capacity sufficient to sell all of our volumes assuming our gas plants are at full capacity.

Liquids pipeline

Nostrum has its own 120km liquids pipeline that was completed in 2008. The pipeline runs from the field site to the Company's rail loading terminal in Uralsk. The pipeline has a maximum annual throughput capacity of over three million tonnes.

LPG	Dry gas
• Field grade quality. • No olefins and low sulphur content.	
• <85% exported. • Destinations include the Russian Black Sea Ports.	• 100% sold to KazTrans Gas.
• International Mediterranean LPG price Sonatrach for Black Sea deliveries. • Brest quotation for Eastern European deliveries.	• Price agreed annually.
• Loaded onto LPG trucks from the field site to our rail loading terminal in Uralsk. • From here it is loaded onto railcars and sold to third parties.	• Sent through our own 17km pipeline from the field site to the connection point with the Intergas Central Asia gas pipeline. • Sold at the connection point.

LPG production (boepd) and product split (%)

	boepd	%
2019	3,569	13%
2018	3,865	12%
2017	4,615	12%
2016	4,545	11%
2015	4,323	11%

Dry gas production (boepd) and product split (%)

	boepd	%
2019	15,173	53%
2018	15,900	51%
2017	19,647	50%
2016	19,812	49%
2015	19,190	47%

Rail loading terminal

Nostrum commissioned its own automated rail loading terminal in the city of Uralsk in 2009. The rail loading terminal currently receives all domestic crude oil and export condensate produced by Zhaikmunai, and has a capacity of approximately four million tonnes of crude oil and condensate per annum.

Storage facilities

Nostrum has over 30,000 cubic metres of storage capacity for liquids at its field site and rail loading terminal.

KTO pipeline connection

During 2017, Nostrum completed the construction of a secondary crude oil pipeline to enable export sales via the Atyrau-Samara international export pipeline operated by KazTransOil. The KTO pipeline reduced Nostrum's crude oil transportation costs by more than 50% and has enhanced the Company's ability to manage crude oil netbacks through the commodity cycle.

Low Pressure System

During 2019, Nostrum continued commissioning its Low Pressure System, which aims to reduce the decline rates of ageing gas condensate reservoirs through increasing the inlet pressure of the main manifold at the GTF from 10 to 42 bar.

Reserves

The Chinarevskoye field is the only producing field Nostrum owns. It has a grandfathered PSA from 1997 and the licence is valid until 2032. Initial hydrocarbon discoveries at the Chinarevskoye field were made during the Soviet era. There have been 103 wells and side-tracks drilled under the PSA between 2004-2019. The licence is owned 100% by Zhaikmunai, the Kazakh operating company of Nostrum Oil & Gas PLC. The Chinarevskoye field is a multi-layer structure with 17 reservoirs and 53 compartments spread over three areas. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian, Frasnian, Mullinski, Ardatovski, and Biyski-Afoninski reservoirs.

In 1 January 2020 Ryder Scott Reserve Report, for the Chinarevskoye field, a total of 45 interventions, including new wells are planned between 2020-2026, which together with 46 existing producers, recover the estimated 2P reserves in the 31st December 2019 assessment. This compares to 72 interventions under the previous year's report, approximately one-third less.

The Chinarevskoye field interventions comprise 30 new wells, 2 sidetracks, 7 workovers and 6 non-rig re-completions for a total drilling capex estimate of $324 mm, which compares with the previous 2019 estimate of $640 mm.

Current reserves estimates are shown in Table 1. The Total 1P (Proven) case for Chinarevskoye is 54.3 mmboe comprising 43.4 mmboe for Proved Developed Producing (PDP) – from 46 current wells, 8.1 mmboe for the Proved Undeveloped (PUD) category and 2.8 mmboe for Proved Developed Non-Producing (PDNP). Overall Proven volumes are down by c. 46 mmboe due to 10.8 mmboe of 2019 production plus a reduction in condensate yields in the Biyski-Afoninski reservoir, to reflect current observed and expected rates and a reduction in Tournasian wells and water-flood performance.

The Chinarevskoye 2P (Proven plus Probable) volume is 138 mmboe, with the majority of Probable Undeveloped Reserves associated with the development of the Biyski-Afoninski West, North-East and North-West reservoirs. The 2P volumes are reduced by 156 mmboe compared to last year's report. Offsetting some of the above reductions are inclusion of volumes for Frasnian North, Filippovski gas-condensate and the Biyski North-East low-pressure production system (LPS II).

The three fields which together make up the Trident project are now entirely classified as contingent resources. A total of 116 mmboe Probable Reserves for Rostoshinskoye and Darinskoye in the 31/12/2018 reserves report has been moved into the Contingent Resource category pending further appraisal.

The Ryder Scott Reserves Report as of 1 January 2020 looks purely at the economics of a possible field development to extract the maximum number of reserves at a US$65 long-term oil price.

All of the information provided does not take into account the repayment of the company's liabilities as they come due in 2022 and 2025. It also does not take into account any short-term impact on the liquidity position of Nostrum as a result of fluctuations in the oil price.

Nostrum's Gas treatment facilities

Table 1 – Chinarevskoye & NOG 100% run

			Proved		
Fluid	**Unit**	**Producing**	**Non-producing**	**Undeveloped**	**Total proved**
Oil/Condensate	barrels	12,044,488	626,846	3,080,209	15,751,543
Plant products	barrels	6,772,009	487,689	1,279,685	8,539,383
Gas (after shrink)	mmcf	130,905	8,932	19,970	159,807
Gas (after shrink)	boe	24,575,963	1,676,884	3,749,146	30,001,994
Total	boe	**43,392,460**	**2,791,419**	**8,109,040**	**54,292,920**
			Probable		
Fluid	**Unit**	**Producing**	**Non-producing**	**Undeveloped**	**Total probable**
Oil/Condensate	barrels	0	596,510	25,327,462	25,923,972
Plant products	barrels	0	555,504	11,788,401	12,343,905
Gas (after shrink)	mmcf	0	11,363	231,358	242,721
Gas (after shrink)	boe	0	2,133,277	43,434,901	45,568,179
Total	boe	**0**	**3,285,291**	**80,550,764**	**83,836,056**
			Proved+Probable		
Fluid	**Unit**	**Producing**	**Non-producing**	**Undeveloped**	**Total proved+probable**
Oil/Condensate	barrels	12,044,488	1,223,356	28,407,671	41,675,515
Plant products	barrels	6,772,009	1,043,193	13,068,086	20,883,288
Gas (after shrink)	mmcf	130,905	20,295	251,328	402,528
Gas (after shrink)	boe	24,575,963	3,810,161	47,184,048	75,570,172
Total	boe	**43,392,460**	**6,076,710**	**88,659,805**	**138,128,975**

Table 2 – Comparison of reserves per reservoir vs. previous year

		Ryder Scott 31/12/2018			Ryder Scott 31/12/2019			Change 2018 vs. 2019		
Reservoir	**Unit**	**Proven**	**Probable**	**Total**	**Proven**	**Probable**	**Total**	**Proven**	**Probable**	**Total**
Biyski/Afoninski NE	mmboe	63.9	43.8	107.7	**32.2**	**11.4**	**43.6**	-31.7	-32.4	-64.1
Biyski/Afoninski West	mmboe	0.0	80.6	80.6	**0.0**	**35.7**	**35.7**	0.0	-44.9	-44.9
Biyski/Afoninski NW	mmboe	0.0	18.0	18.0	**0.0**	**10.9**	**10.9**	0.0	-7.2	-7.2
Tournaisian NE	mmboe	20.9	13.6	34.5	**12.9**	**9.3**	**22.2**	-8.0	-4.3	-12.3
Tournaisian South	mmboe	1.9	0.0	1.9	**1.4**	**0.0**	**1.4**	-0.4	0.0	-0.4
Tournaisian West	mmboe	0.3	0.0	0.3	**0.2**	**0.0**	**0.2**	-0.1	0.0	-0.1
Mullinski South	mmboe	0.0	2.9	2.9	**0.0**	**2.8**	**2.8**	0.0	-0.1	-0.1
Mullinski North	mmboe	1.1	2.7	3.8	**0.0**	**0.0**	**0.0**	-1.0	-2.7	-3.8
Mullinski NE	mmboe	1.6	23.5	25.1	**0.7**	**4.0**	**4.7**	-1.0	-19.5	-20.5
Bashkirian NE & W	mmboe	2.3	3.7	6.0	**1.0**	**1.5**	**2.5**	-1.3	-2.2	-3.5
Ardatovski NE	mmboe	5.1	5.3	10.4	**4.0**	**5.2**	**9.2**	-1.0	-0.2	-1.2
Ardatovski S	mmboe	1.4	1.7	3.1	**0.0**	**0.0**	**0.0**	-1.4	-1.7	-3.1
Frasnian N	mmboe	0.0	0.0	0.0	**1.6**	**1.0**	**2.6**	1.6	1.0	2.6
Vorobyovski N	mmboe	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
Chernoyarski NE	mmboe	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
Fillippovski	mmboe	0.0	0.0	0.0	**0.3**	**2.0**	**2.3**	0.3	2.0	2.3
Bobrikovski S	mmboe	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
CHN Sub-total	mmboe	98.4	195.9	294.2	**54.3**	**83.8**	**138.1**	-44.1	-112.1	-156.1
Rostoshinskoye	mmboe	0.0	111.0	111.0	**0.0**	**0.0**	**0.0**	0.0	-111.0	-111.0
Darinskoye	mmboe	0.0	5.0	5.0	**0.0**	**0.0**	**0.0**	0.0	-5.0	-5.0
Total Nostrum	mmboe	98.4	311.9	410.2	**54.3**	**83.8**	**138.1**	-44.1	-228.1	-272.1

Nostrum's facilities

Chinarevskoye Field

The breakdown on a reservoir by reservoir basis and comparison to the previous year is given in Table 2. A summary of the well interventions programme is given in Table 3 on page 30.

Biyski-Afoninski North-East

There has been an overall 2P reduction of 64.1 mmboe since last year, spread fairly evenly between the Proven and Probable categories. It is planned to drill two new wells. In addition, five wells will undergo rig-less re-completions in the Afoninski during 2022, which is a reduction of one well over last year's programme. This is a much reduced programme compared with the previous year which had 7 new wells and sidetracks and 6 rigless recompletions, and reflects a more cautious approach considering recent production and the results of a Schlumberger study in 2019.

During 2019, Schlumberger carried out static and dynamic modelling studies for the Biyski-Afoninski North-East, and West Reservoirs, together with the Tournasian North-East Oil Reservoir.

The Schlumberger Biyski-Afoninski North East study comprised probabilistic dynamic modeling, with 13 geological realisations to assess further development potential. Production will be monitored in the coming year to confirm a base case scenario which can be used for the update and justification of future production wells. The study concluded that the potential of further infill drilling is limited, which has led to a reduction and deferral in planned wells for the current reserves evaluation.

The study also evaluated the expansion of the existing low-pressure gathering system, which showed positive benefits in extending well producing life together with gas re-injection, which was not recommended as it was unable to restore reservoir pressure above the dew point.

Biyski-Afoninski West & North-West

For the Probable Category in the West, there is a 44.9 mmboe reduction compared to the previous year. A reduced programme of 10 wells (from 16 previously) in the Probable category starts with a re-entry in 2021, with further wells following in 2022 and 2026.

The Schlumberger simulation study for the Biyski-Afoninski West concluded that there was a high degree of uncertainty in predicting the presence of fractures and good quality reservoir in order to locate wells. The reduced program recognises that successful and economic drilling and hydraulic fracturing techniques will need to be established to recover the reserves. Forecast well performance has been reduced by -25% in boe terms. This is based on a reduction in the in-place volumes and a lower Recovery Factor for condensate based on the 2018 natural fractures report from Midland Valley Exploration and the Schlumberger model data from the North-East area.

The Biyski-Afoninski North-West remains in Probable Undeveloped, but with a reduced programme of three development wells in 2024 and early 2025 and a reduction of 7.2 mmboe in 2P.

Tournasian North-East, West & South

The Tournaisian North-East has a Total 2P of 22.2 mmboe and is 12.3 mmboe lower than the previous year. In the Proven category, apart from 2019 production, the main reduction is in the Proven Undeveloped with a reduction of one well and replacement of two new wells by rig-less recompletions which are expected to recover lower volumes than a new well. The remaining four new wells will be drilled in 2022. In addition to production wells, two new water injection wells are planned, with the first in 2022 and the second in 2024. These waterflood plans are provisional on the results of a water injection tracer study due later in 2020, which will be used to help design the next phase of the waterflood.

Table 3 – Summary of 31/12/2019 well programme compared to the previous year

	Ryder Scott 31/12/2018				Drill Schedule effective 31/12/2019			
Reservoir	**Proved wells**	**Probable wells**	**Appraisal**	**Total**	**Proved wells**	**Probable wells**	**Appraisal**	**Total**
Biyski/Afoninski NE	6	7	–	13	**1**	**6**	**-**	**7**
Biyski/Afoninski NW	–	4	–	4	**-**	**3**	**-**	**3**
Biyski/Afoninski West	–	16	–	16		**10**		**10**
Tournaisian NE – oil	5	3	–	8	**4**	**2**	**-**	**6**
Tournaisian NE – WI	4	–	–	4	**-**	**2**	**-**	**2**
Tournaisian South	–	–	–	–	**-**	**-**	**-**	**-**
Tournaisian West	–	–	–	–	**-**	**-**	**-**	**-**
Mullinski South	–	1	–	1	**-**	**1**	**-**	**1**
Mullinski North	–	3	–	3	**-**	**-**	**-**	**-**
Mullinski NE	–	9	–	9	**-**	**5**	**-**	**5**
Bashkirian NE & W	2	5	–	7	**-**	**2**	**-**	**2**
Ardatovski NE	–	2	–	2	**-**	**2**	**-**	**2**
Ardatovski S	–	–	–	–	**-**	**-**	**-**	**-**
Frasnian N	–	–	2	2	**1**	**1**	**-**	**2**
Vorobyovski N	–	–	3	3	**-**	**-**	**-**	**-**
Chernoyarski NE	–	–	–	–	**-**	**-**	**-**	**-**
Fillippovski	–	–	–	–	**-**	**5**	**-**	**5**
Bobrikovski S	–	–	–	–	**-**	**-**	**-**	**-**
CHN Sub-total	17	50	5	72	**6**	**39**	**-**	**45**
Rostoshinskoye	–	24	1	25	**-**	**-**	**1**	**1**
Darinskoye	–	6	1	7	**-**	**1**	**-**	**1**
Grand Total	17	80	7	104	**6**	**35**	**6**	**47**

The Schlumberger Tournasian North-East study comprised probabilistic dynamic modeling with six geological realisations to assess further development potential, including expansion of the waterflood. As in Biyski-Afoninski, production will be monitored in the coming year to confirm a base case scenario which can be used for update of future production and injection wells.

There remain no plans for further drilling in the Tournasian South and Tournasian West reservoirs.

Mullinski North-East

Probable reserves have been reduced by 20.5 mmboe due to a reduced programme of five wells (from nine in the previous year) which is planned between 2023 and 2025. In addition, forecast well performance has been reduced based on analysis of the production histories of existing wells.

Mullinski South

This remains unchanged in the programme, with one well to be drilled in 2023.

Mullinski North

A small volume of Proven Reserves is attributed to the existing well Ch-724_1. Due to the marginal economics of drilling new wells, all three previously planned Probable wells have been removed from the programme.

Bashkirian North-East & West

There are two new wells proposed in the North-East to be drilled in 2023 and 2024. These are offset wells and have been allocated to Probable (from Proven Undeveloped) because of observed variable production performance in existing wells. Five former Probable wells in the East have been removed from the programme.

Ardatovski North-East & South

Two Probable wells remain in the plan for the Ardatovski North-East. As in the previous year, these are a sidetrack together with a new well, with both to be drilled in 2023. No further development is planned for the Ardatovski South reservoir.

Frasnian North

Reserves from this horizon have been booked for the first time based on the production licence ("mining allotment") being extended to the northern area in 2019. Proven reserves are attributed to the existing Ch-40_1 well, while two new wells are planned as step-outs in 2023 and 2024 respectively.

Filippovski

Five low cost workover recompletions have been identified for the Filippovski, and these are planned to be carried out in 2020 and 2021.

2019 Drilling

Trident project

The three fields which make up the Trident project are now entirely classified as contingent resources, with previous Probable Reserves for Rostoshinskoye and Darinskoye in the 31/12/2018 reserves report moved into the Contingent Resource category.

Rostoshinskoye Field

The Appraisal period has been prolonged for three years and includes a commitment to drill one new well.

No operational activities are planned for the Rostoshinskoye field in 2020.

Darinskoye Field

No operational activities were carried out in 2019 and work continued on feasibility and detailed planning for the Early Oil Development concept comprising well re-entry, new wells and facilities.

Yuzhno-Gremyachinskoye Field

This remains in the Contingent Resources category with no changes during 2019.

In 2019 the Company drilled 3 appraisal wells, 41, 42 into the Frasnian and 361 in to the Vorobyovski. There was no commercial inflow of hydrocarbons from any of the wells. In addition to the appraisal wells, two side-tracks were drilled. One Bashkirian side-track 52_2 was drilled but flow tests did not yield commercial production of crude oil. One Tournaisian NE water injection sidetrack 51_1 was drilled and completed, and injection started immediately after connection to surface systems.

The workover campaign in 2019 consisted of the recompletion of two idle gas condensate wells for further appraisal of the Permian Filippovski reservoir. After acid stimulation, both wells started to produce hydrocarbons free of formation water. Two idle oil wells were recompleted in 2019 with the workover rig to the Tournaisian NE oil reservoir. They are now producing with stable flow rates. After failure of the Electrical Submersible Pump (ESP) in well 45, a replacement pump was installed without loss of production rate after completion. It took approximately six months to replace the ESP, however the well now produces at the same rate as prior to the ESP failing.

The Company has decided to halt drilling in 2020 and operate with one work over rig. Low cost rig-less recompletions are also planned to contribute to the development of remaining reserves. The focus of the Company will now be to efficiently utilise the work over rig and reduce costs where possible at field site whilst working hard to add additional third-party gas streams through the gas treatment facility in the future. As per the Ryder Scott reserves report, further drilling is planned to take place on the Chinarevskoye field from late 2021, but this is dependent on Nostrum being able to both refinance its liabilities and maintain sufficient liquidity to fund such a programme. There is no guarantee that Nostrum will be able to achieve this, which can have a material impact on the Company's ability to develop the remaining proven and probable reserves at Chinarevskoye. As at 31 December 2019, the Company had 46 production wells in operation on the Chinarevskoye field.

Infrastructure

GTU3 & Sulphur Recovery Unit

In 2019, Nostrum successfully completed and commissioned the third train (GTU-3) of its gas treatment facility. After introducing raw gas, each technological element of the GTU-3 system has been tested and verified independently. After achieving on-spec quality of the final products (sales gas, stable condensate, LPG), a 72-hour performance test was concluded. Following the successful performance test, while obtaining all necessary documents, regulatory acts, documents regarding industrial and fire-fighting safety, GTU-3 was declared ready for operation and became part of the Field Operation (as GTU-1-2-3). The total capacity of the gas treatment facility is now 4.2 billion cubic metres per annum. The third train has a capacity of 2.5 billion cubic metres per annum. The sulphur recovery unit allows Nostrum to process sour gas with an H2S content of up to 16% at the moment in direct oxidisation mode. This is part of the sour gas stream after processing before it gets into the Sulphur Recovery Unit. Work is ongoing on modifying the Sulphur Recovery Unit to allow for the UOG gas to be processed. Consideration will be given to enhancing the Sulphur Recovery Unit further, to allow for other third party gas with higher H2S content.

Extension of LPS

In order to stabilise the decline of some of older producing wells, Nostrum commissioned a low pressure system in Q4 2018. There are now 12 wells linked up to the Low Pressure system, and further compressor capacity is required to prolong the life of the gas condensate wells. As a result, an extension to the low pressure system was approved in Q3 2019, and the extension is scheduled for completion in October 2020.

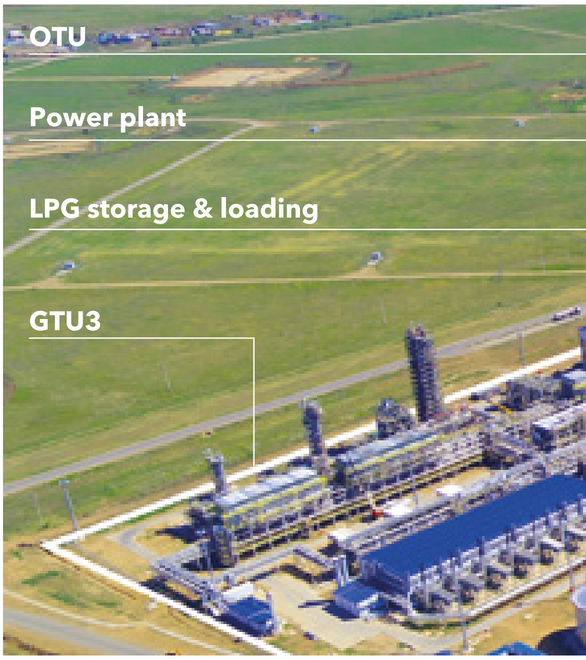
Demonstrating the value of our infrastructure

The core strategy for Nostrum to create value for its stakeholders is commercialising the investment made in its infrastructure. The focus is to fill the spare capacity with third-party hydrocarbons. The first step towards achieving this was made in 2018, when Nostrum entered into binding agreements to process third party hydrocarbons delivered by UOG from the Rozhkovskoye field, which is situated less than 20km from the Chinarevskoye field. UOG will fund the connection of existing wells at the Rozhkovskoye field to Nostrum's licence area. Thereafter, Nostrum will process all of the hydrocarbons coming into the field. UOG is a company owned by KazMunaiGas ("KMG") (50%), Sinopec (27.5%) and MOL Group ("MOL") (22.5%).

The commercial terms comprise two parts. Firstly, a tolling fee for the stabilisation of liquid condensate, which will be US$8 per barrel, and secondly the purchasing of raw gas from UOG at a price to be agreed at the point of delivery to Nostrum's facilities.

The Rozhkovskoye field

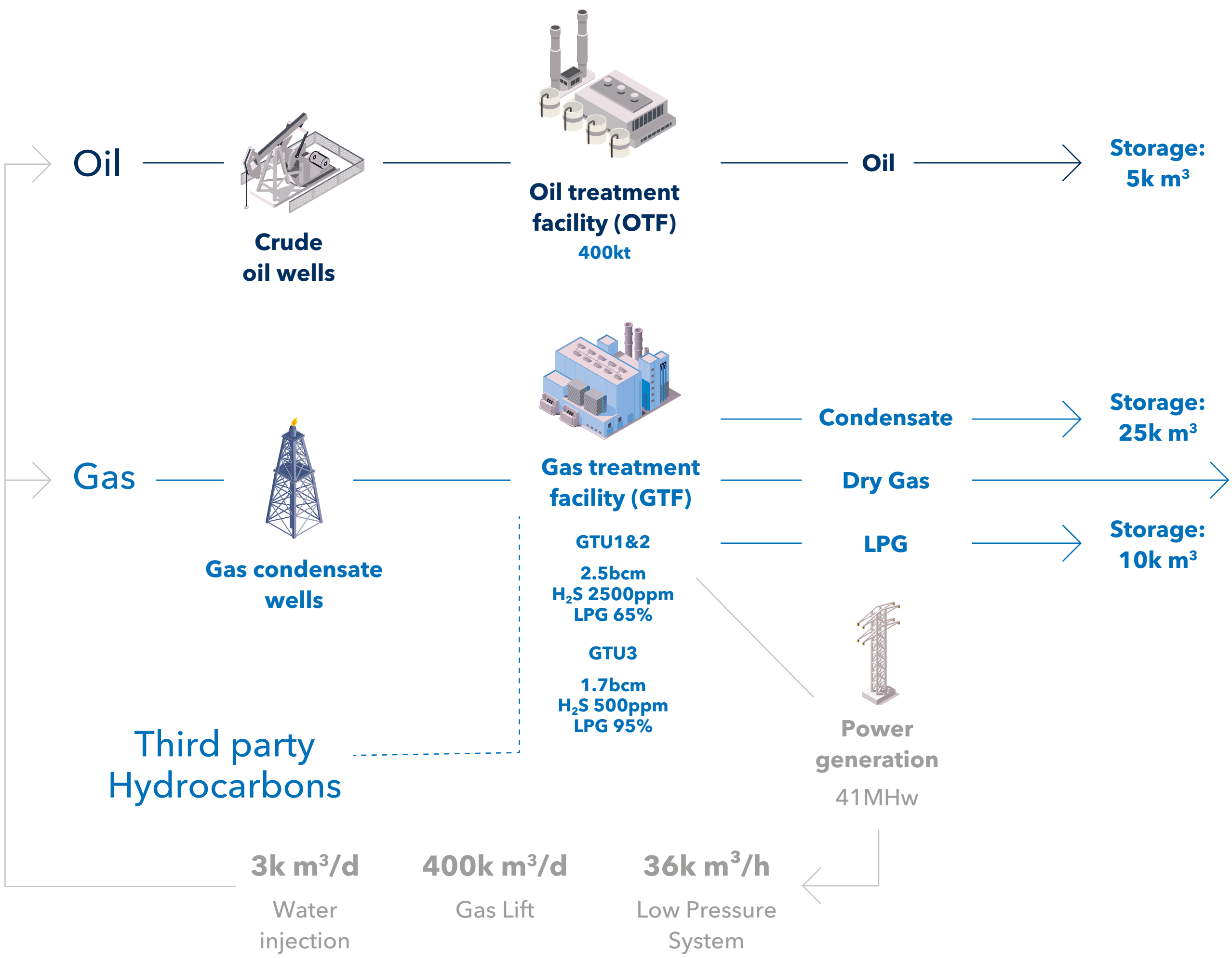
The pre-salt Rozhkovskoye gas condensate field was discovered in 2008 on the Fedorovsky exploration block by UOG. The field has broadly analogous geology to the Chinarevskoye field which sits approximately 20km to the north. Rozhkovskoye's primary Tournaisian (Lower Carboniferous) reservoir tested positive for gas-condensate in all nine exploration and appraisal wells drilled by UOG. The Tournaisian consists of shallow marine limestones at 4,200-4,600 metres. The Bobrikovski horizon (Lower Carboniferous) also contains gas-condensate. In 2014, an oil discovery was announced in the Bashkirian (Upper Carboniferous). In April 2015, UOG signed a 25-year production contract for the Rozhkovskoye field, demonstrating a commitment to developing its licence area.



Additional third party volumes

Nostrum is focused on entering into additional agreements which can fill all the remaining capacity in its gas treatment facility. Nostrum is working with other counter-parties to secure a long-term stream of raw gas from which it can generate significant revenues. Without any additional third party gas coming through Nostrum's facilities, it will be extremely challenging to repay or refinance its liabilities.


Oil/Cond. storage
GTU1&2


Oil
Crude oil wells
Oil treatment facility (OTF)
400kt
Oil
Storage: 5k m³
Gas
Gas condensate wells
Gas treatment facility (GTF)
GTU1&2
2.5bcm
H2S 2500ppm
LPG 65%
GTU3
1.7bcm
H2S 500ppm
LPG 95%
Condensate
Storage: 25k m³
Dry Gas
LPG
Storage: 10k m³
Third party Hydrocarbons
Power generation
41MHw
3k m³/d
Water injection
400k m³/d
Gas Lift
36k m³/h
Low Pressure System

Operating in a responsible manner

Our approach to Sustainability

Nostrum aims to operate in a responsible manner to ensure the safety of employees, contractors and the environment.

Safety is a personal and shared responsibility, and Nostrum is committed to occupational health and environmental impact mitigation. We believe everybody working at or visiting our facilities has a right to return home safely and to perform their duties under safe working conditions.

Safety is at the core of our operations. Our field sites are in remote locations, making rigorous safety procedures essential and the safety of all our employees is our number one priority. Nostrum adheres to internationally recognised health, safety and environmental standards, and seeks to comply with ISO 14001, ISO 50001 and ISO 45001 Occupational Health and Safety Standards.

A major achievement in 2019 was the formation of a Board Health, Safety, Environment and Communities Committee, which has oversight over health, safety and environmental matters. This Committee is focused on five key QHSE pillars which define our approach to sustainable operations and in 2019 redrafted Nostrum's 'Golden Rules' on safety.

For more information on HSEC Committee, please see page 82.

Golden Rules

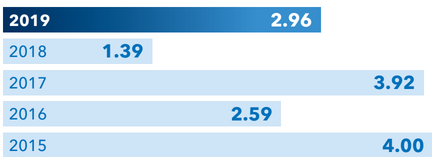
In 2019, the committee, together with senior management, re-drafted the 'Golden Rules' and stressed their importance to employees at all levels. The 'Golden Rules' set out clear and simple 'do's and don'ts', covering activities deemed to have the highest potential safety risk, based on both international and Company statistics of incidents. Managers and Contract Owners communicated the 'Golden Rules' across the Group, explaining the purpose, expectations and consequences. Employees who observe rule breaking or unsafe activity can use the Hazard Observation Cards to alert their supervisor or manager.

UN Sustainable Development Goals

Nostrum's approach to sustainability is guided by the 17 UN Sustainable Development Goals ("SDGs"). These SDGs aim to end poverty and reduce inequality while addressing climate change and environmental preservation. They are an important focus for Nostrum as they assist the Company in prioritising sustainable development matters, and aligning these global challenges with our business strategy.

For more information, please see https://sustainabledevelopment.un.org.

Total Recordable Injury Frequency (hours)[1]



2.96 hours

+113.0%

1. Per 1 million man hours worked

Health and safety

The wellbeing of employees and contractors is of extreme importance to Nostrum, and we promote an active health and safety culture within the Company. QHSE training and procedures are rigorous and are promoted to an international standard.

Progress against 2019 targets

The Group has activities that potentially involve a high number of injuries. We are pleased to report that in 2019, there were no lost time incidents relating to Nostrum Group employees, however contractors were responsible for eight LTIs during the year, all of which were in the Republic of Kazakhstan and only involved men. As per our health and safety procedures, all incidents were investigated, their causes identified and corrective action plans developed. The accident severity rate, the fatality frequency rate, the rate of occupational diseases, the lost day rate, the absenteeism rate, the number of on-job accidents with fatalities that occurred in the listed company were not recorded separately from LTIs and TRIs.

In addition, we sought to improve contractor safety management.

An updated contractor management framework is being developed with implementation expected to be in 2020. In 2019, Nostrum developed HSE pre-qualification criteria and HSE requirements for low and high risk activities. In 2019, four contractor audits and nine management system audits were performed, demonstrating an ongoing commitment to improved contractor management. In addition, a Contractor HSE Forum was conducted in October 2019, which allowed the management teams of contractor companies to review and discuss issues.

The main areas for improvement identified for 2020 are:

- Supervisor HSE Competence
- Contractor HSE Performance Management
- Determination and provision of resources needed for the operational HSE control
- HSE Leadership

HSE Leadership, Communication and Awareness

HSE Golden Rules

In September 2019, a 'Golden Rules' safety campaign was rolled out within all Company facilities and distributed to all contractors. These Golden Rules state the main safety requirements of the Company and are based on international best practice within the Oil & Gas Industry and a review of Company incident statistics. Examples of the campaign initiatives include:

- A pop-up window appearing daily on login screens with a notification from the QHSE department
- HSE alerts emailed from QHSE Info Mailbox to all employees to communicate lessons learned following 2019 safety incidents
- Toolbox meetings conducted regularly on fieldsite to communicate safety initiatives
- Monthly QHSE reports issued to communicate HSE performance and promote accountability

There are no formal agreements with trade unions regarding health and safety issues.

HSE Observation Cards

An awards ceremony was conducted in September 2019 to recognise employees who raised Hazard Observation Cards in 2019. Hazard Identification Cards allow every employee to report unsafe conditions observed in the workplace, or comment upon any safe or unsafe personnel behaviour and to make suggestions on HSE improvement. All employees are encouraged to actively participate in hazard identification activity and fill the Hazard Observation Cards.

Process Safety

In 2019, there were no Tier 1 or Tier 2 process safety events registered at Nostrum's production facilities. Tier 1 and 2 safety incidents are a loss of primary containment with the greatest consequence as defined by the American Petroleum Institute. It is an unplanned or uncontrolled release of any material, including non-toxic and non-flammable materials from a process that results in one or more of the consequences listed below:

- an employee, contractor or subcontractor incurs days away from work, injury and/or fatality;
- a hospital admission and/or fatality of a third party;
- an officially declared community evacuation or community shelter in place including precautionary community evacuation or community shelter-in-place;
- fire or explosion damage greater than or equal to US$100,000 of direct cost.

The selection of the applicable maintenance strategy type versus the equipment criticality is identified based on the impact that equipment failure has on related risk. This will enable maintenance to be prioritised in the event of shortage of resources and will allow reporting against critical systems.

Safety Critical Elements are devices, equipment or systems that are required to ensure process conditions are maintained within safe operating limits, or the purpose of which is to prevent malfunctioning.

Incident Investigation

In 2019, Nostrum looked to improve incident investigation processes with a greater focus on leadership and collaboration between the HSE department and responsible business areas. Incident levels were revised so that incidents are now placed on a scale of 1-5, depending on severity, and responsibility to lead an investigation into the incident will be based on this number. The most serious incidents will be investigated by the CEO and COO, and those which are less severe will be handled by the field operations director or head of unit.

To increase awareness of QHSE generally, training was held by the British Institute of Occupational Health & Safety for 35 supervisors. A key course module was Incident Investigation which reinforced the importance of proper incident investigation and international QHSE practices.

2020 initiatives

- To participate in CDP 2020
- Implement a Contractor Safety Management process with a periodical tracking of contractors' HSE performance;
- Provide a structured and consistent approach considering HSE requirements in the selection process of potential contractors;
- Organise in-house HSE training and examination process in order to improve HSE competence of NOG and contractor personnel performing safety critical activities.

Examples include:

- Lock out/tag out;
- Permit to work process;
- Working on heights;
- Confined space entry.

Hazard Observation Procedure

A hazard observation procedure was developed and implemented in 2019 to define the process of hazard identification in the workplace. Employees and contractors are encouraged to fill in Hazard Observation Cards to report unsafe conditions observed in the workplace, any safe or unsafe behaviours of personnel performing duties and to make suggestions on HSE improvement.

During 2019, 216 of these cards were raised, allowing the Company to take corrective actions in cases of unsafe behaviour and to implement HSE improvements. The programme was highly successful and staff were incentivised to participate.

Field Director Ivan Vukov supported this programme and personally raised many Hazard Observation cards in order to immediately address issues and improve workplace safety. Mr Vukov demonstrated safety leadership by improving safety culture and promoting a 'no-fault' approach to hazard identification and the reporting process.

Talgat Zharmukhambetov, an engineer from the Power Generation Department, personally raised 22 Hazard Observation cards in 2019. The Drilling department and Drilling Contractors also used the card system for hazard reporting, which further demonstrated the operational support for the system, and Damirzhan Urumbaev, a shift supervisor at the Oil Treatment Unit, raised 21 Hazard Observation Cards in 2019.

Our people

Nostrum is proud to engage a diverse workforce spanning many ages, nationalities and genders. The Nostrum Code of Conduct protects all employees and contractors against illegal discrimination on the basis of race, religion, national origin, age, gender, disability, sexual orientation or political opinion.

Our business is led by a dedicated and experienced management team, diverse in age, nationality and gender. This is integral to advancing the Group's approach to diversity throughout the business.

Gender diversity

Whilst we are encouraged by our diversity at Board and department head levels, we do recognise that diversity remains an ongoing issue in the oil and gas industry, particularly with regards to gender diversity. We strive to be an attractive place to work with an inclusive environment that celebrates diversity. Nostrum is committed to improving the gender balance at all levels of the Company, and in 2018 & 2019 we engaged with interest groups to better understand how we might do this. Additionally, Nostrum adopted a corporate Equality and Diversity Policy in November 2017 to further support these ambitions. At present, 22% of Group employees are female. In the UK, 47% of employees are female.

The Board recognises the importance of continued improvement in this area, and is committed to giving due regard to the benefits of diversity in our future appointments, including ensuring Kazakh nationals are properly represented at senior levels of the Company. The Board also focused on succession planning during 2019, and gender considerations will factor into this. Currently 22% of employees at department head level are female.

In addition, Human Resources is working toward a policy of promotion from within and building a pipeline of diverse employees at all levels of the business. We are pleased to report that 30% of Group recruitment in 2019 was female. There were no recorded discrimination incidents with any of the Group's employees in 2019.

For more information on how the Equality and Diversity Policy was implemented at Board level in 2019, please see page 69.

In 2019, 16 employees (1 male and 15 females took maternity/paternity leave and 19 employees (1 male and 18 females) returned from maternity/paternity leave.

Employee relations and social guarantees

Nostrum prides itself on being an integral community partner, and the Company is one of the largest employers in Western Kazakhstan, with 96% of Group employees engaged locally. We employed a total of 668 staff from more than 17 countries, broken down as follows:

- Uralsk: 483 males, 159 females;
- St. Petersburg: 4 males, 3 females;
- London: 10 males, 5 females;
- Brussels: 1 male, 1 female;
- Almaty: 0 males, 2 females.

We offer all staff members competitive benefits and remuneration packages in compliance with all regulatory bodies, guidelines and requirements, which (to the extent applicable) are also applied to those hired as temporary or part-time employees. In 2019 the average monthly salary of locally engaged employees increased by 12% in KZT.

In an effort to promote gender equality, we will now also monitor gender pay discrepancies. In 2019, the average Group employee salary was 22% higher for males, however the median employee salary was 3% higher for females. This data was not recorded by category and workplace.

Education and training

We believe investing in our people is key to economic self-empowerment in the communities in which we operate. Under the terms of our PSA, we are required to adhere to an accrual of 1% per annum of the field development cost relative to the Chinarevskoye field. We also adhere to training obligations under subsoil use agreements for the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

There was no advanced training in addition to that required under the PSA and the other subsoil use agreements. There was no assistance for employees who stopped working as a result of retirement or termination of employment

Our employees and their children are eligible for educational grants and financial support to assist with university and college expenses. Educational fellowships and assistance may also be awarded on a discretionary basis.

In 2019, Nostrum supported 722 employees to benefit from education and training programmes. Our total Group training costs in 2019 were US$2,068,225, and the total number of training days in 2019 was 7,264 days.

Training was undertaken by operational teams, department heads, specialist engineers and other technicians at different levels across the organisation. The average number of training hours per employee by gender and category was not recorded.

Hiring and staff turnover

More than 200 employees were released in 2019. This was the main cause of staff turnover. The number of employees hired in 2019 was 77 (11.5%) of which 30% were female and 70% male.

Workforce representation

In 2018, the Company put collective agreements in place to provide for workforce representation and, in 2019, the Company designated a non-executive director, Sir Christopher Codrington, to serve as its liaison for engagement with the workforce.

The Board of Directors strives to adopt best practices in corporate governance, including engagement with the Group's workforce. In particular, the Board wishes to understand the views of the Group's workforce and to take such views into consideration in Board discussions and decision making. Communication between the workforce and the Board is often referred to as the 'employee voice', and it is hoped that a wide selection of views from the workforce can be gathered through a range of formal and informal channels. Such channels are intended to help the workforce share ideas and concerns with senior management and the Board. It provides useful feedback about business practices from those delivering them, and can help empower colleagues. The Board encourages individuals to raise any concerns they may have. Doing so acts as an early warning system for actual or potential problems and helps to manage risk. The Board actively listens to workforce concerns and subsequently provides feedback on how the matter raised has been considered, including any action taken. The Board emphasised that the workforce felt safe to raise concerns.

There is no requirement under applicable laws for the Company to notify its employees of significant changes relating to its activities.

Nostrum Code of Conduct

Nostrum is committed to maintaining a Group-wide culture that recognises international standards of human rights.

Human Rights Policy

In 2019, the Company developed and implemented a Human Rights Policy which reflects the Company's desire to comply with industry best practice. There was no training on this policy in 2019.

This is in addition to the Nostrum Code of Conduct ("the Code") which defines the principles that guide business conduct and provide a non-exhaustive outline of what Nostrum considers permissible conduct by its employees. These principles include provisions relating to human rights and diversity in the workplace, inside dealing and inside information.

A copy of the Code is available on the Group's intranet in both Russian and English, and can be downloaded from our website: www.nog.co.uk.

Modern Slavery Act

There are no divisions of the Group (or its vendors) believed to have significant risk of child/forced labour/hazardous work performance by young employees.

Under the Group's standard supply contracts, the Group is entitled to require suppliers to demonstrate compliance with the Code and to hold its suppliers responsible for compliance by their supply chain with equivalent terms.

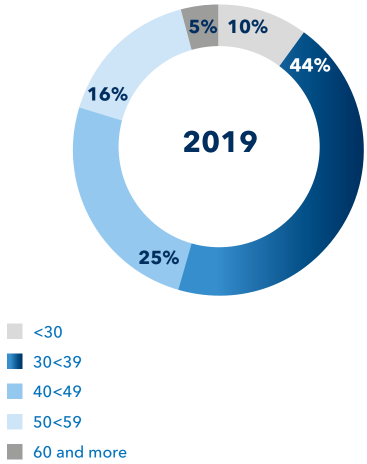
A copy of our Modern Slavery and Transparency Statement is available on our website: www.nog.co.uk.

Whistleblowing Policy

We have a Whistleblowing Policy which takes into account the Whistleblowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work, and which applies to all individuals working for the Group at all levels and grades.

The Whistleblowing Policy sets out details of three compliance liaison officers who speak a variety of languages for the purposes of reporting any concerns. The Whistleblowing Policy is also mentioned in the Code, and a person who reports any matter in good faith will be protected against any sanctions.

NOG Group Age Diversity



A copy of the Whistleblowing Policy is available in both Russian and English and on the Company's website. At the time of writing, we have received no reports under our Whistleblowing Policy of forced/involuntary labour or human trafficking in relation to our business or supply chains. For further details, please see our website: www.nog.co.uk

Diversity Action Plan

The aim is to set up KPIs for HR on improving diversity at all levels. In terms of diversity statistics, we would like to stand out by improving female representation across all levels. At the end of 2019, the company was represented by 78% male & 22% female employees. We are targeting 75% male & 25% female split by the end of 2022.

The improvement initiatives are the following:

- Establishing gender diversity as a strategic business focus;
- Consult experts to build diversity programs;
- conduct a gender audit that evaluates how gender equality is incorporated into policies, procedures, budgets, etc;
- Identify an internal pool of female talent. This has already started with our "succession planning identification programme";
- Support recruitment that provides equal opportunities for men and women;
- Arrange gender pay gap analysis to identify main areas for improvement.

Social Responsibility

Nostrum is a proud community partner and strives to foster a culture of openness and engagement. We are pleased to be able to offer social and financial support to promote the well being of local residents.

2019 key initiatives

We support our local communities through financing social infrastructure and community projects. In 2019, key initiatives included:

- USD$118,416 funding of 20 regional secondary schools to purchase equipment and furniture. This included the purchasing of a school bus for the Beles District rural secondary school.
- Sponsoring of repairs for schools in Yanvartsevo and Sulukol villages.
- Support of the Zelenovkiy area biathlon team through the purchase of sports equipment.

Additionally, during 2019, we supported 22 local individuals and public associations. These included:

- Support for festive events in the communities of Yanvartsevo, Beles and Sulukol, including an event organised by a disability support group.
- Sponsorship of a Beles school student to participate in an international karate competition where he won a silver medal.
- Support for artistic performances, including a local singing contest and photography exhibition.
- Sponsorship of the Condensate Kazakhstan International Badminton Series.
- Funding of medical treatment for local individuals.
- Improvements to community infrastructure, including street lighting, water and gas supply.
- Material assistance to veterans of the Second World War on the Victory day and restoration of the alley of oilmen on the 120th anniversary of the oil and gas industry of Kazakhstan.
- Summer camp sponsorship for children affected by emergency in the city of Arys.

Nostrum also provides support on a continuing or needs basis, such as special machinery in emergency situations in rural districts on occasions of extreme snow or infrastructure accidents, and providing transport for rural children to participate in excursions to historical places within the region.

Non-financial information statement

This section of the strategic report constitutes the Company's Non-Financial Information Statement, produced to comply with sections 414CA and 414CB of the Companies Act. The information is incorporated by cross reference.

Reporting requirements	Policies and standards which govern our approach	Information necessary to understand our business and its impact, policy due diligence and outcomes
Environmental matters	• Annual environmental objectives • Liquidation fund contribution	Environment, pages 42-43 Communities and social review, pages 40-41
Employees	• Group Code of Conduct and Human Rights • Whistleblowing policy • Health and Safety policy	Our People, pages 38-39 Health and safety, pages 36-37 Total Recordable Injury Frequency, page 35
Respect for human rights	• Modern Slavery Statement • Equality and Diversity Policy	Our people, pages 38-39
Social matters	• Sponsorship of community events	Communities and social review, pages 40-41
Anti-corruption and anti-bribery	• Anti-corruption and bribery policy • Anti-facilitation of tax evasion policy • Payments to governments	Communities and social review, pages 40-41 Our Governance Framework, page 66
Description of principal risks and impact of business activity		Principal risks and uncertainties, pages 46-49 Performance review, pages 26-32
Description of the business model		Business model, pages 14-15
Non-financial key performance indicators		Key performance indicators, page 23 Our strategic priorities, page 13

Payment to governments

Nostrum is committed to transparency in its business activities and payments to governments. We have a formal Public Relations and Government Relations procedure which regulates our relationships with the local community and government, and it details how and why we engage with various stakeholder groups.

In 2019, a total of US$42,883,995 was paid to governments by Nostrum and its subsidiary undertakings. We will report on 2020 payments to governments in the first half of 2021. For more details, please see the Governance page of our website.

Liquidation fund contribution

Under the terms of the Chinarevskoye PSA and the subsoil use agreements for Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye, Nostrum is building up liquidation funds of US$23 million to eliminate the consequences of operating activities, namely the conservation and liquidation of drilled wells and the elimination of other facilities. These projects will subsequently be approved by the Company, the local community, and government. At the end of 2019, US$7.6 million was held on restricted cash accounts as liquidation fund deposits (2018: US$7.02 million).

Anti-corruption and bribery policy

For more information on the Group's Anti-corruption and bribery policy please, see page 70.

Spend with suppliers

We are committed to partnering with local companies, and in 2019 we spent 62% of our supplier budget with Kazakh national suppliers.

Labour Practices

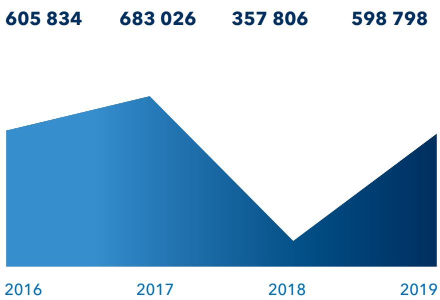
The total number of complaints filed against the Group for violation of the labour practices was one, which was decided in favour of the employee. The details of the complaints system existing in the Group are set out on page 61.

Ongoing support of emergency machinery in rural districts

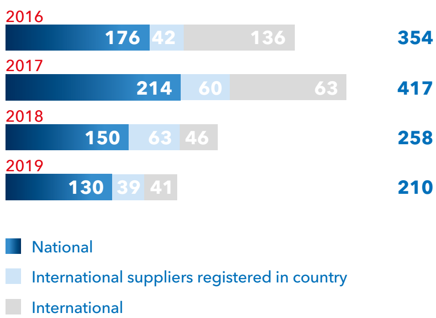
Kazakhstan experienced a very cold winter during 2018-2019 and, in a short period of time, precipitation exceeded the annual average. As a result, almost all the settlements in the Yanvartsevo rural district and the Sulukol rural districts close to our field site were cut off from regional roads. Local stores were running out of food provisions and governmental snow-cleaning equipment could not cope with demand to clear main roads, let alone inter-village roads. Nostrum provided assistance to nearby villages, despite also being affected by these conditions at our field site. Company equipment was used to clear snow blockages on roads to Sulukol, Yanvartsevo, Kirsanovo, and Chinarevo settlements and other villages. Later, with the onset of spring, we again helped by providing equipment for the removal of melt water to prevent flooding of residential and administrative premises. In total, eight units of special machinery were deployed and over 480 hours of assistance was provided.

We support our local communities through financing social infrastructure and community projects.

Liquidation fund contribution (US$)



Spend with suppliers (US$m)



Environment

Nostrum is focused on being a responsible operator in order to minimise as far as possible the Company's impact on the natural environment. We abide by strict international environmental protection legislation and are actively working on GHG emission reduction initiatives.

Update on CDP

In 2019, our main environmental objectives included participation in the CDP (formerly Carbon Disclosure Project), which is a key way for companies to disclose their environmental impact and risk management, as well as continue to focus on greenhouse gas (GHG) emission reduction strategies.

Our CDP response was independently assessed, and we are pleased to note that Nostrum received a 'C' grade. We are pleased with this scoring in our first year, as it demonstrates the policies and procedures we have developed over recent years are positioning the Company to deal with the issue of climate change now and into the future. We will continue to engage with the CDP initiative in order to maintain an open dialogue, both internally and externally, on this important issue.

Compliance with legislation

Nostrum engages an independent auditor to measure and evaluate our environmental impact. In 2019, AMEC was again engaged to undertake a "Health, Safety and Environmental Compliance Audit" and report upon the content, methodology and results of the environmental efforts at Nostrum during the year. Our 2019 AMEC report showed no non-compliance with Kazakh legislation or any significant environmental findings. The main conclusions drawn from AMEC's 2019 audit were as follows:

- HSE management system is in place and functional;
- Good behavioural safety is reinforced by strong leadership and personnel with good safety processes; and
- The Company has to focus on training for management of change process, permit to work system, risk assessment in order to improve general HSE performance.

Waste, water and soil management

The impact of Nostrum's operational activities on the environment are monitored through detailed waste, water and soil management systems. The Company undertakes air, soil and subsurface water testing to ensure sanitary and epidemiological compliance with Kazakh legislation.

In 2019, 100% of drilling waste was recycled by a contracted company. Soil and water survey results demonstrated compliance with all applicable environmental legislation.

For more detailed information, please visit our website at www.nog.co.uk.

GHG emission reduction and reporting

Nostrum seeks to minimise all GHG emissions and continues to invest in new technologies to improve GHG emission performance. Nostrum strictly adheres to both UK and Kazakh regulatory requirements with regard to GHG emissions and has been monitoring and reporting GHG emissions since 2011. In 2019, we participated in the CDP disclosure process to demonstrate our commitment to improvement and transparency in this area.

As a dually-listed entity, Nostrum also follows UK company law requirements regarding GHG reporting as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, which requires the disclosure of all emission sources. The Company's GHG reporting period is aligned with the period in respect of which the Directors' Report is prepared. No responsibility is taken for any emission sources which are not included in the consolidated financial statements. The results of the GHG emissions inventory are presented in the format recommended by the GHG Protocol.

Additional quota

According to the 2018-2020 National Plan, 627,174 tonnes of CO_2 was granted to Nostrum. In 2019, the ROK Ministry of Ecology, Geology and Natural Resources issued an additional quote for 103,650 tonnes of CO_2 for the commissioned facility, which was not originally included in the National Plan. At the end of 2019, the balance of the GHG emission quota was 272,930 tonnes.

Energy efficiency audit

Following an Energy efficiency audit conducted in 2019, the following energy saving measures were identified:

- Use of exhaust gas heat to hot oil heating of lines No.1 and No.2 at GTU 1&2;
- Use of exhaust gas to heat hot oils for amine regeneration at GTU1&2;
- Installation of control box to water heating boilers;
- Heat insulation of pipelines;
- Construction of power line 110 kV.

Future GHG reduction initiatives:

- Optimisation of facilities operation, operations and maintenance schedule adjustment in function of reduced inlet feed, reduction of fuel gas consumption and flare volumes depending on GTU operating scenarios in 2020
- Emission tracking improvement – creation of monthly tracking system, about 5-10% reduction,
- Use of power from GTPP at 26 megawatts while wells drilling

Climate change

Nostrum recognises that hydrocarbon exploration and production is a major contributor to GHG emissions and consequently, we have a responsibility to work to address climate change. One of our key CSR goals in 2019 was to minimise the impact of our operations on climate change. This remains a key goal for Nostrum. During the year, we partnered with an external agency to assist us in understanding and reporting on potential impacts to our business. We hope this will be a key step in our ongoing efforts to address the issue of climate change long term within our business.

Climate change can affect our business through physical disruption to operations due to changing weather conditions, legislative and policy changes, technology to help reduce emissions, and future changes in energy market demands. We plan to assess more rigorously the impact of climate change on our business in the near future, including through portfolio resilience testing. Climate change remains on our risk register for 2020.

GHG emissions

The baseline in the GHG emissions allocation plan was set as the mean value of the total emissions for the years 2013-2014 (in carbon dioxide emissions equivalent). According to the established limit, GHG emissions for 2019 should not exceed the baseline. The following direct GHG emissions (Scope 1) sources have been identified: flares, heaters, incinerators, boilers, gas turbine plants, electric power stations, compressors and fugitive emissions.

Total direct GHG emissions (Scope 1) subdivided by gas types and by source types are summarised in Tables 1 and 2.

No further ecological data is available for publication. Consequently, additional disclosures in relation to materials used, products and services, waste management, water consumption, energy consumption and energy efficiency, emergency and intermittent pollution episodes, wastewater discharges, atmospheric emissions of greenhouse gases and other pollutants, environmental protection and biodiversity are not possible. There were no fines or other sanctions against the Group as regards compliance with environmental requirements in 2019.

Table 1: Scope 1 GHG emissions subdivided by gas type (tCO_2e)

	2015	2016	2017	2018	**2019**
Carbon dioxide	208,466.2	195,453.3	242,275.6	244,379.2	**213,520**
Methane	13,919.8	10,817.0	10,723.4	8,436.3	**8,429**
Nitrious oxide	126.2	1,045.7	1,305.4	1,303.5	**1,034**
Hydroflurocarbons	34.0	33.6	27.6	36.6	**24**
Total	222,546.2	207,349.6	254,331.9	254,155.6	**223,008**

GHG emission structure is shown in Table 1. The composition of the GHG emissions predominantly consisted of carbon dioxide and methane.

Table 2: Scope 1 GHG emissions subdivided by source types (tCO_2e)

	2015	2016	2017	2018	**2019**
Stationary combustion	205,701.9	195,576.1	243,001.1	245,362.4	**214,536**
Mobile combustion	1,498.2	757.9	434.9	104.9	**89**
Fugitive sources	15,346.1	11,015.6	10,896.0	8,535.8	**8,359**
Total	222,546.2	207,349.6	254,332.0	254,003.2	**223,008**

Stationary combustion sources formed the major portion of emitted GHGs. The reduction in emissions from mobile combustion is related to the fact that the majority of vehicles were transferred to a transport services company.

Indirect GHG emissions (Scope 2)

Nostrum does not use purchased steam, heating or cooling. Electrical power is the only such purchased power related to indirect GHG emissions, and it is supplied to Nostrum facilities via the Zelenovskaya distribution network (ZapKazREK JSC), through its subsidiary Batys Energoresursy LLC. The regional emission factor (0.27086 tCO_2/MWh) was calculated using Methodological Guidelines for the Calculation of GHG Emissions from Electrical Power Stations and Boiler Houses (Astana, 2010) and the regional net thermal efficiency of Urals Natural Gas Fired Power Plants (73.3%).

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

Table 3: Scope 1, Scope 2 and total GHG emissions (tCO_2e)

	2015	2016	2017	2018	**2019**
Direct energy (Scope 1)	222,546	207,350	254,332	254,156	**223,008**
Indirect energy (Scope 2)	5,482	2,263	640	559	**297**
Total	228,029	209,613	254,972	254,714.8	**223,305**

Emissions intensity ratio

Tonnes of CO_2 per tonne of output is a recommended intensity ratio for the oil and gas sector, as per Appendix F of the Defra Environmental Reporting Guidelines (2013). Taking into account the variety of products of Nostrum Oil & Gas – crude oil, stabilised condensate, LPG and dry gas – the chosen intensity ratio is expressed in metric tonnes of CO_2e ($mtCO_2e$) per tonne of oil equivalent (mmboe).

Table 4 shows intensity ratios for total (Scope 1 and Scope 2) emissions in the period 2014-2018.

Table 4: Emissions intensity ratios for total GHG emissions

	2015	2016	2017	2018	**2019**
Production, toe	2,152,421	2,156,171	2,088,917	1,878,026	**1,520,928**
tCO_2/toe	0.106	0.097	0.122	0.136	**0.1**
Production, mmboe	14.743	14.768	14.300	12.9	**10**
tCO_2/mmboe	15,467	14,193	17,820	19,801.8	**21,434**

Risk management

The Group continuously develops its risk management system in order to ensure it remains in line with best practice in achieving the primary purpose of managing, monitoring and reporting on the risks that may impact achievement of the Group's strategic objectives, whilst maintaining compliance with respective regulatory requirements.

Risk management framework

Under the UK Corporate Governance Code, the Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain a sound system of risk management and internal control systems.

Therefore, the Board, supported by the Audit Committee and senior management, has the ultimate responsibility for risk management and internal control, including responsibility for the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives, and for ensuring that an appropriate risk-awareness culture has been embedded throughout the Group.

The Group is in the process of formalising risk management roles and duties according to "The Three Lines of Defence" model, as further described in the diagram below, whereby the Board and senior management are the primary stakeholders served by the three lines of defence as follows:

1. Heads of business functions;
2. Risk control and compliance oversight functions; and
3. The internal audit function.

The risk management process goes through a set of coordinated activities, starting with risk identification and ending with a review of the risk management framework, as shown in the diagram below.

The principal risks and uncertainties, which are managed and monitored at Board level, are supported by the directors' risks, which are identified, managed and reported by senior management. Risks are inherent in the various business functions within the Group, and have therefore been categorised as business function risks. The members of the Senior Management Team have overall responsibility for managing the business function risk(s) relevant to their functional responsibility but delegate such responsibilities to various heads of business sub-functions. The identified risks are then aggregated and categorised into the following risk categories; strategic, operational, financial, compliance and other.

Based on these risk registers, related analysis and discussions senior management and the Board periodically review previously identified significant risks, update their likelihood of occurrence and potential impact, and identify potential new significant risks emerging as a result of the changing environment. These significant risks are discussed in more detail below in the section "Principal risks and uncertainties".

In 2019, the processes related to risk management and internal control systems were consistent with the UK Corporate Governance Code and FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014.

Environmental, social and governance (ESG) matters

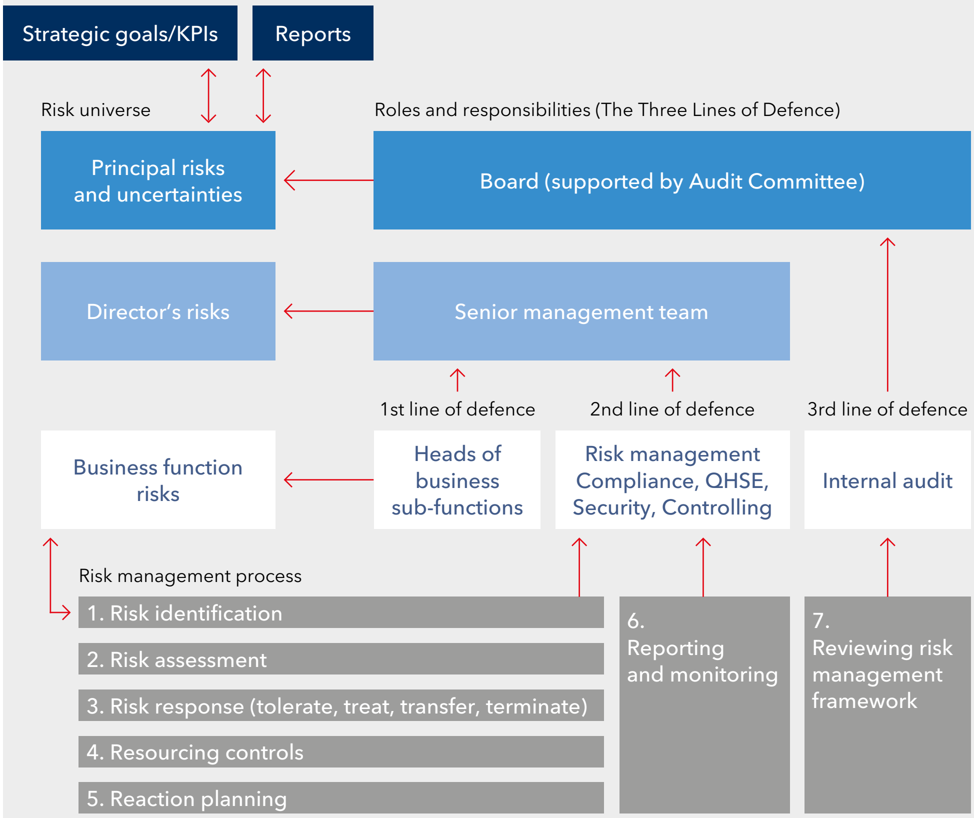
ESG matters form an integral part of the areas covered by the Group's systems of risk management and internal controls, and the Board recognises their significance and importance which are assessed consistently in accordance with regulatory requirements and established rules. Identified ESG risks and related responses can be seen within operational and other risks in the "Principal risks and uncertainties" disclosure on the next page.

The Board receives appropriate information for managing such risks. Management is responsible for monitoring that systems of risk management and internal controls are in place to effectively manage and monitor energy risks and other ESG matters. More elaborate disclosure on the established policies and procedures in these areas can be found in the Sustainable accountability section from page 34.

Changes from prior year risk assessment

In 2019, the principal risks and uncertainties managed and monitored by the Board, and senior management mostly remained the same as in 2018, and the related risk assessments did not change significantly.

Risk management framework



The Board oversees the design and implementation of systems of risk management and internal control, and manages and reports on principal risks.

The Senior Management Team supports the Board in its oversight and monitoring role, and perform management and reporting on the level of director's risks.

Heads of business functions, being the 1st line of defence, own and manage operational risks related to their respective area of activity.

2nd line of defence has a general oversight function to ensure that the risk management practices followed are effective.

Internal audit, acting as the 3rd line of defence, provides independent assurance over the effectiveness of the systems of risk management and internal control.

Principal risks and uncertainties

Description of risk | Risk management

STRATEGIC RISKS

Business and market environment

The Group is exposed to various risks related to the market and external business environment, which are out of the Group's control. Such risks include:

- The volatility of commodity prices on the markets;
- The geopolitical, regional situation affecting the Group's areas of operations; and
- Changes in currency exchange rates.

Given that the Group's sales prices of its products are based directly or indirectly on international market prices, the Group's future earnings are exposed to adverse impact by changes in the market price of crude oil. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. Recent OPEC actions have shown this to be the case, which in combination with the suppressed demand for oil and gas as a result of measures to control the spread of COVID-19, has resulted in a significant fall in the Brent price since the beginning of the year. Further volatility could be caused by the ongoing impact that COVID-19 is having on the demand for oil and gas globally. The Group could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve.

The Group's strategy and business model are not directly influenced by any significant risk resulting from Brexit.

The Group is selling the majority of its dry gas under contract referencing export prices which are usually substantially higher than domestic prices. In 2017, the Group expanded its transportation options as it completed a connection to an oil pipeline. It can now transport its crude oil either via rail or pipeline.

To mitigate the geopolitical, regional and customer risks, the Group has been strengthening customer relationships through establishing long-term off-take agreements while also looking at possibilities to geographically diversify its customer portfolio.

The Group's financial policies are designed for the group to withstand a period of prolonged low oil prices. Also, senior management constantly monitors the Group's exposure to foreign currency exchange rate changes and plans for necessary measures.

Given the uncertainties caused by a low oil price environment, the Group is taking prudent, mitigating actions that can be executed in the necessary time frame and which will protect liquidity. These include cancelling uncommitted capital expenditures over the period without having an impact on forecast production in the going concern period of assessment and identifying further reductions in operating costs and general and administration costs. The Group also announced on March 31, 2020 that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds. The Group will require amendment to the payment terms within the bond agreements to take effect within the going concern period. The Group is in the process of seeking a financial advisor to commence negotiations with bondholders. Whilst it is believed that a consensual agreement will be reached with bondholders and shareholders the outcome of the discussions is uncertain.

Strategic development initiatives

The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue, which puts the Group at a significant risk of not meeting shareholder expectations for instance in the event of natural disaster, facilities damage from accidents, crisis and other political influences as further described below. Diversification of its sources of feedstock is considered by the Group as a way to reduce this risk while also providing the Group with an opportunity to gain from expanding the use of available capacities, technological resources and human capital.

The Group's strategic initiatives towards diversification of its sources of feedstock are subject to customary risk related to counter-parties delay and non-completion which could impact future production and the Group's performance.

In addition, the Group's strategic initiatives, as well as certain other ordinary activities, are subject to the risks that terms of the transactions with related parties may deviate from market terms, as well as associated risks related to the disclosure of such transactions.

In December 2018, the Group announced mechanical completion of GTU3 and the start of the commissioning process. In October 2019, the Group announced completion of technical commissioning of GTU3.

Senior management and the Board continuously monitor the timing, scope and performance of the drilling programme taking into account current oil prices. A detailed drilling programme is approved by senior management for each well which forms the basis against which the progress of works and costs are reported. A KPI in place to monitor risk management in Strategic development initiatives, includes:

- Concluded commercial processing contracts such as those signed with Ural Oil & Gas in 2018. See Strategy section on p.19.

Description of risk	Risk management

OPERATIONAL RISKS

Oil and gas reserves and operations

Oil and gas reserves estimation, exploration, development and production are accompanied by typical risks inherent to activities in this industry, which may adversely affect the Group's financial performance and achievement of strategic objectives.

Estimation of oil and gas reserves requires exercise of judgement owing to the inherent uncertainty in any oil and gas field. There are also uncertainties and risks related to a field's geological structure and choice of development methods to maximise the reservoir performance. Hence, there are a number of risks that may lead to a deviation of production volumes from estimated and projected volumes.

Unsuccessful drilling activities and failure to find additional commercial reserves could reduce future production of oil and natural gas, which is dependent on the rate of success of drilling activity.

Well drilling and workover activities, as well as construction, operation and maintenance of surface facilities are also subject to various risks, including the availability of adequate services, technologies, expertise, etc., which may adversely affect the fulfilment of the Group's strategic objectives.

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 and prepare production forecasting using advanced exploration risk and resource assessment systems. The results of the assessments are reviewed by the Group's independent reserve consultant, Ryder Scott.

For well drilling and workover activities, the Group engages highly skilled personnel, leading service suppliers, as well as operations and cost monitoring systems, based on which management oversees the work progress.

Maintenance of the wells and surface facilities is scheduled in advance, in accordance with technical requirements, and all necessary preparations are performed in a timely manner and within budget ensuring high quality. In addition, the Group has emergency response and disaster recovery plans in place and periodically conducts necessary training and testing procedures.

KPIs in place to monitor risk management in Operations include:

- Finalised construction of potential second Low Pressure System to prolong life of ageing gas-condensate wells; and
- Maximised uptime of existing wells and production facilities

(See Strategy section on p.19)

Health, safety and environment

Linking corporate social responsibility (CSR) to growth is one of the strategic priorities of the Group. Relevant health, safety and environmental risks are also considered to be one of the key areas of focus in terms of risk management. The Group faces typical health, safety and environmental risks in the oil and gas industry, including risks related to gas flaring, waste management, environmental pollution, fires and explosions at facilities and transportation accidents. Additionally, as witnessed by recent developments, the group is exposed to pandemic diseases, such as the COVID-19 outbreak.

These risks may have a broad range of results, including but not limited to, injury of employees or local residents, pollution of the local environment and respective regulatory actions, legal liabilities, business interruption and any consequential impact on financial performance.

It should also be noted that the legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times.

The Group has a QHSE department of highly skilled and competent specialists. The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Periodic training on the requirements of policies and regulations are held for employees. In addition, at the supplier selection and contracting stage, the Group places a high degree of importance on a supplier's resources and ability to comply with the Group's QHSE requirements and, subsequently, the Group's dedicated team in this area conducts supplier audits. Key indicators such as GHG emissions, lost time injuries, waste management, water and soil pollution rates, etc., as well as progress of work are reported to senior management on a monthly basis.

The Group is working towards full compliance with ISO 14001 Environmental Management Systems, ISO 45001 Occupational Health & Safety Management System and ISO 50001 Energy Management Systems. The Group also regularly engages an independent auditor to conduct HSE audits, to monitor its compliance and best practice in this area and takes all necessary measures on the basis of the audit recommendations.

The Group has been further stepping up its efforts by forming a Health, Safety, Environment and Communities Committee. Staff are activity encouraged to submit Hazard Observation Cards. The Group efforts are aimed to be in line with its peers.

KPIs in place to monitor risk management in QHSE include:

- Lost time injury frequency; and
- Total recordable injury frequency.

(See more on KPI's on p.22)

Principal risks and uncertainties continued

Description of risk	Risk management
COMPLIANCE RISKS	
Subsoil use agreements As the Group performs exploration, development and production activities in accordance with related licences for the oil and gas fields, there are related risks that the Group might not be able to obtain extensions when necessary, risks of non-compliance with the licence requirements owing to ambiguities, risks of alteration of the licence terms by the authorities and others. These risks may result in the Group's inability to fulfil scheduled activities; fines, penalties, suspension or termination of licences by authorities; and, respectively, significant and adverse impact on the Group's business, financial performance and prospects.	The Group has procedures and processes in place for the timely application for extension of licence periods when it is considered appropriate however, uncertainty remains in relation to timing and results of decisions of authorities. The Group 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.
Compliance with laws and regulations The Group carries out its activities in a number of jurisdictions and therefore must comply with a range of laws and regulations, which exposes the Group to the respective risks of non-compliance. In addition, the Group must comply with the Listing Rules, the Disclosure Guidance and Transparency Rules, FRC guidance and requirements, as well as KASE and bond indenture requirements, in light of its publicly traded shares and notes. Hence, there are non-compliance risks, including reputational, litigation and government sanction risks, to which the Group is exposed. The impact of these risks may vary in magnitude and include regulatory actions, fines and penalties by authorities, diversion of management time, and may have an overall adverse effect on the Group's performance and activities towards achieving its strategic objectives.	For the purpose of compliance with laws, regulations and rules, the Group has adopted a number of policies including a code of conduct, inside information and disclosure policy, related party transactions policy, code for dealing in securities, Anti-Corruption and Bribery Policy, a Whistle-Blowing Policy and a Human Rights Policy. The Group also performs periodic updates based on the changes in regulatory requirements and carries out related communications and training for employees. Necessary communication lines are established with authorities to ensure timely and adequate inbound and outbound flow of information. Management and the Board monitor significant matters related to legal and compliance matters in order to act promptly in response to any actions. The Group continuously monitors its compliance with its policies on the level of authorisations for transactions. In addition, the management maintains an open dialogue with its sponsors in relation to any matter related to non-compliance with Listing Rules and other regulatory requirements.
FINANCIAL RISKS	
Tax risks and uncertainties The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create risks related to additional tax liabilities from assessments or risks related to recoverability of tax assets. Tax risks and uncertainties may adversely affect the Group's profitability, liquidity and planned growth.	The Group has policies and procedures related to various tax assessments and positions, as well as other control activities to ensure the timely assessment and filing of tax returns, payment of tax obligations and recovery of tax assets. 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.
Liquidity risks Forecasting to maintain an adequate liquidity position is subject to the risk that inaccurate information or assumptions are used for the forecasts, risks of counterparty delay or failure to meet their contractual obligations owing to severe market conditions. The recent actions of OPEC highlight these risks, which has contributed to significant commodity price volatility in the post-balance sheet period. The actions of OPEC led to a Brent oil price fall of over 50% in a week. This kind of movement in prices can result in the Group's liquidity position becoming more strained than the severe but plausible downside scenario in the Going Concern assessment. This makes forecasting subject to the risk that it may prove to be inaccurate in the future.	Management and the Board constantly monitor the Group's liquidity position, forecasts and key financial ratios to ensure that sufficient funds are available to meet any commitments as they arise. In addition, the treasury policy provides that the Group should maintain a minimum level of cash of US$50 million. KPIs in place to monitor risk management in Finance include: • G&A below US$20 million; and • Operating costs below US$50 million (See more on KPI's on p.22)

Description of risk	Risk management
FINANCIAL RISKS CONTINUED	
Refinancing risk	
The Group has US$1.125bn of debt outstanding. US$725m of that matures in July 2022. The ability of the Group to refinance represents a material uncertainty. There is a significant risk that the Group will not be able to refinance the bonds and any future repayments will be subject to negotiations with bondholders.	Execution of the Group's strategy is the premier focus of the Board and Senior Management Team. Full utilization of build treatment capacities will significantly improve the Group's position. The Board monitors progress on the KPI to concluded commercial processing contracts such as the one signed with Ural Oil & Gas in 2018. (See Strategy section on p.19.) Additionally, the Board continues to monitor the Group's ability to refinance. The Company will seek to engage with its bondholders regarding a possible restructuring of the Company's outstanding bonds.
Financing risks	
The Group's ability to access and source debt or equity capital is also exposed to volatility and uncertainties in global financial markets, which may adversely impact the Group's ability to meet its commitments associated with its financial liabilities, increase the cost of financing and affect the plans towards realisation of its strategic initiatives.	The Group performs financial reviews, establishes credit limits and engages with reliable financial counterparties. The Group's corporate finance function continuously monitors debt and equity markets, and maintains an open dialogue with investors to be able to react quickly to any need for financing.
CLIMATE CHANGE RISKS	
Climate change	
Climate change risks is the group of risks, including those stemming from more intense extreme weather events, rising energy intensity in the oil and gas industry, the changing regulatory landscape, the risk of fugitive emissions and climate change policies driving down the demand. The risk of more intense extreme weather events, for example, may lead to the following sub-risks: • Risks of reduced asset operation; • Risks of higher insurance premiums; • Risks of higher fuel prices; and • Risks of disruptions to supply chains.	The Group is actively planning and managing projects designed to mitigate certain climate change-related risks: • To decrease its exposure to rising fuel prices, it retooled drilling rigs to derive more power from electricity rather than diesel; • In operations there is a permanent effort and commitment improve energy efficiency and to reduce flaring, venting and leaks; and • At campsite, most of the water the Group utilises now is recycled. Climate change is on the Board's agenda. The Senior Management Team actively evaluates opportunities to further adapt and implement cost-effective mitigation measures.
OTHER RISKS	
Other significant risks	
Other risks are those that are not specifically identified within any of the principal risks and uncertainties but may be related to several such areas or be organisation wide. These include risks related to: • Global pandemics, such as COVID-19 • Fraudulent activities; • Cyber security; • The Group's supply chains; • Accounting and reporting management systems; or • The availability of human resources. They may also significantly impact the Group's financial performance, reputation and achievement of its strategic objectives.	The Group is currently adapting to the changing regulations surrounding COVID-19 and will have a policy to deal with future pandemics once the current pandemic is over. The Group is complying with all Government recommendations in the Countries where it has offices and employees. The Board monitors the further development of the business continuity plan and its implementation to the extent required by the circumstances. The Group has an Anti-Bribery and Corruption Policy, and provisions relating to the same are included in the Group's Code of Conduct. Related training and updates are periodically provided for employees in relation to their obligations in this area. As part of the Risk Management function, a cyber security capability is being developed drawing on the knowledge and experience of the existing ICT team. The Group has a wide range of internal controls over its supply chains and accounting and reporting processes, including policies, procedures, segregation of duties for authorisation of matters, periodic training for employees, etc. Senior management and the Board stay alert to emerging challenges related to various management systems and related governance matters and, when necessary, initiate change initiatives to ensure enhancement and integration of certain management systems.

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.

Viability statement

The Group's viability assessment is built through integration of the principal risks and uncertainties (described on pages 46-49 into a financial model based on the elements of corporate planning and modelling process, which includes:

- Medium-term development planning (described on pages 18-19) based on three-year financial projections, using the Ryder Scott Proven Developed Reserves for forecast production. No third party volumes have been included in the Viability assessment as there is currently no certainty they will arrive prior to the end of 2022; and
- Annual budgeting and forecasting process incorporating preparation of an annual budget for the following year, which is reviewed and approved by the Board, and followed up with quarterly forecasts, which are monitored by senior management and the Board.
- This viability assessment also takes into account the requirements of principle N provision 31 of the 2018 Code.

The Board highlights that the Viability assessment shows significant risks to the Group's ability to continue in operations and meet its liabilities due in 2022. The Group will require amendment to the payment terms within the bond agreements to take effect within the going concern period. Whilst it is believed that a consensual agreement will be reached with bondholders and shareholders, the outcome of the discussions is uncertain.

The Board also highlights that the Going Concern statement on page 54 indicates material uncertainty that may cast significant doubt on the Group's ability to continue in operation for a period of not less than 12 months from the date of this report. The material uncertainty arise from:

- The forecast cash flow of the Group over the next 12 months from the date of approval of the financial statements depends on the duration of the low oil price environment and the Group's ability to implement the mitigating actions within the Group's control; and
- The Group's ability to successfully engage with its bondholders and shareholders regarding a restructuring of the Group's outstanding bond within the next 12 months.

Considering the uncertainties inherent to the Group's operations as well as the medium-term development planning mentioned above, the Board concluded that a viability assessment over a three-year period provides a more robust and realistic evaluation of Group's future performance. Importantly, the three-year period takes in to account the significant refinancing risk the group has in 2022, the operational changes the Group is implementing and the impact of the near-term reduction in the reserves following the 2019 year end reserve audit. With this approach the Board continues to believe that the assessment:

- Improves the optimal balance between a reasonable degree of confidence and an appropriate longer-term outlook;
- Is aligned with medium-term development planning mentioned above;
- Is consistent with other current and/or recent communications (e.g. production forecasts etc.); and
- Is appropriate for the current stage of development of the Group and gives an opportunity to reasonably assess sensitivity of the Group's performance to principal risks during the period where the Group looks to work on implementing its major strategic objectives (described on pages 18-19).

For the purpose of our viability assessment a three-year financial model was used as a base-case scenario. The production assumptions used in this scenario are more conservative than those used in the impairment testing process as the proven developed producing reserves were used to take in to account the risks to funding the drilling programme under the proven and probable production profiles. The price assumption used for the three-year period of assessment reflects post year end market conditions. A significant difference with the impairment model is the inclusion of the US$725m bond repayment in 2022 and the associated financing costs in the periods prior to repayment. Considering the above, the following conclusions can be drawn from the viability assessment:

- The Group is extremely exposed in the near term to volatility in the price of its sales products. A fall of more than US$5 in oil price from the price curve assumed of US$45 in 2020, US$50 in 2021 and US$55 in 2022 can result in the Group being unable to meets its operating and interest costs in 2021 and could result in a further reduction of reserves due to the inability to fund the proposed drilling programme in the 31st December 2019 Ryder Scott reserve report.

Under all reasonable assumptions the Group is unable to meet its US$725m debt liability coming due in July 2022.

For the purpose of sensitivity testing, several principal risks and uncertainties were selected (from those described on pages 46-49), which were deemed to have the highest potential financial impact on the Group's future performance, taking into account prior period assessments. The effect of those principal risks and uncertainties or their combination on the base-case scenario were analysed within following scenarios:

- Deterioration in the business and market environment: taking into account the fact that the oil price assumptions applied in the base case scenario were already higher than the actual market price of those products when the viability assessment was carried out. As a result, further scenarios were aimed at analysing the sensitivity to a further US$5 reduction in the oil prices and gas prices over the period of assessment;
- Development of proved developed producing reserves: this scenario reflected results based on the assumption of a 10% reduction in production and respectively sales volumes over the three-year period so further reducing the Proven Developed Producing reserves by 10%; and
- Severe but plausible scenario: a combination of a US$5 reduction in the oil and gas prices and a 10% reduction in the proven developed producing reserves.

The scenarios took into account the availability and likely effectiveness of any mitigating actions that are in place or could be implemented to avoid or reduce the impact or occurrence of the underlying risks which would realistically be available to the Group in such circumstances. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems were taken into account.

The directors remained mindful of the significant risks associated with the Group's development projects, commodity price risks as well as risks associated with oil and gas reserves and operations (described on pages 46-49). The directors also note that the significant risk related to the Group's ability to meet its liabilities, including the repayment of its Notes due in 2022.

Based on these assessments and other matters considered by the Board during the year, the Board cannot reach the conclusion that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022. The Board therefore highlights that the Viability assessment shows significant risks to the Group's ability to continue in operations and repay its liabilities in 2022.

This strategic report is approved by the Board.

Martin Cocker
Chief Financial Officer
29 April 2020

Kaat Van Hecke
Chief Executive Officer
29 April 2020

Financial review

Results of operations for the years ended 31 December 2019 and 2018

The table below sets forth the line items of the Group's consolidated statement of comprehensive income for the years ended 31 December 2019 and 2018 in US Dollars and as a percentage of revenue.

	For the year ended 31 December			
In thousands of US dollars	**2019**	**% of revenue**	2018	% of revenue
Revenue	**322,128**	100.0%	389,927	100.0%
Cost of sales	**(172,002)**	53.4%	(165,145)	42.4%
Gross profit	**150,126**	46.6%	224,782	57.6%
General and administrative expenses	**(21,399)**	6.6%	(22,212)	5.7%
Selling and transportation expenses	**(45,875)**	14.2%	(49,984)	12.8%
Taxes other than income tax	**(22,886)**	7.1%	(29,702)	7.6%
Impairment charge	**(1,354,651)**	420.5%	(150,000)	38.5%
Finance costs	**(43,047)**	13.4%	(49,383)	12.7%
Employee share options – fair value adjustment	**(584)**	0.2%	1,320	0.3%
Foreign exchange gain/(loss), net	**361**	0.1%	(978)	0.3%
Loss on derivative financial instruments:	**-**	0.0%	(12,387)	(3.2)%
Interest income	**86**	0.0%	514	0.1%
Other income	**7,210**	2.2%	4,374	1.1%
Other expenses	**(12,490)**	3.9%	(8,504)	2.2%
Loss before income tax	**(1,343,149)**	417.0%	(92,160)	23.6%
Income tax benefit/(expense)	**353,222**	109.7%	(28,535)	7.3%
Loss for the year	**(989,927)**	307.3%	(120,695)	31.0%
Currency translation difference	**211**	0.1%	(895)	0.2%
Total comprehensive loss for the year	**(989,716)**	307.2%	(121,590)	31.2%

General note

For the year ended 31 December 2019 (the "reporting period") total comprehensive loss amounted to US$989.7 million, an increase in loss by US$868.1 million from US$121.6 million total comprehensive loss for FY 2018. The loss is mainly driven by additional impairment charge on property, plant and equipment and exploration and evaluation assets, which was offset by corresponding income tax benefit, as well as lower operating and finance costs as well as an absence of losses on derivative financial instruments as compared to previous comparative period. These are explained in more detail below.

Revenue

The Group's revenue decreased by 17.4% to US$322.1 million for the reporting period (FY 2018: US$389.9 million). This is mainly explained by the 7.1% decrease in the average Brent crude oil price from 71.7 US$/bbl during FY 2018 to 64.2 US$/bbl during the reporting period, as well as slight decrease in the sales volumes as shown in the table below, which was primarily due to the decrease in the volumes of production during the year ended 31 December 2019 as compared to FY2018.

The pricing for all 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$190.3 million, US$95.1 million and US$9.3 million respectively (FY 2018: US$258.9 million, US$80.5 million and US$11.9 million).

The Group's revenue breakdown by products and sales volumes for the reporting period and FY 2018 is presented below:

	For the year ended 31 December			
In thousands of US dollars	**2019**	2018	Variance	Variance, %
Oil and gas condensate	**196,176**	267,815	(71,639)	(26.7)%
Gas and LPG	**125,947**	122,112	3,835	3.1%
Sulphur	**5**	–	5	–
Total revenue	**322,128**	389,927	(67,799)	(17.4)%
Sales volumes (boe)	**9,735,093**	10,773,266	(1,038,173)	(9.6)%
Average Brent crude oil price (US$/bbl)	**64.2**	71.7		

The following table shows the Group's revenue breakdown by export/domestic sales for the reporting period and FY 2018:

	For the year ended 31 December			
In thousands of US dollars	**2019**	2018	Variance	Variance, %
Revenue from export sales	**218,511**	296,034	(77,523)	(26.2)%
Revenue from domestic sales	**103,617**	93,893	9,724	10.4%
Total	**322,128**	389,927	(67,799)	(17.4)%

Financial review continued

Cost of sales

In thousands of US dollars	For the year ended 31 December 2019	2018	Variance	Variance, %
Depreciation, depletion and amortisation	**136,776**	115,212	21,564	18.7%
Payroll and related taxes	**18,465**	18,326	139	0.8%
Repair, maintenance and other services	**14,242**	16,133	(1,891)	(11.7)%
Materials and supplies	**4,481**	5,253	(772)	(14.7)%
Other transportation services	**2,129**	6,116	(3,987)	(65.2)%
Well workover costs	**1,766**	2,767	(1,001)	(36.2)%
Environmental levies	**167**	367	(200)	(54.5)%
Change in stock	**(6,228)**	134	(6,362)	(4747.8)%
Other	**204**	837	(633)	(75.6)%
Total	**172,002**	165,145	6,857	4.2%

Cost of sales increased by 4.2% to US$172.0 million for the reporting period (FY 2018: US$165.1 million). The increase is primarily explained by increase in depreciation, depletion and amortisation, which was partially offset by the decrease in repair and maintenance costs, other transportation services, well workover costs and change in stock. On a boe basis, cost of sales amounted to US$17.67 for the reporting period increasing from US$15.33 FY 2018 and cost of sales net of depreciation per boe decreased by US$1.01, or 21.8%, to US$3.62 (FY 2018: US$4.63).

Depreciation, depletion and amortisation increased by 18.7% to US$136.8 million for the reporting period (FY 2018: US$115.2 million). Depreciation is calculated applying units of production method. Increase of depreciation in 2019 in comparison with prior period is a consequence of: 1) the ratio change between the volumes produced and the proven developed reserves; 2) putting into operation GTU3 close to end of 2019; as well as 3) implementation of IFRS 16 effective from 1 January 2019, resulting in recognition of right-of-use assets, and their respective depreciation during 2019, respectively this lead to the decrease in the other transportation costs.

Repair, maintenance and other services decreased by 11.7% to US$14.2 million for the reporting period (FY 2018: US$16.1 million). These expenses include services on repairs and maintenance of the facilities, specifically for the gas treatment facility as well as related spare parts and other materials. These costs fluctuate depending on the timing of the periodic scheduled maintenance works.

Other transportation services decreased by 65.2% to US$2.1 million for the reporting period (FY 2018: US$6.1 million). Such a decrease is explained by the recognition of the right-of-use assets under IFRS 16, and reflection of these costs in the form of depreciation of these assets as mentioned above.

General and administrative expenses

In thousands of US dollars	For the year ended 31 December 2019	2018	Variance	Variance, %
Payroll and related taxes	**10,162**	11,292	(1,130)	(10.0)%
Professional services	**4,966**	4,346	620	14.3%
Depreciation and amortisation	**2,026**	1,869	157	8.4%
Insurance fees	**1,256**	1,570	(314)	(20.0)%
Lease payments	**722**	846	(124)	(14.7)%
Business travel	**617**	774	(157)	(20.3)%
Communication	**276**	357	(81)	(22.7)%
Materials and supplies	**170**	168	2	1.2%
Bank charges	**133**	165	(32)	(19.4)%
Other	**1,071**	825	246	29.8%
Total	**21,399**	22,212	(813)	(3.7)%

General and administrative expenses decreased by 3.7% to US$21.4 million for the reporting period (FY 2018: US$22.2 million). This was mainly driven by US$1.1 million or 10.0% decrease in payroll and related taxes from US$11.3 million during FY 2018 to US$10.2 million during year ended 31 December 2019, as well as decrease in insurance fees, lease payments and business travel costs as a result of implementation of cost optimization by the Group. This was partially offset by slight increase in professional services, depreciation and amortisation and other.

Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December 2019	2018	Variance	Variance, %
Transportation costs	**12,405**	15,017	(2,612)	(17.4)%
Loading and storage costs	**11,783**	18,881	(7,098)	(37.6)%
Marketing services	**10,554**	10,963	(409)	(3.7)%
Depreciation	**4,489**	–	4,489	–
Payroll and related taxes	**2,293**	2,565	(272)	(10.6)%
Other	**4,351**	2,558	1,793	70.1%
Total	**45,875**	49,984	(4,109)	(8.2)%

Selling and transportation expenses decreased by 8.2% to US$45.9 million for the reporting period (FY 2018: US$50.0 million), primarily due to decrease in transportation and loading and storage costs as a result of changes to a more favourable delivery terms. Also part of these costs are reflected as depreciation costs resulting from recognition of right-of-use assets for rented railway tank cars under IFRS 16, which were previously included in transportation costs.

Taxes other than income tax

In thousands of US dollars	For the year ended 31 December 2019	2018	Variance	Variance, %
Royalties	**12,802**	15,155	(2,353)	(15.5)%
Export customs duty	**7,281**	11,233	(3,952)	(35.2)%
Government profit share	**2,802**	3,277	(475)	(14.5)%
Other taxes	**1**	37	(36)	(97.3)%
Total	**22,886**	29,702	(6,816)	(22.9)%

Royalties, which are calculated based on production and market prices for the different products, decreased by 15.5% to US$12.8 million for the reporting period (FY 2018: US$15.2 million), which corresponds to related decrease in hydrocarbon sales.

Export customs duty on crude oil decreased by 35.2% to US$7.3 million for the reporting period (FY 2018: US$11.2 million), mainly owing to the relative increase of export sales to CIS countries, which are not subject to export duties.

Government profit share decreased by 14.5% to US$2.8 million for the reporting period (FY 2018: US$3.3 million), which corresponds to related decrease in hydrocarbon sales.

Impairment charge

As a result of the further reserves downgrade and respective reflection of the updated future production profiles in the impairment model the Group recognized further non-cash impairment charge mainly on oil & gas assets and exploration & evaluation assets in the amount of US$1,302.0 million and US$50.5 million, respectively (FY 2018: US$117.6 million on oil & gas assets and US$32.4 million on goodwill). Further details of impairment testing and assumptions used are disclosed in the Note 4 to the consolidated financial statements of the Group on pages 134-135.

Finance costs

In thousands of US dollars	For the year ended 31 December 2019	2018	Variance	Variance, %
Interest expense on borrowings	**40,399**	41,143	(744)	(1.8)%
Transaction costs	**-**	6,648	(6,648)	(100.0)%
Unwinding of discount on lease liabilities	**1,369**	134	1,235	921.6%
Unwinding of discount on amounts due to Government of Kazakhstan	**820**	845	(25)	(3.0)%
Unwinding of discount on abandonment and site restoration provision	**164**	399	(235)	(58.9)%
Other finance costs	**295**	214	81	37.9%
Total	**43,047**	49,383	(6,336)	(12.8)%

Finance costs decreased by 12.8% to US$43.0 million for the reporting period (FY 2018: US$49.4 million) mainly due to transactions costs on bonds refinancing incurred in the prior period as well as higher interest capitalization rate, which was slightly offset by finance charges under finance leases of US$1.4 million recognised in accordance with IFRS 16.

Other

There was no loss/gain on derivative financial instruments during the reporting period. During FY 2018 the loss on derivative financial instruments amounted to US$12.4 million and related to fair value of the hedging contract covering oil sales. Based on the contract the Group 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 was 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.

Financial review continued

Other expenses increased to US$12.5 million for the reporting period (FY 2018: US$8.5 million). Such a significant increase in other expenses is explained by various non-recurring costs related to business development and compensations.

Income tax benefit amounted to US$353.2 million for the reporting period, a change of US$381.8 million as compared to prior year (FY 2018: income tax expense of US$28.5 million). Such a significant change resulting in income tax benefit for the period was a consequence of impairment charges recognized as of 31 December 2019 with respective derecognition of deferred tax liabilities.

Liquidity and capital resources

During the period under review, Nostrum's principal sources of funds were cash from operations. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2017 Notes and the 2018 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 FY 2018:

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Cash and cash equivalents at the beginning of the year	**121,753**	126,951
Net cash flows from operating activities	**196,837**	214,041
Net cash used in investing activities	**(120,391)**	(172,021)
Net cash used in financing activities	**(104,308)**	(47,009)
Effects of exchange rate changes on cash and cash equivalents	**49**	(209)
Cash and cash equivalents at the end of the year	**93,940**	121,753

Net cash flows from operating activities

Net cash flow from operating activities was US$196.8 million for the reporting period (FY 2018: US$214.0 million) and was primarily attributable to:

- loss before income tax for the reporting period of US$1,343.1 million (FY 2018: US$92.2 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$143.3 million (FY 2018: US$117.1 million), finance costs of US$43.0 million (FY 2018: US$49.4 million), impairment charge of US$1,354.7 million (FY 2018: US$150.0million) and payment under derivatives of US$3.7 million (FY 2018: US$8.6 million and a loss on derivatives of US$12.4 million).
- a US$12.6 million increase in working capital (FY 2018: US$4.0 million increase) primarily attributable to a decrease in prepayments and other current assets of US$5.5 million (FY 2018: a decrease of US$7.7 million), an increase in trade payables of US$3.9 million (FY 2018: an increase of US$3.2 million) and a decrease in trade receivables of US$4.5 million (FY 2018: an increase of US$1.2 million).
- income tax paid of US$5.5 million (FY 2018: US$9.1 million).

Net cash used in investing activities

Net cash used in investing activities for the reporting period was US$120.4 million (FY 2018: US$172.0 million) due primarily to costs associated with the drilling of new wells of US$56.7million for the reporting period (FY 2018: US$87.5 million), and costs associated with the third gas treatment unit of US$36.4 million for the reporting period (FY 2018: US$55.8 million).

Net cash used in financing activities

Net cash used in financing activities during the reporting period made up US$104.3 million, and was mainly represented by the payment of US$86.0 million of the finance costs on the Group's 2017 Notes and 2018 Notes and payment of US$14.9 million under lease agreements recognized in accordance with IFRS 16. Net cash used in financing activities during FY 2018 amounted to US$47.0 million, which was primarily attributable to the US$81.1 million of the finance costs paid on the Group's Notes, which was offset by net proceeds from issue of 2018 Notes in the amount of US$400 million and the early redemption of 2012 Notes and 2014 Notes totalling US$353.2 million, and payment of the fees and premium paid for the arrangement of these transactions in the amount of US$9.5 million.

Going concern

The Group monitors on an ongoing basis its liquidity position, near-term forecasts and key financial ratios to ensure that sufficient funds are available to meet its commitments as they arise. In addition, on a quarterly basis the Group performs sensitivity tests of its liquidity position for changes in crude oil price, production volumes and timing of completion of various ongoing projects. While looking for new opportunities to fill the spare capacity of the Group's infrastructure, the Directors are also focused on a range of actions aimed at improving the liquidity outlook in the near-term. These include further cost optimization to reduce capital, operating and administrative expenditures.

The base-case scenario of the going concern model has been prepared using a US$45/bbl oil price assumption throughout 2020 and 2021. The base-case liquidity model shows that the Group will be able to operate as usual and have sufficient financial headroom for the 12 months from the date of approval of the Annual Report and Accounts.

As disclosed in Note 35 to the Financial Statements, subsequent to the year-end the price of oil collapsed following a disagreement between OPEC+ countries on production levels compounded by the perceived lack of the future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 ('COVID-19'). Whilst the OPEC+ countries, together with a wider group of producers, have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price.

The Directors have also considered any additional risks of COVID-19. Oil and gas production has been classified as an essential business in Kazakhstan and so operations are continuing. Contingency plans have been put in place both to protect the workforce and ensure that there are sufficient personnel to continue operations. Therefore, the Directors have concluded that there is currently no other material impact on the Group's operations and liquidity at the time of publication of the report as a result of COVID-19. However, it is recognised that there is uncertainty around future developments of this matter which may affect the Group's ability to deliver the forecast production over 2020 and early 2021.

As a result of these uncertainties, we also ran a severe but plausible scenario at US$30/bbl oil price, reflecting current market conditions observed subsequent to the year end for the entire period covered by the model. This represents a scenario in which production is as forecast in the base case model but the post year end conditions continue for 12 months.

The results of the severe but plausible scenario showed that in the near-term the Group's liquidity position is exposed to a further fall in oil prices. Without mitigating actions, a sustained period of low oil prices at US$30/bbl would result in the Group being unable to cover its cash operating and interest costs in 2021. The Group's liquidity position is, therefore, exposed to events outside of the Group's control.

Therefore, the Group announced on March 31, 2020 that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds. The Group is in the process of selecting a financial advisor. The Group will require amendment in the short term to protect the liquidity of the Group within the going concern period and restructuring to ensure ongoing viability. Whilst it is believed that a consensual agreement will be reached with bondholders and shareholders, the outcome of the discussions is uncertain. In the event of sustained low oil prices envisaged in the plausible downside case, the company will require amendment to the payment terms within the bond agreements to take effect within the going concern period.

The Group is also taking other, prudent mitigating actions that can be executed in the necessary time frame and which will protect liquidity. These include cancelling uncommitted capital expenditures over the period without having an impact on forecast production in the going concern period of assessment and identifying further reductions in operating costs and general & administrative costs.

Therefore, in forming an assessment on the Group's ability to continue as a going concern, the Board has made significant judgements about:

- The forecast cash flow of the Group over the next 12 months from the date of approval of the financial statements depends on the duration of the low oil price environment and the Group's ability to implement the mitigating actions within the Group's control; and
- The Group's ability to successfully engage with its bondholders and shareholders regarding a restructuring of the Group's outstanding bonds.

These represent material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

After careful consideration of these, 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. For these reasons, they continue to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

Commitments

In thousands of US dollars	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	43,000	43,000	953,000	414,000	1,453,000
Lease liabilities	6,735	641	–	–	–	7,376
Trade payables	21,685	–	5,953	–	–	27,638
Other current liabilities	30,286	–	–	–	–	30,286
Due to Government of Kazakhstan	–	258	773	4,124	6,443	11,598
Total	58,706	43,258	49,726	957,124	420,443	1,529,898

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$114.8 million (FY 2018: US$168.3 million). This mainly reflects costs associated with the construction of the third gas treatment unit, drilling costs and other field infrastructure development projects.

Gas Treatment Facility

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, the Group achieved full commissioning of a third unit in during 2019. The construction of GTU3 is important for implementing the Group's strategy to increase operating capacity and as a result increase production and processing of liquid hydrocarbons.

Drilling

Drilling expenditures amounted to US$56.7 million for the reporting period (FY 2018: US$87.5 million). The drilling program has been halted for 2020, while ways to mitigate the identified reservoir risks are being analysed.

Dividend policy

The Group currently pays no dividend and has not done so for the last three years, as the Board determined it was not in the Company's best interests to do so. This will be reviewed annually by the Board.

Five-year summary

In millions of US$ (unless mentioned otherwise)	**2019**	2018	2017	2016	2015
EBITDA reconciliation					
Loss before income tax	**(1,343.1)**	(92.2)	26.0	(65.5)	72.3
Add back					
Finance costs	**43.0**	49.4	59.8	41.7	46.0
Impairment charge	**1,354.7**	150.0	–	–	–
Finance costs – reorganisation	**-**	–	–	–	1.1
Employee share options – fair value adjustment	**0.6**	(1.3)	(2.1)	(0.1)	(2.2)
Foreign exchange gain/(loss), net	**(0.4)**	1.0	0.7	0.4	21.2
Loss on derivative financial instrument	**-**	12.4	6.7	63.2	(37.1)
Interest income	**(0.1)**	(0.5)	(0.4)	(0.5)	(0.5)
Other expenses	**12.5**	8.4	22.0	(1.8)	30.6
Export customs duty[1]	**-**	–	–	–	(14.7)
Other income	**(7.2)**	(4.4)	(4.1)	(2.2)	(11.3)
Depreciation, depletion and amortisation	**143.3**	117.1	123.0	131.6	109.4
Proceeds from derivative financial instruments[2]	**-**	–	–	27.2	92.3
Purchase of derivative financial instruments[2]	**(3.7)**	(8.6)	–	–	(92.0)
EBITDA	**199.6**	231.3	231.6	194.0	215.0
Operating costs reconciliation					
Cost of sales	**172.0**	165.1	177.2	182.2	186.6
Adjusted for:					
Depreciation, depletion and amortisation[3]	**(136.8)**	(115.2)	(120.7)	(129.4)	(107.7)
Lease costs[4]	**3.0**	–	–	–	–
Change in stock[5]	**6.2**	(0.1)	(0.3)	(2.0)	3.6
Royalties[6]	**-**	–	–	–	(14.4)
Government profit share[6]	**-**	–	–	–	(1.9)
Operating costs	**44.4**	49.8	56.3	50.7	66.3
G&A reconciliation					
General and administrative expenses	**21.4**	22.2	33.3	34.8	44.2
Adjusted for:					
Depreciation and amortisation	**(2.0)**	(1.9)	(2.3)	(2.2)	(1.7)
G&A	**19.4**	20.3	31.0	32.6	42.6

1. In 2016, 2017, 2018 and 2019, Export customs duty is included within Profit/(loss) before income tax (presented within 'taxes other than income tax'). In 2015, Export customs duty is included within 'other expenses', therefore an adjustment is made to re-include Export customs duty within respective EBITDA.
2. Cash received from hedge contract represents the cash proceeds from the long-term hedging contract which in accordance with IAS7 Statement of Cash Flows is included within operating cash flows. While this item is not required to be presented in the Consolidated Income Statement, we have included this in our definition of EBIT and EBITDA in order to better align these non-GAAP measures with our operating cash flows.
3. Depreciation as it applies to operating assets only.
4. Starting from 2019 certain lease costs are recognized as the right-of-use assets under IFRS 16, and these relevant costs are reflected in the form of depreciation of these assets. Hence for better comparability with previous periods respective lease costs are included in the reconciliation.
5. Due to materiality the change in stock was introduced in the opex reconciliation from 2019, and comparatives have been adjusted accordingly for consistency purposes.
6. Prior to 2016, royalties and government profit share were reported within the cost of sales line.

In millions of US$ (unless mentioned otherwise)	2019	2018	2017	2016	2015
Net debt reconciliation					
Long-term borrowings	**1,100.5**	1,094.0	1,056.5	943.5	936.5
Current portion of long-term borrowings	**35.6**	35.6	31.3	15.5	15.0
Less					
Cash and cash equivalents	**93.9**	121.8	127.0	101.1	165.6
Net Debt	**1,042.2**	1,007.8	960.8	857.9	785.9
Net cash flows from operating activities	**196.8**	214.0	182.8	202.1	153.3
Net cash used in investing activities[7]	**(120.4)**	(172.0)	(192.2)	(200.3)	(245.3)
Net cash from/(used in) financing activities	**(104.3)**	(47.0)	34.6	(66.3)	(115.9)
EBITDA margin[8]	**61.9%**	59.3%	57.1%	55.7%	47.9%
Equity/assets ratio %	**(51.1)%**	25.3%	29.6%	32.8%	35.4%
Share price at end of period (US$)[9]	**0.22**	1.03	4.41	4.75	5.97
Shares outstanding ('000s)	**188,183**	188,183	188,183	188,183	188,183
Options outstanding ('000s)	**3,432**	3,432	3,333	2,536	2,611
Dividend per share (US$)	**-**	–	–	–	0.27

7. IFRS term based on indirect cash flow methodology.
8. EBIDTA margin is calculated as EBITDA divided by total revenue.
9. Prior to 20 June 2014 the equity of the Group was represented by GDRs, the share price as at 31 December 2018 was 1.03 GBP/share x 1.28 US$/GBP = 1.32 US$/share.

Alternative performance measures

In the discussion of the Group's reported operating results, alternative performance measures (APMs) are presented to provide readers with additional financial information that is regularly reviewed by management to assess the financial performance or financial health of the Group, or is useful to investors and stakeholders to assess the Group's performance and position. However, this additional information presented is not uniformly defined by all companies including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted IFRS measure. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

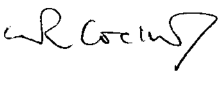
EBITDA

EBITDA is defined as the results of operating activities before depreciation and amortisation, share-based compensation, fair value gains and losses on derivative instruments, foreign exchange losses, finance costs, finance income, non-core income or expenses and taxes, and includes any cash proceeds received or paid out from hedging activity. This metric is relevant as it allows management to assess the operating performance of the Group in absence of exceptional and non-cash items.

Operating costs

Operating costs are the cost of sales less depreciation, royalties and government profit share. This metric is relevant as it allows management to see the cost base of the company on a cash basis.

The Strategic Report, as set out from page 2-57, has been reviewed and approved by the Board of Directors and signed on its behalf by:



Martin Cocker
Chief Financial Officer

29 April 2020

Executive Chairman's overview

> The Board primarily focused on strategy and the ways in which it could improve production and reduce operational expenditures in 2019.

Dear shareholder,

2019 has been another difficult year for the Company operationally, and saw the Board spend a considerable amount of time reviewing the Company's strategy. In order to try to address the extreme weakness in the Company's share price and bond price, the Board launched the strategic review process on 24 June 2019 whereby it notified the market that it had engaged Goldman Sachs to carry out a review of all strategic options available to it in order to try to maximise value for all the Company's stakeholders. However, the Company announced on 31 March 2020 that it had not received any firm proposals as part of the strategic review and that it has decided to end the process and seek to engage with bondholders regarding a possible restructuring of the Group's outstanding debt.

Board changes

On 16 December 2019, the Company mutually agreed with Kai-Uwe Kessel that he would step down from the Board with effect from the same date. Kai was succeeded by Kaat Van Hecke on an interim basis until a new permanent chief executive officer is recruited. Kaat has served on the Board as an Independent Non-Executive Director since 31 December 2016. In addition, effective 31 March 2020 Tom Richardson resigned as a director of the Company and was succeeded by Martin Cocker on an interim basis until a new permanent chief financial officer is recruited. Martin has served on the Board as an Independent Non-Executive Director since 16 November 2017.

I look forward to continuing to work with all Board members as we carry on trying to build the business and reviewing our strategic goals.

Key priority tasks in 2019

The Board primarily focused on strategy and the ways in which it could improve production and reduce operational expenditures in 2019. The Board was also pleased to see that technical commissioning of GTU3 was completed in 2019.

In addition, the Board focused on compliance with the new requirements of the 2018 Corporate Governance Code and, in particular, workforce engagement. Earlier in 2019, Sir Christopher was appointed by the Board as the non-executive director that would lead the Board's engagement with Nostrum's workforce as foreseen in Provision 5 of the 2018 UK Corporate Governance Code. More information on the work Sir Christopher has carried out in relation to workforce engagement can be found on page 80.

The Board maintains its focus on managing risk as Nostrum builds out its infrastructure and the Board discusses risk regularly as part of the Board's wider discussion of our strategy and business model. Further information is set out on page 44 where we aim to demonstrate how decisions taken by the Board are underpinned by a robust risk management framework.

Board evaluation

The Board self-evaluation in 2019 centred around five key themes identified by directors. Those related to interaction with senior management for decision-making purposes, the development of strategy and engagement with shareholders and stakeholders, including the workforce, succession planning for both executive and non-executive directors, and diversity at Board level and among senior management. Further details can be found on page 70.

Remuneration policy

A revised directors' remuneration policy was presented to shareholders for their vote at our 2019 Annual General Meeting. The Remuneration Committee led the process in proposing amendments to our policy in response to feedback received from shareholders in 2018. The policy was approved but the Board noted that there was a significant minority vote against approval of the directors' remuneration report (25.35%) and the directors' remuneration policy (28.93%). In line with the Code, the Company released a statement on 28 August 2019 (a copy of which is available on our website and on the Public Register maintained by the Investment Association) to explain what steps it plans to take to consult with shareholders. As explained in the statement, the Board and the Remuneration Committee continue to believe that the Company's directors' remuneration policy is appropriate and aligned with Nostrum's strategy and business needs but are nevertheless committed to keeping the directors' remuneration policy under review and to continuing our engagement and dialogue with the Company's shareholders and advisory bodies on these and other matters and welcome any feedback. For further information, please see the letter from the Chairman of the Remuneration Committee on pages 84-85.

Atul Gupta
Executive Chairman

29 April 2020

Compliance with the Code

The UK Corporate Governance Code issued by the Financial Reporting Council in July 2018 sets out the governance principles and provisions that applied to the Company during 2019. A copy of the Code is available from the Financial Reporting Council's website at www.frc.org.uk. The aim of the corporate governance report is to demonstrate how the principles of the Code have been considered and applied by the Company. The UK Financial Reporting Council promotes high-quality corporate governance and reporting through the 2018 UK Corporate Governance Code with which all companies with a premium listing on the London Stock Exchange are required to either comply in full; or explain why, and to what extent, they do not so comply. This statement should be read in conjunction with the Corporate Governance section as a whole. The following headings correspond to the headings in the Code.

Section 1: Board Leadership and Company Purpose

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. See pages 62-63.

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture. See pages 38-39.

The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed. See page 44.

In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. See pages 61 and 70.

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern. See pages 38-39.

Section 2: Division of Responsibilities

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information. See page 66.

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business. See pages 66-67.

Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account. See page 66.

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently. See pages 66-68.

Section 3: Composition, succession and evaluation

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. See pages 67 and 70.

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed. See page 68 and committee reports.

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively. See page 70.

Section 4: Audit, risk and internal control

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions, and satisfy itself on the integrity of financial and narrative statements. See pages 72-79.

The board should present a fair, balanced and understandable assessment of the company's position and prospects. See page 50.

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term objectives. See page 44.

Section 5: Remuneration

Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy. See pages 84-94.

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome. See pages 95-103.

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. See pages 84-94.

Statement of compliance

Nostrum fully complied throughout 2019 with the provisions of the 2018 version of the UK Corporate Governance Code except in the following respects:

Provision 11

Following the appointment of Ms Van Hecke as Chief Executive Officer on 16 December 2019 and Mr Cocker as Interim Chief Financial Officer on 1 April 2020, at least half of the Board, excluding the Chair, are no longer considered to be independent. Given recent changes in various directors' respective roles, the Company's announced engagement with its bondholders and the ongoing uncertainties caused by the Covid 19 coronavirus, the Board has not yet commenced a search for an additional independent non-executive director to join the Board but this subject is being kept under review.

Provisions 24 and 32

Following the appointment of Ms Van Hecke as Chief Executive on 16 December 2019,she was no longer considered as independent for the purposes of the Code and her continued membership of both the Audit Committee and the Remuneration Committee contravened Provisions 24 and 32 of the Code, respectively. On 27 January 2020, Ms Van Hecke stepped down as a member of the Audit Committee and the Remuneration Committee and Mr Cocker was appointed as a member of the Remuneration Committee to ensure full compliance with the Code in this respect. No additional changes were made to the composition of the Audit Committee as following Ms Van Hecke's departure as a member, the membership of the Audit Committee still consisted of three independent non-executive directors in full compliance with the Code.

Following the appointment of Martin Cocker as Interim Chief Financial Officer on 1 April 2020, he was no longer considered by the Board as independent for the purposes of the Code and as a result his continued membership of both the Audit Committee and the Remuneration Committee contravenes Provisions 24 and 32 of the Code, respectively. On 1 April 2020 Mr Cocker stepped down as Chairman of the Audit Committee and was replaced by Sir Christopher Codrington, Bt. so that the Chairman of the Audit Committee is an independent non-executive director. However, the Board determined that given that it is intended that Mr Cocker will only serve as Chief Financial Officer on an interim basis, he should remain as a member of the Audit Committee and the Remuneration Committee at this time and this matter will be kept under review going forward.

Provision 36

The Company's LTIP has a total holding and vesting period of no more than three years and therefore does not comply with the requirements of Code Provision 36, which requires share awards to be released for sale on a phased basis and be subject to a total vesting and holding period of five years or more. As explained in the press release released by the Company on 28 August 2019, a copy of which has also been published on the Public Register maintained by the Investment Association, the Board and the Remuneration Committee believe that the current provisions of the LTIP relating to the performance period and vesting period are appropriate and aligned with the interest of shareholders, so that modifying such provisions of the LTIP at this time would not be the right course of action. The full text of the announcement is available to read on the Company's website and more information can be found on page 84.

How the board are considering stakeholders in decision-making

Workforce

The Group has a workforce of 636. The majority of workers are based in Kazakhstan.

In 2019, the Board, through Sir Christopher in his capacity as the Board's designated non-executive director for workforce engagement, held a workforce engagement meeting in September in Uralsk. The majority of the issues raised at the meeting were HR-related issues and so, following the meeting, the Board approved the establishment of a new email address to which all employees can send issues and questions of concern. Key issues will be periodically reported to the Board and taken into consideration in future Board decision-making. More information can be found on page 80.

Investors

Executive members of the Board regularly meet with institutional investors and banks' analysts at investor conferences and industry forums throughout the year, and the Investor Relations team provides the Board with regular feedback on investors' views and key market issues so that they can inform Board decision-making.

A key area where shareholders have influenced Board decision-making is in relation to the Directors' Remuneration Policy, which was again tabled for shareholder approval at the 2019 AGM after changes were made following investor feedback received in 2018. More information can be found on pages 70 and 84.

Local Communities

The Group coexists with diverse communities in Kazakhstan. The Group aims to strengthen engagement with communities in order to grow together and contribute to the long-term development of the areas around its operations. More information on the ways in which Nostrum engages with the local communities in which it operates can be found on pages 40-41.

The recently created Health, Safety, Environment and Communities Committee has responsibility for making recommendations to the Board and fostering a healthy two-way dialogue and good relations between the Group and the communities with which the Company interacts. There is an opportunity for any issues to be raised and discussed at every quarterly Board meeting, which in turn informs Board decision-making.

Suppliers, Contractors and Customers

We are committed to building a trusted partnership with our suppliers, contractors and customers. The Board recognises that in order to carry out our operations in the safest possible way our suppliers must meet the highest safety and legal standards. The Health, Safety, Environment and Communities Committee has done a lot of work in this area during 2019 by conducting contractor safety audits. Action items were drawn up following each audit, and the Company has been engaging heavily with those contractors concerned to ensure that any issues are addressed and necessary corrective actions taken. The Board is supplied with copies of all audit reports, and there is an opportunity for any issues to be raised and discussed at every quarterly Board meeting (and more frequently if required), which in turn informs Board decision-making. Significantly, all our hydrocarbons are sold to two main customers. The Board recognises the importance of ensuring that those customers are aware of any disruptions in supply and so the Group is in constant communications with these key stakeholders.

Governments and Regulators

Governments and regulators set the framework within which we are required to operate and changes to policy, regulations and legislation can have a major impact on the Group's business. A large number of the decisions taken by the Board require the Board to consider governmental and/or regulatory issues and an overview of such issues is always included in Board decision papers. Nostrum operates a formal public relations and government relations procedure which regulates our relationships with the local community and government. Further details regarding our engagement with governments and payments made to governments can be found on pages 40-41.

Board of directors

Atul Gupta
Executive Chairman

DOB: 15 December 1959
Nationality: British
Date of appointment: 19 May 2014

Other current appointments: None

Skills and experience:
- Chief Executive Officer (2006-2008) and Chief Operating Officer (1999-2006) of Burren Energy.
- 30 years' broad experience in international upstream oil and gas businesses: Charterhouse Petroleum, Petrofina, Monument and Burren Energy.
- Graduate in Chemical Engineering (Cambridge University) and Masters in Petroleum Engineering (Heriot Watt University, Edinburgh).

Kai-Uwe Kessel[1]
Chief Executive Officer

DOB: 17 December 1961
Nationality: German
Director of Nostrum's predecessor entities since 2004
Date of appointment: 3 October 2013

Other current appointments:
- None

Skills and experience:
- 2002-2005, director of Gaz de France's North African E&P division.
- 1992-2001, Managing Director of Erdas Erdöl GmbH, an oil and gas company owned by Gaz de France, and Director and Chairman of the Board of KazGermanai.
- Graduate of the Gubkin Russian State University of Oil and Gas.

N H

Kaat Van Hecke[2]
Chief Executive Officer

DOB: 7 December 1971
Nationality: Belgian
Date of appointment: 31 December 2016

Other current appointments:
- Axxela Limited – Director

Skills and experience:
- 2013-2016 served as Managing Director and Senior Vice President of the Austrian Upstream business at Österreichische Mineralölverwaltung (OMV).
- 2010-2013 served as E&P Group Head of Business Support at OMV.
- 2002-2010 held various positions with Shell in Russia, Nigeria and The Netherlands.
- 1995-2001 held various positions with ExxonMobil in Belgium and The Netherlands.
- Obtained a Master of Science degree in Chemical Engineering from the University of Ghent, Belgium.
- Also holds a Master in General Management from the Vlerick Management School, Belgium.

Tom Richardson[3]
Chief Financial Officer

DOB: 17 March 1981
Nationality: British
Date of appointment: 1 September 2016

Other current appointments:
- Nostrum Oil & Gas UK Limited – Director
- TDR Enterprises Holdings Limited – Director
- TDR Property Investments Ltd – Director
- TDR Enterprises Ltd – Director

Skills and experience:
- Since 2011, provided corporate finance services to the Nostrum Group.
- Worked for a number of financial institutions, including Rothschild,
- JP Morgan and ING.
- Eight years of experience in banking, covering emerging markets.
- Holds a Bachelor of Science degree from Bristol University.

A N R

Mark Martin
Senior Independent Director

DOB: 17 February 1969
Nationality: British
Date of appointment: 19 May 2014

Other current appointments: None

Skills and experience:
- 20 years of investment banking experience with Barclays, Baring Securities and ING, where he was Global Head of Equity Capital Markets from 2003 to 2011.
- 2011-2014 served as Chief Executive Officer of Exillon Energy PLC in Moscow.
- Graduate of Cambridge University with a degree in Social and Political Sciences.

Board committees

A Audit Committee
N Nomination & Governance Committee
H Health, Safety, Environment and Communities
R Remuneration Committee
Chairman

1. Mr Kessel stepped down as Chief Executive Officer on 16 December 2019.
2. Ms Van Hecke was appointed as Chief Executive Officer on 16 December 2019.
3. Mr Richardson resigned as Chief Financial Officer on 31 March 2020 and was replaced by Martin Cocker.

A N R

Sir Christopher Codrington, Bt.
Independent non-executive director

DOB: 20 February 1960
Nationality: British
Date of appointment: 19 May 2014

Other current appointments:
- Navarino Services Limited – Director
- Capital Marketing Investments Ltd – Director
- Codco Limited
- Network Point Management (Witney) Limited

Skills and experience:
- More than 30 years' executive board and senior management experience in the oil and gas sector, and the hospitality and other industries.
- Spent eight years living in Houston, Texas, developing prospects in various oil and gas fields for COG, Inc., Texas General Resources, Inc., TexBrit Corporation, Inc. and Whitehall Energy Limited.
- Royal Agricultural University – DipAFM.

Michael Calvey
Non-executive director

DOB: 3 October 1967
Nationality: American
Date of appointment: 25 April 2017

Other current appointments:
- BPEP International – Director
- Baring Vostok Capital Partners Group Limited – Director
- Volga Gas PLC – Director

Skills and experience:
- 1994 – present, Founder and Senior Partner at Baring Vostok Capital Partners.
- Prior to 1994, worked on oil and gas investment projects for the European Bank for Reconstruction and Development and Salomon Brothers.
- Obtained a Masters degree in Finance from the London School of Economics and a Bachelors degree in Business from Oklahoma University.

Simon Byrne
Non-executive director

DOB: 8 September 1967
Nationality: British
Date of appointment: 16 November 2017

Other current appointments:
- Chief Executive Officer of Steppe Capital Pte Ltd
- Director of Mayfair Investments B.V., Kazstroyservice Global B.V. and various other entities within the Steppe Capital Group
- Independent Non-Executive Director at Pacific Hunt Energy Limited

Skills and experience:
- Chief Executive Officer of Steppe Capital Pte Ltd, an investment holding company and international family office based in Singapore.
- More than 30 years' corporate finance and banking experience, and previously served as a Managing Director at RBS Global Banking & Markets and at ABN Amro, and held positions with Asahi Bank and Manufacturers Hanover Limited.

A H R

Martin Cocker[1]
Non-executive director

DOB: 19 September 1959
Nationality: British
Date of appointment: 16 November 2017

Other current appointments:
- Etalon Group PLC – Non-Executive Director
- Tinkoff Credit Systems Group Holdings – Non-Executive Director
- Beverley Building Society – Non-Executive Director
- Headhunter Group PLC
- JEC Property Management
- Gyassi Limited

Skills and experience:
- Chartered accountant with over 30 years' business experience.
- Held several line management, project leader and CEO-level positions, and currently is an independent non-executive director and Chairman of the Audit Committee at Etalon Group PLC and TCS Group Holdings PLC.
- Previously held senior positions with Deloitte & Touche, KPMG, Ernst & Young and Amerada Hess.
- Obtained a BSc joint honours in Mathematics and Economics from the University of Keele.
- Member of the Institute of Chartered Accountants of England and Wales.

1. Following the resignation of Thomas Richardson as CFO on 31 March 2020, on 1 April 2020, Martin Cocker assumed responsibility for the CFO's functions on an interim basis until a new permanent CFO is recruited.

Senior management team

Robert Tinkhof
Chief Operating Officer[1]

DOB: 8 April 1962
Nationality: Dutch

Skills and experience:
- Appointed as Chief Operating Officer of the Group on 12 February 2019.
- Held several senior management positions, most recently as Managing Director at the Scientific Research Institute of KMG for Production and Technology in Kazakhstan.
- 32 years of experience in the oil and gas industry, mainly with Royal Dutch Shell with assignments in The Netherlands, UK, Syria, Iran, Egypt, Dubai, Iraq and Russia.

Arkadi Epifanov
Chief Commercial Officer

DOB: 27 October 1957
Nationality: Russian

Skills and experience:
- Appointed as Chief Commercial Officer on 13 January 2017.
- 2009-2017 held position as marketing consultant for Zhaikmunai LLP.
- Over 20 years' experience in senior management and directorial positions in Nafta, Transoil, Lukoil, Litasco and Baltic Oil Terminal.
- Has worked in the oil sector across diverse regions, including Finland, Belgium, Romania, Russia, Switzerland, The Netherlands and the British Isles.
- Holds qualifications in Economics from Leipziger University.

Thomas Hartnett
Chief Legal Officer, Company Secretary and Acting Head of Human Resources

DOB: 4 July 1964
Nationality: US/Belgian

Skills and experience:
- Appointed as General Counsel of the Nostrum Group on 5 September 2008, as Company Secretary of Nostrum Oil & Gas PLC on 3 October 2013 and as Acting Head of Human Resources on 13 January 2020.
- More than 16 years' experience with the law firm White & Case LLP, where he was a Partner and specialised in cross-border corporate and M&A transactions based in the firm's New York, Istanbul, London, Brussels and Bangkok offices.
- 1996-1998 served as Senior Corporate Counsel for Intercontinental Hotels Group (formerly Bass Hotels & Resorts).
- Holds a Bachelor of Arts degree in Comparative and Developmental Politics from the University of Pennsylvania and a Juris Doctor degree from New York University School of Law.
- Member of the New York Bar.

Sergey Khafizov
Chief Business Development Officer

DOB: 14 February 1965
Nationality: Russian

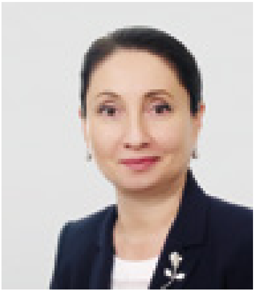
Skills and experience:
- Appointed as Chief Business Development Officer in September 2016.
- 2015-2016 held position as Project Director and Head of Exploration Department.
- Over 33 years' of experience in geological exploration and production, leading large exploration projects, research and project teams.
- Previously held managerial and technical positions with Gazprom Neft and TNK-BP.
- Graduate of the Gubkin Russian State University of Oil and Gas, Doctor of Science, Geology Professor, Full Member (Academician) of the Russian Academy of Natural Sciences, Member of the American Association of Petroleum Geologists (AAPG) and Society of Petroleum Engineers (SPE).

(See biographies of executive directors Kaat Van Hecke and Martin Cocker on page 62 and 63).

Daulet Tulegenov
Group QHSE Manager

DOB: 29 January 1980
Nationality: Kazakh

Skills and experience:
- Appointed as Group QHSE Manager in October 2018.
- 2017-2018 HSE Transformation
- Team leader at KazMunaiGas JSC.
- 2010-2016 HSE manager at Lukoil.
- Over 15 years' experience in E&P oil and gas assets (onshore and offshore).
- Took part in major international projects at Chevron, Shell, Lukoil, Tengizchevroil and CNPC companies in Kazakhstan
- Graduate of the Tyumen State Oil & Gas University, Russian Federation.



Marina Grinevskaya[2]
Chief HR Officer

DOB: 9 April 1963
Nationality: Russian

Skills and experience:
- Appointed as Group HR Manager on 15 September 2016 and as Chief HR Officer on 1 February 2019.
- More than 24 years' experience in human resources management.
- Worked for international companies in various industries: professional services, sales and marketing, oil and gas, production.
- Held HR Manager and HR Director positions at KPMG, Lumene, Farmos, Gazprom Neft Middle East B.V., DS Controls.
- Graduate of the St. Petersburg State University with a PhD degree in English Philology, holds a diploma and certificate in Human Resources Management from the St. Petersburg State University of Economics and Finance and Pierre Mendès-France University of Grenoble.

1. On 12 February 2019 Robert Tinkhof was appointed as Chief Operating Officer as a result of the retirement of Heinz Wendel.
2. Ms Grinevskaya left the Company on 25 December 2019 and Mr Hartnett assumed the position of Acting Head of Human Resources on 13 January 2020.

Our governance framework

The Board

The Board is chaired by Atul Gupta and meets a minimum of four times a year. The Board is collectively responsible to shareholders for the long-term success of the Group. This is achieved by reviewing trading performance, budgets and funding, setting and monitoring the Group's strategic objectives, reviewing acquisition opportunities and engaging with stakeholders. The Board is supported by a number of committees whose Terms of Reference (TORs) are available on our website.

Chairman

Responsible for leadership of the Board and for ensuring its effectiveness in all aspects of its role.

Chief Executive Officer

Responsible for the successful planning and execution of the objectives and strategies agreed by the Board.

Non-executive directors

Responsible for bringing an external perspective, sound judgement and objectivity to the Board's decision-making. Scrutinise management performance and constructively challenge strategy.

Senior Independent Director

Provides a sounding board for the Chairman and a trusted intermediary for the other directors.

Audit Committee

Responsible for oversight of the Group's financial reporting processes. Scrutinises the work of the external auditor and regularly reviews the risk management framework and the work of internal audit.

Chairman:
Sir Christopher Codrington, Bt.[1]
See page 72 for Committee Report.

Nomination and Governance Committee

Reviews the structure, size and composition of the Board and its committees and makes recommendations to the Board accordingly, and leads the process for new Board appointments.

Chairman:
Sir Christopher Codrington, Bt.
See page 80 for Committee Report.

Remuneration Committee

Reviews and recommends to the Board the executive remuneration policy and determines the remuneration packages of the directors.

Chairman:
Mark Martin
See page 84 for Committee Report.

Health, Safety, Environment and Communities Committee

Assists the Board to fulfil its responsibilities in relation to health, safety, environment and communities matters arising out of the activities of the Group, and in overseeing and providing stewardship of relevant material HSEC matters for the Company.

Chairwoman:
Kaat Van Hecke
See page 82 for Committee Report.

Company Secretary

Responsible for advising the Board, through the Chairman, on all governance matters and for ensuring that Board procedures are complied with and there is a good flow of information between the Board and its committees. The appointment of the Company Secretary is a matter reserved to the Board as a whole.

Company Secretary:
Thomas Hartnett

Senior management team

The senior management team supports the Chief Executive Officer in making important decisions regarding the overall management of the Group in respect of all Group matters that are not reserved for the Board and ensuring that operational activities and performance are aligned with the overarching strategy of the Group. Each member of the team reports directly to the Chief Executive Officer, who then directly reports to the Board.

The functional responsibilities of the senior management team members in their respective area include but are not limited to implementing Chief Executive Officer and Board decisions, allocating resources, managing risk, maximising efficiencies, guiding and developing employees, reviewing performance and supporting cross-functional integration.

Finance

Responsible for supporting the Group and the Board in matters relating to: (i) corporate finance (ii) investor relations (iii) economic analysis (iv) public relations (v) external communications (vi) accounting & reporting (vii) tax (viii) budget & control (ix) insurance (x) treasury & cash management (xi) liaison with internal audit (xii) risk management (xiii) ICT (xiv) company administration (accounting & tax matters) and (xv) capital markets analysis.

Head: Martin Cocker[2]

Business Development

Responsible for supporting the Group and the Board in matters relating to: (i) licensing (ii) preparation and implementation of E&P strategy (iii) geological exploration and analysis (iv) asset portfolio management (v) market intelligence (vi) transaction management and (vii) peer analysis.

Head: Sergey Khafizov

Operations

Responsible for supporting the Group and the Board in matters relating to: (i) production engineering and reservoir management (ii) drilling and workover management production (iii) production (iv) engineering and construction field operations (v) relations with governmental authorities (vi) procurement (vii) security and (viii) administration.

Head: Robert Tinkhof

Legal

Responsible for supporting the Group and the Board in matters relating to: (i) all legal matters (ii) compliance (iii) corporate governance (iv) company administration (Legal & Governance Matters).

Head: Thomas Hartnett

Sales and Marketing

Responsible for supporting the Group and the Board in matters relating to: (i) sales of oil and gas products (ii) marketing and (iii) logistics and transportation.

Head: Arkadi Epifanov

QHSE

Responsible for supporting the Group and the Board in matters relating to: (i) product quality (ii) personnel and community health and safety and (iii) environmental protection.

Head: Daulet Tulegenov

Human Resources

Responsible for supporting the Group and the Board in matters relating to: (i) personnel and the workforce matters generally (ii) training and (iii) remuneration.

Acting Head: Thomas Hartnett[3]

1. Sir Christopher became Chairman of the Audit Committee on 1 April 2020 following the appointment of Martin Cocker as Chief Financial Officer.
2. Martin Cocker replaced Tom Richardson as Chief Financial Officer effective 1 April 2020.
3. Marina Grinevskaya left the Company on 25 December 2019 and Thomas Hartnett assumed the position of Acting Head of Human Resources on 13 January 2020.

Board policies and governance arrangements

Nostrum recognises the important role that good corporate governance plays in the success of the Company. As a result, the Board promotes high standards of corporate governance as a key component of its activities. Clearly defined roles and responsibilities, non-executive independence, boardroom and workplace diversity, an open and transparent culture and the work of our committees in implementing the Company's values and policies throughout the Group are all vital ingredients to get this right for our stakeholders.

In order to ensure that it is involved in making important decisions for the Group and to ensure a clear division of responsibilities between the Board and executive management, the Board has identified certain "reserved matters" that are subject to its approval. Other matters, responsibilities and authorities have been delegated to its committees and the senior management team, as set out in the governance framework on page 66. The schedule of matters reserved for the Board is reviewed annually and is available on our website.

Division of responsibilities

On 27 November 2018, the Board resolved to expand the role of the Company's Chairman, Atul Gupta, to give him certain executive responsibilities, in particular in relation to business development, strategic initiatives and investor relations. Notwithstanding this, in accordance with the Code, the roles of Chairman and Chief Executive remain separate, with each having distinct and clearly defined responsibilities, as summarised in the Board structure diagram. Mr Gupta's role as Executive Chairman is to guide, advise, counsel and assist the Chief Executive Officer in overseeing the Company's implementation of its strategy. The Chief Executive remains responsible for line management of his direct reports and implementation of the Company's strategy.

The Chairman's overarching role in leading an effective Board is supported by the Senior Independent Director, while the Chief Executive Officer's strategic capabilities are strengthened by the Senior Management Team.

Independence

Robust oversight is crucial for strong corporate governance and the Board is committed to securing this through the appropriate balance of independent non-executive directors.

The Board considers all of its non-executive directors, other than Michael Calvey and Simon Byrne, to be independent within the meaning of such term as defined in the Code. Michael Calvey and Simon Byrne are not deemed to be independent as a result of having been nominated by Baring Vostok Capital Partners and Mayfair Investments B.V. respectively, who are two of the largest shareholders in the Company.

Equality and diversity

The Board has due regard for the importance of, and benefits from, diversity in its membership, including gender diversity, and strives to maintain an appropriate balance on the Board. The Board is comprised of individuals with diverse sectoral experience, ages, geographic and ethnic origin, and gender.

The Company has 12.5% female representation on its Board. The Nomination Committee remains satisfied that the Board has the right mix of skills and experience to operate effectively but remains committed to monitoring diversity closely as part of future succession planning.

In November 2017, the Board approved its Equality and Diversity Policy, to which the Company continued to adhere throughout 2019.

In accordance with the policy, the Group is committed to eliminating discrimination and encouraging equality and diversity in all of our business activities, including the provision of employment. The policy applies to all who work for the Group, including directors, together with the managerial, supervisory and administrative bodies of all entities within the Group. The policy also applies equally to the treatment of our supply chain, applicants and visitors by our staff and the treatment of our staff by these third parties. The objective of the policy is to promote equality of opportunity and to ensure that no individual suffers unlawful discrimination, directly or indirectly, on the grounds of race, colour, ethnicity, religion, sex, gender identity or expression, gender reassignment, national origin, age, marital status, disability or sexual orientation.

The Group aims to ensure the objective of the policy is met by:

- ensuring all recruitment advertising and publicity aims to encourage applications from any individual who has appropriate qualifications and/or experience;
- not offering discriminatory conditions of employment;
- ensuring all promotions are made strictly on the basis of the ability to do the job and no such decision is made on a discriminatory basis;
- considering requests for part-time work or job-sharing opportunities wherever appropriate and practicable, and aiming to ensure that part-time employees receive fair treatment;
- ensuring that the demands of religion (e.g. prayer time and religious holidays), culture (e.g. traditional dress) and special dietary needs are accommodated where possible; and
- taking reasonable steps to assist employees with domestic responsibilities (e.g. young children and dependent elderly relatives).

The following are the steps that have been taken in 2019 to implement this policy:

- Despite the challenging trading environment and a significant reduction in recruitment activities, where recruitment has been required we have continued to focus on attracting more female candidates across all levels throughout the Group and are assessing our performance in attracting female employees at junior management levels in Kazakhstan and reviewing our current training, retention and promotion schemes to encourage the promotion of more women into senior management positions;
- Our Human Resources team reported regularly to the HSEC Committee on diversity. In conjunction with the HSEC Committee, a gender diversity action plan has been established which aims to increase the percentage of female employees across all levels within the Group to 25% by 2022;
- An analysis of any gender pay gap issues is being conducted; and
- We continue to look into cross-company mentor schemes to achieve our goals in this area.

Our governance framework continued

Conflicts of interest

A director has a duty to avoid a situation in which they have, or may have, a direct or indirect interest that conflicts or may conflict with the interests of the Company.

Formal procedures are in place to ensure that the Board's powers of authorisation of conflicts or potential conflicts of interest of directors are operated effectively. The Board is satisfied that during 2019 these procedures were enforced and adhered to appropriately.

Appointment and tenure

All executive directors have service agreements with the Company and all non-executive directors have letters of appointment with the Company. For all executive directors, there is no term limit on their services, as the Company proposes all executive directors for annual re-election at each subsequent Annual General Meeting of the Company.

Each non-executive director appointment is for an initial term of three years, subject to being re-elected at each subsequent Annual General Meeting.

Bribery, corruption and whistle-blowing

Bribery and corruption are significant risks in the oil and gas industry and, as such, the Company operates a Group-wide anti-corruption and bribery policy, which applies to all Group employees and contractor staff. The policy requires annual bribery and corruption risk assessments; risk-based due diligence on all parties with whom the Company does business; appropriate anti-bribery and corruption clauses in contracts; and the training of personnel in anti-bribery and corruption measures. In addition, the Company's code of conduct requires that employees or others working on behalf of the Company do not engage in bribery or corruption in any form. Corruption-related risks are evaluated on a Group-wide basis (not in respect of divisions). No confirmed corruption cases were identified in 2019. No employees were trained on anti-corruption policies in 2019.

The Company has also adopted a whistle-blowing policy that takes account of the Whistleblowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work. Further information can be found on page 39.

An anonymous person raised one matter under the Company's whistle-blowing policy in 2019 and, upon receipt of this request, the Company followed the review procedures contained in the whistle-blowing policy and conducted an investigation. The outcome of the investigation was that the allegations made by the anonymous person were baseless.

Both policies were reviewed by the Audit Committee in 2019 and no updates recommended to the Board.

Anti-facilitation of tax evasion

Further to the new rules under the Criminal Finances Act 2017 ("CFA") in the UK, in 2018 the Board approved a new Anti-Facilitation of Tax Evasion Policy applicable to the Group and its associated persons. In connection with the preparation of this policy, the Company commissioned an independent bespoke risk assessment and incorporated findings from such assessment in the policy in this area.

Board activities and achievements

Board activities during 2019

During the financial year, the Board held 14 meetings. During these meetings, the Board spent a lot of time discussing and approving matters relating to the strategy of the Group and, in particular, the strategic review announced by the Company on 24 June 2019.

The Board and committee agendas were shaped to ensure that discussion was focused on the Group's key strategies and monitoring activities, as well as reviews of significant issues arising during the year. The Group's ongoing financial and strategic performance is reviewed at every meeting, and the Chief Executive Officer and the Chief Financial Officer comment on drilling, production, share price performance, the market and shareholder feedback.

The table below gives the highlights of how the Board and its committees spent their time during the 2019 financial year but should not be regarded as an exhaustive list. More information regarding the Group's strategic objectives and focus during the year can be found in the Strategic Report on pages 2-57 and the more detailed activities of each Board committee are located in their relevant report.

Strategy and business focus	• Discussions around the assessment of strategic and operational options for Nostrum. • Working with the CEO and CFO on implementing the Company's strategy in drilling, production, the business and operations. • Year end review of the oil and gas industry outlook and consideration of the 2020 budget and drilling programme. • Discussions around the full commissioning of the GTU3. • Discussions around entry into an agreement to acquire 100% of Positive Invest LLP, the owner of the Stepnoy Leopard licences.
Risk	• Review of all interim financial results announcements and the 2018 Annual Report and Accounts. • Consideration of the Group's viability statement and risk appetite for the coming year. • Review of all insurance contracts across the Group to assess risk exposure.
Governance	• Approved the appointment of Kaat Van Hecke as Chief Executive Officer and Tav Morgan as an alternate director for Michael Calvey. • Received reports from Board committees. • Consideration of the UK Corporate Governance Code and other regulatory requirements for the Annual Report. • Review of the Notice of AGM and matters proposed for shareholder approval. • Conducted a roundtable internal Board evaluation for 2019. • Reviewed and approved (where required) any updates to key Group policies. • Consideration of director conflicts of interest.
People and culture	• Launched several initiatives focusing on equality and diversity, including the development of a gender diversity action plan. • Discussions around the making of a third tranche of the Company's Long-Term Incentive Plan.

Board activities and achievements continued

Board evaluation

As explained in the Nomination and Governance Committee report on pages 80-81, in 2019 the Board decided to conduct another roundtable discussion of any issues directors wished to raise and discuss. The Company Secretary prepared a document setting out the principal themes for the evaluation based upon points raised in 2018 which acted as a guide for discussions. Directors were also given the opportunity to email any issues to the Company Secretary following the discussion if they wanted to raise something outside the open forum.

The Board focused on the following in 2019:

- Engagement with and understanding of shareholders' feedback and concerns. The Board collectively agreed that improvements have been made to the information flow between shareholders and the Board during 2019.
- Improving the interaction in decision-making and development of strategy between the Board and senior management. The Board noted that more members of the Senior Management Team have attended Board and committee meetings to ensure a better interaction between the Board and senior management.
- Succession planning which was discussed at Board level and it was noted that discussions regarding the initiatives the Board should take to increase succession planning for both executive and non-executive directors and for Board committee composition are ongoing.
- Diversity and, in particular, the efforts required to build greater diversity, including gender diversity, at Board level and among senior management. The Human Resources team have worked extensively on developing a diversity action plan which is explained in more detail on page 39.
- Sir Christopher Codrington, Bt. was appointed as the Company's designated non-executive director to lead the Board's engagement with the Company and Group's workforce as foreseen by Provision 5 of the 2018 UK Corporate Governance Code. Sir Christopher held a workforce engagement meeting in Uralsk in September which demonstrates how the Board is taking account of the needs and views of a wider range of stakeholders. An aim for 2020 is for Sir Christopher to hold further workforce engagement meetings.

In addition, by taking Board papers as read, the Board made an effort to spend more time discussing and debating issues at Board meetings.

The Company intends to conduct an internal Board self-evaluation during 2020.

Director induction and training

Each individual joining the Board receives a full, formal induction package with materials on the Group's business and operational, financial and legal matters. They also meet with members of the Board in order to obtain a good understanding of the challenges and opportunities faced by the Group. The directors are given the opportunity to discuss their training and professional development needs at every quarterly Board meeting and on an ad hoc basis as required, and to make recommendations to the Chairman regarding topics on which they would like to receive training. In addition to training organised by the Company, the directors regularly attend training events organised by third parties and the Company actively encourages directors to attend such events.

During 2019, various directors suggested potential training topics and information sessions were held on geology, drilling matters and ESG matters.

Interaction with stakeholders

The Group's policy and strategy of interaction with stakeholders is set out on page 61. The identity of those stakeholders cannot be disclosed for confidentiality and data protection reasons.

Nostrum is in regular contact with its shareholders and sell-side analysts and maintains an active and transparent dialogue with them throughout the year. We keep all existing and prospective investors abreast of Company news by issuing regular operational and financial press releases via the London Stock Exchange's Regulatory News Service, as well as on Nostrum's website. Additionally, each of our quarterly, half-yearly and annual financial results are accompanied by a conference call for investors and analysts to hear from Nostrum's senior management. Russian translations of all press releases and financial reports together with a variety of other shareholder information are also available on our website.

The Company responds to daily queries from existing and prospective shareholders and sell-side analysts through our Investor Relations team. Our registrars, Link Asset Services, also have a team who respond to any technical queries shareholders have regarding their holdings in the Company. Extensive information is available on our website, where shareholders or those with an interest in the Group can log their details to receive email updates.

Nostrum attends investor conferences and industry forums throughout the year, and we publish a list of these in advance on the investor relations section of our website. We are available for ad hoc shareholder meetings with management and welcome enquiries.

Over the past year, the Investor Relations team and management met with over 250 investors through face-to-face meetings, roadshows, conferences and other corporate events. The Chairman, Chief Executive Officer and Chief Financial Officer, in particular, regularly meet with major investors and analysts and provide feedback on any shareholder concerns or views to the Board.

Shareholders are encouraged to attend the Annual General Meeting to discuss the progress of the Group. Our Annual General Meeting is open to all our shareholders to attend, and advance notice of the time, date and location is given. It provides an opportunity for shareholders to meet with and ask questions of the Board in a more informal environment.

Attendance at meetings of the Board and its committees in the 2019 financial year

The following table illustrates the attendance of directors at Board and committee meetings (as relevant) throughout the year.

	Board		Audit Committee		Remuneration Committee		Nomination and Governance Committee		Health, Safety, Environment and Communities Committee[8]	
	A	B	A	B	A	B	A	B	A	B
EXECUTIVE DIRECTORS										
Atul Gupta	14	14	–	–	–	–	–	–	–	–
Kai-Uwe Kessel[1]	14	13[9]	–	–	–	–	–	–	4	3
Kaat Van Hecke[2]	14	13	5	5	4	4	4	4	4	4
Tom Richardson[3]	14	14	–	–	–	–	–	–	–	–
NON-EXECUTIVE DIRECTORS										
Mark Martin[5]	14	14	5	5	4	4	4	4	–	–
Sir Christopher Codrington, Bt.[6]	14	14	5	5	4	4	4	4	–	–
Michael Calvey[4]	14	0	–	–	–	–	–	–	–	–
Simon Byrne	14	14	–	–	–	–	–	–	–	–
Martin Cocker[7]	14	14	5	5	–	–	–	–	4	4

A = Total number of meetings the director was eligible to attend.
B = Total number of meetings the director did attend.

1. Mr Kessel stepped down as Chief Executive on 16 December 2019.
2. Ms Van Hecke became Chief Executive Officer on 16 December 2019 and is also Chairwoman of the HSEC Committee.
3. Mr Richardson resigned as Chief Financial Officer and as a director of the Company effective 31 March 2020.
4. Mr Calvey was unable to participate in Board meetings during 2019 due to the terms of a travel restriction to which he is subject. Mr Morgan, Mr Calvey's alternate, attended 13 out of 14 meetings in place of Mr Calvey.
5. Chairman of the Remuneration Committee.
6. Chairman of the Nomination and Governance Committee and became Chairman of the Audit Committee on 1 April 2020.
7. Chairman of the Audit Committee until 1 April 2020. Mr Cocker became Chief Financial Officer on 1 April 2020.
8. The Health, Safety, Environment and Communities Committee was created by the Board on 21 March 2019.
9. Mr Kessel was unable to attend one Board meeting in 2019 as he was on leave.

Letter from the Chairman

Dear shareholder,

This has been another busy and challenging year for the committee.

During the year, the committee has continued to monitor the integrity of the group's financial reporting. This has been particularly challenging this year following the decision to take an impairment charge at the end of 2018. Coupled with the continued low market capitalisation of the Group, this has meant that the question of further impairment charges in 2019 was never far away from our discussions with management and the external auditors, Ernst & Young.

However, until all the factors had been pulled together into one cohesive overview, including the annual audit of our reserves, the results of our internal studies into the productivity of the fields and those by Schlumberger and PML Lucas, the evaluation of the 2019 appraisal drilling programme and the actions taken to monetise the spare capacity of the gas treatment facility, it was not possible to form any conclusion on any further impairment.

That cohesive overview has now been completed. As a result, we have taken the decision to reclassify some of our reserves as contingent resources and an impairment charge has been calculated at the year end based on the assumptions that are further outlined in note 4 to the financial statements on page 134. As documented elsewhere in this report, the committee has reviewed and challenged those assumptions and sensitivities with management and Ernst & Young. As a result, the committee is satisfied that, based on the information available at this time, the impairment charge recognised in these financial statements is appropriate.

The committee has also paid special attention at the year end to the Group's ability to continue as a going concern. The collapse of the oil price in early 2020 together with the potential impact of the coronavirus, COVID-19, places significant stress on our forecast cashflows for 2020. Our considerations on going concern are detailed more fully in the report of the Audit Committee on the following pages.

Throughout 2019, the committee has continued with its established practice of meeting on the same day as the scheduled quarterly board meetings and also having pre-meetings several days beforehand to ensure that we had sufficient time to address financial, risk, audit and compliance matters, as well as other areas of emerging risk in addition to the impairment question outlined above.

In these meetings, we have paid attention to new developments in accounting standards, especially IFRS 16 concerning leases that were applicable from this year, as well any developments in application and disclosures around new accounting standards adopted in prior years. We have also been mindful of all comments made by the Financial Reporting Council in their annual review of financial reporting that was issued in October 2019.

Kaat van Hecke stepped down as a member of the committee in January 2020 following her appointment as interim CEO of the group. Kaat has provided great support and insight to the committee, and I wish her well in her new and important role within the Group.

I thank all my fellow committee members for their contribution to the effective discharge of the committee's duties throughout the year.

Sir Christopher Codrington, Bt.
Chairman, Audit Committee
Independent non-executive director

Role and responsibilities of the Audit Committee

Throughout the year, the committee has remained committed to its primary role of assisting the Board in achieving the Group's strategic objectives whilst protecting stakeholder interests. There were no substantial changes in the key areas of responsibility of the committee, which are categorised below:

- Review the Group's annual and interim reports, including financial statements, formal announcements of financial results and other related announcements;
- Review the effectiveness of the Group's internal control and risk management systems;
- Monitor compliance with applicable regulatory and legal requirements and the Group's Code of Conduct;
- Monitor and review the effectiveness of the Group's internal audit function;
- Maintain the relationship with the Company's external auditor and oversee its appointment, remuneration and terms of engagement whilst continually assessing its independence and objectivity; and
- Review audit findings and assess the standard and effectiveness of the external audit.

More detail on these key areas can be found in the committee terms of reference, which are available on the Group's website at www.nog.co.uk.

Membership

Sir Christopher Codrington, Bt.	Member since 19 May 2014 Chairman from 8 May 2017 to 3 June 2019 and then from 1 April 2020
Martin Cocker	Member since 16 November 2017 Chairman from 4 June 2019 to 1 April 2020
Mark Martin	Member since 31 December 2016
Kaat van Hecke	Member from 8 May 2017 to 27 January 2020

All members of the Audit Committee during the year were independent non-executive directors. The qualifications presented in the biographies of the members of the committee on pages 62-63, and their respective contributions to the activities of the committee demonstrated that the committee as a whole has competence in oil & gas upstream and downstream operations, and that it also has the necessary levels of competence in accounting and auditing, as well as recent and relevant financial experience.

Meetings

In addition to its scheduled quarterly meetings, the committee also meets when it is necessary. The Chief Financial Officer, the Chief Legal Officer and Company Secretary and the external auditor are invited to the meetings. The committee held 5 meetings during 2019 and the attendance of each committee member at meetings of the committee is shown on page 71.

In 2019, the committee continued to use its annual planner, which summarises various topics requiring the committee's attention, and which were accumulated based on the requirements of the UK Corporate Governance Code 2018 ("2018 Code"), the FRC's Guidance on Audit Committees dated April 2016, the committee's terms of reference and other relevant sources.

Interaction with the Financial Reporting Council ("FRC")

The committee, together with the Chief Financial Officer, considered the key areas highlighted in the October 2019 letter from the FRC addressed to Audit Committee Chairs and Finance Directors, and undertook the following actions:

- The committee reviewed the Non-Financial Information Statement, which is separately identifiable and provides a picture of the Company's performance and impact. The committee also paid attention to ensure that a clear description of the Company's policies, any due diligence processes implemented in pursuance of those policies and their outcomes in respect of environmental, social, anti-corruption and anti-bribery matters, employees and respect for human rights are all either covered by this statement or covered in other parts of the strategic report.
- The committee reviewed the statement required by Section 172 of the Companies Act 2016 (the 'Statement') included in the Annual Report for the first time as required by the UK Corporate Governance Code 2018. The committee focused on ensuring that the Statement met the requirements of the legislation.
- The committee paid particular attention to the 'Summary of Key developments for 2019/20 annual reports' as laid out by the Financial Reporting Council in their letter of October 30, 2019 (the 'Letter'). As well as the Statement and Non-Financial Information Statement already noted above, the committee considered carefully the Group's Strategic Report and disclosures relating to environmental and critical judgements.
- In respect of environmental disclosures, the committee, together with the HSEC committee, also stayed alert to the reporting requirements related to the effects on the Group's business, both directly and indirectly, of climate change. In particular, ensuring that, where relevant, due consideration is given to, and reported on, the resilience of the Company's business model and its risks, uncertainties and viability in the immediate and longer term in light of climate change, as well as assessing any impact of climate change on the financial statements.
- The committee continued to challenge management to ensure there was a clear distinction between critical judgements and estimates used in preparing the accounts, and that appropriate disclosures were made to provide an understanding of their sensitivity to changing assumptions.
- The committee reviewed the Group's cash flow statement to ensure that the detailed requirements of IAS 7 are followed in order to assist comparability with other companies;
- The committee reviewed the definitions, explanations, reconciliations, prominence and consistency of alternative performance measurements such as EBITDA, for their compliance with ESMA's Guidelines;

Audit Committee Report continued

- Reviewed the key changes required by IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial Instruments' and concluded that the disclosures provided in the financial statements were appropriate;
- Reviewed management's report on the assessment of the impact on implementation of IFRS 16 'Leases' and concurred with the conclusions reached, accounting treatment applied, and disclosures made in the financial statements.

An assessment of the impact of Brexit on the Group concluded that any impact will likely be insignificant. The committee continued to review the situation to ensure that the assessment remained valid.

Self-assessment

The committee undertakes an annual evaluation of its performance and effectiveness. Typically, this is performed after the annual audit cycle is completed.

Activities during the year

In accordance with its responsibilities outlined above, the committee's activities are summarised into the following four main areas, each of which is explained in more detail in the following Sections 1 to 4:

- Financial reporting
- Risk management and internal controls
- Compliance with laws and regulations
- External audit

1. Financial reporting

The key areas of the committee activities related to financial reporting can be summarised as follows:

- Review of and discussions on quarterly and annual financial statements, and recommendation to the Board for approval;
- Review and discussions on the matters of liquidity and going concern analysis, as well as impairment considerations;
- Review of periodic press-releases and results presentations prior to their publication;
- Review of annual budgets and periodic forecasts;
- Review of monthly management updates covering key issues, including financial and operational performance and the status of key initiatives; and
- Discussion of various ad hoc matters related to financial accounting and reporting.

Review of the quarterly results and half-yearly and annual financial statements, as well as the Annual Report by the committee was done with an emphasis on the following areas:

- Ensuring that critical judgements and estimates applied by management (described in more detail below) were appropriate and that complete disclosure had been made;
- Ensuring that the accounting policies adopted were consistent with those used in prior periods and remained appropriate and that full disclosures were made for compliance with financial reporting standards and relevant corporate governance requirements. Particular attention was paid to the disclosures relating to IFRS 16, which was applied for the first time in the year;
- Assessing whether the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the shareholders to assess the Group's performance, business model and strategy; and
- Discussing any significant matters with management and the external auditor and providing feedback to management on ways to improve the effectiveness and clarity of the Group's corporate reporting.

Significant judgements, estimates and assumptions

Significant judgements, estimates and assumptions applied by management when preparing the financial statements are closely related to the principal risks and uncertainties faced by the Group, which are subject to constant monitoring by the Board and the committee. The table below summarises the key areas where significant judgements, estimates and assumptions have been applied, together with the actions taken by the committee.

Significant judgements	Significant estimates	Significant assumptions	Impact on financial statement accounts
NON-CURRENT ASSETS' CARRYING VALUES			
For impairment analysis, management used judgement and determined a single cash-generating unit (CGU) within the Group's non-current assets, which includes all assets related to Chinarevskoye, and exploration fields and gas treatment facilities.	Estimations of the recoverable amount of the CGU were prepared by management based on the discounted cash flow model using significant assumptions.	Assumptions used in estimating recoverable amount included future commodity prices, oil and gas reserves, future production profiles, operating expenses and capital expenditures estimates, fiscal regimes, and discount rate.	Changes in the key assumptions may significantly affect the estimation of recoverable amount of non-current assets, and respectively may result in impairment of non-current assets in the future periods.
Committee actions			
The committee concurred with management's position in determining a single CGU for the majority of the Group's non-current assets.	The committee reviewed the detailed reports on impairment testing prepared by management and agreed with management's approach in using a discounted cash flow model as the most appropriate for this purpose.	Areas of focus were the assumed product prices, discount rates, production profiles and the associated sales volumes and forecast capital and operating expenditures, particularly in light of recent oil price developments and related volatility risk.	The committee also gave special consideration to the sensitivity analysis in relation to the assumptions used. The committee also scrutinised the disclosure of the impairment charge in the accounts and this report.
OIL AND GAS RESERVES			
The management applied significant judgement when selecting the unit-of-production method of depletion of assets based on the oil and gas reserves.	The management uses internal estimates, confirmed by Ryder Scott on an annual basis, to perform an annual assessment the oil and gas reserves. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE").	While making such estimates, the management uses various assumptions related to future commodity prices, capital and operating expenditures necessary for the development of a field, geological and technical assumptions, future production volumes, drilling programme, etc.	Changes in the key assumptions may significantly affect the estimation of oil and gas reserves, and respectively result in substantial changes in depletion expense and carrying value of working oil and gas properties in the future periods.
Committee actions			
The committee concurred with the continued application of the unit-of-production method of assets depletion, as this method reflects the expected pattern of consumption of future economic benefits by the Group.	The committee gained comfort on the outcomes of the oil and gas reserves' estimations based on its review of the key assumptions, and confirmation by independent reserve engineers using consistent methodology of estimations.	Considering the most recent available information, the committee reviewed various key assumptions used by management in estimating the oil and gas reserves, and was satisfied with the reasonability of such assumptions.	
EXPLORATION ASSETS' CARRYING VALUES			
Exploration assets were considered by management as part of the single CGU – please refer to the above point.	The estimations of the recoverable amount of exploration assets are included in the above-mentioned single discounted cash flow model.	In addition to the above mentioned assumptions integrated in the discounted cash flow estimations, exploration assets are subject to management's assumptions and plans on performing further exploration works, as well as term of subsoil use rights.	Changes in the key assumptions may significantly affect the estimation of recoverable amount of exploration assets, and respectively may result in their impairment in the future periods.
Committee actions			
The committee's response is covered as mentioned above.	The committee's response is covered as mentioned above.	The committee discussed with management the future plans and expectations related to further exploratory works and concurred with conclusions made.	

Audit Committee Report continued

Significant judgements	Significant estimates	Significant assumptions	Impact on financial statement accounts
TAXATION			
The uncertainties associated with Kazakhstan's tax system means that the ultimate amount of taxes, penalties and interest, if any, is subject to significant judgement.	The Group is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of liabilities required for taxes for which it is considered probably will be payable.	Assumption used in estimating the amount of taxation that is payable is based on professional advice and consideration of the nature of current discussions with the tax authority.	Because of the uncertainties associated with Kazakhstan's tax systems, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2019.
Committee actions			
The committee discussed with management any uncertainties surrounding the Group's tax position	The committee reviews the detail of any significant matter under discussion with the tax authorities and considers the likelihood of taxes being payable	Areas of focus were the nature of current discussions with the tax authorities, the outcomes of previous similar discussions and the views of taxation specialists.	The committee also gave special consideration to the disclosure of any significant uncertainty in the estimation of the tax due.
LEASES (IFRS 16)			
Management used significant judgement in assessing whether supplier contracts contain leases. This included assessment of whether assets subject to lease can be identified, identification of who obtains substantial benefits from such assets, and who operates them. Also, judgement was required to identify components of each lease.	For those contracts with suppliers, which were concluded to contain a lease, management estimated the net present value of the lease liability based on the amounts of future payments, and any other applicable components of a lease.	In the process of estimating the net present value of lease liability, management's assumptions were related to their expectation of the future minimum number of assets, discount rates and other specifics assumptions depending on the nature of a contract.	Changes in the key assumptions may lead to significant changes in the amount of right-of-use assets and lease liabilities in the future periods.
Committee actions			
The committee reviewed management's analysis of significant supplier contracts and challenged the application judgement.	The committee reviewed and discussed with management the lease estimates and assumptions used.	The committee reviewed and discussed with management the lease estimates and assumptions used.	

Other significant judgements and estimates

The decommissioning of oil and gas assets at the end of their economic lives, the provisioning for contingent and other liabilities, current and deferred income tax, and fair value of financial instruments are all areas that require the management to use judgement and estimates. The committee examined each of these issues and sought clarifications, as and when necessary, including discussions with the Company's auditor.

Going concern

The group's financial statements have been prepared on an assumption that the Group will continue as a going concern for a period of at least one year from the date of this annual report. This is taken to mean that the Group has the ability to meet its financial obligations when they fall due for at least for one year from the date of this Annual Report.

Management prepared an analysis of the Group's ability to continue as a going concern for the next twelve months. The base-case scenario of the going concern model used an assumption of a US$45/bbl oil price for that period. The base-case liquidity model shows that the Group will be able to operate as usual and have a sufficient financial headroom for the 12 months from the date of approval of the Annual Report and Accounts.

Following the collapse of the oil price in 2020 and the continued negative price impact of COVID-19, management also prepared a severe but plausible scenario at US$30/bbl oil price for the entire period covered by the model. The results of the plausible downside scenario showed that in the near-term the Group's liquidity position is exposed to such a fall in oil prices.

The Committee noted that a number of mitigating actions have been undertaken to protect liquidity. These include seeking to engage with bondholders regarding a possible restructuring of the Group's outstanding bonds, cancelling uncommitted capital expenditures whilst at the same time not affecting production and identifying further reductions in operating costs and general & administration costs.

The Committee agreed that the ability of the Group to continue as a going concern requires significant judgements about a number of material uncertainties, being:

- The forecast cash flow of the Group over the next 12 months from the date of approval of the financial statements depends on the duration of the low oil price environment and the Group's ability to implement the mitigating actions within the Group's control; and
- The Group's ability to successfully engage with its bondholders and shareholders regarding a restructuring of the Group's outstanding bonds.

The Committee challenged management's assertion that there was a reasonable expectation of a successful outcome to the negotiations with bondholders. Management acknowledged that the process was at an early stage but given the options, believed that a successful outcome was the most likely event. Therefore, and having received appropriate legal advice, the Group consider it appropriate to prepare the financial statements on a going concern basis.

After careful consideration of the material uncertainties arising from the future outlook for the oil price and the outcome of any discussions with the bondholders and shareholders, and after thorough consideration of the liquidity forecast, production projections and the ongoing and planned mitigating actions, the Committee is satisfied that the preparation of the financial statements on the assumption that the Group will continue as a going concern is appropriate.

The Committee noted that the auditors lack sufficient audit evidence required to conclude that the Group is a going concern. The engagement with bondholders is at an early stage and so the auditors could not obtain sufficient appropriate audit evidence to support the assumption that a restructuring of the Group's bonds is achievable in the necessary time frame. Therefore, the auditors would not be able to express an opinion on the financial statements.

Significant matters communicated by the external auditor

Significant risks identified by the external auditor were related to the above-mentioned areas involving judgements and estimates, as well as the following areas which were additionally considered by the committee:

- Revenue recognition – the committee believes that the Group's policy and internal controls in relation to revenue recognition adequately respond to this risk.
- Related party transactions and disclosures – the committee has been monitoring procedures for identification of related parties to ensure that pre-approvals are obtained before entering into any such contracts, depending on the thresholds, as per Group's policy on approval of matters and transactions.
- Risk of management override – in the committee's view, a set of internal controls, as described below in the section "internal control system", sufficiently minimises the risks related to management's ability to manipulate accounting records or to misappropriate assets.

2. Risk management and internal controls

The committee continuously monitored the risk management systems, further information on which can be found in the Risk Management section on pages 44-49 of the Annual Report.

In accordance with requirements of the 2018 Code relating to the viability statement, the committee reviewed the impact and sensitivity analysis of such risks on the Group's long-term viability. The principal areas of risk management assessed by the committee are described in the table below.

KEY AREAS OF THE COMMITTEE'S FOCUS IN RELATION TO PRINCIPAL RISKS

GTU3 construction and well drilling	Construction of GTU3 and the drilling programme continued to be a key focus for the committee, particularly in light of low oil prices and uncertainty around the production assets. The committee reviewed progress reports and met regularly with management to discuss potential problems and to provide recommendations on future steps to be taken by management.
Oil and gas production rates	Oil and gas production volumes, being one of the strategic indicators of the Group's performance, are subject to risks and uncertainties of a geological and technological nature. The committee has been constantly monitoring forecast production rates in comparison to actual rates. Any material variances were discussed, and explanations sought either during committee meetings or dedicated presentations given by management.
Health, safety and environment	As part of the monthly management reports, the committee reviewed the Group's activities to ensure an appropriate level of protection for health, safety and the environment. This area will be within the scope of responsibilities of the newly established HSEC sub-committee of the Board.
Cyber security	The committee examined cyber security matters and discussed with management past and planned actions directed at addressing the recommendations from external consultants.
Financial reporting	The committee seeks to ensure the accurate maintenance of accounting records and related transactions. Considering the volatility of oil prices, the committee focused on the review of impairment testing, going concern and the viability statement.

Audit Committee Report continued

Internal control system

The Group's internal control system is aimed at mitigating risks and improving efficiency. These include:

- Corporate governance: segregation of authorities and duties at various levels;
- Policies and procedures covering directors' remuneration, compliance, accounting and reporting, health, safety and environment as described in the relevant sections of the Annual Report;
- Training and internal communications; and
- Continuous monitoring by senior management and the Board of short-term, medium-term and long-term planning and decision-making processes.

In the committee's view, the Group maintained robust and defensible systems of risk management and internal control, and the committee made recommendations to senior management on further improvements as and when considered necessary.

Details of the procedures related to compliance control are set out below (including compliance liaison equivalent to a hotline). No instructions for conflict of interest settlement or compliance control forms were in use in 2019. No sanctions or disciplinary actions were applied in respect of internal control in 2019.

Internal audit

The primary role of the internal audit function is to assist the Board and senior management to protect the assets, reputation and sustainability of the organisation. This is achieved through:

- Building strong and effective risk awareness within the Group;
- Continuously improving risk management and control processes so that they operate effectively and efficiently, and reflect leading practice; and
- Sharing best practice regarding risk management and assurance across the Group.

To adequately resource the internal audit function, the Group has outsourced the work to experts in relevant areas on a case-by-case basis. The dedicated member of the finance team has been assigned with a role of collecting requests for internal audit work from the management and the committee, organising the outsourcing of such work and coordinating delivery of results.

Also, in the committee's view, the Group has sufficient internal processes providing assurance to the management, Audit Committee and the Board about effectiveness of systems of internal control and risk management, e.g. monthly management reports and their review by management and the Board, assurance provided by QHSE and security personnel.

3. Compliance with laws and regulations

The Chief Legal Officer and Company Secretary attends the committee's quarterly meetings, which allow the committee to raise any concerns related to legal, compliance, whistle-blowing and the status of any ongoing litigation.

UK Corporate Governance Code

Following the appointment of Kaat Van Hecke as Chief Executive Officer on 16 December 2019, the Audit Committee was no longer comprised entirely of independent non-executive directors which contravened Provision 24 of the 2018 Version of the UK Corporate Governance Code. Therefore, on 27 January 2020, Ms Van Hecke stepped down as a member of the Audit Committee, to ensure that the composition of the Committee's membership is in full compliance with the Code. The Board believes that compliance with the Code ensures compliance by the Group with appropriate corporate ethics.

Whistle-blowing arrangements

Nostrum has a Group Whistle-blowing Policy and to ensure that all Group employees have access to someone who can provide them with support and guidance. The Group has two compliance liaison officers; one Russian-speaking officer based in Kazakhstan and another Dutch and English-speaking officer based in Brussels. The Audit Committee maintained close contact with the compliance liaison officers.

Corporate Bonds Covenants

At its quarterly meetings, the committee is updated by management on the Group's compliance with covenants contained in the 2017 and 2018 Corporate Bonds.

4. External audit

Appointment of external auditor

Since 2007, Ernst & Young LLP (Kazakhstan) has been the auditor of the predecessor group of companies. On the recommendation of the committee and subsequent approval by the Company's shareholders, Ernst & Young LLP (UK) was first appointed as an auditor of the Group on 19 May 2014.

The committee carried out a tender for the external audit arrangements in 2015 to ensure that the Group was receiving the highest possible quality audit services commensurate with the best available price. Based on the results of the tender, it was concluded that it would be in the best interests of the stakeholders to continue engaging Ernst & Young LLP (UK) as the Group's external auditor.

Following a recommendation to that effect from the Board, the shareholders approved the re-appointment of Ernst & Young LLP (UK) at the Annual General Meeting held on 4 June 2019. Mr. Richard Addison was appointed as lead audit engagement partner on 19 May 2014 and his tenure came to an end with the completion of the 2018 audit. The Committee interviewed three candidates from Ernst & Young LLP (UK) and unanimously recommended that Mr William Binns be appointed into this role. William is an audit engagement partner of FTSE 100 companies and has rich experience in auditing oil & gas companies.

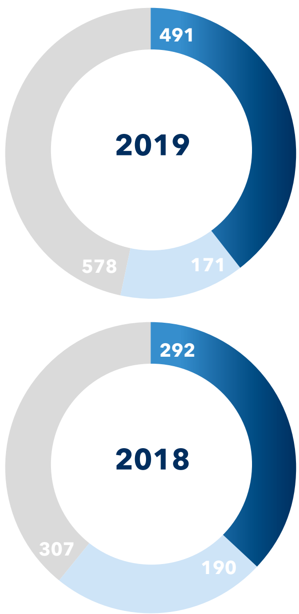
Compliance with other legal requirements

There were no material fines or other sanctions against the Group in 2019. There was no antitrust litigation against the Group in 2019

Product liability

There were no cases relating to product liability in 2019.

Audit and non-audit fees (US$ thousands)



- Audit of the financial statements
- Audit-related assurance services
- Services relating to corporate finance transactions

2019 audit

During Q4 2019, the Audit Committee reviewed and discussed the detailed audit plan prepared by Ernst & Young LLP (UK) which identified the audit scope and its assessment of significant risks. The key risks monitored by the committee corresponded with those identified and assessed by management and the external auditor. All members of the committee supported the application of professional scepticism by the Group's external auditor.

During 2019, the members of the committee held private meetings with the external auditor, which provided a mutual opportunity for open dialogue and feedback without management being present. Topics covered at such meetings included: the external auditor's assessment of significant risks and related management actions, confirmation that there had been no restriction in the scope placed on it by management, the adequacy of the audit fees, the independence of its audit and how the auditor had exercised professional scepticism.

The committee reviewed the 2019 H1 interim and 2019 annual auditor's reports, giving consideration to the audit procedures and findings in the areas of significant judgements and estimates. The committee also reviewed the letter of representations in respect of both the interim review and the annual audit, which were subsequently signed by management.

The committee evaluated the effectiveness of the external audit process for the year ended 31 December 2019, by completing a questionnaire, which addressed areas such as processes, audit team, audit scope, communications, technical expertise, audit governance and independence and audit fees. Based on such evaluation, the committee concluded that the performance of the external auditor remains at an appropriately high level and recommend its re-appointment.

Non-audit services

In 2016, the Group's "Policy on the provision of non-audit services by the external auditor" was revised based on the requirements of the FRC Revised Ethical Standards dated June 2016 and the FRC's Guidance on Audit Committees dated April 2016. There were no significant changes made to the policy during 2019.

The main principle of the policy is that non-audit services may only be provided by the external auditor where the external auditor maintains the necessary degree of independence and objectivity, and standard supplier selection procedures are carried out. Committee pre-approval is required before the external auditor is engaged to provide any permitted non-audit services (as defined in the policy) in addition to any other approvals required by the Board and management pursuant to powers delegated by the Board or Nostrum's internal approvals policies. The committee monitors the external auditor to ensure that it does not provide non-audit services that are prohibited by the FRC and limits such services to due diligence services and other assurance services. The revised policy is available on the Group's website at www.nog.co.uk and will be reviewed and amended as and when required.

The detailed breakdown of audit and non-audit fees can be found in note 32 to the consolidated financial statements of the Group on page 158. The ratio of audit fees to non-audit fees in 2019 was 0.66 (2018: 0.59). A significant proportion of 2019 non-audit fees was attributable to quarterly reviews of interim financial statements and assurance services related to a potential transaction in 2019 that did not crystalise. Considering the assurance nature of these services, the committee concluded that it was in the best interest of the Group that such services were provided by the external auditor.

By operating in accordance with the above policy and other practices established within the Group, the committee was satisfied that adequate safeguards were in place to ensure the objectivity and independence of the external auditor.

Sir Christopher Codrington, Bt.
Chairman, Audit Committee
Independent non-executive director

29 April 2020

Letter from the Chairman

Committee members

- Sir Christopher Codrington, Bt. (chairman)
- Kaat Van Hecke
- Mark Martin

The Chairman does not have any other significant commitments to report.

Key responsibilities

- Lead the process for Board appointments and make recommendations to the Board regarding candidates for appointment or reappointment as directors;
- Monitor and make recommendations to the Board on Board governance and corporate governance issues, to enable the Board to operate effectively and efficiently;
- Regularly review the structure, size and composition (including skills, knowledge and experience) of the Board;
- Keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace; and
- Review annually the time required from non-executive directors.

2019 has been another busy year for the Nomination and Governance Committee. Following the Committee's recommendation to the Board that I should be appointed to oversee effective engagement with the workforce as mandated under the 2018 Code, I was appointed as the independent non-executive director for workforce engagement, and the Committee, with the help of the Company Secretary, organised a workforce engagement meeting which was held in Uralsk on 10 September 2019. All of the Group's Kazakhstan-based employees were invited to the meeting, and a system was set up in advance of the meeting to allow the workforce to post questions they would like answered in a box. The top five questions were addressed at the meeting and then a Q&A session followed. The majority of the questions were related to human resources. Despite attendance by employees being relatively low, the Committee and the Board feel the meeting was very beneficial for establishing a dialogue between the Board and the wider workforce, and all necessary steps will be taken to encourage higher attendance at future meetings. The workforce engagement initiative will continue, and we hope to be able to hold a similar meeting in London in 2020.

Another big change in 2019 was the creation of the Health, Safety, Environment and Communities Committee on 21 March 2019. The Nomination and Governance Committee endorsed the creation of the HSEC Committee, which has made great progress in improving the safety culture across the Group. More information on the work of the HSEC Committee can be found in the Committees report on page 82.

In March 2019, I informed the Committee that I proposed to rotate off as Chairman of the Audit Committee with effect from the day after the AGM and suggested that Mr Cocker would be best placed to succeed me. The Committee considered this proposal carefully and approved recommending this proposal to the Board which the Board approved.

The Committee was also kept busy with considering the best format for the 2019 Board self-evaluation and agreed with the wider Board's view that the 2019 Board self-evaluation should be conducted internally as a round table discussion. The Committee asked the Company Secretary to collate the responses from the Board's 2018 self-evaluation and, in particular, any concerns raised and issue a request for feedback in advance of the Board's November quarterly meeting so that any issues raised could be discussed in a round table style discussion at such meeting. An overview of the discussions had can be found on page 70. None of the outcomes of the 2019 Board self-evaluation will influence board composition.

1. On 1 April 2020, Sir Codrington became Chairman of the Audit Committee following the appointment of Mr Cocker as Chief Financial Officer on 31 March 2020.

We believe that the current composition of the Board and its committees remains appropriate for the time being, but this will be kept under review during 2020. In early 2019, the committee recommended the approval of the appointment by Mr Calvey of Mr Ralph Tavakolian "Tav" Morgan as his alternate director.

Committee meetings

The Nomination and Governance Committee met formally four times during 2019. The attendance of each Committee member at Committee meetings held during 2019 is shown on page 71. The Committee reports to the Board, as a separate agenda item, on the activities of the Committee at each quarterly Board meeting.

Only members of the Committee have the right to attend committee meetings. However, other individuals such as the Chief Executive Officer, the Chief HR Officer and external advisers may be invited to attend all or part of any meeting, as and when appropriate.

Policies

In 2019, the Committee recommended to the Board a number of changes to other Group policies and procedures, to reflect changes in legislation and best practice or to better serve the needs of the Group.

Diversity

More information on the Group's actions and policies in relation to diversity and inclusion can be found on page 38.

All directors will stand for re-election at the 2020 Annual General Meeting with the full support of the Board.

Sir Christopher Codrington, Bt.
Chairman, Nomination and Governance Committee

29 April 2020

Letter from the Chairwoman

Committee members

- Kaat Van Hecke (Committee Chairwoman)
- Martin Cocker
- Kai Uwe Kessel[1]

Key responsibilities

- Attention to climate change issues are among the principal duties of the committee;
- Working with the Group's operational teams on site, compiling and evaluating the relevant information for the Company to self-report environmental data in 2019 using the CDP submission process;
- Assessing the requirements for TCFD disclosure and analysing our preparedness to meet these; and
- Working with the Audit Committee and the Board to include climate change among the principal risks and uncertainties faced by Nostrum and to endeavour to quantify climate change-related risks.

The Health, Safety, Environment and Communities Committee was formally created on 1 March 2019 and has had a busy first few months. The Committee met four times during 2019. The attendance of each Committee member at Committee meetings held during 2019 is shown on page 71. I report to the Board, as a separate agenda item, on the activities of the Committee at each quarterly Board meeting.

Only members of the Committee have the right to attend committee meetings. However, the Group QHSE Manager, Chief Operating Officer, Chief HR Officer and Chief Legal Officer all have standing invitations to all meetings of the Committee and are tasked with reporting to the Committee on key areas linked to the work of the Committee that falls within their responsibilities.

During the Committee's inaugural meeting in March 2019, discussions focused on the HSE performance of the Group during 2018 and the HSE plan for 2019. The Committee agreed on the following QHSE pillars which define our approach to sustainable operations:

- HSE leadership;
- Rigorous incident investigation;
- Process safety-critical elements identified and maintained;
- Contractor HSE management; and
- Commitment to reduce GHG emissions.

The Committee decided that its initial actions would focus on safety at work, with the next stage to focus on the development of emissions reduction strategies and potential actions.

In relation to HSE leadership and incident investigation, which includes improving and making the HSE database more authoritative and robust to ensure all incidents are properly reported, recorded and investigated, the Committee recognised that the culture of the Group needs to support reporting unsafe practices and that every employee should have access to and be encouraged to submit Hazard Observation Cards where they have concerns or ideas. The Committee discussed this in more detail with the Board and the Board endorsed a plan to consider positive encouragement in this area by introducing a small financial incentive to submit Hazard Observation Cards and to consider including the submission of one Hazard Observation Card a year as a KPI for 2020 for relevant staff. Please refer to page 37 for a case study of the Group's Hazard Observation Procedure.

The Committee also identified that the Group's "Golden Rules" on safety needed to be more than a new joiner onboarding process and, during 2019, the Committee, together with senior management, re-drafted the "Golden Rules" and rolled them out across the Group to raise awareness of their importance at all levels. More

1. Mr Kessel was a member of the HSEC committee until he stepped down as Chief Executive Officer and left the company on 16 December 2019

information regarding the 'Golden Rules' safety campaign can be found on page 35. In addition, the Committee worked closely with the Group QHSE Manager and the Chief Operating Officer to develop a new incident management procedure which requires the Group to systematically investigate all incidents regardless of whether or not they will also be investigated by State bodies. The procedure also describes how to perform root cause analysis, identify SMART actions and ensure lessons learned will be properly communicated within the organisation.

The Committee also noted that process safety must not be confused with industrial safety and set about defining its understanding of process safety and, in doing so, the Group spoke to its peers to share experiences in relation to motor vehicle safety and process safety more generally. During 2019, ten safety declarations were developed and registered with the Process Safety Authority Industrial Development and Process Safety Committee in Nur-Sultan and an additional four safety declarations are currently under internal review. The Group also made good progress with identifying Safety Critical Elements for the new commissioned gas treatment unit and defining the appropriate periodicity to maintain the Safety Critical Elements. This work will continue in 2020.

Contractor HSE management is an area where I feel the Committee and the Group as a whole has made some very good progress in 2019. In May 2019, five key contractors were identified by the Group to participate in a HSE awareness programme whereby each key contractor was audited by the Company, a report prepared and action items agreed with the contractor concerned. A line manager for each contractor was identified who has overall line safety responsibility for the contractor concerned and those contractors exposed to the highest risks (rather than those with the highest number of workers at field site) were prioritised. Key contractors were also mapped against the "Golden Rules" so that an assessment could be made of their risk profile. A contractor safety forum for all key contractors was also held for the first time on 21 October 2019, and the Group is in the process of developing a new Contractor Management Procedure.

Environment and climate change has been discussed at length in all committee meetings during the last year. I am very pleased that the Group's first CDP submission was made in time for the 31 July 2019 deadline. The submission process involved a lot of work across the Group and, in 2020, consideration will be given to ways the process for the submission of the CDP project could be improved going forward. In line with the UK Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, the Company prepares and reports our greenhouse gas emissions which can be found on page 43.

Diversity is another topic which took up a lot of the Committees time in 2019, and the Committee recognises that there is room for improvement in this area. At present, the Group has 22% female representation across all levels, which is exactly in line with its industry peers diversity statistics but low in comparison to other industry sectors. Despite having fair recruitment policies in place, the Group has identified that more job applicants are male due to the nature of the Group's activities, and it is factors such as these which have a significant impact on the Group's ability to increase female gender diversity. However, in the last year, incentives have been rolled out across the Group aimed at the retention of women, including flexi-working arrangements, childcare voucher schemes and childcare provisions. In addition, the Committee has tasked each senior manager with identifying "high potential" employees within their teams, as part of proper succession planning, that they can mentor to reach their full potential and this initiative is something that will be focused on in more detail in 2020. Further information on the Group's approach to diversity is set out on page 39.

The Committee reviews its terms of reference annually, which can be viewed on our website.

Kaat Van Hecke
Chairwoman, Health, Safety, Environment and Communities Committee

29 April 2020

Letter from the Chairman

Dear shareholder,

I am pleased to introduce the Directors' Remuneration Report, which has been approved by both the Remuneration Committee and the Board for the year ended 31 December 2019.

Remuneration policy

Our remuneration policy aims to, amongst other things, align the remuneration of executives and senior management with the interests of the Company's shareholders and to ensure that rewards are justified by performance. The policy was put to a shareholder vote at the Company's 2019 AGM, together with the 2018 remuneration report, and both received a significant minority vote against their approval (28.93% in relation to the remuneration policy and 25.35% in relation to the remuneration report). Following the AGM, the Committee consulted with shareholders and discussed the views of shareholders in relation to these two matters. The main themes expressed by some shareholders and shareholder advisers in relation to the remuneration policy and the remuneration report were:

- A desire that the performance period under the LTIP be extended from one to three years;
- A desire that the vesting period for LTIP awards be increased from three to five years;
- That the LTIP be modified to remove the provisions for accelerated vesting of awards in the event of certain sales of the Company;
- A comment that there are low shareholdings amongst the executive directors and that no minimum shareholding requirement has been imposed; and
- The potential use of "golden hellos" in connection with the recruitment of new directors.

However, following discussions internally and with shareholders, both the Remuneration Committee and the Board continue to believe that the Company's remuneration policy is appropriate and aligned with Nostrum's strategy and business needs and after discussing the concerns mentioned above the Board and the Remuneration Committee concluded that the current provisions of the LTIP relating to performance period and vesting period are appropriate and aligned with the interests of shareholders, so that modifying such provisions of the LTIP at this time would not be the right course of action.

In relation to the LTIP rules which provide for the accelerated vesting of awards upon a sale of the Company, the Remuneration Committee and the Board believe that such provisions are appropriate and common in long-term incentive plans. The Remuneration Committee and the Board has added additional conditions (i.e. a minimum sale price) in the grant documentation for the first two tranches of awards granted under the LTIP which restrict any early vesting in the event of a sale approved by shareholders and additional conditions can and may be applied to future LTIP awards. The Remuneration Committee also retains discretion under the LTIP to reduce, if appropriate, the number of awards that may vest early based both on (a) the likelihood that other performance conditions to such awards would be met and (b) the period of time elapsed from the grant date of such awards to the early vesting date as compared to the normal vesting date.

In relation to the expressed desire for minimum shareholding requirements for executive directors, in accordance with the remuneration policy executive directors are encouraged to maintain a holding in the Company to align their interests with those of the Company's shareholders. The Remuneration Committee and the Board have not to date imposed a minimum shareholding requirement on executive directors because the Company has not in the past granted Company shares to executive directors by way of bonus or otherwise, and it was felt that imposing such a minimum shareholding requirement would be onerous in the circumstances. The Company is considering awarding future bonuses to executive directors in part in the form of Company shares and, if it does so the Company may require them to hold 50% of such shares for a three-year period and/or impose a minimum shareholding requirement.

As regards the potential use of "golden hellos" for new directors, the Remuneration Committee and the Board believe that this provision of the Remuneration Policy gives the Company valuable flexibility, if necessary, to recruit executive directors, although we note that the Company has never exercised its discretion to provide such a "golden hello" to any director and has no current intention to do so.

All of these decisions were announced in an additional statement issued by the Company on 28 August 2019 which has been included in the Public Register maintained by the Investment Association.

For the reasons set out above, the policy will remain unchanged for 2020 and therefore will not be put to a vote at the 2020 Annual General Meeting. It is, however, included in this year's Directors' report on remuneration in full for ease of reference and to provide context to the work of the Committee during the year. The annual Directors' report on remuneration, which will be subject to an advisory vote at our 2020 Annual General Meeting, details how the remuneration policy was applied in 2019 and how it will be applied in 2020. The Board and the Committee are committed to continuing their engagement and dialogue with the Company's shareholders and their advisory bodies on these and other matters and welcome their feedback.

Remuneration for 2019

Further details of executive director performance against 2019 KPIs can be found on page 89. In setting these targets, the Committee focused on areas critical for the Company: increasing annual average sales volumes, reducing operational and G&A cash costs, pursuing future growth opportunities and ensuring all of our operations are carried out as safely as possible. All strategic targets were met in full, one of which remains commercially sensitive and therefore has not been disclosed, as was one of the HSE, social and governance targets. However, achievement against operational and financial targets was low, and overall the executive directors achievement against 2019 KPIs was assessed at a level of 34.38%. Notwithstanding this achievement, the Committee exercised its discretion not to award bonuses to executive directors for 2019 due to the Company's disappointing financial results for 2019 and to ensure a continued focus on reducing costs across the Group.

The 2020 key performance indicators for the executive directors are set out on page 94. Any commercially sensitive targets have been omitted and it is our intention to publish these, together with the bonus outcome, in the Remuneration Report for 2020.

The Committee exercised further discretion in deciding not to make any awards under the LTIP in 2019, and so there is no information to provide in relation to achievement against performance conditions for the reporting year.

The Committee approved that the remuneration payable to Ms Van Hecke under her revised service agreement with the Company be substantially on the same terms as applied under Mr Kessel's service agreement.

Throughout 2019, the Committee continued to consider updates to corporate governance guidelines in its decision-making and will continue to monitor best practice guidelines and take account of these and the views of shareholders in the decision-making process. The committee has the freedom to consider any issues it regards as of importance when setting executive directors' remuneration, including environmental, social or governance issues.

In 2019, a 2.5% pay increase was granted to our UK employee population below senior management level and a 5% pay increase was granted to our Kazakh employee population who are paid in Kazakh Tenge. However, it was agreed that, given the poor performance of the Company more generally and continued volatility in the market, that the Executive Directors and other members of senior management would not receive a salary increase in 2019. The Committee and the Board also reviewed non-executive director fees in March 2020 and concluded that no fee increases would be granted.

UK Corporate Governance Code

The Terms of Reference of the Committee have been updated to incorporate recommendations resulting from the 2018 version of the UK Corporate Governance Code.

In addition, in light of her appointment as Chief Executive Officer on 16 December 2019, Kaat Ven Hecke stepped down as a member of the Committee on 27 January 2020 to ensure that the Committee is comprised solely of independent non-executive directors, thereby ensuring that the Company is in full compliance with Provision 24 of the Code.

Further information on compliance with the Code can be found on page 60.

Compliance statement

This report has been prepared in accordance with the UK's regulations on remuneration reporting. The Companies Act 2006 requires the Auditor to report to shareholders on certain parts of the Directors' Remuneration Report and to state whether, in the Auditor's opinion, those parts of the report have been properly prepared in accordance with the above regulations. The Chairman's Annual Statement and the Policy Report are not subject to audit. The sections of the remuneration report that are subject to audit are indicated accordingly.

On behalf of the Committee, I would like to thank shareholders for their continuing support.

Mark Martin
Chairman, Remuneration Committee

29 April 2020

2019 annual report on remuneration

In this section, we give details of the composition of the Remuneration Committee and activities undertaken in the 2019 financial year. We will seek an advisory vote on the remuneration report at the 2020 Annual General Meeting.

Remuneration Committee

The remuneration of the Chairman, the Chief Executive, the Chief Financial Officer, the Company Secretary and all other senior members of executive management is determined by the Committee under delegated powers from the Board and in accordance with the Committee's terms of reference. The Chairman and the executive members of the Board determine the remuneration of all non-executive directors, including members of the Committees'.

In accordance with the terms of reference, members of the Committee shall be appointed by the Board on the recommendation of the Nomination and Governance Committee in consultation with Mr Martin as chairman of the Committee. The Committee must always include at least three independent non-executive directors who comprise a majority of the Committee. The members of the Committee during 2019 were:

Name	Membership start date	Membership end date
Mark Martin (Chairman)	19 May 2014	
Sir Christopher Codrington, Bt.	19 May 2014	
Kaat Van Hecke	31 Dec 2016	27 January 2020

Their biographies are given on pages 62-63. The Company Secretary acts as secretary to the Committee.

Kaat Van Hecke was appointed as Chief Executive Officer on 16 December 2019 and, therefore, since this date, until 27 January 2020, when Ms Van Hecke stepped down from the Committee, she had day-to-day involvement with the business.

The primary responsibilities of the Committee are set out in its terms of reference which are reviewed and updated annually, and which are available to download from the Company's website. Alternatively, copies can be obtained on request from the Company Secretary.

1. Mr Kessel stepped down as Chief Executive Officer on 16 December 2019.
2. Ms Grinevskaya left the Company on 25 December 2019.

In summary, the Committee's key responsibilities include:

- Making recommendations to the Board on the Company's overall framework for remuneration and its cost and, in consultation with the Executive Chairman and Chief Executive, determining the remuneration packages of each of the executive directors;
- Reviewing the scale and structure of executive directors' remuneration and the terms of their service or employment contracts, including share-based schemes, other employee incentive schemes adopted by the Company from time to time and pension contributions;
- Demonstrating to the shareholders of the Company that the remuneration of the executive directors of the Company and other senior members of executive management of the Company and its subsidiaries is set by a committee of the Board whose members have no personal interest in the outcomes of the decisions of the committee and who will have due regard to the interests of the shareholders; and
- Ensuring payments made on termination comply with the relevant provisions of the Company's remuneration policy.

When making recommendations to the Board regarding executive directors' remuneration the Committee is able to consider corporate performance on environmental, social and governance issues and ensures that any incentive structures do not raise any environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

The Committee held four meetings in 2019 and the attendance of each committee member at such meetings is shown on page 71.

The principal agenda items at the formal meetings were as follows:

Meeting	Agenda item
March 2019	• Review and approval of key performance indicators. • Approval of executive director and senior management compensation and bonuses. • Review and approve the 2018 remuneration report. • Discuss achievement against performance conditions under the long- term incentive plan. • Review and approval of pay rises for employees across the Group. • Review and approve revised directors' remuneration policy.
May 2019	• Review of pension arrangements across the Group. • Review of Kazakh staff bonus and salary arrangements.
August 2019	• Discussion of proposal for 2019 LTIP awards. • Review and approval of AGM supplemental statement for publication on the Investment Association's Public Register.
November 2019	• Discuss 2019 LTIP Awards and Investment Association's Position on Executive Director Pension Provision

With the exception of the Chairman of the Board, no other directors participated in meetings of the Committee during 2019.

During the year, the Committee received advice internally from Atul Gupta (Executive Chairman), Kai-Uwe Kessel (Chief Executive Officer[1]) Thomas Hartnett (Company Secretary) and Marina Grinevskaya[2] (Chief HR Officer). The Chairman and the Chief Executive Officer were consulted on the remuneration of the other executive directors and senior members of executive management and on matters relating to the performance of the Company and the Company Secretary was consulted on regulatory requirements; none of the Executive Chairman of the Board, the Chief Executive Officer nor the Company Secretary participated in decisions on their own remuneration. Members of the Group's Human Resources team may attend relevant portions of Committee meetings to ensure appropriate input on matters related to the remuneration of senior members of the executive management team below Board level.

Voting on remuneration matters

Section 439A of the Companies Act 2006 (the "Act") requires the remuneration policy to be submitted to shareholders for a binding vote every three years or where there is a change in the remuneration policy. The remuneration policy was last approved by shareholders at the 2019 Annual General Meeting by way of a binding vote and the results of the votes received are shown in the table below. The changes proposed to the remuneration policy for 2019 were approved by shareholders at the 2019 Annual General Meeting. The resolution put to shareholders at the 2019 Annual General Meeting relating to directors' remuneration was a resolution to approve the directors' annual report on remuneration and, in accordance with the Act, the resolution was subject to an advisory vote. The votes received are set out in the table below.

Resolution	Votes FOR and % of votes cast		Votes AGAINST and % of votes cast		Votes WITHHELD
Approval of directors' remuneration policy	109,886,850	74.65%	37,307,525	25.35%	3,331,928
Approval of directors' annual report on remuneration	104,672,170	71.07%	42,614,315	28.93%	3,239,354

At the 2020 Annual General Meeting, the directors' remuneration report will be put to shareholders for approval by way of an advisory vote. No changes are proposed to the remuneration policy and this will not be put to shareholders at the 2020 Annual General Meeting. In accordance with the Act, a resolution to approve the remuneration policy will next be submitted to shareholders for a binding vote at the 2022 Annual General Meeting.

Single total figure of remuneration for executive directors

The table below shows the single total figure of remuneration for the year ended 31 December 2019 for each executive director that served as an executive director at any time during the year. The information contained in the table is as prescribed by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and contains a single total figure of remuneration for each executive director.

The executive directors are remunerated in either EUR, GBP, USD or KZT and, to avoid any anomalies in the figures reported owing to fluctuations in the EUR/USD, GBP/USD, KZT/USD exchange rate, the Company has decided not to convert amounts paid to executive directors into USD, the Group's functional currency, but instead to report all figures in relation to executive director remuneration in euros throughout this report.

Director[1] Amounts in EUR[4]	Period	Salary and fees	Benefits in kind	Annual bonus[3]	Phantom Share Option Plan	LTIP[7]	Pension[6]	Total (audited)
Atul Gupta	2019	455,203	179	–	–	–	–	**455,382**
	2018	36,018[11]	–	–	–	–	–	**36,018**
Kai-Uwe Kessel (Chief Executive Officer)	2019	1,275,239[9]	34,602[2]	–	–	–	7,530	**1,317,371**
	2018	602,998[13]	18,156[2]	–	–	–	7,530	**628,684**
Tom Richardson (Chief Financial Officer)[12]	2019	580,899	33,617[5]	–	–	–	31,815	**642,566**
	2018	580,310[10]	17,414	–	–	–	25,504	**552,993**
Kaat Van Hecke (Chief Executive Officer)[8]	2019	48,400	961	–			3,075	**52,436**
	2018	–	–	–	–	–	–	**-**

1. Mr Kessel received and Ms Van Hecke (from December 2019 when she was appointed as Chief Executive Officer) receives part of their remuneration under a contract for services as a director and part under separate service agreements for their role as a Group executive. Mr Richardson and Mr Gupta (from November 2018 when he was appointed as Executive Chairman) receive their remuneration under Group executive service contracts. Prior to November 2018, Mr Gupta was not an executive director. For clarity, this table presents their total remuneration from the Group whether received under a contract for services as a director or a Group executive services contract.
2. Mr Kessel was provided with a company car and payments in lieu of the provision of life insurance under his employment contract for his role as Chief Executive Officer and not under his service contract as an executive director but, for completeness, the amount received has been included in this table.
3. No bonuses for 2019 performance will be paid to executive directors. When determining to pay no bonuses to executive directors share price depreciation in 2019 was a factor taken into account.
4. Mr Gupta is remunerated in USD, Mr Richardson is remunerated in GBP, Mr Kessel was and Ms Van Hecke is remunerated in EUR, USD and KZT but for the purposes of this table the following exchange rates have been used: 2019: GBP:EUR (1.134225); EUR:USD (1.125); EUR:KZT (420)
2018: GBP:EUR (1.134); EUR:USD (1.185); EUR:KZT (431)
5. This amount was paid to Tom Richardson in lieu of the provision of medical insurance under his employment contract for his role as Chief Financial Officer and not under his service contract as an executive director but, for completeness, the amount received has been included in this table.
6. The Company did not operate a pension scheme for executive directors in 2018 or 2019 but may make a pension contribution or a payment in lieu of pension contributions to executive directors under their employment contracts as executives of the Group as opposed to under their service agreements as directors of the Company. The total amount paid to executive directors in 2019 in lieu of pension contributions was EUR 38,655 (2018: EUR 33,034). Executive directors are not entitled to any additional benefit if they retire early.
7. Awards made under the LTIP in 2017 have not vested yet and so no amounts have been received/are receivable by the executive directors in respect of such awards. No awards made under the LTIP in 2018 are capable of vesting as the performance conditions were not met in 2018. No awards were made under the LTIP in 2019.
8. Mr Kessel stepped down as Chief Executive Officer effective16 December 2019. Ms Van Hecke was paid her CEO salary for the period 1-31 December 2019 which included a two week handover period.
9. Kai-Uwe Kessel was remunerated on a net guarantee basis and his gross remuneration was adjusted to achieve the relevant agreed level of net remuneration. The salary and fees figure shown in the table represents the total cost to the Company in connection with his employment. Details of all payments made to Mr Kessel upon termination of his contracts with the Group are shown on page 90 and are included in his total remuneration figure shown in this table for 2019.
10. The figure of EUR 510,075 shown as Mr Richardson's 2018 salary and fees in the Company's 2018 Annual Report did not include amounts paid for National Insurance.
11. The figure of EUR 31,650 shown as Mr Gupta's 2018 salary and fees in the Company's 2018 Annual Report did not include amounts paid for National Insurance. Mr Gupta's 2018 salary is substantially lower than his 2019 salary because he was only Chairman from November 2018 onwards.
12. Mr Richardson resigned as Chief Financial Officer and as a director of the Company on 31 March 2020.
13. The figure of EUR 592,079 shown as Mr Kessel's 2018 salary and fees in the Company's 2018 Annual Report did not include amounts paid for National Insurance.

2019 annual report on remuneration continued

Single total figure of remuneration for non-executive directors

The table below shows the single total figure of remuneration for each of the non-executive directors. Non-executive directors are remunerated in US dollars.

Director Amounts in USD	**Period**	**Fees**	**Total (audited)**
Atul Gupta[1]	2019	–	**-**
	2018	229,167	**229,167**
Sir Christopher Codrington, Bt.[2]	2019	127,500	**127,500**
	2018	120,000	**120,000**
Mark Martin[3]	2019	130,000	**130,000**
	2018	130,000	**130,000**
Kaat Van Hecke[4]	2019	99,167	**99,167**
	2018	100,000	**100,000**
Martin Cocker[5]	2019	105,781	**105,781**
	2018	100,000	**100,000**
Simon Byrne	2019	100,000	**100,000**
	2018	100,000	**100,000**
Michael Calvey	2019	100,000	**100,000**
	2018	100,000	**100,000**

1. Mr Gupta became Executive Chairman in November 2018 and his salary increased to US$450,000 to reflect his additional responsibilities. All sums received by Mr Gupta in 2019 were in respect of his role as Executive Chairman and are reported in the table on page 87.
2. Sir Christopher Codrington receives an additional fee for being the Chairman of the Nomination and Governance Committee and for being the non-executive director responsible for workforce engagement. Sir Christopher also received an additional fee for being Chairman of the Audit Committee until 4 June 2019.
3. Mr Martin receives an additional fee for being Senior Independent Director and the Chairman of the Remuneration Committee.
4. Ms Van Hecke became Chief Executive Officer on 16 December 2019 and her salary increased to EUR 480,000 to reflect her additional responsibilities. Amounts paid to Ms Van Hecke from 1-31 December 2019 for her role as Chief Executive officer are reported in the table on page 87.
5. Mr Cocker receives an additional fee for being Chairman of the Audit Committee (from 4 June 2019). Mr Cocker stepped down as Chairman of the Audit Committee on 1 April 2020 following his appointment as Chief Financial Officer on 31 March 2020.

Notes on the single total figure remuneration table

Base salaries

The Committee reviewed salaries in March 2019 and it was decided that the executive directors would not be awarded any salary increase for 2019.

When reviewing salaries, the Committee considered the provisions of the remuneration policy and the performance of the Company.

Annual bonus

In the last financial year all executive directors were eligible for a bonus.

In accordance with the Company's remuneration policy, the maximum annual bonus opportunity is 40% of base compensation and is assessed against financial and operational objectives.

All bonuses are discretionary and can be reduced from the maximum annual bonus opportunity level for reasons such as poor performance by the employee or due to disappointing financial performance of the Group as a whole.

For the bonus year, which ran from 1 January 2019 to 31 December 2019, the key performance indicators for annual cash bonuses for executive directors were as follows:

2019 Bonus Performance Measures	Weight	Actual	% of base salary
Operational and Financial	**60%**	**9.38%**	**3.75%**
• Achieve annual average sales (boepd) from 30,000 boepd (0%) to 35,000 (100%) (sliding scale)	30%	0%	0%
• Reduce operational and G&A cash costs from US$79m (0%) to US$63m (100%) (sliding scale)	10%	9.38%	3.75%
• Successful appraisal from the Northern Area of the Chinarevskoye Field	10%	0%	0%
• Complete and commission GTU3 construction project on budget by mid-2019 (50%) with first sales from it by end-2019 (50%)	5%	0%	0%
• Implement new cost management system so that it is operational Group-wide by end-2019 (50%) and on budget (50%)	5%	0%	0%
Strategic Objectives	**30%**	**17.5%**	**7%**
• Acquire a controlling stake in Stepnoy Leopard asset (in Q2 100%, in Q3 50%, in Q4 25%)	15%	15%	6%
• A commercially sensitive strategic target	15%	2.5%	1%
HSE, social and governance	**10%**	**7.5%**	**3%**
• Inventorise GHG emissions by Q2 2019 and demonstrate an active GHG emissions reduction plan by Q4 2019	5%	2.5%	1%
• Assessment by the HSEC Committee of achievement of the HSE Plan for 2019 (provided that there have been no fatalities)	5%	5%	2%
Total	**100%**	**34.38%**	**13.75%**

Based on an assessment of performance towards achievement of KPIs of the executive directors during 2019 and, notwithstanding the 34.38% achievement against 2019 performance measures, the Committee exercised its discretion not to award bonuses to the executive directors due to the Company's disappointing financial results for 2019 and to focus on reducing costs across the Group.

The Company does not provide for any clawback provisions regarding annual bonuses, as annual bonuses are awarded on a lump sum basis based on past performance and payable in the following year, and so the rationale behind a clawback mechanism is less relevant.[1]

1. Includes LTIP awards for which performance conditions have been satisfied.

2019 annual report on remuneration continued

Long-term incentive awards

In 2017, the Company implemented its new performance-based long-term incentive plan and granted additional awards on 28 November 2018.

The LTIP awards granted are based on performance over one calendar year which is followed by an additional two-year holding period such that no awards may vest before the third anniversary of the date of grant.

The Committee decided not to award any awards in 2019, and so there is no information to provided in relation to performance conditions for the reporting year.

Pension entitlements

The Company did not operate a pension scheme for executive directors in 2019 but may make a pension contribution or a payment in lieu of pension contributions to executive directors under their employment contracts as executives of the Group as opposed to under their service agreements as directors of the Company.

Payments to past directors

No payments were made to past directors of the Company during the year ended 31 December 2019.

Payments for loss of office

Mr Kessel received a payment equivalent to 12 months' basic salary (i.e. excluding any benefits in kind or bonus). This was calculated by reference to his contractual notice period under his contract for services as a director of the Company, and pursuant to the rules on the payment of termination indemnities in Belgium which applied to Mr Kessel's separate services agreements for his role as a Group executive. The total amounts paid were:[2]

- US$125,000 and £100 in respect of his contract for services as a director of the Company;
- EUR 408,000 in respect of Mr Kessel's separate services agreement for his role as Group Executive; and
- EUR 29,719 in respect of unpaid vacation.

All amounts mentioned above have been audited.

In accordance with Section 430(2B) Companies Act 20026, details of any payments made to Mr Richardson following his resignation as Chief Financial Officer can be found on our website and will be reported in our 2020 Annual Report.

Non-executive director fees

The Committee did not review non-executive director fees in 2019 and so no changes were made.

Directors' shareholdings

The beneficial interests of the directors in the share capital of the Company as at 31 December 2019 were as follows:

Director	Total (audited)
Atul Gupta	178,357
Kai-Uwe Kessel[1]	10,000
Tom Richardson	–
Sir Christopher Codrington, Bt.	3,312
Mark Martin	10,000
Kaat Van Hecke	–
Simon Byrne	25,000
Martin Cocker	–
Michael Calvey	–

The Company has not been notified of any change in directors' shareholdings since year-end.

Please refer to the text in the remuneration policy table on page 96 in relation to shareholding guidelines applicable to directors.

1. Mr Kessel left the Company on 16 December 2019, and so the shareholding shown for him is correct as of that date.
2. These amounts exclude $17,250, £14, EUR 91,921 and EUR 6,241.02, respectively, paid for National Insurance, personal income taxes and social security costs.

Phantom share option plan

The Company currently operates one non-performance-related phantom share option plan (the "Plan"). As at 31 December 2019, the executive directors each held the following options over Ordinary Shares of the Company, generally vesting over a five-year period, exercisable at either US$4.00 or US$10.00 per Ordinary Share and expiring 10 years from the date of grant, pursuant to the Plan:

(audited) Director	Date of grant	Options held at 31 December 2018	Face value at date of grant (in USD)	Options exercised during the financial year 2019	Options lapsed during the financial year 2019	Options held at 31 December 2019	Option exercise price (US$ per option)	Expiry date
Kai-Uwe Kessel	10 June 2009	700,974	35,049[1]	–	700,974	–	4.0	Expired on 9 June 2019
	26 March 2013	200,000	18,000[2]	–	200,000	–[3]	10.0	Lapsed[4]
Tom Richardson	26 March 2013	110,000	9,900[2]	–	–	110,000	10.0	30 March 2021[5]

1. Calculated by multiplying the market value of the options at 10 June 2009 (US$4.05) less $4.00 by the number of options granted.
2. Calculated by multiplying the market value of the options at 26 March 2013 (US$10.09) less $10.00 by the number of options granted.
3. There have been no changes in the interests in the Plan between the end of the financial year 2019 and the date of this Annual Report.
4. Mr Kessel left the Company by mutual agreement on 16 December 2019 and, in accordance with the terms of the Plan, all outstanding options lapsed as of the same date.
5. Mr Richardson resigned as Chief Financial Officer and as a director of the Company on 31 March 2020 and, in accordance with the terms of the Plan, his options will remain exercisable for one year from the date of his departure.

The Plan rules do not contain any malus or clawback mechanisms but, going forward, management will require any recommendations by the Company to the option trustee of an option award to be made subject to an express right for the Company to suspend further vesting and to claw back unvested options previously awarded where there has been exceptional circumstances of misstatement or misconduct, misbehaviour, significant risk failures or material downturns in the Group's financial performance prior to vesting.

It is intended that the Company's new long-term incentive plan will replace the Plan going forward, and so it is not currently envisaged to make any further awards under the Plan.

Long-term incentive plan

On 24 August 2017, the Board approved the making of certain initial grants under the Company's new long-term incentive plan ("LTIP"), and on 28 November 2018 additional grants were made to executive directors. No further awards were made in 2019.

The following table provides details of the LTIP awards made to directors in 2017 and 2018:

Director	Date of grant	Options at date of grant	Options capable of vesting as at 31 December 2019[3]	Face value (in GBP)[2]	Options capable of being exercised during the financial year 2019[1]	Expiry date
Kai-Uwe Kessel	28 November 2018	332,706	0	0	0	N/A
Kai-Uwe Kessel	10 October 2017	332,706	0	0	0	N/A
Tom Richardson	28 November 2018	174,900	0	0	0	N/A
Tom Richardson	10 October 2017	174,900	71,195	218,458	0	N/A

1. None of the options granted were exercisable as at 31 December 2019.
2. The face value has been calculated by multiplying the number of options capable of vesting by the fair value of the options at grant date (£2.76 for 2017 options) and as performance conditions for 2018 were not met the 2018 options have no face value. A nominal amount of 0.01p per option will be payable by all directors upon exercise. The Company has the option to waive the nominal cost.
3. Mr Kessel left the Company on 16 December 2019 and Mr Richardson left the Company on 31 March 2020 and, in accordance with the LTIP rules, all of their outstanding options lapsed as of these respective dates.

As previously mentioned, all non-executive directors who had been granted awards under the LTIP (including the Chairman) have formally renounced such awards and the Company has amended the terms of its LTIP to make non-executive directors ineligible to participate in the LTIP.

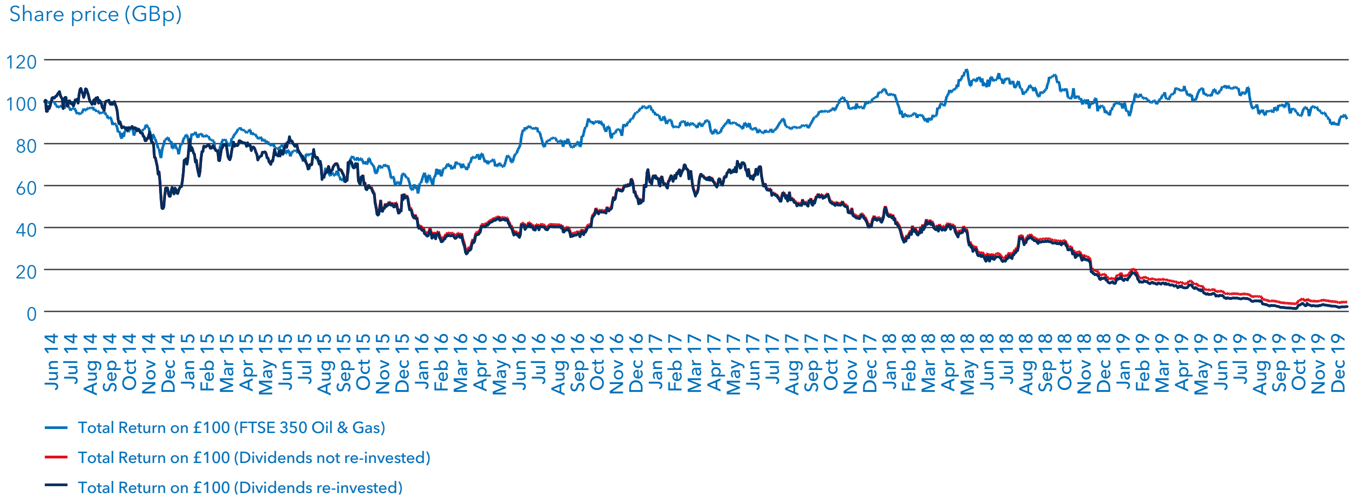
Further information regarding how the LTIP operates can be found on page 97.

2019 annual report on remuneration continued

Remuneration statistics and comparisons

The following performance graph shows the growth in value of a notional £100 invested in the Company since the premium listing of the Company compared with the FTSE 350 Oil & Gas Index. The committee selected the FTSE 350 Oil & Gas Index as the most appropriate comparator as it feels that it is a broad-based index which includes many of the Company's competitors.

Total share return



History of CEO remuneration

The total remuneration figures compared with a respective maximum opportunity for the Chief Executive during each of the last five financial years are shown in the table below. Kai-Uwe Kessel was in the position for all five years shown until he left the Company on 16 December 2019. The total CEO remuneration figure for 2019 therefore includes all amounts paid to Kaat Van Hecke in December 2019 for CEO services provided to the Group and all termination amounts paid to Kai-Uwe Kessel. Please refer to the Single Total Figure of Remuneration Table on page 87 for more information.

Year	Total CEO remuneration (EUR)	Annual bonus as % of maximum opportunity
2014	2,050,323[1]	100%
2015	971,224	80%[2]
2016	915,900	75%
2017	888,451	31.25%
2018	617,765	0%
2019	1,369,807	0%

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's 2019 salary, annual bonus and benefits compared to a comparative group comprised of the Group's European based employee population (excluding European-based members of the senior management team who did not receive a pay rise or annual bonus in 2019). The committee has chosen this comparator group as it feels it is employed on more readily comparable terms.

	Chief Executive			**Comparator group**
(EUR[1])	**2019**	2018	% change	% change
Salaries[2]	**1,323,639**	592,079	124%	2.5%
Benefits	**35,563**	18,156	96%	0%
Annual bonus	**0**	0[3]	0%	-55.81%

1. Mr Kessel was and Ms Van Hecke is remunerated in euros and, to avoid any anomalies in the figures reported due to fluctuations in the EUR/USD exchange rate, the amounts shown in the table have not been converted into USD, the Group's functional currency.
2. Salary increases are determined and awarded during the course of the calendar year. The salary figure includes all amounts paid upon termination of Mr Kessel's contracts with the Group on 16 December 2019 and sums paid to Ms Van Hecke from 1-31 December 2019. More details can be found on pages 87 and 90.
3. Remuneration figures stated for 2017 and in the historical period include employer taxes borne by Nostrum. For 2018, it was decided to show only gross personal salary, fees and benefits paid to directors by Nostrum and excludes other employer taxes.

Relative importance of spend on pay

The table below shows the Company's actual spend on pay (for all employees) relative to dividends.

Key expenditure areas In thousands of US dollars	2019	2018	% change
Remuneration paid to all employees[1]	**38,755**	39,029	-1%
Dividends to shareholders (total)	**0**	0	
• Dividends	**0**	0	0%
• Share buy-back	**0**	0	0%

1. Total remuneration reflects overall payroll and related taxes. Refer to the consolidated financial statements for further information.

For further information on dividends and expenditure on remuneration for all employees, please see the notes to the consolidated financial statements.

Service contracts

Details of the executive directors' service agreements' and the non-executive directors' letters of appointment can be found in the Company's remuneration policy on pages 101 and 103 respectively of this Annual Report. All directors are subject to annual re-appointment and accordingly all executive and non-executive directors will stand for election or re-election (as appropriate) at the Annual General Meeting.

Statement of 2020 remuneration policy implementation

The Company's remuneration policy was put to a shareholder vote at the 2019 Annual General Meeting and was approved by 74.65% of shareholders. There is no requirement for a vote on the policy in 2020 unless any changes to the policy are proposed, and as the committee feels that the policy continues to remain appropriate and aligned with the Company's strategy and business needs and no changes are proposed for the coming year.

Salaries and bonuses of the executive directors are reviewed and determined annually to ensure they remain appropriate. The Company's bonus year runs from 1 January to 31 December each year, with bonus amounts being determined between December and March and becoming payable between April and August of each year.

Remuneration in 2020 will be consistent with the policy described on pages 95-103.

Salaries and service fees

The Committee reviewed the salaries of the executive directors in March 2020 and determined that the executive directors would not receive a pay rise in 2020.

2019 annual report on remuneration continued

Annual bonus

In accordance with the remuneration policy applicable in 2020, the executive director annual bonus opportunity is up to 40% of base compensation. Annual performance will be assessed against a performance scorecard of which a portion is based on operational and financial measures, a portion on strategic objectives and a portion on HSE, social and governance objectives.

The Committee has compiled a list of suitable key performance indicators against which the performance of the executive directors will be measured at the end of 2020 to determine the annual bonus amounts payable to executive directors in 2021. Details of any non-commercially sensitive KPIs are set out below. 2020 performance will be measured against these key performance indicators and the Committee will consider such performance together with the Company's financial position, in deciding whether and at what level to award.

2020 Bonus Performance Measures	Weight
Operational and Financial	**50%**
	15%
• Achieve annual average sales (boepd) from 19,000 boepd (0%) to 21,000 boepd (100%) (sliding scale)	20%
• Reduce operational and G&A cash costs from US$63m (0%) to US$50m (100%) (sliding scale)	
• Re-start GTU-3 with stable (one month uninterrupted) sales volumes (in Q3 (100%), in Q4 (50%))	10%
• LPS 4th compressor start-up before year end	5%
Strategic Objectives	**40%**
• A commercially sensitive strategic target therefore not disclosed	20%
• A commercially sensitive strategic target therefore not disclosed	20%
HSE, Social and Governance	**10%**
• Demonstrate an active GHG emissions management	5%
• Assessment by the HSEC Committee of achievement of the HSE Plan for 2019 (provided that there have been no fatalities)	5%
Total	100%

Phantom share option plan

The Committee does not envisage the award of any additional phantom share options to executive directors in 2020.

Long-term incentive plan

The Committee does not envisage granting additional awards under the Company's long-term incentive plan in 2020 and therefore no performance conditions have been set for 2020.

Non-executive directors

Non-executive director fees were reviewed in March 2020 and it was decided that no change was warranted. The next review of non-executive director fees will be conducted in 2021.

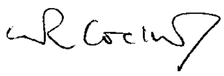
Approval of the directors' remuneration report

The directors' remuneration report was approved by the Board on 29 April 2020.

On behalf of the Board

Kaat Van Hecke
Chief Executive Officer

29 April 2020



Martin Cocker
Chief Financial Officer

29 April 2020

Directors' remuneration policy

Future directors' remuneration policy

This part of the directors' remuneration report sets out the remuneration policy for the Company and has been prepared in accordance with the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority. This policy was approved by shareholders at the 2019 Annual General Meeting held on 4 June 2019 and took effect from this point. Whilst we do not envisage making any changes to our policy prior to the Company's 2022 Annual General Meeting, we conduct annual reviews to ensure that it continues to support the strategy of the Company. If we feel it is necessary to make a change to our policy prior to the end of this three-year period we will seek shareholder approval.

The policy has been included in full below as set out in the 2018 Annual Report.

Policy coverage

This policy applies to all payments to directors of the Company from the date of the Company's 2019 AGM.

Policy objectives

This policy is designed to:

1. Provide that the Company may not make any LTIP awards to its non-executive directors or Chairman.
2. Provide a structure and level of pay that attracts and retains high-calibre directors capable of delivering the Company's strategic objectives.
3. Provide clear and transparent performance incentives in a manner that is consistent with best practice and aligned with the interests of the Company's shareholders.
4. Align the remuneration of executives with the interests of the Company's shareholders, and ensure that rewards are justified by performance.
5. Ensure that the pay of the executive directors takes into account: (i) pay and conditions throughout the Company; and (ii) corporate governance best practice, including health and safety, environmental, social and governance risks.
6. Allow for future bonuses to be paid in whole or part in deferred shares.
7. Allow for pension contributions to executive directors for their services under service contracts up to a 10% maximum opportunity or higher if required by applicable law.

Peer group

For the purposes of benchmarking appropriate compensation, the committee currently regards the following companies as the most relevant peer group for Nostrum:

- FTSE 350 companies of a similar size to Nostrum;
- Oil and gas E&P companies globally which compete for scarce skills within the industry; and
- Companies operating predominantly in the FSU which compete for expatriate and local staff.

Risk management

The Committee will review incentive arrangements regularly to ensure that they comply with the risk management systems, and that controls are operating effectively. The committee also ensures that inappropriate operational or financial risk-taking is neither encouraged nor rewarded through the Company's remuneration policies. Instead, a sensible balance will be struck between fixed and variable pay, short and long-term incentives and cash and equity.

The committee has access to the Audit Committee and senior executive management as and when required to discuss any matters of risk assessment.

Nostrum operates in an industry that is inherently subject to operational risks. Particular emphasis is therefore placed on ensuring that health and safety best practice is reinforced by this policy. The committee consults regularly to ensure that this is the case.

Ongoing review of policy

The Committee will periodically review whether this policy is operating appropriately. Any actions arising from this review will be assigned to an appropriate person with a deadline to report back to the committee. The level and structure of the compensation system will also be reviewed annually by the Committee.

Remuneration policy table

The table on pages 97-99 sets out the key components of the reward package for executive directors.

Directors' remuneration policy continued

Executive directors' remuneration policy table

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
BASE PAY	To provide market-competitive base salaries.	There is no prescribed maximum annual increase. The Committee takes into account remuneration levels at peer group companies together with the performance of the Company and each individual's personal contribution.	Base salary is reviewed annually and fixed for 12 months.	None
BENEFITS	To reflect market practice and provided in line with peer companies.	The aggregate value of such benefits should not constitute a significant proportion of any employee's compensation.	Benefits include: • Medical insurance. • Life insurance. • Permanent health insurance (long-term disability or income protection insurance). • A company car is provided to the CEO. The Company may make payments to directors in lieu of benefits and may also make separate benefit arrangements for executive directors in connection with their service as executives of Group.	None
ANNUAL BONUS	Executive directors may be eligible for an annual bonus in cash and/or deferred shares for good performance (as determined at the Board's discretion).	In general, maximum opportunity of 40% of base salary compensation.	The annual bonus is determined by reference to performance in the prior calendar year. Annual bonuses are generally paid sometime between April and August of each year. Malus and clawback provisions apply to the award of annual bonuses such that executive directors may be liable to repay some or all of their annual bonus if there is a material misstatement of results, or error in calculation of any KPI or serious misconduct. The discovery period is one year commencing on the date on which the bonus is determined.	Key performance indicators against which the performance of the executive directors will be measured in the following year are determined at the end of each year and all non-commercially-sensitive key performance indicators are disclosed in the Directors' Remuneration Report. Any commercially sensitive performance measures will be disclosed retrospectively following completion of the relevant financial year. Performance against key performance indicators for the previous year is also disclosed in the Directors' Remuneration Report to show how the Board has determined executive director performance against the relevant key performance indicators for that year and consequently the levels of annual bonus payable to the executive directors.

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
NOSTRUM OIL & GAS PLC 2017 LONG-TERM INCENTIVE PLAN ("LTIP")	To incentivise executive directors and employees over a longer time frame, and to increase their interest in the Company's long-term business goals and performance through share ownership. To help retain executives and other key employees, and align their interests with shareholders through building a shareholding in the Company.	200% of base salary in any financial year.	Awards of nominal-cost options are made at the sole discretion of the committee. It is anticipated that awards will be granted annually for calendar years 2017-2019, subject to annual performance conditions. Generally, awards have a one-year performance period attached to them and will not vest for an additional two years following the date on which the committee determines whether or not a performance condition has been wholly or partly satisfied such that no award may vest before the third anniversary of the date of grant. The committee has the discretion to decide, on or before the grant of an award, that a participant shall be entitled to receive dividend equivalents arising over the period between the grant date and the vesting date with such amounts being payable in cash or shares in respect of shares which vest. Malus and clawback provisions apply to the LTIP such that participants are liable to repay/ forfeit some or all of their shares if there is a material misstatement of results, or error in calculation, or if there is serious misconduct. The discovery period is three years commencing on the date on which the award vests, which can be extended by the committee for an additional two years if an event occurs which the committee determines could result in the operation of recovery or withholding.	Performance measures are generally measured over one year though the committee have the discretion to apply a longer performance period to awards. The committee has the discretion to set any performance condition attaching to awards granted under the LTIP. Vesting of awards would ordinarily be based: • In part on average accrued sales volumes measured in barrels of oil equivalent per day; and • In part on reserves measurement on the basis of 2P barrels of oil per share.

Directors' remuneration policy continued

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
PHANTOM SHARE OPTION PLAN (THE "PLAN")	The Board places great importance on minimising dilution of existing shareholders. Share awards will therefore only be made to senior management who are able to make a material contribution to shareholder value that substantially exceeds the value of any share awards made. The Plan has effectively been replaced by the LTIP and no awards are expected to be made under the Plan in 2019.	Share awards will only be made on the basis of achieving concrete long-term objectives defined in advance by the committee. Share awards will vest over several years. In accordance with the Plan rules, the total number of shares that may be granted pursuant to the Plan is five million.	• Intertrust Employee Benefit Trustee Limited administers the Plan and is responsible for granting rights under the Plan. • Each right entitles holders to receive, on exercise, a cash amount equal to the excess of the market value on the exercise date of the Ordinary Shares of the Company to which it relates over a base value set at the date of grant. • All executive directors of the Company are eligible to participate in the Plan at the discretion of the Board. • Awards vest on the basis described in the notes on the following page. • Long-term objectives are to be reviewed at every committee meeting to ensure that they are appropriate, relevant and rigorous. • Share awards made in future may be reduced at any time prior to vesting, at the discretion of the committee, following events such as (but not restricted to) a material misstatement of results, failure of risk management, breach of health and safety regulations or serious reputational damage to the Company.	None

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
PENSIONS	To remain competitive in the marketplace and provide income in retirement.	10% or, if higher, any minimum pension contribution which may be required under applicable law.	There are ordinarily no pension contributions or provisions for directors, although there may be pension arrangements made for executive directors in connection with their service as executives of Group companies.	None
SHAREHOLDING GUIDELINE	Aligns interests of executive directors with those of shareholders.	Executive directors are encouraged to maintain a holding in the Company to align their interests with shareholders.	If the Company grants shares to directors outside the LTIP by way of bonus or otherwise they will be required to hold 50% of such shares for a three-year period. The committee monitors the holdings of all directors.	None
NON-EXECUTIVE DIRECTORS AND CHAIRMAN	Attract and retain high-performing individuals.	No prescribed maximum annual increase in fees.	Any fee increases are usually considered at the end of each year and the Board and, where applicable, the committee considers pay data at comparable companies of a similar scale. The Senior Independent Director and the Chairmen of the committees receive additional fees. No eligibility for participation in bonuses but limited benefits may be delivered (provision of iPad and travel-related expenses). Non-executive directors and the Chairman are not eligible to participate in the LTIP.	

Directors' remuneration policy continued

Phantom share option plan

The Company operates the Plan in accordance with the Plan rules, the Listing Rules, the Disclosure and Transparency rules and other applicable rules. In order to retain talent, options are generally granted in tranches exercisable at the following times:

- As to 20% of the Ordinary Shares in respect of which an option is granted, from the first anniversary of the date of grant;
- As to a further 20% of the Ordinary Shares in respect of which an option is granted, from the second anniversary of the date of grant;
- As to a further 20% of the Ordinary Shares in respect of which an option is granted, from the third anniversary of the date of grant;
- as to a further 20% of the Ordinary Shares in respect of which an option is granted, from the fourth anniversary of the date of grant; and
- As to the remaining 20% of the Ordinary Shares in respect of which an option is granted, from the fifth anniversary of the date of grant.

The Board retains discretion over a number of areas relating to the operation and administration of the Plan, which include, but are not limited to: (i) who participates; (ii) the timing of the grant of an award; and (iii) the size of the award.

Treatment of existing arrangements

For the avoidance of doubt, authority is given to the Company to honour any commitments entered into with current or former directors notwithstanding the approval of the Policy. This will last until the existing incentives vest (or lapse) or the benefits of any contractual arrangements no longer apply.

Remuneration scenarios for executive directors

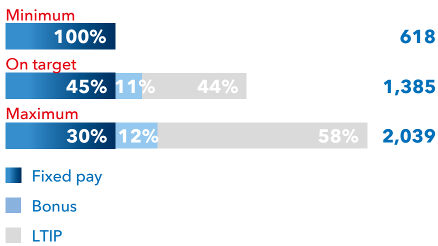
The bar charts below provide estimates of the potential remuneration of the executive directors for 2019. Three scenarios are presented for each executive director which are based on the following assumptions:

- The "minimum" columns are intended to show the fixed level of remuneration to which executive directors are entitled in 2019 irrespective of performance levels, namely base salary, benefits using the details set out in the single-figure table provided on page 87 (which includes any payments made in lieu of benefits made under the executive directors employment contracts for their roles as executives of the Group and not under their service contracts as executive directors) and any payments made in lieu of the provision of a pension scheme (which are paid under the executive directors employment contracts for their roles as executives of the Group and not under their service contracts as executive directors). The base salary for each of the executive directors is currently under review and so their estimated 2018 base salary has been used for the purposes of the bar charts for Mr Kessel and Mr Richardson. Mr Gupta's salary, agreed in November 2018, has been used for his bar chart. No bonus payments or vesting of shares are assumed for minimum performance.
- The "on target" scenario seeks to illustrate the remuneration the executive directors would receive if performance was in line with expectation. In addition to the fixed elements summarised above, it assumes a specified level of payout/vesting under the annual bonus scheme and awards made in 2019 under the LTIP though no LTIP awards made in 2019 would be eligible for vesting until two years after the date on which the committee determine whether or not the applicable performance measures have been met. Given that neither of these incentive arrangements explicitly stipulate an 'on target' amount and grant levels under the LTIP for 2019 have not been determined yet, the assumed levels for the scenario are:
- For the LTIP, the illustration is based on 50% vesting in relation to the percentage of base salary over which the relevant LTIP grant was made (up to a maximum of 200% of base salary as stated under the LTIP rules). We have used the grant levels made to each of the executive directors under the LTIP in 2018 to determine the on target and maximum percentage of base salary over which share options could be awarded in 2019 (being an LTIP award equivalent to 200% of base salary for Kai-Uwe Kessel and 150% of base salary for Tom Richardson); and
- In case of the annual bonus, a bonus of 25% of base salary.
- The "maximum" columns illustrate total remuneration levels in circumstances where the variable elements pay out in full, namely an annual bonus payment of 40% of base salary and 100% vesting of LTIP awards to be granted in 2019.
- During 2018, the non-executive directors who had been granted awards under the LTIP agreed to renounce such awards.

The bar charts below do not include any amounts in relation to the phantom share option plan because, as at the time of this Annual Report, the Board does not intend to grant any further awards under the phantom share option plan in 2019.

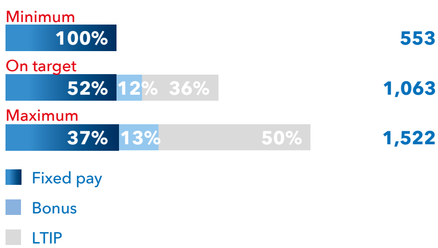
Kai-Uwe Kessel, Chief Executive Officer[1]

amounts in EUR thousand



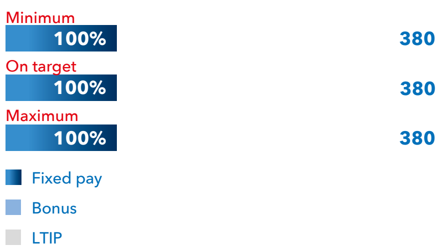
Tom Richardson, Chief Financial Officer[2]

amounts in EUR thousand



Atul Gupta, Executive Chairman

amounts in EUR thousand



1. Mr Kessel left the Company on 16 December 2019.
2. Mr Richardson left the Company on 31 March 2020.

Recruitment

The committee expects any new executive directors to be engaged on terms that are consistent with this Policy but the committee acknowledges that it cannot always predict the circumstances under which any new executive director may be recruited and so, accordingly, in each case, the committee will consider:

- The objective of attracting, motivating and retaining the highest calibre directors in a manner that is consistent with best practice and aligned with the interests of the Company's shareholders.
- Salary, benefits, annual bonus and long-term incentives will be determined within the framework of the remuneration policy table on pages 96-99.
- Where an individual would be forfeiting valuable remuneration in order to join the Company, the need to retain flexibility should be considered in order for the committee to be able to set base salaries at a level necessary to facilitate the hiring of the highest calibre candidates, including awards or payments to compensate for remuneration arrangements forfeited on leaving a previous employer. The committee would require reasonable evidence of the nature and value of any forfeited compensation and would, to the extent practicable, ensure any compensation awarded was no more valuable than the forfeited award.
- Judgement will be exercised to determine the appropriate measure of compensation for any forfeited award by taking account of relevant factors such as the value of any lost award, performance conditions and the time over which they would have vested or been paid.
- Where an existing employee of the Company is promoted to the Board, the Company will honour any commitment to remuneration made in respect of a prior role, including any outstanding awards of options under the Plan.
- The need, in order to recruit the best candidates, for the Company to offer sign-on remuneration the necessity and level of which will depend on circumstances.
- Where an individual is relocating in order to take up a role, the Company may provide certain one-off benefits including, but not limited to, reasonable relocation expenses, accommodation, housing allowance and assistance with visa applications.

In making any decisions on remuneration for new joiners, the committee will endeavour to balance the expectations of shareholders with current market and corporate governance best practice and the requirements of any new joiner and would strive to pay no more than is necessary to attract the right talent to the role.

Service agreements

Summary details of each director's service agreement are as follows:

	Director's service agreement date	Annual salary and fees as at 1 January 2019 (EUR)[1,2]
Atul Gupta	28 November 2018	379,803
Kai-Uwe Kessel[3]	Originally dated 19 May 2014 and most recently amended and restated on 1 April 2018 (effective as of 1 April 2018)	555,914
Tom Richardson[4]	Originally dated 1 September 2016 and most recently amended and restated on 22 March 2018 (effective as of 1 January 2018)	510,075

1. Mr Gupta is remunerated in USD, Mr Richardson is remunerated in GBP and Mr Kessel is remunerated in EUR, USD and KZT, but for the purposes of this table the following exchange rates have been used
   2018: GBP:EUR (1.134); USD:EUR (1.185); KZT:EUR (431)
   2017: GBP:EUR (1.1413).
2. Annual salary and fees represents the total salary and fees (excluding benefits/pension, and discretionary remuneration) from the Group for both the director's executive and director service roles.
3. Kai-Uwe Kessel left the Company on 16 December 2019 and was replaced as CEO by Kaat Van Hecke whose service agreement is dated 1 December 2019.
4. Tom Richardson left the Company on 31 March 2020 and was replaced as CFO by Martin Cocker. Mr Cocker is a Non-Executive Director and details of his letter of appointment can be found on page 103.

The appointment of each of the executive directors continues until the Company's Annual General Meeting and their ongoing appointment is subject to being re-elected as a director at each subsequent Annual General Meeting. Each executive director may be required to resign at any time in accordance with the Company's Articles or for any regulatory reason such as the revocation of any approvals required from the Financial Conduct Authority ("FCA"). The Company may lawfully terminate the executive directors' employment in the following ways:

- At any time upon 12 months' written notice; and
- Without notice in circumstances where the Company is entitled to terminate for cause.

The lawful termination mechanisms described above are without prejudice to the employer's ability in appropriate circumstances to terminate in breach of the notice period referred to above, and thereby to be liable for damages to the executive director.

The executive directors are not permitted to take up any office or employment with, or have any direct or indirect interest in, any firm or company which is in direct or indirect competition with the Company or any other member of the Group or any company in which any member of the Group has an interest, without the consent of the Board.

In addition, the executive directors are subject to certain restrictive covenants in their service agreements relating to share dealings and non-competition and non-solicitation covenants in relation to relevant Group companies for six months from the date of termination of the relevant executive's service contract.

Copies of the executive directors' service agreements and the non-executive directors' letters of appointment are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting.

Directors' remuneration policy continued

Payments for departing executive directors

Provision	Policy
Notice period and compensation for loss of office in service contracts	• 12 months' notice from the Company to the executive director. • Up to 12 months' base salary (in line with notice period). Notice period payments will either be made as normal (if the executive director continues to work during the notice period or is on gardening leave) or they will be made as monthly payments in lieu of notice (subject to mitigation if alternative employment is found).
Treatment of annual bonus on termination	No entitlement.
Treatment of unvested share option awards under the Plan	An executive director's award will generally lapse to the extent they have not vested on the date of voluntary cessation of employment and any portion that remains outstanding but unexercised after 12 months following such cessation will lapse.
Treatment of unvested awards under the LTIP	For a director considered to be a 'good leaver' before the original vesting date (including leaving the Company on retirement, redundancy, ill health, as a result of death in service or in other circumstances determined by the committee), outstanding awards will be pro-rated for time and vest subject to performance on the original vesting date. For a director who is considered a 'good leaver' after the original vesting date, any awards will remain exercisable for a period of 12 months commencing on the date of cessation. For a director whose employment is terminated for any other reason, the award will lapse in full.

In particular circumstances, an arrangement may be agreed to facilitate the exit of a particular individual. Any such arrangement would be made bearing in mind the desire to minimise costs for the Group and only in circumstances where it is considered in the best interests of shareholders.

Change of control

In accordance with the LTIP rules and the terms of the awards granted in 2017 and 2018 under the LTIP if there is a sale of all or substantially all of the Company or the Company's business in circumstances where such sale has been approved by a majority of shareholders and is at a price of $10 per share or more then all awards granted will vest in full regardless of the achievement or otherwise of applicable performance conditions on the date of such event if they have not already vested and all awards will remain exercisable for one month from such date. To the extent that any option is not exercised in such period, it shall lapse at the end of that period.

Non-executive directors

The Chairman and executive directors set the remuneration package for non-executive directors in line with the non-executive directors' remuneration policy table and subject to the Company's Articles of Association (the "Articles").

Non-executive director appointment letters

The following table provides details of non-executive director appointment letters:

Name	Position	Date of letter of appointment	Expiry of current term
Sir Christopher Codrington, Bt.	Independent non-executive director	19 May 2017	19 May 2020
Mark Martin	Senior Independent Director	19 May 2017	19 May 2020
Michael Calvey	Non-executive director	25 April 2017	25 April 2020
Martin Cocker	Non-executive director	16 November 2017	16 November 2020
Simon Byrne	Non-executive director	16 November 2017	16 November 2020

The Company intends to comply with provision 18 of the UK Corporate Governance Code and accordingly all directors will stand for re-election by shareholders at future Annual General Meetings until the Board determines otherwise.

Each appointment is for an initial term of three years, subject to being re-elected at each Annual General Meeting, save that a non-executive director or the Company may terminate the appointment at any time upon one month's written notice, or that a non-executive director may be required to resign at any time in accordance with the Articles of the Company, the UK Corporate Governance Code or for any regulatory reason such as the revocation of approvals required from the FCA.

Each of the non-executive directors is entitled to an annual fee paid quarterly and to reimbursement of reasonable expenses. There is no entitlement for non-executive directors to participate in the Plan or the LTIP.

The non-executive directors are not permitted to take up any office or employment with, or have any direct or indirect interest in, any firm or company that is in direct or indirect competition with the Company without the consent of the Board. Upon termination of the appointment and where such termination is for any reason other than due to the non-executive director's gross misconduct, material breach of the terms of the appointment, act of fraud or dishonesty or wilful neglect of the non-executive director's duties, the non-executive director will be paid a pro-rated amount of their fees in respect of the period between the beginning of the quarter in which termination took place and the termination date. Otherwise, none of the non-executive directors are entitled to any damages for loss of office and no fee shall be payable in respect of any unexpired portion of the term of the appointment.

Statement of consideration of employment conditions elsewhere in the Company

We have not consulted with employees on the executive remuneration policy. However, when determining the policy for executive directors we have been mindful of the pay and employment conditions of employees across the Group as a whole.

Statement of consideration of shareholder views

Senior executive management of the Company regularly meet with shareholders and solicit their views on the Company's policies in relation to director and executive remuneration, and take such views into account when formulating remuneration policies and remuneration levels in specific cases.

Directors' Report

The directors submit their report and the consolidated audited financial statements of the Group and the audited parent financial statements of the Company for the year ended 31 December 2019.

This report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The following are incorporated by reference and shall be deemed to form part of this Directors' Report:

- The Strategic Report on pages 2-57;
- The Board and Governance report (which includes the Board, the Corporate Governance Report and the Directors' Remuneration Report) on pages 58-71 and 84-94 respectively; and
- The energy and global greenhouse gas emissions disclosure on pages 42-43.
- In addition, the following information is also incorporated into this Directors' Report by reference:

Subject matter

Directors

Full biographical details of all current directors of the Company (all of whom held office at some point during the reported year) and the Board committees of which they are members are set out on pages 62 and 63 of this Annual Report.

Dividends

No dividends were paid during the year ended 31 December 2019.

No dividend is proposed to be paid in 2020 in respect of the year ended 31 December 2019.

Auditor

In accordance with section 418(2) of the Companies Act 2006, each director in office at the date of this Directors' Report confirms that (a) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware and (b) the director has taken all the steps that he/she ought to have taken as a director to make him/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Ernst & Young LLP has confirmed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming AGM.

Directors' liabilities and indemnities

The Company maintains liability insurance for its directors. All directors are also in receipt of an indemnity from the Company under the Company's Articles in respect of (a) liability incurred by any director due to the negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, or any subsidiary undertaking or (b) any liability incurred by any director in connection with the activities of the Company, or any subsidiary undertaking, in its capacity as a trustee of an occupational pension scheme, in both instances to the extent permitted under the Companies Act 2006. Copies of the Company's Articles of Association (the "Articles") are available on the Company's website or at the Company's registered office during normal business hours and will be available for inspection at the AGM.

In May 2015, the Board approved a policy for the indemnification of directors, officers and other designated beneficiaries and the entry by the Company into an accompanying deed of indemnity.

The policy clarifies that the Company will seek to provide the maximum indemnification and protection to Group directors and officers permissible under applicable law, except in cases of fraud or wilful default, including but not limited to: (i) providing compensation for losses suffered in the course of acting as a director or officer in the interests of the Group, (ii) providing directors and officers with quality external legal representation and external professional advisers, (iii) assisting directors or officers with repatriation following a third party claim, (iv) continuing to make payment of a director's or officer's remuneration and benefits while such director or officer is under suspension, investigation or detention by order of a third party, (v) taking reasonable steps to place any such director or officer in a similar position working in another location or elsewhere in the Group which would allow his/her employment to continue and to compensate for any adverse financial consequences they incur as a result of their loss of office, or (vi) maintaining customary directors' and officers' liability insurance policies.

The deed of indemnity is intended to cover any insufficiency in the protection granted to directors and officers under the Articles which could expose such persons to substantial liability to third parties, including governmental authorities, in particular in jurisdictions where significant uncertainty exists in relation to the interpretation and application of the law. The deed of indemnity allows directors, officers and other designated beneficiaries to enforce the protection provided for under the Articles without any further action by the Company being required.

Political donations

The Group has made no political donations during the year 2019.

Contributions to non-EU political parties

No contributions to non-EU political parties were made during the year 2019.

Research and development

The Group is not involved in any activities in the field of research and development.

Branches

The Company is registered in England and Wales and during 2018 moved its place of effective management and tax residence from the Netherlands to the United Kingdom. As the Group is a global business, our interests and activities are held or operated through subsidiaries and branches and subject to the laws and regulations of many different jurisdictions.

Share capital

As of 31 December 2019, the Company's issued share capital was £1,881,829.58 divided into 188,182,958 Ordinary Shares each having a nominal value of £0.01, all of which are in free circulation. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Articles.

Subject to applicable law and the Company's Articles of Association the directors may exercise all powers of the Company, including the power to authorise the issue and/or market purchase of the Company's shares, subject to an appropriate authority being given to directors by shareholders in a General Meeting and any conditions attaching to such authority. The current authority, approved at the 2019 Annual General Meeting, for the allotment of relevant securities is for a nominal amount of up to: (i) £1,240,000 and (ii) equity securities up to a nominal amount of £620,000 less the nominal amount of any securities allotted under part (i) of the authority. No shares were allotted during the year.

Furthermore, at the 2019 Annual General Meeting, shareholders authorised the directors to make market purchases up to a maximum of approximately 10% of the Company's issued share capital (being £18,600,000 ordinary shares) excluding treasury shares. Any shares purchased under this authority may either be cancelled or may be held as treasury shares provided that the number of shares held does not exceed 10% of issued share capital. No shares were bought back during the year.

Resolutions to renew these authorities will be proposed at the 2020 AGM.

Intertrust Employee Benefit Trustee Limited holds shares in the Company in trust (the "Trust") for the purposes of the Company's phantom share option plan, and the rights attaching to them are exercised by independent trustees. As at 31 December 2019, the Trust held 2,948,879 Ordinary Shares in the Company.

Share rights

Without prejudice to any rights attached to any existing shares, the Company may issue shares with rights or restrictions as determined by either the shareholders by ordinary resolution or, if the Company passes a resolution, the directors.

Voting rights

There are no restrictions on voting rights or transfers of shares in the Articles and at a general meeting every shareholder present in person or by proxy has one vote for every share held by him. No shareholder shall be entitled to vote either personally or by proxy or to exercise any other right in relation to general meetings if any sum due from him to the Company in respect of that share remains unpaid.

Transfer of shares

The Articles provide that transfers of certificated shares must be effected in writing duly signed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered on the Register of Members in respect of those shares. Transfers of uncertificated shares may be effected by means of the relevant electronic system unless the Uncertificated Securities Regulations 2001 provide otherwise.

The directors may refuse to register a transfer of shares in favour of more than four persons jointly.

Directors, Articles and purchase of shares

The Articles were adopted on 19 May 2014 and may only be amended by special resolution at a general meeting of the shareholders.

The directors' powers are conferred on them by UK legislation and by the Articles. In accordance with the Articles, the Board has the power at any time to elect any person to be a director. Any person so appointed by the directors will retire at the next Annual General Meeting in accordance with the UK Corporate Governance Code; retiring directors may be eligible for annual re-election.

The Company did not repurchase any shares during 2019. The Board has the power conferred on it by shareholders to purchase its own shares and will seek a renewal of that power at the forthcoming Annual General Meeting within the limits set out in the notice of the meeting.

Shareholders holding 3% or more of the Company's issued share capital

As of 31 December 2019, the following significant shareholdings of voting rights in the share capital of the Company had been disclosed to the Company under Disclosure Guidance and Transparency Rule (DTR) 5 or otherwise.

Directors' Report continued

Name	Number of ordinary shares	% of Issued ordinary shares	Nature of holding
Mayfair Investments BV	48,366,612	25.70	Direct
Baring Vostok Capital Partners Ltd.	33,708,044	17.91	Direct
Aberforth Partners LLP	19,150,963	10.18	Indirect
M&G Investment Management Ltd.	8,970,675	4.77	Indirect
Aberdeen Standard Investments	8,791,226	4.67	Indirect
FPP Standard Investments	7,938,424	4.22	Indirect
Trafigura Ventures	7,802,557	4.15	Direct
Interactive Brokers (EO)	7,038,829	3.74	Indirect
RCB Bank	6,763,630	3.59	Indirect

Details of all information provided to the Company pursuant to Financial Conduct Authority's ('FCA') DTRs is publicly available to view via the regulatory information service on the Company's website. This publicly available information also covers the requirements of the Kazakh Stock Exchange to provide information about all major transactions (including those with the listed company's shares in the reporting period and any changes in the structure of shareholders holding five and more per cent of the outstanding shares) over the reporting period.

On 2 January 2020, ICU Investment Management Limited notified the Company that on 30 December 2019 it had purchased 9,649,179 shares in the Company (5.13%).

On 10 January 2020, ICU Investment Management Limited notified the Company that on 7 January 2020 it had purchased an additional 3,880,134 shares in the Company bringing its total shareholding to 7.19%.

On 27 January 2020, Aberforth Partners LLP notified the Company that on 24 January 2020 it had disposed of its 6.82% shareholding (as at that date) in the Company and on the same day Wellcome Trust Limited, as trustee of the Wellcome Trust notified the Company that on 24 January 2020 its shareholding had fallen below 3%. On 27 January 2020 ICU Investment Management Limited also notified the Company that on 24 January 2020 it had purchased an additional 31,307,758 shares in the Company bringing its total shareholding to 23.83%.

On 6 February 2020, ICU Investment Management Limited and ICU Holdings Limited notified the Company that on 5 February 2020 an intragroup transaction occured whereby ICU's total aggregated holdings remained unchanged from the TR-1 form filed on 27 January 2020 but the reporting entity changed from the investment manager (ICU Investment Management Limited) to the parent undertaking (ICU Holdings Limited).

Financial risk management

The Company's financial risk management objectives and policies, including its use of financial instruments, can be found in Note 34 of the financial statements.

Significant contractual arrangements

On 19 May 2014, the Company entered into a relationship agreement with KazStroyService Global B.V. ("KSS Global") (the "KSS Global Relationship Agreement") to regulate (in part) the degree of influence that KSS Global and its affiliates may exercise over the management of the Company. The principal purpose of the KSS Global Relationship Agreement is to ensure that the Company is capable at all times of carrying on its business independently of KSS Global and its affiliates and that all of the Company's transactions and relationships with KSS Global and its affiliates are at arm's length and on normal commercial terms.

Pursuant to its terms, the KSS Global Relationship Agreement will continue until the earlier of (a) the ordinary shares ceasing to be admitted to the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange or (b) KSS Global (together with any of its affiliates) ceasing to be entitled to exercise, or to control the exercise of, 10% or more of the rights to vote at the Company's General Meetings.

Terms of the KSS Global Relationship Agreement

Under the KSS Global Relationship Agreement, KSS Global agreed that (a) it will, and will procure its affiliates will, allow the Company and its affiliates at all times to carry on its business independently of KSS Global and its affiliates (b) it will not, and will procure its affiliates will not, act in any way which shall prejudice the ability of the Company and its affiliates to carry on its business independently of KSS Global or its affiliates (c) it will comply with, and will procure its affiliates comply with, the Disclosure and Transparency Rules in respect of its interests in the ordinary shares (d) it will not, and will procure its affiliates will not, take any action (or omit to take any action) to prejudice the Company's status as a listed company or its suitability for listing under the Listing Rules after Admission has occurred or the Company's ongoing compliance with the Listing Rules and the Disclosure and Transparency Rules or have the effect of preventing the Company from complying with its obligations under the Listing Rules, provided that this shall not prevent KSS Global (or any other person) from: (i) accepting a Takeover Offer for the Company in relation to their respective interests in the Company or, where such Takeover Offer is made by way of a CA2006 Scheme, voting in favour of such CA2006 Scheme at the court and related shareholder meetings or otherwise agreeing to sell their ordinary shares in connection with a Takeover Offer; or (ii) making a Takeover Offer by way of a general offer for all the outstanding ordinary shares or by way of a CA2006 Scheme and de-listing the Company after such Takeover Offer has become wholly unconditional or, in the case of a CA2006 Scheme, after it has become effective (e) it will not, and will procure that its affiliates will not, influence the day-to-day running of the Company at an operational level or hold or acquire a material shareholding in one or more significant subsidiaries of the Company and (f) it will exercise its voting rights in such a manner as to procure (to the extent possible): (i) at least half of the Board comprises independent directors (excluding the Chairman of the Board); (ii) the Audit Committee shall comprise entirely of independent directors and the Remuneration Committee shall comprise not less than three independent directors; and (iii) the Nomination and Governance Committee and any other committee of the Board to which significant powers, authorities or discretions are delegated shall at all times consist of a majority of independent directors.

Deed of adherence with Mayfair Investments B.V.

On 30 January 2015, KSS Global transferred its 50 million ordinary shares in the Company as follows: (a) 48,333,300 shares to Mayfair Investments B.V. ("Mayfair"), a company indirectly owned by KSS Global's three principal shareholders on the date of the transfer, and (b) 1,666,700 shares to KSS Global's other shareholder on such date.

In connection with such transfer, Mayfair entered into a Deed of Adherence with Nostrum pursuant to which Mayfair has undertaken to Nostrum to be bound by the KSS Global Relationship Agreement in all respects and to observe and perform all of the provisions and obligations of such relationship agreement previously applicable to or binding on KSS Global in so far as they fall to be observed or performed on or after the date of the transfer.

Change of control

The following are significant agreements the Company has entered into which would be affected on a change of control of the Company following a takeover:

1. In the event of a takeover of the Company, all options under the Company's phantom share option plan shall be deemed to have vested and the Board shall direct Intertrust Employee Benefit Trustee Limited to allow each optionholder to exercise his or her options at any time from the date of the change of control up to the 10th anniversary of the date of grant. Any options that have not been exercised will lapse at the end of this period.
2. In the event of a takeover of the Company, all options under the Company's employee long-term incentive plan shall be deemed to have vested and the Board shall direct Intertrust Employee Benefit Trustee Limited to allow each optionholder to exercise his or her options during the one-month period following the change of control event. Any options that have not been exercised will lapse at the end of this period.
3. The 2012 Bonds, 2014 Bonds, 2017 Bonds and 2018 Bonds contain change of control provisions. If a change of control occurs, the Company will be required to offer to repurchase the 2012 Bonds, 2014 Bonds, 2017 Bonds, and 2018 Bonds at 101% of their principal amount, plus accrued and unpaid interest to the date of the purchase.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment or otherwise that occurs specifically because of a takeover.

Corporate governance statement

Pursuant to Disclosure Guidance and Transparency Rule 7, certain parts of the corporate governance statement are required to be outlined in the Directors' Report. This information is laid out in the corporate governance section of this Annual Report. Information regarding the main features of the Company's internal control and risk management arrangements in relation to the financial reporting process can be found in the Strategic Report and the report of the Audit Committee.

Directors' Report continued

Requirements of the Listing Rules

The following table provides references to where the information required by Listing Rule 9.8.4R is disclosed.

Information required	Sub-section of Listing Rule 9.8.4R	Reference
Capitalised interest	(1)	Please refer to Note 7 in the financial statements
Publication of unaudited financial information	(2)	Not applicable
Details of any long-term incentive schemes established to specifically recruit or retain a director.	(4)	Not applicable
Waiver of emoluments by a director	(5) (6)	No such waivers
Allotment of equity securities for cash	(7) (8)	No such share allotments
Participation in a placing of equity securities	(9)	Not applicable
Contracts of significance	(10)	Please refer to the Directors' Report
Contracts for the provisions of services by a controlling shareholder	(11)	Not applicable
Dividend waiver	(12) (13)	Under the trust deed relating to the phantom share option plan and the LTIP, the trustee has agreed to waive any dividends on shares held under both plans.
Agreements with controlling shareholder	(14)	Not applicable as the Company does not have a "controlling shareholder" within the definition under Listing Rule 6.1.2A R, however, please see Directors' Report for details of relationship agreements the Company has entered into with certain shareholders

Important events since the end of the financial year

Major events after 31 December 2019 are disclosed in Note 35 to the consolidated audited financial statements.

This report was approved by the Board on 29 April 2020.

On behalf of the Board

Martin Cocker
Chief Financial Officer

29 April 2020

Kaat Van Hecke
Chief Executive Officer

29 April 2020

Nostrum Oil & Gas PLC, registered number 8717287

Responsibility statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The directors are required by the Companies Act 2006 to prepare accounts for each financial year and, with regards to Group accounts, in accordance with Article 4 of the IAS Regulation. The directors have prepared individual accounts in accordance with IFRS as adopted by the EU. The accounts are required by law and IFRS to present fairly the financial position of the Company and the Group and the performance for that period. The directors must not approve such accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the consolidated Group.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes and Accounting Estimates and Errors' and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- State that the Group and the Company have complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements.
- Provide additional disclosures when compliance with specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and performance.
- Prepare the Group's and Company's financial statements on a going concern basis, unless it is inappropriate to do so.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, and having reviewed the Annual Report (including the Strategic Report), the directors consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable, providing the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The directors have responsibility for:

- Ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the accounts comply with the Companies Act 2006;
- Taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities; and
- The maintenance and integrity of the corporate and financial information on the Company's website.

Each of the directors whose names and functions are listed on pages 62-63 confirm, that to the best of their knowledge:

- The Company and Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

Kaat Van Hecke
Chief Executive Officer

29 April 2020

Martin Cocker
Chief Financial Officer

29 April 2020

Contents

Independent auditor's report to the members of Nostrum Oil & Gas PLC

Disclaimer of opinion

We were engaged to audit the financial statements of Nostrum Oil & Gas PLC ('the Company') and its subsidiaries ('the Group') for the year ended 31 December 2019 which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2019	Statement of financial position as at 31 December 2019
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 16 to the financial statements including a summary of significant accounting policies
Related notes 1 to 35 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

We do not express an opinion on the accompanying financial statements of the Group and Company. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

As disclosed in note 1 to the financial statements, the financial statements of the Group and Company are prepared on the assumption that the Group and Company will continue as a going concern.

With the outbreak of COVID-19 in the post-balance sheet period, and the uncertain demand for oil, the market price for the Group's products has fallen sharply and the outlook remains highly uncertain. There is a significant uncertainty in relation to the extent and period over which these developments will continue, but they will have a significant impact on the Group and Company's financial position, future cashflows and results of operations.

Management prepared a cash flow forecast to support their assessment that the Group and Company will continue as a going concern, including consideration of plausible downside scenarios. Management's assessment highlighted that the liquidity of the Group and Company is highly exposed to commodity prices. The Group's outstanding bonds, including coupon payments in the going concern period, will need to be restructured in the event conditions reflect commodity prices below management's base case. The prices assumed in management's base case are significantly above current market prices.

The ability of management to restructure the outstanding bonds is a key assumption supporting the Directors' conclusion that it is appropriate to prepare the financial statements of the Group and Company on a going concern basis. The directors were aware that there was a need to restructure the Group's outstanding bonds as it was clear to them that, under all reasonable assumptions, the Group would be unable to meet its US$725 million bond liability falling due in July 2022. This fact is disclosed in the viability statement on page 50 of the annual report. The sharp fall in the market price and demand of the Group's products in the post-balance sheet period, and the estimated impact on the Group's future cashflows, has accelerated the need to negotiate with bondholders and shareholders. A financial advisor has recently been selected; however, engagement with bondholders has not yet commenced. Consequently, we were unable to obtain sufficient appropriate audit evidence to support the assumption that a restructuring of the Group's bonds, including the deferral of associated interest due in the going concern period, is achievable in the necessary timeframe to provide a basis for us to issue an audit opinion on these financial statements.

The financial statements do not reflect any adjustments that would be required should the Group and Company be unable to continue as a going concern.

We are unable to conclude on principal risks, going concern and viability statement

In respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to, the significance of the matters described in the Basis for disclaimer of opinion section of our report means that we are unable to form a view on the adequacy or otherwise of:

- the disclosures in the annual report set out on pages 46 to 49 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 44 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 126 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 50 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for disclaimer for opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation ('DD&A') and the decommissioning provision Refer to the Audit Committee Report on page 72; the estimates, assumptions and judgements on page 133 and the disclosures in note 7 of the Consolidated Financial Statements (page 142) This was a significant risk due to the subjective nature of reserves estimates and the pervasive impact on the financial statements through impairment testing, DD&A calculations and the decommissioning provision. Reserves are also considered a fundamental indicator of the future potential of the Group's performance and its ability to continue as a going concern. The estimation of oil and gas reserves is a significant area of estimation due to the technical uncertainty in assessing reserves quantities. The estimation is potentially susceptible to management bias, including by recording revisions to estimates in the incorrect period. Consistent with the previous year, management has engaged a third-party specialist in connection with the estimation of reserves volumes. The risk has increased compared with the prior year.	Our audit procedures have focused on management's estimation process, including whether bias exists in the determination of reserves. We assessed management's assumptions, including commercial assumptions, to ensure that they are based on supportable evidence. We have: • carried out procedures to walkthrough and understand the Group's internal process and key controls associated with oil and gas reserves estimation; • met with management's third-party specialist during the planning and execution of the audit and assessed their competence and objectivity by enquiry of their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists, to satisfy ourselves that they are appropriately qualified to carry out the volumes estimation and prepare the input data used by the third-party specialist. We checked the accuracy of the data transfer to the third-party specialist; • corroborated management's commercial assumptions by checking that they lie within an acceptable range compared to publicly available benchmarks where available. We compared management's internal assumptions to the latest plans and budgets for consistency; we have also challenged management's capabilities to execute on such plans by comparison to prior performance; • reviewed the final oil and gas reserves estimation report prepared by management's third-party specialist in light of our understanding of the business and we confirmed with them that all significant changes in estimates of reserves were made in the appropriate period, and in compliance with relevant industry standards. Specifically, we understood the circumstances leading to the reduction in reserves to assess whether it was as a result of new information or evidence of management bias in the prior year estimate; and • validated that the updated reserves estimates were appropriately included in the Group's consideration of impairment, the going concern assessment, in accounting for DD&A and the determination of decommissioning dates.	Based on the audit procedures performed we concluded that the reserves estimations are reasonable for use in impairment testing, management's going concern assessment, the calculation of DD&A and the determination of decommissioning dates. We did not identify any indication of management bias in the estimation process and we are satisfied that the reduction in reserves recorded in 2019 has been recorded in the correct period.
	We performed full scope audit procedures over this risk area in one location (Kazakhstan).	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of impairment of exploration licenses and oil & gas development and production fixed assets Refer to the Audit Committee Report on page 72; the estimates, assumptions and judgements on page 134 and the disclosures in notes 6 to 7 of the Consolidated Financial Statements (pages 141 to 143). Impairment charge in 2019 of US$1,354,651 thousand. At 31 December 2019 the carrying value of exploration licenses was nil: (2018: US$50,241 thousand); oil & gas development and production assets, including non-current advances: US$645,460 thousand (2018: US$1,895,431 thousand). Owing to the reduction in the Group's reserves estimates and continued oil price volatility, there is a significant risk of further impairment. We focused on this area due to the significance of the carrying value of the Cash Generating Unit ('CGU'), the current economic environment and the judgements involved in the key assumptions of the future prices of oil, natural gas and related products, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes. The recoverable amount of the CGU is sensitive to changes in key inputs and assumptions. As a result of the impairment recorded in 2018 here is no headroom in the carrying value of the CGU compared to its recoverable amount. The risk has increased compared with the prior year.	For exploration licenses we have evaluated management's assessment of each impairment trigger as per IFRS 6 'Exploration for and Evaluation of Mineral Resources'. We have: • verified that the Group had the right to explore in the relevant exploration licence which included obtaining and reviewing supporting documentation such as license agreements and signed supplemental agreements and communication with relevant government agencies. In the event of non-compliance, the Group can evidence that the terms are modified and any relevant penalties and fines accrued; • enquired whether management had the intention to carry out exploration and evaluation activity in the relevant exploration area and corroborated these responses by reviewing management's cash-flow forecast models to verify whether any further spend on the exploration activities had been included. We discussed the intentions and strategy of the Group with senior management and Directors to confirm our understanding; • assessed whether the Group has the ability to finance future exploration and evaluation activity; and • assessed the competency of management's experts, and (where applicable), the competency and objectivity of third-party specialists engaged for the purposes of assessing the reserves and resources associated with those exploration and evaluation assets. In addressing the risk of impairment of oil & gas development and production fixed assets we utilised our valuation specialists and evaluated management's impairment assessment by testing the key assumptions. We have: • walked through the controls designed by the Group relating to the assessment of the carrying value of oil & gas development and production fixed assets; • tested the integrity of models with the assistance of our own specialists; • tested price and discount rate assumptions by comparing forecast oil and gas price assumptions to the relevant market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the Group; • focused our audit procedures on oil & gas reserves estimates, as described above in our report; • tested forecast cash flows by comparing the assumptions used within the impairment models to the approved budgets, business plans and other evidence of future intentions. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance; • compared the inflation and exchange rate assumptions to external market data; • assessed whether the outcome of management's impairment assessment fell within the range of expected valuations based on the market value of the Group's equity and debt; • evaluated management's sensitivity analysis in order to assess the potential impact of a range of reasonably possible outcomes. These sensitivities included adjustments to the discount rate, prices, future production volumes, opex and capex assumptions; and • evaluated the appropriateness of the financial statement disclosures.	In our view the Group's reserves estimates, forecast costs and discount rate are appropriate and within reasonable ranges. The Group's oil and gas price assumptions are within reasonable ranges except for the Brent oil price in the short-term which is conservative based on the 31 December 2019 market position. However, we concluded that the estimated recoverable amount of the CGU fell within the range of acceptable valuations, including implied valuations based on the market value of the Group's equity and debt. We concluded it is appropriate to impair the Group's exploration and evaluation assets on the basis there is no longer a commercially viable plan to develop the exploration licenses. Based on the results of the audit procedures performed, we concluded that the impairment charge was reasonable and that the related disclosures provided in the Group's financial statements are appropriate.
	In addressing this risk, audit procedures were performed by the component team in Kazakhstan and the Group engagement team. By performing these procedures we obtained full coverage of the related balances.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition Refer to the Audit Committee Report on page 72; The Summary of significant accounting policies on page 140 and the disclosures in note 22 of the Consolidated Financial Statements (page 150) Revenue for the year ended 31 December 2019 amounts to US$322,128 thousand (2018: US$389,927 thousand). Revenue includes sales of crude oil, gas condensate, dry gas and liquefied petroleum gas ('LPG'). There is the risk of management manipulation to overstate or understate revenue. This could be achieved by potentially recording sales in an incorrect period. The risk has remained consistent with the prior year.	Our component team in Kazakhstan performed procedures to walkthrough and understand the process and key controls associated with the revenue recognition and accounts receivable process. We performed enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with the contractual terms. We also performed procedures that are designed to address the risk of manipulation of accounting records and the ability of management to override controls. We have: • tested a sample of third party evidence to verify revenue transactions are recorded appropriately, this included inspection of sales contracts with customers and delivery documents. We performed substantive audit procedures on cash accounts to verify cash collection from customers; • analysed the entire population of revenue transactions and identified revenue journals for which the corresponding entry was not posted against trade receivables and where trade receivables were not cleared through cash. We assessed the appropriateness of these journals. Of the outstanding trade receivables due at the year-end, we confirmed the material balances with the relevant counterparties as well as tested that trade receivables were collected subsequent to year-end; • tested the appropriateness of journal entries impacting revenue, using data extracted from the accounting system, as well as other adjustments made in the preparation of the financial statements; • carried out analytical review procedures on each revenue stream using disaggregated data, by volume, by product, by customer and by month to assess the respective products' underlying performance and corroborate the appropriateness of the timing of revenue recognition; and • evaluated the financial statement disclosures for compliance with the requirements of accounting standards.	We concluded that revenue is recognised consistently with the terms of sales agreements. We also concluded that the financial statements disclosures with respect to revenue fulfilled the requirements of the accounting standards.
	We performed full scope audit procedures over this risk area in one location (Kazakhstan). By performing these procedures, we obtained full coverage of the risk amount.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of management override We evaluate the likelihood of management override occurring. We base our assessment on our understanding of the nature and risk of both management's opportunity and incentive to manipulate accounting records, earnings or financial ratios, or to misappropriate assets. We also specifically consider the potential impact on impairment testing. The risk has remained consistent with the prior year.	We considered whether there was evidence of bias by the Directors and senior management in significant accounting estimates and judgements relevant to the financial statements. This included performing procedures with a particular focus on those estimates which relate to the risks of estimation of oil and gas reserves, impairment of non-current assets and revenue recognition. as highlighted above. Using our analytics tools, we tested manual and automated journal entries which included a selection of journals, with a focus on those journal entries that may impact the carrying value of the long-term assets and journals, related to other significant risks identified as part of our audit engagement. As part of our audit procedures to address this fraud risk, we assessed the overall control environment and interviewed senior management and operational personnel to understand whether there had been any reported actual or alleged instances of fraudulent activity during the year.	We have not identified any instances of management override or bias in significant estimates and judgements.
	In addressing this risk, audit procedures were performed by the component team in Kazakhstan and the Group engagement team. We tested manual and automated journal entries for three components where we performed full scope audits.	

In the prior year, our auditor's report included a key audit matter in relation to the completeness of related party transactions and disclosures. In the current year, following the completion of the Gas Treatment Facility (GTU) 3 construction, there has been a significant reduction in the monetary amount of transactions between the subsidiaries of the Company and entities controlled by the shareholders with significant influence over the Group. Consequently, the completeness of related party transactions and disclosures no longer represents a key audit matter but remains an area of audit focus.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 109, including the Strategic Report and Corporate Governance sections, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Because of the significance of the matter described in the Basis for disclaimer of opinion section of our report, we have been unable to report as to whether:

- **Fair, balanced and understandable set out on page 109** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit.

Notwithstanding our disclaimer of opinion on the Group and Company financial statements, we have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Audit committee reporting set out on page 72** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee / the explanation as to why the annual report does not include a section describing the work of the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 60** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Because of the significance of the matter described in the Basis for disclaimer of opinion section of our report, we have been unable to form an opinion, whether, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

Notwithstanding our disclaimer of an opinion on the financial statements, in the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, performed subject to the pervasive limitation described above, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.

Arising from the limitation of our work referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 109, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Group and Company's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority requirements) and the relevant subsoil use and tax compliance regulations.
- We understood how Nostrum Oil & Gas PLC is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by utilising internal and external information to perform a fraud risk assessment for each of the countries of operation.
- We considered the risk of fraud through management override and, in response, we incorporated data analytics across manual journal entries into our audit approach. Our procedures included testing of transactions back to source information and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on the results of our risk assessment we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business; enquiries of legal counsel and group management.
- If any instance of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures supplemented by audit procedures performed at the group level.

Other matters we are required to address

Following the recommendation of the Audit Committee we were re-appointed by the Company's Annual General Meeting (AGM) on 4 June 2019, as auditor of the Company to hold office until the conclusion of the next AGM of the Company, and signed an engagement letter on 10 January 2020. Our total uninterrupted period of engagement is six years covering periods from our appointment through to the period ended 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company and we remain independent of the Group and the Company in conducting the audit.

Our audit opinion is consistent with our additional report to the Audit Committee explaining the results of our audit.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

William Binns
(Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London, 30 April 2020

Consolidated statement of financial position

In thousands of US dollars	Notes	**31 December 2019**	31 December 2018
NON-CURRENT ASSETS			
Exploration and evaluation assets	6	**-**	50,241
Property, plant and equipment	7	**650,229**	1,919,662
Right-of-use assets	8	**6,875**	-
Restricted cash	13	**7,620**	7,021
Advances for non-current assets	9	**8,412**	15,466
Total Non-current assets		**673,136**	1,992,390
CURRENT ASSETS			
Inventories	10	**35,849**	29,583
Trade receivables	11	**31,239**	35,732
Prepayments and other current assets	12	**12,040**	20,014
Income tax prepayment		**90**	-
Cash and cash equivalents	13	**93,940**	121,753
Total Current assets		**173,158**	207,082
TOTAL ASSETS		**846,294**	2,199,472
SHARE CAPITAL AND RESERVES	14		
Share capital		**3,203**	3,203
Treasury capital		**(1,660)**	(1,660)
Retained (deficit) / earnings and reserves		**(433,627)**	555,456
Total Share capital and reserves		**(432,084)**	556,999
NON-CURRENT LIABILITIES			
Long-term borrowings	16	**1,100,453**	1,093,967
Lease liabilities, long-term	17	**641**	-
Abandonment and site restoration provision	18	**27,502**	21,894
Due to Government of Kazakhstan	19	**5,070**	5,280
Deferred tax liability	30	**42,787**	400,981
Total Non-current liabilities		**1,176,453**	1,522,122
CURRENT LIABILITIES			
Current portion of long-term borrowings	16	**35,633**	35,633
Lease liabilities, current portion	17	**6,735**	-
Employee share option plan liability	28	**4**	55
Trade payables	20	**27,638**	52,876
Advances received		**335**	394
Income tax payable		**263**	679
Current portion of due to Government of Kazakhstan	19	**1,031**	1,031
Other current liabilities	21	**30,286**	29,683
Total Current liabilities		**101,925**	120,351
TOTAL EQUITY AND LIABILITIES		**846,294**	2,199,472

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

Kaat Van Hecke
Chief Executive Officer

Martin Cocker
Chief Financial Officer

The accounting policies and explanatory notes on pages 124 through 163 are an integral part of these consolidated financial statements

Consolidated statement of comprehensive income

In thousands of US dollars	Notes	For the year ended 31 December 2019	2018
Revenue			
Revenue from export sales		**218,511**	296,034
Revenue from domestic sales		**103,617**	93,893
	22	**322,128**	389,927
Cost of sales	23	**(172,002)**	(165,145)
Gross profit		**150,126**	224,782
General and administrative expenses	24	**(21,399)**	(22,212)
Selling and transportation expenses	25	**(45,875)**	(49,984)
Taxes other than income tax	26	**(22,886)**	(29,702)
Impairment charge	4	**(1,354,651)**	(150,000)
Finance costs	27	**(43,047)**	(49,383)
Employee share options – fair value adjustment	28	**(584)**	1,320
Foreign exchange gain/(loss), net		**361**	(978)
Loss on derivative financial instrument		**-**	(12,387)
Interest income		**86**	514
Other income	29	**7,210**	4,374
Other expenses	29	**(12,490)**	(8,504)
Loss before income tax		**(1,343,149)**	(92,160)
Current income tax expense		**(4,972)**	(12,251)
Deferred income tax benefit/(expense)		**358,194**	(16,284)
Income tax benefit/(expense)	30	**353,222**	(28,535)
Loss for the year		**(989,927)**	(120,695)
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		**211**	(895)
Other comprehensive income/(loss)		**211**	(895)
Total comprehensive loss for the year		**(989,716)**	(121,590)
Loss for the year attributable to the shareholders (in thousands of US dollars)		**(989,927)**	(120,695)
Weighted average number of shares	15	**185,234,079**	185,234,079
Basic and diluted earnings per share (in US dollars)	15	**(5.34)**	(0.65)

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

The accounting policies and explanatory notes on pages 124 through 163 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

In thousands of US dollars	Notes	For the year ended 31 December 2019	2018
Cash flow from operating activities:			
Loss before income tax		**(1,343,149)**	(92,160)
Adjustments for:			
Depreciation, depletion and amortisation	23,24,25	**143,291**	117,081
Impairment charge		**1,354,651**	150,000
Finance costs	27	**43,047**	49,383
Employee share option plan fair value adjustment		**584**	(2,031)
Interest income		**(86)**	(514)
Net foreign exchange differences		**160**	33
Loss on disposal of property, plant and equipment		**96**	1,712
Payments under derivative financial instruments		**(3,741)**	(8,649)
Loss on derivative financial instruments		**-**	12,387
Provision for doubtful debts		**-**	(116)
Accrued expenses		**(5,096)**	-
Operating profit before working capital changes		**189,757**	227,126
Changes in working capital:			
Change in inventories		**(6,266)**	163
Change in trade receivables		**4,493**	(1,212)
Change in prepayments and other current assets		**5,494**	7,664
Change in trade payables		**3,949**	(3,183)
Change in advances received		**(59)**	(886)
Change in due to Government of Kazakhstan		**(1,031)**	(1,031)
Change in other current liabilities		**5,977**	(5,538)
Cash generated from operations		**202,314**	223,103
Income tax paid		**(5,477)**	(9,062)
Net cash flows from operating activities		**196,837**	214,041
Cash flow from investing activities:			
Interest received		**86**	514
Purchase of property, plant and equipment		**(114,762)**	(168,343)
Exploration and evaluation works	7	**(984)**	(2,518)
Advances for non-current assets		**(4,731)**	-
Acquisition of subsidiaries		**-**	(1,674)
Placement of bank deposits		**-**	(45,000)
Redemption of bank deposits		**-**	45,000
Net cash used in investing activities		**(120,391)**	(172,021)
Cash flow from financing activities:			
Finance costs paid		**(86,000)**	(81,111)
Issue of notes	16	**-**	397,280
Repayment of notes	16	**-**	(353,192)
Fees and premium paid for early repayment and on arrangement of notes	16	**-**	(9,496)
Payment of lease liabilities	17	**(14,856)**	(132)
Finance charges on lease liabilities	17	**(2,853)**	-
Transfer to restricted cash	13	**(599)**	(358)
Net cash used in financing activities		**(104,308)**	(47,009)
Effects of exchange rate changes on cash and cash equivalents		**49**	(209)
Net decrease in cash and cash equivalents		**(27,813)**	(5,198)
Cash and cash equivalents at the beginning of the year	13	**121,753**	126,951
Cash and cash equivalents at the end of the year	13	**93,940**	121,753

The accounting policies and explanatory notes on pages 124 through 163 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

In thousands of US dollars	Notes	Share capital	Treasury capital	Other reserves	Retained earnings / (deficit)	Total
As at 1 January 2018		**3,203**	**(1,660)**	**262,417**	**413,918**	**677,878**
Loss for the year		–	–	–	(120,695)	(120,695)
Other comprehensive loss		–	–	(895)	–	(895)
Total comprehensive loss for the year		**-**	**-**	**(895)**	**(120,695)**	**(121,590)**
Share based payments under LTIP	28	–	–	711	–	711
As at 31 December 2018		**3,203**	**(1,660)**	**262,233**	**293,223**	**556,999**
Loss for the year		–	–	–	(989,927)	(989,927)
Other comprehensive income		–	–	211	–	211
Total comprehensive loss for the year		–	–	211	(989,927)	(989,716)
Share based payments under LTIP	28	–	–	633	–	633
As at 31 December 2019		**3,203**	**(1,660)**	**263,077**	**(696,704)**	**(432,084)**

The accounting policies and explanatory notes on pages 124 through 163 are an integral part of these consolidated financial statements

Notes to the 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.

These 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.	20 Eastbourne Terrace, London W2 6LA, 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.	Kunstlaan 56, 1000 Brussels, Belgium	Ordinary shares	100
Zhaikmunai LLP	43/1 Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100

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 31 December 2019, the Group employed 636 employees (2018: 781 employees).

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 the exploration period for the Bobrishovskiy reservoir was extended to 26 August 2018, and moved in to the production period subsequently.

The contract for exploration and production of hydrocarbons from the Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 16 August 2019, the contract was amended so as to adopt the terms of the current model contract and the exploration period was extended until 16 August 2022.

The contract for exploration and production of hydrocarbons from the 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 the 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 consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") 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 annual financial statements.

The consolidated financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (Note 4). The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. Basis of preparation and consolidation continued

Going concern

These consolidated financial statements have been prepared on a going concern basis.

The Group monitors on an ongoing basis its liquidity position, near-term forecasts and key financial ratios to ensure that sufficient funds are available to meet its commitments as they arise. In addition, on a quarterly basis the Group performs sensitivity tests of its liquidity position for changes in crude oil price, production volumes and timing of completion of various ongoing projects. While looking for new opportunities to fill the spare capacity of the Group's infrastructure, the Directors are also focused on a range of actions aimed at improving the liquidity outlook in the near-term. These include further cost optimization to reduce capital, operating and general & administration expenditures.

The base-case scenario of the going concern model has been prepared using a US$45/bbl oil price assumption for throughout 2020 and 2021. The base-case liquidity model shows that the Group will be able to operate as usual and have sufficient financial headroom for the 12 months from the date of approval of the Annual Report and Accounts.

As disclosed in Note 35, subsequent to the year-end the price of oil collapsed following a disagreement between OPEC+ countries on production levels compounded by the perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 ('COVID-19'). Whilst the OPEC+ countries, together with a wider group of producers have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price.

The Directors have also considered any additional risks of COVID-19. Oil and gas production has been classified as an essential business in Kazakhstan and so operations are continuing. Contingency plans have been put in place both to protect the workforce and ensure that there are sufficient personnel to continue operations. Therefore, the Directors have concluded that there is currently no other material impact on the Group's operations and liquidity at the time of publication of the report as a result of COVID-19. However, it is recognized that there is uncertainty around future developments of this matter which may affect the Group's ability to deliver the forecast production over 2020 and early 2021.

As a result of these uncertainties, we also ran a plausible downside scenario at US$30/bbl oil price, reflecting market conditions observed subsequent to the year-end, for the entire period covered by the model. This represents a scenario in which production is as forecast in the base case model but the post year end conditions continue for 12 months.

The results of the plausible downside scenario showed that in the near-term the Group's liquidity position is exposed to such a fall in oil prices. Without mitigating actions, a sustained period of low oil prices at $30/bbl would result in the Group being unable to cover its cash operating and interest costs in 2021. The Group's liquidity position is therefore exposed to events outside of the Group's control.

Therefore, the Group announced on March 31, 2020 that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds. The Group is in the process of selecting a financial advisor to commence negotiations with bondholders. The Group will require amendment in the short term to protect the liquidity of the Group within the going concern period, and restructuring to ensure ongoing viability. The results of any discussions with bond holders and shareholders are uncertain. In the event of sustained low oil prices envisaged in the plausible downside case, the company will require amendment to the payment terms within the bonds to take effect within the going concern period.

The Group is also taking other, prudent mitigating actions that can be executed in the necessary timeframe and which will protect liquidity. These include cancelling uncommitted capital expenditures over the period without having an impact on forecast production in the going concern period of assessment and identifying further reductions in operating costs and general & administration costs.

Therefore, in forming an assessment on the Group's ability to continue as a going concern, the Board has made significant judgements about:

- The forecast cash flow of the Group over the next 12 months from the date of approval of the financial statements depends on the duration of the low oil price environment and the Group's ability to implement the mitigating actions within the Group's control; and
- The Group's ability to successfully engage with its bondholders and shareholders regarding a restructuring of the Group's outstanding bonds.

These represent material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

After careful consideration of these material uncertainties, 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. For these reasons, they continue to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

Subsidiaries

Subsidiaries Nostrum Oil & Gas UK Ltd. registered and incorporated in the United Kingdom under Companies Number 08071559 is exempt from the requirements of the UK Companies Act 2006 relating to the audit of the individual accounts by virtue of the section 479A of the Act.

3. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 without restating prior year figures. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. As a result, the primary statements are shown on IFRS 16 basis for 2019 and on IAS 17 for 2018, where the lease liability and corresponding right-of-use asset are based on future rentals as determined under the standard, and right of use assets were measured at amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease liabilities.

As previously noted, the Group has not restated comparative disclosures for the impact of IFRS 16. To provide meaningful comparatives, the IFRS 16 results have been split out to aid comparison period on period.

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

In thousands of US dollars	
Total operating lease commitments disclosed at 31 December 2018	10,848
Service agreements contracts reassessed as lease agreements under IFRS 16	27,397
Total lease liabilities before discounting	**38,245**
Discount using incremental borrowing rate	(4,061)
Total lease liability as at 1 January 2019	**34,184**

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

3. Changes in accounting policies and disclosures continued

The effect of adoption IFRS 16 is as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

In thousands of US dollars	1 January 2019
Right-of-use assets	34,184
Total non-current assets	**34,184**
Total assets	**34,184**
Current portion of long-term liability	17,967
Total current liabilities	**17,967**
Long-term lease liability	16,217
Total non-current liabilities	**16,217**
Total equity and liabilities	**34,184**

Impact on the statement of profit or loss (increase/(decrease)) for the year ended 31 December 2019:

In thousands of US Dollars	For the year ended 31 December 2019
Cost of sales	(292)
Gross profit	(292)
General and administrative expenses	369
Selling and transportation expenses	(495)
Finance costs	1,369
Loss before income tax	951
Deferred income tax benefit	(285)
Loss for the period	666

Impact on the statement of cash flows (increase/(decrease)) for the year ended 31 December 2019:

In thousands of US Dollars	For the year ended 31 December 2019
Net cash flows from operating activities	8,132
Net cash used in investing activities	9,577
Net cash used in financing activities	(17,709)

The impact on net cash used in investing activities is represented by the costs of using the drilling rigs, which were previously presented as "purchase of property, plant and equipment" within net cash used in investing activities, and which are now presented as lease payments within net cash used in financing activities with implementation of IFRS 16.

Nature of the effect of adoption of IFRS 16

The Group has contracts including lease components for vehicles, drilling rigs and rail tank cars. Before the adoption of IFRS 16, the Group recognised the expenses classified as lease under IAS 17 at the inception date as either a finance lease or an operating lease.

A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases or service agreements, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application, which was estimated at the rate of 11%.

Under IAS 17, the drilling and transportation contracts were fully recognised as service agreements and therefore not included in operating leasing. Such contracts for lease of drilling rigs and rail-tank cars include various additional services like personnel cost, maintenance, drilling related activities, and other items. Under IFRS 16, the Group has split the lease components and non-lease components and recognised such non-lease components separately. Where the additional services are not separately priced, the consideration paid has been allocated based on the relative stand-alone prices of the lease and non-lease components. The impact of recognition of the lease components of the service agreements amounted to US$28,356 thousand.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- The right-of-use assets were recognised based on the amount equal to the lease liabilities which were recognised based on the present value of the remaining lease payments;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

3. Changes in accounting policies and disclosures continued

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Separation of lease and non-lease components

When contracts for lease (like lease of drilling rigs and rail-tank cars) include various additional services like personnel cost, maintenance, drilling related activities, and other items, the Group splits such non-lease components and recognises them separately. Where the additional services are not separately priced, the consideration paid is allocated based on the relative stand-alone prices of the lease and non-lease components.

Distinguishing fixed and variable lease payment elements

Certain lease contracts include fixed rates for when the asset is in operation, and various alternative rates (like "cold-stack rates" for leases of drilling rigs) for periods where the asset is engaged in specified activities or idle, but still under contract. In general, variability in lease payments under these contracts has its basis in different use and activity levels, and the variable elements have been determined to relate to non-lease components only. Consequently, the lease components of these contractual payments are considered fixed for the purposes of IFRS 16.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below US$ 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgements relating to leases

The application of IFRS 16 requires the Group to make judgements that affect the valuation of the lease liabilities and the related right-of-use assets, which include determining the contracts in scope of IFRS 16, and the interest rate used for discounting the future cash flows.

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option. Where a lease includes the option for the Group to extend or terminate lease, the Group makes a judgement as to whether it is reasonably certain that the option will be taken. This will take into account the length of the time before the option is exercisable, termination fees, and the level and type of planned future capital investments. The judgment is reassessed at each reporting date. A reassessment of the remaining life of the lease could result in a recalculation of the lease liability and a material adjustment to the associated balances.

IFRS 16 requires the Group to determine whether a contract is a lease or contains a lease at the inception of the contract. The assessment of whether a contract is or contains a lease is usually straightforward. However, judgement is required in applying the definition of a lease to certain arrangements. For example, in contracts for rent of drilling rigs that include significant services determining whether the contract conveys the right to direct the use of an identified asset required significant judgment.

The present value of the lease payment is determined using the discount rate representing the incremental borrowing rate calculated on the basis of the government bond applicable for the same tenor, adjusted by the country risk premium and by the average credit spread of the entities with rating similar to the Group's rating, observed in the period when the lease contract commences or is modified.

More detailed information related to the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period are shown in Note 8 and Note 17, respectively.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those related to transfer pricing. The Group determined, based on its tax compliance studies, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, and early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group does not expect to pay dividends in the coming reporting period, these amendments had no effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the amendments had no impact on the consolidated financial statements.

4. Summary of significant accounting policies

Exploration expenditure

Costs directly associated with exploration wells are capitalised within exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel used, rig costs, payments made to contractors and asset retirement obligation fees.

Significant estimates and assumptions: Exploration expenditure
The exploration expenditure continues to be carried as an asset on the balances sheet if hydrocarbons are found and sufficient/continued progress is made in assessing whether those hydrocarbons can be commercially recovered, subject to further appraisal activity (e.g., the drilling of additional wells).

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery, which is subject to estimation uncertainties. When this is no longer the case, the costs are written off.

Subsoil use rights acquisition costs are initially capitalised in exploration and evaluation assets. Subsoil use rights acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the subsoil use rights have been relinquished or has expired, the carrying value of the subsoil use rights acquisition costs is written off through profit or loss.

The Group owns licences in the Western Kazakhstan region, including the Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye fields, where the exploration periods will expire on 16 August 2022, 31 December 2021 and 31 December 2021, respectively. The Group’s applications for extension of these exploration periods are under approval by the MOE. For more detailed information in relation to the subsoil use rights terms, please see Note 1.

Significant accounting judgement: Exploration expenditure
Management applied judgement when determining all three exploration fields as a single cash generating unit for the purpose of assessment of their recoverable amounts. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

The probable reserves for Rostoshinskoye and Darinskoye fields in the 31 December 2018 reserves report have been moved into the contingent resource category as of 31 December 2019 pending further appraisal. Taking this into account, the Group recognized an impairment charge for the full cost of exploration and evaluation assets equalling US$50,533 thousand (Note 6) as well as corresponding VAT receivables in the amount of US$2,478 thousand as of 31 December 2019.

For more detailed information in relation to exploration and evaluation assets, please see Note 6.

Property, plant and equipment

Oil and gas properties
Expenditure on the construction, installation or completion of infrastructure facilities, such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligations, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

All capitalised costs of oil and gas properties are depleted using the unit-of-production method based on estimated proved developed reserves of the field, except the Group depreciates its oil pipeline and oil loading terminal on a straight-line basis over the life of the relevant subsoil use rights. In the case of assets that have a useful life shorter than the lifetime of the field, the straight-line method is applied.

Other properties
All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings and constructions	7–15
Vehicles	8
Machinery and equipment	3–13
Other	3–10

For more detailed information in relation to property plant and equipment, please refer to Note 7.

Significant accounting judgment: oil and gas reserves
Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortisation (the "DD&A"). These reserve quantities are used for calculating the unit of production depletion rate as it reflects the expected pattern of consumption of future economic benefits by the Group.

Significant estimates and assumptions: oil and gas reserves
The Group uses the internal estimates confirmed by independent reserve engineers on an annual basis to assess the oil and gas reserves of its oil and gas fields. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under the SPE methodology, the Group uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually.

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A, whereby changes in proved reserves are dealt with prospectively by amortizing the remaining carrying value of the asset over the expected future production. Further downward revision of the proved reserves estimates in the future could lead to relative increase in depreciation expense. Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group. Details on carrying values of oil and gas properties and related depreciation, depletion and amortization are shown in Note 7.

In addition, provisions for decommissioning may require revision – where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities (see Decommissioning related significant judgements, estimates and assumptions for further details). Also, the recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest ("NCI") in the acquiree. For each business combination, the Group elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised separately, but instead are subsumed in goodwill.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

4. Summary of significant accounting policies continued

Where goodwill forms part of a Cash Generating Unit ("CGU") and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Impairment of property, plant and equipment, exploration and evaluation assets and goodwill

The Group assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the Group's business plans, significant decreases in the market commodity prices, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped into CGU for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. For more detailed information in relation to goodwill, please refer to Note 5.

The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information for the determination of recoverable amount. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing recoverable amount, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax rate.

Significant accounting judgment: identification of cash-generating unit

Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. Management has determined a single cash-generating unit within the Group's non-current assets consisting of all Group's assets related to its Chinarevskoye and exploration fields as well as facilities. This is mainly based on the fact that hydrocarbons extracted from the Chinarevskoye field are processed and passed through a combination of various facilities.

Significant estimates and assumptions: impairment of property, plant and equipment, exploration and evaluation assets and goodwill

Determination as to whether, and by how much, the CGU containing goodwill is impaired involves management's best estimates on highly uncertain matters such as future commodity prices, operating expenses and capital expenditures estimates, discount rate, fiscal regimes, proved and probable reserves and respective future production profiles.

The recoverable amount is determined by taking the higher of the CGUs the value-in-use and fair value less costs of disposal based on the discounted cash flow model as no recent third-party transactions exist on which a reliable market-based fair value can be established. In 2019 the recoverable amount reflected the CGUs fair value less costs of disposal (2018: value in use). The discounted cash flow model takes into consideration cashflows, which are expected to arise until 2032, i.e. during the licence term of the Chinarevskoye field, and is considered a level 3 valuation under the fair value hierarchy. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers. The model does not take into account any cashflows from processing third-party hydrocarbons, since none of these meet the IFRS requirements for inclusion in the assessment of recoverable amount, considering their stage of development at the reporting date.

The recoverability of exploration assets is covered under Exploration expenditure above.

The key assumptions used in the Group's discounted cash flow model reflecting past experience and taking in account of external factors are subject to periodic review. These assumptions are:

- Oil prices (in real terms): US$45/bbl for 2020, US$50/bbl for 2021, US$55/bbl for 2022, and US$60/bbl for 2023-2032 (2018: US$67.5/bbl for 2019-2032);
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;
- Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates and production profiles; and
- Post-tax discount rate of 10.5% (2018: pre-tax discount rate of 15.4%);

Considering the results of operational performance and the associated various analytical studies, the Company has decided to halt drilling in 2020 and focus on adding additional third-party gas streams through the gas treatment facility in the future. As per the Ryder Scott reserves report, further drilling is planned to take place on the Chinarevskoye field from late 2021, but this is dependent on Group being able to maintain sufficient liquidity to fund such a programme.

As a result of these changes, and consequential further significant reduction of the 2P reserves expected to be recovered from the Chinarevskoye field over the period of 2020-2032, in addition to oil price trends, the Group identified indicators of impairment. The CGUs recoverable amount was estimated, and compared to its carrying amount, and a further impairment charge on oil and gas assets in the amount of US$1,301,640 thousand was recorded, in addition to the US$150,000 thousand impairment charge recognized in 2018.

In 2018 the impairment charge was first allocated against goodwill amounting to US$32,425 thousand (Note 5), in accordance with IFRS requirements, which cannot be reversed in future periods in accordance with accounting policy of the Group, and the remaining US$117,575 (Note 7) thousand of impairment charge was allocated between working oil & gas assets and construction in progress proportionate to their carrying amounts at 31 December 2018 (US$67,740 thousand and US$49,835 thousand, respectively).

Following a consistent approach, the impairment charge in 2019 has been allocated between working oil & gas assets (US$1,169,828 thousand – Note 7), construction in progress (US$106,825 thousand – Note 7) and other property, plant and equipment (US$24,987 thousand – Note 7) proportionate to their carrying amounts at 31 December 2019, resulting in the recoverable amount of property, plant and equipment of US$650,229 thousand (2018: US$1,919,662 thousand), equalling its recoverable amount.

Considering the significant oil price decline subsequent to 31 December 2019 (see Note 35), the Group has analysed the sensitivity of the recoverable amount to a scenario where the oil price assumption is US$40/bbl throughout the license period and noted that this would result in a further impairment charge of US$256,388 thousand. Additionally, further downgrades of reserves by 10%, or an increase in the post-tax discount rate by 2% would lead to US$98,245 thousand and US$68,194 thousand additional impairment charge, respectively, while increase in field development and operating costs by 10% throughout the license period would lead to further impairment charge of US$65,122 thousand.

On the other hand, certain positive development like successful mitigation of reservoir risks in the future and respective changes in the drilling plans and results, with the relevant increase in 2P reserves, or increase in utilisation of the Group's processing facilities, could have the effect of reversing the impairment. Any reversal would be limited so that the carrying amount of the CGU does not exceed the lower of its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment charge been recognised for the CGU in prior years.

More detailed information related to carrying values of oil and gas properties and related depreciation, depletion, amortisation and impairment are shown in Note 7. For information related to goodwill and related impairment, please refer to Note 5.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax bases of income and expense already recorded. The Group establishes liabilities, based on reasonable estimates, for possible for possible additional tax charges that may be imposed by the tax authorities of the respective counties in which it operates. The amount of such liabilities is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Group and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that apply to the relevant taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes liabilities where appropriate.

Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4. Summary of significant accounting policies continued

For more detailed information in current and deferred income tax disclosure as at 31 December 2019 and 2018, please see Note 30.

Significant accounting judgment: 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. As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate. 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 31 December 2019.

The Group is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, the Group provides for its best estimate of the amount of tax payable which it is considers probable, based on professional advice and consideration of the nature of current discussions with the tax authority. The Group does not provide for potential tax liabilities that it does not consider are probable to result in an outflow of funds.

To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see Note 30.

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The functional currency of the Company is the United States dollar (the "US dollar" or "US$"). The functional currencies of the Group's subsidiaries are as follows:

Company	**Functional currency**
Nostrum Associated Investments LLP	Tenge
Nostrum E&P Services LLC	Russian rouble
Nostrum Oil & Gas Coöperatief U.A.	US dollar
Nostrum Oil & Gas BV	US dollar
Nostrum Oil & Gas Finance BV	US dollar
Nostrum Oil & Gas UK Ltd.	British Pound
Nostrum Services Central Asia LLP	Tenge
Nostrum Services N.V.	Euro
Zhaikmunai LLP	US dollar

Transactions in foreign currencies are initially recorded by the Group's subsidiaries at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

In the consolidated financial statements, the assets and liabilities of non-US dollar functional currency subsidiaries are translated into US dollars at the spot exchange rate on the balance sheet date. The results and cash flows of non-US dollar functional currency subsidiaries are translated into US dollars using average rates of exchange. In the consolidated financial statements, exchange adjustments arising when the opening net assets and the profits for the year retained by non-US dollar functional currency subsidiaries are translated into US dollars are reported in the statement of comprehensive income.

Advances for non-current assets

Advances paid for capital investments/acquisition of non-current assets are qualified as advances for non-current assets regardless of the period of supplies of relevant assets or the supply of work or services to close advances. Advances paid for the purchase of non-current assets are recognised by the Group as non-current assets and are not discounted.

For more detailed information in relation to advances for non-current assets, please refer to Note 9.

Borrowing costs

The Group capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalisation include all assets under construction that are not being depreciated, depleted, or amortised, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

For more detailed information in relation to capitalisation of borrowing costs, please refer to Note 7.

Inventories

Inventories are stated at the lower of cost or net realisable value ("NRV"). Cost of oil, gas condensate and liquefied petroleum gas ("LPG") is determined on the weighted-average method based on the production cost, including the relevant expenses on depreciation, depletion and impairment and overhead costs based on production volume. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

For more information in relation to the breakdown of inventories as at 31 December 2019 and 2018, please see Note 10.

Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed by the Group at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group classifies as contingent liabilities those possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise and the present obligations that arise from past events but are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Group does not recognise contingent liabilities but discloses contingent liabilities in Note 33, unless the possibility of an outflow of resources embodying economic benefits is remote.

Decommissioning

Provision for decommissioning is recognised in full, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made.

The Group estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers, after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation at current year prices adjusted for expected long-term inflation rate and discounted at applicable rate.

The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas properties. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit-of-production basis.

The Group reviews site restoration provisions at each financial reporting date and adjusts them to reflect current best estimates in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

- are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset, the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognised immediately in the profit or loss; and
- if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Movements in the abandonment and site restoration provision are disclosed in Note 18.

4. Summary of significant accounting policies continued

Significant accounting judgment: provisions and contingencies

Provisions and liabilities are recognised in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

Significant management judgment is required to evaluate any claims and actions to determine whether a provision relating to a specific litigation should be recognized or revised, or a contingent liability is required to be disclosed, since the outcome of litigation is difficult to predict.

Significant estimates and assumptions: provisions and contingencies

The Group holds provision for the future decommissioning of oil and gas properties and site restoration. The estimation of the future dismantlement and site restoration costs involves use of significant estimates and assumptions by management, specifically for determining the timing of the future cash outflows and discount rate.

Management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights. Therefore most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows. Management of the Group believes that the long-term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan denominated in US Dollars provides the best estimates of applicable risk uncorrected discount rate. Any changes in the expected future costs are reflected in both the provision and the asset. Moreover, actual decommissioning costs can differ from estimates because of constantly changing decommissioning technologies as well as changes in environmental laws and regulations and public expectations. As a result, there could be significant adjustments to the provisions established which would affect future financial results. For more details on abandonment and site restoration provision please refer to Note 18.

Increase in inflation rate by 1% may result in increase of abandonment and site restoration provision by US$4,025 thousand and decrease in discount rate by 1% may result in US$4,042 thousand increase in the provision.

Other current liabilities

The Group makes accruals for liabilities related to the underperformance and/or adjustments of work programs under subsoil use agreements (SUA) on a regular basis. When evaluating the adequacy of an accrual, management bases its estimates on the latest work program included in the SUA, and relevant signed supplements and potential future changes in payment terms (including the currency in which these liabilities are to be settled). Future changes in the work programs may require adjustments to the accrual recorded in the consolidated financial statements.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include cash, long-term and short-term deposits, trade and other receivables.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition, measurement and derecognition
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, long-term borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of long-term borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, long-term borrowings and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

4. Summary of significant accounting policies continued

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group's financial liability as at fair value through profit or loss include derivative financial instruments.

Long-term borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing borrowings. For more information, refer to Note 16.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedging

The Group uses hedging contracts for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

Cash and short-term deposits

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the Group and therefore is not considered highly liquid – for example, cash set aside to cover decommissioning obligations.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

For more detailed information in relation to cash and cash equivalents as at 31 December 2019 and 2018, please see Note 13.

Revenue recognition

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

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer. For sales of crude oil, gas condensate and LPG, this generally occurs when the product is physically transferred into a vessel, pipe, railcar, trucks or other delivery mechanism; for sales of gas, it is when the product is physically transferred into a pipe.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods before transferring them to the customer.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in other reserves. Voting rights related to treasury shares are nullified for the Group and no distributions are accepted in relation to them. Share options exercised during the reporting period are satisfied with treasury shares.

Share-based payments

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The cost of equity-settled transactions are measured at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element, which is not remeasured subsequently until the settlement date.

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 28.

5. Goodwill

As at 31 December 2019 and 31 December 2018, goodwill comprised the following due to business combinations:

In thousands of US dollars	**2019**	2018
Balance as at 1 January	**-**	32,425
Goodwill addition	**-**	(32,425)
Balance as at 31 December	**-**	–

The goodwill arises from the purchase of Nostrum Services N.V., Nostrum Services CIS BVBA and Nostrum Services Central Asia LLP, and is annually tested for impairment.

As of 31 December 2018, the Group performed annual review of goodwill and oil and gas assets for impairment at the year end, as a result of which impairment of goodwill in the amount of US$32,425 thousand was recognised. For information in relation to goodwill impairment testing, please see Note 4.

6. Exploration and evaluation assets

In thousands of US dollars	**31 December 2019**	31 December 2018
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**34,698**	34,406
Impairment of exploration and evaluation assets	**(50,533)**	–
	-	50,241

During the year ended 31 December 2019, the Group had additions to exploration and evaluation assets of US$920 thousand offset with derecognition of the capitalised social expenditures US$628 thousand in the view of the amendments to the subsoil agreement for Rostoshinskoye field (FY 2018: US$2,413 thousand). Interest was not capitalised on exploration and evaluation assets.

For information in relation to impairment testing, please see Note 4.

7. Property, plant and equipment

As at 31 December 2019 and 31 December 2018 property, plant and equipment comprised the following:

In thousands of US dollars	**31 December 2019**	31 December 2018
Oil and gas properties	**637,048**	1,879,965
Other property, plant and equipment	**13,181**	39,697
	650,229	1,919,662

7. Property, plant and equipment continued

Oil and gas properties

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The movement of oil and gas properties for the years ended 31 December 2019 and 2018 was as follows:

In thousands of US dollars	Working assets	Construction in progress	Total
Balance at 1 January 2018, net of accumulated depreciation and depletion	**1,130,385**	**765,769**	**1,896,154**
Additions	1,145	212,799	213,944
Transfers	131,900	(131,900)	–
Disposals	(2,203)	–	(2,203)
Disposals depreciation	842	–	842
Depreciation and depletion charge	(111,197)	–	(111,197)
Impairment charge	(67,740)	(49,835)	(117,575)
Balance at 31 December 2018, net of accumulated depreciation, depletion and impairment	**1,083,132**	**796,833**	**1,879,965**
Additions	15,044	151,837	166,881
Transfers	839,331	(842,083)	(2,752)
Disposals	(90)	–	(90)
Disposals depreciation	41	–	41
Depreciation and depletion charge	(130,344)	–	(130,344)
Impairment transfers	(43,234)	43,234	–
Impairment charge	(1,169,828)	(106,825)	(1,276,653)
Balance at 31 December 2019, net of accumulated depreciation, depletion and impairment	**594,052**	**42,996**	**637,048**
As at 31 December 2017			
Cost	1,898,361	765,769	2,664,130
Accumulated depreciation and depletion	(767,976)	–	(767,976)
Balance, net of accumulated depreciation and depletion	**1,130,385**	**765,769**	**1,896,154**
As at 31 December 2018			
Cost	2,029,203	846,668	2,875,871
Accumulated depreciation, depletion and impairment	(946,071)	(49,835)	(995,906)
Balance, net of accumulated depreciation, depletion and impairment	**1,083,132**	**796,833**	**1,879,965**
As at 31 December 2019			
Cost	2,883,488	156,422	3,039,910
Accumulated depreciation, depletion and impairment	(2,289,436)	(113,426)	(2,402,862)
Balance, net of accumulated depreciation, depletion and impairment	**594,052**	**42,996**	**637,048**

The category "Construction in progress" is represented by employee remuneration, materials and fuel used, rig costs, payments made to contractors, and asset retirement obligation fees directly associated with development of wells until the drilling of the well is complete and results have been evaluated.

The depletion rate for oil and gas working assets was 12.02% and 10.33% in 2019 and 2018, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2019. Depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (Note 18) in the year ended 31 December 2019 resulted in the increase of the oil and gas properties by US$4,354 thousand (31 December 2018: an decrease of US$2,809 thousand).The Group incurred borrowing costs including amortisation of arrangement fees.

Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	31 December 2019	31 December 2018
Borrowing costs including amortisation of arrangement fee	**92,543**	91,429
Capitalisation rate	**8.62%**	8.43%
Capitalised borrowing costs	**52,144**	50,286

Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2018, net of accumulated depreciation	**31,563**	**5,165**	**796**	**8,171**	**45**	**45,740**
Additions	439	335	14	597	–	1,385
Transfers	115	(168)	–	104	–	51
Disposals	(324)	(78)	(48)	(292)	–	(742)
Disposals depreciation	222	76	44	212	–	554
Depreciation	(4,048)	(1,463)	(142)	(1,613)	–	(7,266)
Translation difference	–	–	–	(25)	–	(25)
Balance at 31 December 2018, net of accumulated depreciation	**27,967**	**3,867**	**664**	**7,154**	**45**	**39,697**
Additions	–	564	–	1,592	–	2,156
Transfers	135	25	–	2,592	–	2,752
Disposals	(33)	(68)	(16)	(482)	–	(599)
Disposals depreciation	33	26	7	463	–	529
Depreciation	(3,867)	(1,087)	(147)	(1,303)	–	(6,404)
Impairment charge	(16,147)	(2,291)	(326)	(6,223)	–	(24,987)
Translation difference	–	–	–	37	–	37
Balance at 31 December 2019, net of accumulated depreciation	**8,088**	**1,036**	**182**	**3,830**	**45**	**13,181**
As at 31 December 2017						
Cost	50,257	20,194	1,710	16,129	45	88,335
Accumulated depreciation	(18,694)	(15,029)	(914)	(7,958)	–	(42,595)
Balance, net of accumulated depreciation	**31,563**	**5,165**	**796**	**8,171**	**45**	**45,740**
As at 31 December 2018						
Cost	50,487	20,283	1,676	16,513	45	89,004
Accumulated depreciation	(22,520)	(16,416)	(1,012)	(9,359)	–	(49,307)
Balance, net of accumulated depreciation	**27,967**	**3,867**	**664**	**7,154**	**45**	**39,697**
As at 31 December 2019						
Cost	50,589	20,804	1,660	20,252	45	93,350
Accumulated depreciation	(42,501)	(19,768)	(1,478)	(16,422)	–	(80,169)
Balance, net of accumulated depreciation	**8,088**	**1,036**	**182**	**3,830**	**45**	**13,181**

8. Right-of-use assets

In thousands of US Dollars	Machinery & equipment	Vehicles	Total
Balance at 1 January 2019, net of accumulated depreciation (unaudited)	**26,825**	**7,359**	**34,184**
Modification of lease agreements	(1,467)	(16)	(1,483)
Termination of lease agreements	(10,086)	–	(10,086)
Depreciation	(12,089)	(3,651)	(15,740)
Balance at 31 December 2019, net of accumulated depreciation	**3,183**	**3,692**	**6,875**
As at 31 December 2019			
Cost	7,642	7,339	14,981
Accumulated depreciation	(4,459)	(3,647)	(8,106)
Balance, net of accumulated depreciation	**3,183**	**3,692**	**6,875**

The right-of-use assets and lease liabilities are recognized for leases of vehicles, drilling rigs and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The right-of-use assets were recognised based on the amount equal to the lease liabilities.

As a result of the early termination of the drilling rigs lease agreements the relevant right-of-use assets and respective lease liabilities were derecognized with net result reflected within profit and loss.

See Note 17 for lease liabilities.

9. Advances for non-current assets

As at 31 December 2019 and 31 December 2018 advances for non-current assets comprised the following:

In thousands of US dollars	**31 December 2019**	31 December 2018
Advances for other non-current assets	**8,038**	1,818
Advances for pipes and construction materials	**274**	520
Advances for construction services	**100**	13,128
	8,412	15,466

Advances for non-current assets mainly comprised prepayments made to suppliers of services as part of the development of new opportunities (2018: primarily services and equipment for construction of a third unit for the Group's gas treatment facility). In the event that the new opportunities do not materialise as currently intended then the amounts will be written off.

10. Inventories

As at 31 December 2019 and 31 December 2018 inventories comprised the following:

In thousands of US dollars	**31 December 2019**	31 December 2018
Spare parts and other inventories	**23,574**	23,479
Gas condensate	**8,446**	4,197
Crude oil	**3,650**	1,761
LPG	**112**	126
Gas	**67**	20
	35,849	29,583

As at 31 December 2019 and 31 December 2018 inventories are carried at cost.

11. Trade receivables

As at 31 December 2019 and 31 December 2018 trade receivables were not interest-bearing and were mainly denominated in US dollars. Their average collection period is 30 days.

As at 31 December 2019 and 31 December 2018 there were neither past due nor impaired trade receivables. Based on the assessments made, the Group concluded that no provision for expected credit losses should be recognized as at 31 December 2019 and 2018.

12. Prepayments and other current assets

As at 31 December 2019 and 31 December 2018 prepayments and other current assets comprised the following:

In thousands of US dollars	**31 December 2019**	31 December 2018
VAT receivable	**3,186**	11,043
Advances paid	**6,035**	5,057
Other taxes receivable	**1,716**	2,949
Other	**1,103**	965
	12,040	20,014

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2019, advances paid in the amount of US$1,751 thousand were impaired and fully provided for. Below table provides the movements in the provision for impairment of advances paid:

In thousands of US dollars	Individually impaired
As at 31 December 2017	**1,867**
Charge for the year	(116)
As at 31 December 2018	**1,751**
Write-offs for the year	–
As at 31 December 2019	**1,751**

13. Cash and cash equivalents

In thousands of US dollars	**31 December 2019**	31 December 2018
Current accounts in US dollars	**88,420**	118,902
Current accounts in other currencies	**4,718**	1,445446
Current accounts in tenge	**791**	1,396
Petty cash	**11**	9
	93,940	121,753

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as a liquidation fund deposit for the amount of US$7,620 thousand, consisting of US$805 thousand with Sberbank in Kazakhstan and US$6,815 thousand with Halyk bank (31 December 2018: US$7,021 thousand, consisting of US$658 thousand and US$6,363 thousand, respectively), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

14. Share capital and reserves

As at 31 December 2019, the ownership interests in the Parent consists 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 GBP 0.01.

Number of shares	In circulation	Treasury capital	Total
As at 1 January 2018	**185,234,079**	**2,948,879**	**188,182,958**
Share options exercised	–	–	–
As at 31 December 2018	**185,234,079**	**2,948,879**	**188,182,958**
Share options exercised	–	–	–
As at 31 December 2019	**185,234,079**	**2,948,879**	**188,182,958**

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and the Long-Term Incentive Plan ("LTIP") and are held by Intertrust Employee Benefit Trustee Limited as trustee for the Nostrum Oil & Gas Benefit Trust. In the case of the ESOP, upon request from employees to exercise options, the trustee would sell shares on the market and settle respective obligations under the ESOP, and in the case of share settled LTIP awards, the trustee would transfer shares to the relevant LTIP award holder (although no LTIP awards are currently exercisable). The Nostrum Oil & Gas Benefit Trust constitutes a special purpose entity under IFRS and therefore, the shares held in the trust are recorded as treasury capital of the Company.

Other reserves of the Group include 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 thousand, that arose during the reorganisation of the Group. Also, other reserves include the foreign currency translation reserves in the amount of US$3,437 thousand accumulated before 2009, when the functional currency of Zhaikmunai LLP was Kazakhstani Tenge, as well as foreign currency translation reserves of other subsidiaries of the Group, which have functional currencies other than US Dollar as shown in the Note 4.

Distributions

During the years ended 31 December 2019 and 2018 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 31 December 2019 the book value per share amounted to US$2.30 negative (31 December 2018: US$2.96 positive).

15. 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.

	For the year ended 31 December	
	2019	2018
Loss for the year attributable to the shareholders (in thousands of US dollars)	**(989,927)**	(120,695)
Weighted average number of shares	**185,234,079**	185,234,079
Basic and diluted earnings per share (in US dollars)	**(5.34)**	(0.65)

16. Borrowings

Borrowings are comprised of the following as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	**31 December 2019**	31 December 2018
Notes issued in 2017 and maturing in 2022	**732,886**	727,447
Notes issued in 2018 and maturing in 2025	**403,200**	402,153
	1,136,086	1,129,600
Less amounts due within 12 months	**(35,633)**	(35,633)
Amounts due after 12 months	**1,100,453**	1,093,967

2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US$560,000 thousand notes (the "2012 Notes") maturing in 2019. 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 paid interest at a rate of 7.125% per year. Interest on the 2012 Notes was payable on 14 May and 13 November of each year, beginning on 14 May 2013. The 2012 Notes were fully repurchased by the Group through issue of the 2017 Notes and the 2018 Notes as described below.

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") maturing in 2019. 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 paid interest at a rate of 6.375% per annum. Interest on the 2014 Notes was payable on 14 February and 14 August of each year, beginning on 14 August 2014. The 2014 Notes were fully repurchased by the Group through issue of the 2017 Notes and the 2018 Notes as described below.

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.

On and after 25 July 2019, the 2017 Issuer shall be entitled at its option to redeem all or a portion of the 2017 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2017 Note), plus accrued and unpaid interest on the 2017 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 12 month period commencing on 25 July of the years set forth below:

Period	Redemption Price
2019	106.0%
2020	104.0%
2021 and thereafter	100.0%

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

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

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

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

As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders 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.

Transaction costs

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. In 2017 consolidated financial statements unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed, and fees and expenses directly attributable to the modified portion of the debt, were capitalised under the long-term borrowings. However, with application of IFRS 9 effective from 1 January 2018, the Group has restated the balances of the Notes as of 1 January 2018, whereby for the modified part of the borrowings the Group recognised loss on modification through retained earnings and reserves, while the premium paid on early redemption and the transaction costs and fees were capitalized under the long-term borrowings.

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 Notes), 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 the 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"), US$169,116 thousand in principal amount of the outstanding 2012 Notes and US$184,076 thousand in principal amount of the outstanding 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.

16. Borrowings continued

Transaction costs and discounts

For the purpose of the accounting treatment the purchased 2012 Notes and 2014 Notes were treated as extinguished and new liabilities were recognised for issue of the 2018 Notes, since the transaction does not fall under modification guidance under IFRS 9. The unamortised transaction costs and premiums paid on early redemption related to the 2012 Notes and the 2014 Notes amounting to of US$3,636 thousand and US$3,012 thousand, respectively, were expensed in profit and loss (Note 27). Fees and expenses of US$6,484 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 2017 Notes and 2018 Notes

The 2017 and the 2018 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions and qualifications, the ability of the 2017 Issuer, the 2018 Issuer, the 2017 Guarantors, the 2018 Guarantors and certain other members of the Group to:

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

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

Changes in liabilities arising from financing activities

In thousands of US dollars	1 January	Impact of IFRS 9 adoption	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Finance charges under finance leases	Modification and termination of leases	Other	31 December
2019									
Long-term borrowings	**1,093,967**	–	–	–	6,486	–	–	–	**1,100,453**
Current portion of long-term borrowings	**35,633**	–	–	(86,000)	86,000	–	–	–	**35,633**
Lease liabilities, long-term	**16,011**	–	–	–	–	1,351	(11,952)	(4,769)	**641**
Lease liabilities, current portion	**18,173**	–	–	(17,709)	–	1,502	–	4,769	**6,735**
2018									
Long-term borrowings	**1,056,541**	(9,065)	397,280	(353,192)	2,403	–	–	–	**1,093,967**
Current portion of long-term borrowings	**31,337**	–	–	(81,111)	85,539	135	–	(267)	**35,633**

17. Lease liabilities

In thousands of US Dollars	For the year ended 31 December 2019
Lease liability as at 1 January	**34,184**
Modification of lease agreements	(1,483)
Terminations of lease agreements	(10,469)
Finance charges	2,853
Paid during the period	(17,709)
	7,376
Less: current portion of lease liability	(6,735)
Long-term lease liability as at 31 December	**641**

The lease liabilities are recognized for leases of vehicles, drilling rigs, and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The finance lease was recognised based on the future rentals as determined under IFRS 16. See Note 8 for right-of-use assets.

As a result of the early termination of the drilling rigs lease agreements the relevant right-of-use assets and respective lease liabilities were derecognized with net result reflected within profit and loss.

The total cash outflows in respect of the Group's lease arrangements was US$ 18,431 thousand for the year ended 31 December 2019 (2018: US$6,498 thousand).

18. Abandonment and site restoration provision

The summary of changes in abandonment and site restoration provision during years ended 31 December 2019 and 2018 is as follows:

In thousands of US dollars	2019	2018
Abandonment and site restoration provision as at 1 January	**21,894**	23,590
Unwinding of discount	**164**	321
Additional provision	**1,100**	792
Provision used	**(10)**	–
Change in estimates	**4,354**	(2,809)
Abandonment and site restoration provision as at 31 December	**27,502**	21,894

Management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights in 2033. There are uncertainties in estimation of future costs as Kazakh laws and regulations concerning site restoration evolve.

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2019 were 1.9% and 2.49%, respectively (31 December 2018: 2.30 % and 4.33 %).

The change in the long-term inflation rate and discount rate in the year ended 31 December 2019 resulted in the increase of the abandonment and site restoration provision by US$4,354 thousand (31 December 2018: the decrease by US$2,809 thousand). See Note 4 for sensitivity analysis.

19. Due to government of Kazakhstan

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the Group to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US$ 25,000 thousand.

Repayment of this liability commenced in 2008 with the first payment of US$ 1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US$ 258 thousand until 26 May 2031. The liability was discounted at 13%.

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2019 and 31 December 2018 is as follows:

In thousands of US dollars	2019	2018
Due to Government of Kazakhstan as at 1 January	**6,311**	6,497
Unwinding of discount	**821**	845
Paid during the year	**(1,031)**	(1,031)
	6,101	6,311
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,070**	5,280

20. Trade payables

Trade payables comprise the following as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	31 December 2019	31 December 2018
Tenge denominated trade payables	**12,852**	20,684
US dollar denominated trade payables	**9,864**	26,951
Euro denominated trade payables	**4,617**	3,702
Russian rouble denominated trade payables	**170**	1,051
Trade payables denominated in other currencies	**135**	488
	27,638	52,876

21. Other current liabilities

Other current liabilities comprise the following as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	**31 December 2019**	31 December 2018
Training obligations accrual	**11,325**	11,609
Accruals under the subsoil use agreements	**8,867**	7,856
Taxes payable, other than corporate income tax	**5,564**	5,419
Due to employees	**3,010**	2,181
Other current liabilities	**1,520**	2,618
	30,286	29,683

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

22. Revenue

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Oil and gas condensate	**196,176**	267,815
Gas and LPG	**125,947**	122,112
Sulphur	**5**	–
	322,128	389,927

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 year ended 31 December 2019 was US$64.2 (FY 2018: US$71.7).

During the year ended 31 December 2019 the revenue from sales to three major customers amounted to US$190,343 thousand, US$95,064 thousand and US$9,252 thousand respectively (FY 2018: US$258,898 thousand, US$80,499 thousand and US$11,924 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.

23. Cost of sales

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Depreciation, depletion and amortisation	**136,776**	115,212
Payroll and related taxes	**18,465**	18,326
Repair, maintenance and other services	**14,242**	16,133
Materials and supplies	**4,481**	5,253
Other transportation services	**2,129**	6,116
Well workover costs	**1,766**	2,767
Environmental levies	**167**	367
Change in stock	**(6,228)**	134
Other	**204**	837
	172,002	165,145

24. General and administrative expenses

In thousands of US dollars	For the year ended 31 December 2019	2018
Payroll and related taxes	**10,162**	11,292
Professional services	**4,966**	4,346
Depreciation and amortisation	**2,026**	1,869
Insurance fees	**1,256**	1,570
Short-term leases	**722**	846
Business travel	**617**	774
Communication	**276**	357
Materials and supplies	**170**	168
Bank charges	**133**	165
Other	**1,071**	825
	21,399	22,212

25. Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December 2019	2018
Loading and storage costs	**11,783**	18,881
Transportation costs	**12,405**	15,017
Marketing services	**10,554**	10,963
Depreciation	**4,489**	–
Payroll and related taxes	**2,293**	2,565
Other	**4,351**	2,558
	45,875	49,984

Depreciation expense is related to the right-of-use assets recognized under IFRS 16 in respect of the rented rail-tank cars effective from 1 January 2019, the corresponding lease expenses were previously included in transportation costs for the year ended 31 December 2018.

26. Taxes other than income tax

In thousands of US dollars	For the year ended 31 December 2019	2018
Royalties	**12,802**	15,155
Export customs duty	**7,281**	11,233
Government profit share	**2,802**	3,277
Other taxes	**1**	37
	22,886	29,702

Export customs duty is comprised of customs duties for export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc.

27. Finance costs

In thousands of US dollars	For the year ended 31 December 2019	2018
Interest expense on borrowings	**40,399**	41,143
Transaction costs	**-**	6,648
Unwinding of discount on lease liabilities	**1,369**	134
Unwinding of discount on amounts due to Government of Kazakhstan	**821**	845
Unwinding of discount on abandonment and site restoration provision	**164**	399
Other finance costs	**294**	214
	43,047	49,383

For more information on the transaction costs please see Note 16.

28. Employees' remuneration

The average monthly number of employees (including Executive Directors) employed was as follows:

	2019	2018
Management and administrative	**177**	182
Technical and operational	**601**	704
	778	886

Their aggregate remuneration comprised:

In thousands of US dollars	2019	2018
Wages and salaries	**33,655**	35,274
Social security costs	**3,692**	4,537
Share-based payments	**584**	727
	37,931	40,538

Part of the Group's staff costs shown above is capitalised into the cost of intangible and tangible oil and gas assets under the Group's accounting policy for exploration, evaluation and oil and gas assets.

The amount ultimately remaining in the income statement was US$31,784 thousand (FY 2018: US$33,180 thousand).

Key management personnel remuneration

In thousands of US dollars	2019	2018
Short-term employee benefits	**5,210**	3,819
Share-based payments	**155**	222
	5,365	4,041

Directors' remuneration

In thousands of US dollars	2019	2018
Short-term employees benefits	**3,471**	2,056
Share-based payments	**121**	148
	3,592	2,204

Employee share option plan

The Group's Phantom Option Plan was adopted by the Board of Directors of the Company on 20 June 2014 to allow for the continuation of the option plan previously maintained by Nostrum Oil & Gas LP. 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.

Employees (including senior executives and executive directors) of members of the Group or their associates receive remuneration in the form of equity-based payment transactions, whereby employees render services as consideration for share appreciation rights, which can only be settled in cash ("cash-settled transactions").

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

During 2008-2015, 4,337,958 equity appreciation rights (SARs) which can only be settled in cash were granted to senior employees and executive directors of members of the Group or their associates. These generally vest over a five year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a trinomial lattice valuation option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting until the end of the contractual life and give its holder a right to a difference between the market value of the Group's ordinary shares at the date of exercise and a stated base value. The services received and a liability to pay for those services are recognised over the expected vesting period.

Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The carrying value of the liability relating to 1,225,000 of SARs at 31 December 2019 is nil (31 December 2018: 1,925,974 of SARs with carrying value of US$40 thousand). During the year ended 31 December 2019 8,000 SARs were fully vested (FY 2018: 8,000 SARs were fully vested). Based on the estimations of the carrying value of the liability, during the year ended 31 December 2019 the Group recognized income from employee share options fair value adjustment in the amount of US$40 thousand (2018: income of US$2,046 thousand).

The following table illustrates the number ("No.") and exercise prices ("EP") of, and movements in, SARs during the year:

	2019		2018	
	No.	**EP,US$**	No.	EP,US$
Total outstanding at the beginning of the year (with EP of US$ 4)	**800,974**	**4**	946,153	4
Total outstanding at the beginning of the year (with EP of US$ 10)	**1,125,000**	**10**	1,265,000	10
Total outstanding at the beginning of the year	**1,925,974**		2,211,153	
Share options lapsed	**(700,974)**	**4**	(145,179)	4
Share options lapsed	**-**	**10**	(140,000)	10
Total outstanding at the end of the year	**1,225,000**		1,925,974	
Total exercisable at the end of the year	**1,201,000**		1,893,974	

There were no SARs granted or exercised during the years ended 31 December 2019 and 2018.

The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for the plan for the years ended 31 December 2019 and 2018:

	2019	2018
Price at the reporting date (US$)	**0.2**	1.0
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**53.5%**	44.0%
Risk-free interest rate (%)	**0.3%**	0.8%
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.

28. Employees' remuneration continued

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.

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 there are no legal limitations expected on issue of shares for these upon vesting, 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.

The award ordinarily vests and becomes exercisable as from later of the third anniversary of grant or two years after the date on which the Company determines whether the performance condition has been satisfied, subject to employee's continued service and to the extent to which the performance condition is satisfied, till the end of the contractual life. The contractual life of the share options is ten years.

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The cost of equity-settled transactions are measured at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element of "shares to be issued under LTIP", which is not remeasured subsequently until the settlement date.

The following table summarizes the movement in the number of share options during 2018 and 2019:

	Equity-settled awards	Cash-settled awards	Total awards
As at 1 January 2018	**1,121,587**	**69,697**	**1,191,284**
Share options granted	1,095,691	67,349	1,163,040
Share options performance adjusted	(542,120)	(38,140)	(580,260)
Share options forfeited	(106,235)	–	(106,235)
Share options lapsed	(24,670)	–	(24,670)
As at 31 December 2018	**1,544,253**	**98,906**	**1,643,159**
Share options performance adjusted	(1,058,073)	(67,349)	(1,125,422)
Share options forfeited	(19,070)	–	(19,070)
As at 31 December 2019	**467,110**	**31,557**	**498,667**

After adjusting for the nonachievement of performance conditions explained below, 498,667 share options are capable of vesting as of 31 December 2019 and 369,785 share options were vested as of 31 December 2019, in accordance with the management's best estimate. These represent a portion of 1,101,342 share options with a grant date of 10 October 2017, for which 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 granted in 2017.

On 28 November 2018 the Company granted a further 1,163,040 share options, however due to the performance conditions not being met none of these share options are capable of vesting.

The carrying value of the liability relating to 31,557 cash-settled share-options at 31 December 2019 is US$4 thousand (31 December 2018: 98,906 share options with carrying value of US$15 thousand). Based on the estimations of the carrying value of the liability, during the year ended 31 December 2019 the Group recognized loss from employee share options fair value adjustment in the amount of US$11 thousand (2018: loss of US$15 thousand).

In accordance with the management's best estimate 369,785 share options were vested as at 31 December 2019. The fair value of the equity-settled share options at the valuation dates of 28 November 2018 and 23 March 2018 amounted to US$ 1.25 and US$ 2.76 per share option, respectively. Based on these estimations, during the year ended 31 December 2019 the Group recognized employee share option expense in the amount of US$633 thousand (2018: US$711 thousand).

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 valuation of the share options at the grant date:

	28 November 2018	23 March 2018
Price at the reporting date	**1.25**	2.76
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**43.4%**	40.4%
Risk-free interest rate (%)	**1.38%**	1.45%
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 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.

29. Other income and expenses

For the year ended 31 December 2019 other income mainly represented income from reversal of accruals under subsoil use agreements and other accruals for the total amount of US$5,007 thousand (2018: US$1,408 thousand) recognized in previous periods, as well as income from sales of electricity in the amount of USD$42 thousand (2018: US$1,348 thousand).

Other expenses comprise the following for the years ended 31 December 2019 and 2018:

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Compensation	**3,576**	–
Accruals under subsoil use agreements	**3,054**	–
Training	**2,808**	2,440
Business development	**1,495**	–
Social program	**313**	300
Sponsorship	**77**	53
Other accruals	**-**	2,691
Loss on disposal of property, plant and equipment	**-**	1,709
Other	**1,167**	1,311
	12,490	8,504

Accruals under subsoil use agreements mainly include net amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields. Compensation includes the costs related to early termination of agreements for use of drilling rigs.

30. Income tax

The income tax expense comprised the following:

In thousands of US dollars	For the year ended 31 December 2019	2018
Corporate income tax expense	**4,146**	12,490
Withholding tax expense	**898**	612
Deferred income tax (benefit)/expense	**(358,194)**	16,284
Adjustment in respect of the current income tax for prior periods	**(72)**	(851)
Total income tax (benefit)/expense	**(353,222)**	28,535

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:

In thousands of US dollars	For the year ended 31 December 2019	2018
Loss before income tax	**(1,343,149)**	(92,160)
Tax rate applicable to the subsoil use rights	**30%**	30%
Expected tax benefit	**(402,945)**	(27,648)
Effect of exchange rate on the tax base	**13,302**	18,284
Adjustments in respect of current income tax of previous years	**(72)**	(851)
Effect of (income)/loss taxed at different rate[1]	**(121)**	473
Non-deductible interest expense on borrowings	**26,210**	23,847
Non-deductible impairment charges	**9,012**	9,728
Deferred tax asset not recognised	**228**	3,891
Non-deductible penalties reversals/(accruals)	**484**	(204)
Net foreign exchange loss	**(109)**	(1,261)
Non-deductible social expenditures	**81**	203
Non-deductible cost of technological loss	**209**	224
Other non-deductible expenses	**499**	1,849
Income tax (benefit)/expense	**(353,222)**	28,535

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), and the Netherlands with an applicable statutory tax rate of 25%.

The Group's effective tax rate for the year ended 31 December 2019 is 26.2% (2018: negative 31.0%). The Group's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2019 is 29.2% (2018: 23.9%).

As at 31 December 2019, the Group has tax losses of US$103,624 thousand (2018: US$104,185 thousand) that are available to offset against future taxable profits in the companies in which the losses arose within 9 years after generation and will expire in the period 2023-2027. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group.

Deferred tax liability is calculated by applying the Kazakhstani statutory tax rate applicable to the Chinarevskoye subsoil use rights to the temporary differences between the tax amounts and the amounts reported in the consolidated financial statements, and are comprised of the following:

In thousands of US dollars	**31 December 2019**	31 December 2018
Deferred tax asset		
Accounts payable and provisions	**8,835**	4,910
Deferred tax liability		
Inventories (change in stock)	**(3,648)**	–
Property, plant and equipment	**(42,761)**	(398,115)
Long-term borrowings	**(5,213)**	(7,776)
Net deferred tax liability	**(42,787)**	(400,981)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	**2019**	2018
Balance as at 1 January	**400,981**	381,595
Impact of adopting IFRS 9	**-**	3,102
Restated opening balance under IFRS 9	**-**	384,697
Current period (benefit)/charge in the statement of income	**(358,194)**	16,284
Balance as at 31 December	**42,787**	400,981

31. Related party transactions

For the purpose of these 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 31 December 2019 and 31 December 2018 consisted of the following:

In thousands of US dollars	**31 December 2019**	31 December 2018
Trade receivables and advances paid		
JSC OGCC KazStroyService	**-**	11,408

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2019 and 31 December 2018 consisted of the following:

In thousands of US dollars	**31 December 2019**	31 December 2018
Trade payables		
JSC OGCC KazStroyService	**430**	11,420

During the years ended 31 December 2019 and 2018, the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Purchases		
JSC OGCC KazStroyService	**11,322**	13,975

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 fourteen supplemental agreements since 28 July 2014, the "Construction Contract").

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2019 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$5,210 thousand for the year ended 31 December 2019 (FY 2018: US$3,819 thousand). There were not payments to key management personnel under ESOP for the year ended 31 December 2019 (FY 2018: US$151 thousand).

32. Audit and non-audit fees

During the years ended 31 December 2019 and 2018 audit and non-audit fees comprise the following:

In thousands of US dollars	2019	2018
Audit of the financial statements	**491**	292
Total audit services	**491**	292
Audit-related assurance services	**171**	190
Services relating to corporate transactions	**578**	307
Other non-audit services	**4**	1
Total non-audit services	**753**	498
Total fees	**1,244**	790

The audit fees in the table above include the audit fees of US$10 thousand in relation to the Parent.

33. 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 1.25. 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 31 December 2019. As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

However, depending on any unfavourable court decisions with respect to any claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Group's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at 31 December 2019, the Group had contractual capital commitments in the amount of US$27,552 thousand (31 December 2018: US$131,373 thousand), mainly in respect to the Group's oil field exploration and development activities.

Social and education commitments

As required by the Contract (after its amendment on 2 September 2019), 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 the 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 the Rostoshinskoye field (as amended on 16 August 2019) require the subsurface user to:

- invest at least US$10,982 thousand for exploration of the field during the exploration period;
- create a liquidation fund to cover the Group's asset retirement obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from the Darjinskoye field (after its amendment on 31 October 2018) require the subsurface user to:

- invest at least US$19,443 thousand for exploration of the field during the exploration period;
- spend US$147 thousand to finance social infrastructure;
- fund liquidation expenses equal to US$177 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from the Yuzhno-Gremyachinskoye field (after its amendment on 10 October 2018) require the subsurface user to:

- invest at least US$20,151 thousand for exploration of the field during the exploration period;
- spend US$146 thousand for the education of personnel engaged to work under the contract during the exploration stage;
- spend US$147 thousand to finance social infrastructure;
- 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.

34. Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations, as well as exploration of the three new oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye. The Group's financial assets consist of trade and other receivables, non-current investments, current investments and cash and cash equivalents.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, credit risk and commodity price risk. The Group's management reviews and agrees policies for managing each of these risks, which are summarised below.

Commodity price risk

The Group is exposed to the effect of fluctuations in price of crude oil, which is quoted in US dollar on the international markets. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Interest rate risk

The Group is not exposed to interest rate risk in 2019 and 2018 as the Group had no financial instruments with floating rates as at years ended 31 December 2019 and 2018.

34. Financial risk management objectives and policies continued

Foreign currency risk

As a significant portion of the Group's operation is tenge denominated, the Group's statement of financial position can be affected by movements in the US dollar / tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax, i.e. devaluation of Tenge against US dollar by 60% would lead to decrease in the net Tenge liability position by US$670 as of 31 December 2019 and respective reduction of the loss before income tax for the year ended 31 December 2019. The impact on equity is the same as the impact on profit before tax.

	Change in tenge to US dollar exchange rate	Effect on profit before tax
2019		
US dollar thousand	**+ 60.00%**	1,253
US dollar thousand	**- 20.00%**	(835)
2018		
US dollar thousand	**+ 60.00%**	7,500
US dollar thousand	**- 20.00%**	(5,000)

The Group's foreign currency denominated monetary assets and liabilities were as follows:

As at 31 December 2019	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	797	107	4,003	613	5,520
Trade receivables	24,276	–	–	–	24,276
Trade payables	(12,852)	(170)	(4,617)	(135)	(17,774)
Other current liabilities	(15,561)	(53)	(1,131)	(828)	(17,573)
	(3,340)	**(116)**	**(1,745)**	**(350)**	**(5,551)**

As at 31 December 2018	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	1,430	224	1,163	34	2,851
Trade receivables	16,231	–	–	–	16,231
Trade payables	(20,684)	(1,051)	(3,702)	(410)	(25,847)
Other current liabilities	(16,978)	(104)	(279)	(890)	(18,251)
	(20,001)	**(931)**	**(2,818)**	**(1,266)**	**(25,016)**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group monitors its risk to a shortage of funds using a liquidity planning tool. The tool allows selecting severe stress test scenarios. To ensure an adequate level of liquidity a minimum cash balance has been defined as a cushion of liquid assets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, loans, hedges, export financing and financial leases.

The Group's total outstanding debt consists of two notes: US$725 million issued in 2017 and maturing in 2022 and US$400 million issued in 2018 and maturing in 2025. Based on these assessments and other matters considered by the Board through viability assessment, the Board could not reach the conclusion that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022. The Board therefore highlighted that the Viability assessment shows significant risks to the Groups ability to continue in operations and repay its liabilities in 2022. For more information on analysis of the Group's ability to meet its liabilities on repayment of the Notes please see "Viability statement" section on the Annual report on page 50.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 and 31 December 2018 based on contractual undiscounted payments:

As at 31 December 2019	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	43,000	43,000	953,000	414,000	**1,453,000**
Lease liabilities	6,735	641	–	–	–	**7,376**
Trade payables	21,685	–	5,953	–	–	**27,638**
Other current liabilities	30,286	–	–	–	–	**30,286**
Due to Government of Kazakhstan	–	258	773	4,124	6,443	**11,598**
	58,706	**43,899**	**49,726**	**957,124**	**420,443**	**1,529,898**

As at 31 December 2018	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	43,000	43,000	1,011,000	442,000	**1,539,000**
Trade payables	37,843	–	15,033	–	–	**52,876**
Other current liabilities	29,858	–	–	–	–	**29,858**
Due to Government of Kazakhstan	–	258	773	4,124	7,474	**12,629**
	67,701	**43,258**	**58,806**	**1,015,124**	**449,474**	**1,634,363**

Credit risk

Financial instruments, which potentially subject the Group to credit risk, consist primarily of accounts receivable and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Group considers that its maximum exposure is reflected by the amount of trade accounts receivable, and cash and cash equivalents.

The Group places its tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba1 (stable) from Moody's rating agency and ING with a credit rating of P1 (stable) from Moody's rating agency at 31 December 2019. The Group does not guarantee obligations of other parties.

The Group sells its products and makes advance payments only to recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low. Also, the Group's policy is to mitigate the payment risk on its off-takers by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.

An impairment analysis is performed at each reporting date on an individual basis for major clients. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Fair values of financial instruments

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

	Carrying amount		Fair value	
In thousands of US dollars	**31 December 2019**	31 December 2018	**31 December 2019**	31 December 2018
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**1,136,086**	1,129,600	**526,156**	722,377
Total	**1,136,086**	1,129,600	**526,156**	722,377

Management assessed that cash and cash equivalents, current investments, trade receivables, trade payables, lease liabilities 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.

During the years ended 31 December 2019 and 2018 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

34. Financial risk management objectives and policies continued

Capital management

For the purpose of the Group's capital management, capital includes issued capital, additional paid-in capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the notes that define capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to immediately call borrowings. There have been no breaches in the financial covenants of the notes in the current period nor the prior period.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or increase share capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

	For the year ended 31 December	
In thousands of US dollars	**2019**	2018
Interest bearing borrowings	**1,136,086**	1,129,600
Less: cash and cash equivalents, and current and non-current investments	**(93,940)**	(121,753)
Net debt	**1,042,146**	1,007,847
Equity	**(432,084)**	556,999
Total capital	**(432,084)**	556,999
Capital and net debt	**610,062**	1,564,846
Gearing ratio	**171%**	64%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

35. Events after the reporting period

OPEC and non-OPEC allies

On 6 March 2020, OPEC and non-OPEC allies (OPEC+) met to discuss the need to cut oil supply to balance oil markets in the wake of the COVID-19 outbreak which has had a material impact on oil demand. The parties failed to reach agreement on 7 March 2020, and Saudi Aramco aggressively cut its Official Selling Prices (OSP) in an attempt to prioritise market share rather than price stability and effectively started a price war. As a result, on 9 March 2020, Brent oil prices fell by around 20%, and the forward curve for 2020 and 2021 fell to approximately $38/bbl and $43/bbl respectively. This was compounded by a perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 ('COVID-19'). Whilst the OPEC+ countries together with a wider group of producers have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price. These events continue to have an impact on oil price volatility with spot prices for Brent reaching a low of $20/bbl in March 2020. The Group's realised oil prices for January and February 2020 averaged around $55/bbl.

Coronavirus outbreak

The existence of COVID-19 was confirmed in early 2020 and has spread across China and beyond, causing disruptions to businesses and economic activity. Governments in affected countries are imposing travel bans, quarantines and other emergency public safety measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak. Currently, the employees of the European offices of the Group are working from home due to travel restrictions imposed by respective governments. The Group's offices and facilities in Kazakhstan remain open with certain travel restrictions in place, but necessary workers are able to operate and maintain the assets to the high standards. The ultimate severity of the Covid-19 outbreak is uncertain at this time, and therefore the Group cannot reasonably estimate the impact it may have on future operations.

There is a significant uncertainty in relation to the extent and period over which these developments will continue, but they could have a significant impact on the Group's financial position, future cashflows and results of operations. For more details as to how these uncertainties have been considered in preparing these financial statements, please see the 'Viability Statement' and the 'Going Concern' section of the Financial Review (see pages 50 and 54 of the Annual Report).

In addition, the significant estimates and judgements that will be made in preparing future financial statements may also be impacted if the current macro-economic uncertainty continues and estimates of long-term commodity prices decrease. In particular, we expect the impact to be as follows:

- The estimated recoverable amount of our cash generating unit related to the Chinarevskoye field and related facilities would reduce. An additional impairment could be required as the CGU was impaired in 2019 and so is sensitive to changes in commodity prices as described in Note 4; and
- The estimate of oil and gas reserves would be lower if the long-term planning price on which our estimates of reserves are based decreases.

Engagement with bondholders

On 31 March 2020 the Group announced that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds.

Parent company financial statements

Contents

Parent company statement of financial position

In thousands of US dollars	Notes	**31 December 2019**	31 December 2018 (restated*)	1 January 2018 (restated*)
ASSETS				
Non-current assets				
Property, plant and equipment		**42**	60	–
Investments in subsidiaries	5	**-**	116,779	113,371
		42	116,839	113,371
Current assets				
Advances paid		**-**	–	23
Receivables from related parties	6	**665**	12,302	15,798
Other current assets		**285**	178	–
Cash and cash equivalents	7	**1,522**	38	88
		2,472	12,518	15,909
TOTAL ASSETS		**2,514**	129,357	129,280
EQUITY AND LIABILITIES				
Share capital and reserves				
Issued share capital	8	**3,203**	3,203	3,203
Retained (deficit) / earnings		**(436,960)**	106,812	106,284
		(433,757)	110,015	109,487
Non-current liabilities				
Employee share option plan LT liability		**-**	15	–
Financial guarantee, long-term portion	9	**434,117**	4,678	3,228
		434,117	4,693	3,228
Current liabilities				
Financial guarantee, current portion	9	**-**	1,003	2,899
Trade payables		**158**	495	124
Advances received from related parties	14	**304**	–	–
Payables to related parties	10	**859**	12,283	12,982
Employee share option plan LT liability		**4**	–	–
Accrued liabilities		**829**	868	560
		2,154	14,649	16,565
TOTAL EQUITY AND LIABILITIES		**2,514**	129,357	129,280

* Certain amounts shown here do not correspond to the 2018 and 2017 financial statements and reflect adjustments made, please refer to Note 3 for more details.

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented in the Company's financial statements.

The Company reported a loss of US$544,405 thousand for the financial year ended 31 December 2019 (2018: loss of US$183 thousand). During the reporting periods there were no transactions impacting the statement of other comprehensive income.

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

Kaat Van Hecke
Chief Executive Officer

Martin Cocker
Chief Financial Officer

The accounting policies and explanatory notes on pages 168 through 181 are an integral part of these financial statements

Parent company statement of cash flows

In thousands of US dollars	Notes	For the year ended 31 December 2019	2018
Cash flow from operating activities:			
Loss before income tax		**(544,405)**	(183)
Adjustments for:			
Depreciation, depletion and amortisation		**25**	10
Finance costs		**44**	160
Employee share option plan fair value adjustment		**41**	50
Income from share premium distribution		**(1,000)**	–
Accrued income		**–**	(1,338)
Foreign exchange gain on investing and financing activities		**(2)**	(1)
Financial guarantee loss/(income)	9	**428,436**	(3,177)
Impairment charge	5	**117,361**	–
Accrued expenses		**–**	620
Operating profit/(loss) before working capital changes		**500**	(3,859)
Changes in working capital:			
Change in other current assets		**(107)**	–
Change in receivables from related parties		**564**	430
Change in trade payables		**(336)**	371
Change in payables to related parties		**(592)**	–
Change in accrued liabilities		**(39)**	384
Cash generated from operations		**(10)**	(2,674)
Income tax paid		**–**	(2)
Net cash used in operating activities		**(10)**	(2,676)
Cash flow from investing activities:			
Purchase of property, plant and equipment		**(7)**	(70)
Subsidiary share premium received		**1,000**	–
Net cash from/(used in) investing activities		**993**	(70)
Cash flow from financing activities:			
Funds borrowed		**500**	2,695
Net cash from financing activities		**500**	2,695
Effects of exchange rate changes on cash and cash equivalents		**1**	1
Net increase/(decrease) in cash and cash equivalents		**1,484**	(50)
Cash and cash equivalents at the beginning of the year	7	**38**	88
Cash and cash equivalents at the end of the year	7	**1,522**	38

During 2019 the Company entered into Intra-Group Payment Set-Off Agreement according to which the Company performed non-cash settlement of its loan payable to its indirect subsidiary Nostrum Oil & Gas Finance B.V. in the amount of US$3,000 thousand (Note 10) against its receivables from its subsidiary Nostrum Oil & Gas Coöperatief U.A. in the amount of US$3,000 thousand (Note 6). These transactions had impact on "change in receivables from related parties" and "change in payables to related parties" above.

As at 31 December 2019 the Company recognized bad debt allowance in the amount of US$8,073 thousand (2018: US$4,249 thousand) against the loan receivable from Nostrum employee benefit trust and a similar but opposite amount against its loan payable to its subsidiary Nostrum Oil & Gas Coöperatief U.A. (Notes 6 and 10). These transactions had impact on "change in receivables from related parties" and "change in payables to related parties" above.

The accounting policies and explanatory notes on pages 168 through 181 are an integral part of these financial statements

Parent company statement of changes in equity

In thousands of US dollars	Notes	Share capital	Other reserves	Retained earnings	Total
As at 1 January 2018		**3,203**	**-**	**106,284**	**109,487**
Loss for the year		–	–	(183)	(183)
Total comprehensive loss for the year		**-**	**-**	**(183)**	**(183)**
Share based payments under LTIP	13	–	711	–	711
As at 31 December 2018		**3,203**	**711**	**106,101**	**110,015**
Loss for the year		–	–	(544,405)	(544,405)
Total comprehensive loss for the year		**-**	**-**	**(544,405)**	**(544,405)**
Share based payments under LTIP	13	–	633	–	633
As at 31 December 2019		**3,203**	**1,344**	**(438,304)**	**(433,757)**

The accounting policies and explanatory notes on pages 168 through 181 are an integral part of these financial statements

Notes to the Parent company financial statements

1. General

Nostrum Oil & Gas PLC ("the Company") 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: 20 Eastbourne Terrace, London W2 6LA, United Kingdom.

The subsidiary undertakings of the Company as at 31 December 2019 and the percentage holding of their capital are set out below:

Company	Registered office	Form of capital	Ownership, %
Direct subsidiary undertakings:			
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
Indirect subsidiary undertakings:			
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 Finance B.V.	Gustav Mahlerplein 23B, 1082MS Amsterdam, The Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	20 Eastbourne Terrace, London W2 6LA, 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.	Kunstlaan 56, 1000 Brussels, Belgium	Ordinary shares	100
Zhaikmunai LLP	43/1 Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100

On 28 December 2018, Zhaikmunai LLP acquired 100% interest in Atom&Co LLP for cash consideration of US$ 1.7 million for the main purpose of gaining control over the administrative office in Uralsk. This transaction has been accounted as an asset acquisition, which was under finance lease with this entity. On 20 August 2019, Zhaikmunai LLP merged with Atom & Co LLP.

Nostrum Oil & Gas PLC and its wholly-owned subsidiaries are hereinafter referred to as "the Company".

2. Basis of preparation

The Company financial statements for the year ended 31 December 2019 have been prepared on a going concern basis and in accordance with the Companies Act 2006 and International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") as adopted by the European Union.

The Company financial statements have been prepared based on a historical cost basis. The Company financial statements are presented in US dollars and all values are rounded to the nearest thousands, except when otherwise indicated.

Going concern

These Company financial statements have been prepared on a going concern basis.

The Company is dependent on liquidity generated by its subsidiaries to continue in operation and its ability to meet its liabilities as they become due for the foreseeable future, a period of not less than 12 months from the date of this report. Respectively, the following Group-level going concern matters and analysis are considered directly relevant for the Company.

The Group monitors on an ongoing basis its liquidity position, near-term forecasts and key financial ratios to ensure that sufficient funds are available to meet its commitments as they arise. In addition, on a quarterly basis the Group performs sensitivity tests of its liquidity position for changes in crude oil price, production volumes and timing of completion of various ongoing projects. While looking for new opportunities to fill the spare capacity of the Group's infrastructure, the Directors are also focused on a range of actions aimed at improving the liquidity outlook in the near-term. These include further cost optimization to reduce capital, operating and general & administration expenditures.

The base-case scenario of the going concern model has been prepared using a US$45/bbl oil price assumption for throughout 2020 and 2021. The base-case liquidity model shows that the Group will be able to operate as usual and have sufficient financial headroom for the 12 months from the date of approval of the Annual Report and Accounts.

As disclosed in Note 16, subsequent to the year-end the price of oil collapsed following a disagreement between OPEC+ countries on production levels compounded by the perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 ('COVID-19'). Whilst the OPEC+ countries, together with a wider group of producers have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price.

The Directors have also considered any additional risks of COVID-19. Oil and gas production has been classified as an essential business in Kazakhstan and so operations are continuing. Contingency plans have been put in place both to protect the workforce and ensure that there are sufficient personnel to continue operations. Therefore, the Directors have concluded that there is currently no other material impact on the Group's operations and liquidity at the time of publication of the report as a result of COVID-19. However, it is recognized that there is uncertainty around future developments of this matter which may affect the Group's ability to deliver the forecast production over 2020 and early 2021.

As a result of these uncertainties, we also ran a plausible downside scenario at US$30/bbl oil price, reflecting market conditions observed subsequent to the year-end, for the entire period covered by the model. This represents a scenario in which production is as forecast in the base case model but the post year end conditions continue for 12 months.

The results of the plausible downside scenario showed that in the near-term the Group's liquidity position is exposed to such a fall in oil prices. Without mitigating actions, a sustained period of low oil prices at $30/bbl would result in the Group being unable to cover its cash operating and interest costs in 2021. The Group's liquidity position is therefore exposed to events outside of the Group's control.

Therefore, the Group announced on March 31, 2020 that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds. The Group is in the process of selecting a financial advisor to commence negotiations with bondholders. The Group will require amendment in the short term to protect the liquidity of the Group within the going concern period, and restructuring to ensure ongoing viability. The results of any discussions with bond holders and shareholders are uncertain. In the event of sustained low oil prices envisaged in the plausible downside case, the company will require amendment to the payment terms within the bonds to take effect within the going concern period.

The Group is also taking other, prudent mitigating actions that can be executed in the necessary timeframe and which will protect liquidity. These include cancelling uncommitted capital expenditures over the period without having an impact on forecast production in the going concern period of assessment and identifying further reductions in operating costs and general & administration costs.

Therefore, in forming an assessment on the Group's ability to continue as a going concern, the Board has made significant judgements about:

- The forecast cash flow of the Group over the next 12 months from the date of approval of the financial statements depends on the duration of the low oil price environment and the Group's ability to implement the mitigating actions within the Group's control; and
- The Group's ability to successfully engage with its bondholders and shareholders regarding a restructuring of the Group's outstanding bonds.

These represent material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

After careful consideration of these material uncertainties, the Directors are satisfied that the Company 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. For these reasons, they continue to adopt the going concern basis in preparing the Company's financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company were unable to continue as a going concern.

3. Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the application of IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Company carried out review of its contracts, as a result of which it was concluded that there is no impact from adopting IFRS 16 on the financial statements of the Company for the years ended 31 December 2018 and 2019.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Standards issued, but not yet effective, as at 1 January 2019, have not been adopted early by the Company.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those related to transfer pricing. The Company determined, based on its tax compliance studies, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the financial statements of the Company.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Company.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Company does not expect to pay dividends in the coming reporting period, these amendments had no effect on its financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the amendments had no impact on its financial statements.

Prior period adjustment

The Company held receivables from the Nostrum Oil & Gas Benefit Trust ("the Trust") in the amount of US$23,812 thousand as at 31 December 2019 and 2018, which represent the loan provided to support the Company's obligations to employees under the Employee Share Option Plan ("ESOP") and the Long Term Incentive Plan ("LTIP") (Note 6). At the same time, the Company had amounts payable to Nostrum Oil & Gas Coöperatief U.A. in the amount of US$23,812 thousand as at 31 December 2019 and 2018, which represent a loan payable under the services agreement with Nostrum Oil & Gas Coöperatief U.A. corresponding to arrangements in respect of the Nostrum employee benefit trust. Based on the service agreement, the amounts payable to Nostrum Oil & Gas Coöperatief U.A. in respect to the employee benefit trust, are only repayable to the extent of amounts received (or recovered) from the Trust (Note 10).

In 2019, the Company performed an assessment of its position related to both the loan receivable and the loan payable. Considering that both loans are repayable to the extent of the assets of the Trust, which are reflected in treasury shares held by the Trust, the Company has recognized a bad debt allowance over the loan receivable in the amount of US$23,157 thousand, with a similar and opposite reduction in the loan payable, representing the difference between the book value of the loans and the recoverable amount of the treasury shares as of 31 December 2019.

The Company has also assessed the corresponding values of the loans as at 31 December 2018 with reference to the then prevailing market share prices and Group's net assets. As a result, the Company believes that, there was an incorrect interpretation of the facts at that time and so it has adjusted the value of the loans as at 31 December 2018 through retrospective restatement of the corresponding balances.

As a result, corrections have been reflected by restating each of the affected financial statement line items for the prior periods, as follows:

Effect on statement of financial position

	As at 31 December 2018			As at 1 January 2018		
In thousands of US dollars	As reported	Restatement	**As adjusted**	As reported	Restatement	**As adjusted**
Receivables from related parties	27,386	(15,084)	12,302	26,633	(10,835)	15,798
Total current assets	27,602	(15,084)	12,518	26,744	(10,835)	15,909
Total assets	**144,441**	**(15,084)**	**129,357**	**140,115**	**(10,835)**	**129,280**
Payables to related parties	27,367	(15,084)	12,283	23,817	(10,835)	12,982
Total current liabilities	29,733	(15,084)	14,649	27,400	(10,835)	16,565
Total equity and liabilities	**144,441**	**(15,084)**	**129,357**	**140,115**	**(10,835)**	**129,280**

There was no net impact on the income statement and the statement of cashflows from the adjustments, other than the additional disclosures related to the non-cash transactions included as an endnote to the statement of cashflows.

4. Summary of significant accounting policies

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The functional currency of the Company is the United States dollar (the US dollar or US $).

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Non-monetary items that are measured at of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Investments

Investments in subsidiaries are recorded at cost. Subsequently, the Company determines whether it is necessary to recognise an impairment loss on its investment in a subsidiary. At each reporting date, the Company determines whether there is objective evidence that the investment in the subsidiary is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value, and then recognises the impairment loss in the statement of profit or loss.

Significant estimates and assumptions: impairment of investments in subsidiaries
Determination as to whether, and by how much, the investment in a subsidiary is impaired involves management's best estimates on highly uncertain matters such as future revenues of the subsidiary, operating expenses, discount rate, as well as fiscal regimes.

In the view of the decrease in the net assets of Company's subsidiaries Nostrum Oil & Gas Coöperatief U.A. and Nostrum Oil & Gas B.V. during the year ended 31 December 2019, which was considered to be an indication of impairment of the investments in this subsidiary in the amount of US$117,139 thousand (Note 5), the Company carried out respective impairment review and analysis. Owing to the reduction of the 2P reserves expected to be recovered from the main operating subsidiary of the Company over the period of 2020-2032, the relevant future net cash proceeds of Nostrum Oil & Gas Coöperatief U.A. have been reduced, leading to recognition of an impairment charge for the full amount of the investments in Nostrum Oil & Gas Coöperatief U.A. of US$117,139 thousand and impairment charge of US$222 thousand on investment in Nostrum Oil & Gas B.V.

Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Company determines the classification of its financial assets at initial recognition.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include cash and receivables from related parties.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognised (i.e., removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

4. Summary of significant accounting policies continued

Financial liabilities

Initial recognition, measurement and derecognition

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, long-term borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of long-term borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include payables to trade payables, payables related parties and financial guarantee liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company's financial liability as at fair value through profit or loss include derivative financial instruments.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial guarantees

Financial guarantees are initially recognised in the financial statements at fair value at the time the guarantee is issued. The Company estimates the fair value of the financial guarantee contract as the difference between the net present value of the contractual cashflows required under a debt instrument, and the net present value of the net contractual cashflows that would have been required without the guarantee. The present value is calculated using a risk-free interest rate.

Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in profit and loss, and the amount of expected credit losses (ECL). Financial guarantee ECL reflect the cash shortfalls adjusted by the risks that are specific to the cashflows. If the ECL exceeds the initially recognised guarantee amount less cumulative amortisation the difference is taken to profit and loss.

A financial guarantee liability is derecognised when the liability underlying the guarantee is discharged or cancelled or expires, or if the guarantee is withdrawn or cancelled. The carrying amount of the financial guarantee is taken to the statement of profit or loss.

Share-based payments

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The cost of equity-settled transactions are measured at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element, which is not remeasured subsequently until the settlement date.

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 13.

5. Investments in subsidiaries

Investments of the Company as at 31 December 2019 comprised of:

In US dollars	**31 December 2019**	31 December 2018
Nostrum Oil & Gas Coöperatief U.A.	**117,139,106**	116,556,729
Nostrum Oil & Gas BV	**222,271**	222,271
Impairment of investments	**(117,361,377)**	–
	-	116,779,000

The investments in Nostrum & Gas Cooperatief U.A. include the guarantee initial cost in the amount of US$9,881 thousand as described in the Note 9 (2018: US$9,881 thousand) as well as US$582 thousand capitalized costs under the Long-term Incentive Plan 2017 (2018: US$676 thousand).

As a result of the impairment testing performed at 31 December 2019 the Company recognized impairment charge of US$117,361 thousand for its investments in subsidiaries. For more details please refer to Note 4.

6. Receivables from related parties

Receivables from related parties are comprised of the following as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	**31 December 2019**	31 December 2018 (restated)	1 January 2018 (restated)
Receivables from Nostrum Oil & Gas Benefit Trust	**23,812**	23,812	23,812
Receivables from Nostrum Oil & Gas Coöperatief U.A.	**-**	3,574	2,821
Receivables from Nostrum Oil & Gas UK Ltd.	**10**	–	–
Bad debt allowance	**(23,157)**	(15,084)	(10,835)
	665	12,302	15,798

Receivables from the Nostrum Oil & Gas Benefit Trust ("the Trust") represent the loan provided to support the Company's obligations to employees under the Employee Share Option Plan ("ESOP") and the Long Term Incentive Plan ("LTIP") (Note 13). The loan is interest free and unsecured. The loan is repayable in the case of an advance used to acquire securities to satisfy the exercise of options granted pursuant to the rules of ESOP, and unless otherwise agreed in writing between the parties, the earlier of 1) ten years from the Date of Grant, or 2) 30 days after the exercise date, and in all other cases any other date agreed in writing between the parties. Considering the fact that the loan is repayable to the extent of the assets of the Trust, which are reflected in treasury shares held by the Trust, the Company has recognized a bad debt allowance as at 31 December 2019 in the amount of US$23,157 thousand (2018: US$15,084 thousand), representing the difference between the book value of the loan and the recoverable value of the treasury shares as of 31 December 2019.

During 2019 the Company entered into Intra-Group Payment Set-Off Agreement according to which the Company performed non-cash settlement of receivables from its subsidiary Nostrum Oil & Gas Coöperatief U.A. in the amount of US$3,000 thousand against the loan payable to its indirect subsidiary Nostrum Oil & Gas Finance B.V. in the amount of US$3,000 thousand (Note 10).

7. Cash and Cash Equivalents

In thousands of US dollars	**31 December 2019**	31 December 2018
Current accounts in US Dollars	**877**	8
Current accounts in Pounds Sterling	**588**	27
Current accounts in Euro	**57**	3
	1,522	38

8. Shareholders' equity

Nostrum Oil & Gas PLC became the new holding company for the business of Nostrum Oil & Gas LP based on the resolution passed by its limited partners on 17 June 2014 followed by the Company reorganisation referred to in that resolution.

Share capital of Nostrum Oil & Gas PLC

As at 31 December 2019 the ownership interests in the Company consist of ordinary shares, which are listed on the London Stock Exchange, these shares have been issued and fully paid. As at 1 January 2014 the Company had subscriber shares and redeemable preference shares, all of which were cancelled on 7 August 2014.

The subscriber and redeemable preference shares had a nominal value of GBP 1 and the ordinary shares have a nominal value of GBP 0.01.

9. Financial guarantees

Financial guarantees are comprised of the following as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	2019	2018
Financial guarantee as at 1 January	**5,681**	6,127
Charge for expected credit losses	**428,436**	–
Release upon repayment of the Notes	**-**	(2,255)
Recognition on issue of the Notes	**-**	2,731
Amortisation for the period	**-**	(922)
Financial guarantee as at 31 December	**434,117**	5,681
Less amounts due within 12 months	**-**	(1,003)
Amounts due after 12 months	**434,117**	4,678

In June 2014, as part of the Group reorganisation the Company became the new parent entity (as a successor of Nostrum Oil & Gas LP) and respectively became a guarantor under the Notes issued in 2012 and 2014. Also, the Company acts as a guarantor under the Notes issued in 2017 and 2018. Since the guarantees are issued in favour of the Company's indirect subsidiaries, related costs at initial recognition are capitalized into the investments in subsidiaries (Note 5).

In 2019, the Company performed an assessment of the value of the guarantees issued under the 2017 and 2018 Notes, taking into account the Group's financial position as at 31 December 2019 and the fact that the Company is the parent entity in the Group and so would ultimately assume the guarantee obligations of its subsidiaries in the event of their inability to meet such obligations. As a result, the Company has recognized the guarantee liabilities for the total amount of US$ 434,117 thousand as at 31 December 2019, representing the amount of expected credit losses as of the reporting date. The financial guarantee has been classified as non-current to reflect the fact that the guaranteed notes are not due for repayment before July 2022 and August 2025, as assessed at the end of the reporting period.

Further details on the Notes are provided below.

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 bore interest at a rate of 7.125% per year. Interest on the 2012 Notes was payable on 14 May and 13 November of each year, beginning on 14 May 2013.

The 2012 Notes were 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 were the 2012 Issuer's and the 2012 Guarantors' senior obligations and ranked equally with all of the 2012 Issuer's and the 2012 Guarantors' other senior indebtedness. The 2012 Notes and the 2012 Guarantees were unsecured. Claims of secured creditors of the 2012 Issuer or the 2012 Guarantors would 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 bore interest at a rate of 6.375% per year. Interest on the 2014 Notes was payable on 14 February and 14 August of each year, beginning on 14 August 2014.

The 2014 Notes were 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 were the 2014 Issuer's and the 2014 Guarantors' senior obligations and ranked equally with all of the 2014 Issuer's and the 2014 Guarantors' other senior indebtedness. The 2014 Notes and the 2014 Guarantees were unsecured. Claims of secured creditors of the 2014 Issuer or the 2014 Guarantors would 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.

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, maturing in 2022.

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

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

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

Since part of the 2012 Notes and 2014 Notes were payable by the Company's one subsidiary to its another subsidiary, the probability of outflow of economic benefits under the related guarantees was assessed as remote, and the related portion of the guarantee balances was taken to profit and loss in 2017.

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 February and 16 August of each year, maturing in 2025.

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.

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"), US$ 169,116 thousand in principal amount of the outstanding 2012 Notes and US$ 184,076 thousand in principal amount of the outstanding 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.

Considering the fact that as a result of the transaction the full amount of the 2012 Notes and 2014 Notes became payable by the Company's one subsidiary to its another subsidiary, the probability of outflow of economic benefits under the related guarantees was assessed as remote, and the related remaining balance of the guarantee balances was taken to profit and loss in 2018.

10. Payables to related parties

Payables to related parties are comprised of the following as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	**31 December 2019**	31 December 2018 (restated)	1 January 2018 (restated)
Payables to Nostrum Oil & Gas Coöperatief U.A.	**655**	8,728	12,977
Loan and interest payable Nostrum Oil & Gas Finance B.V.	**204**	2,855	–
Payables to Nostrum Oil & Gas UK Ltd.	**-**	650	–
Payables to Nostrum Oil & Gas BV	**-**	50	5
	859	12,283	12,982

As at 31 December 2019 amounts payable to Nostrum Oil & Gas Coöperatief U.A. represent the arrangements in respect of the Nostrum employee benefit trust. For more details please refer to Note 6. Based on the service agreement, the amounts payable to Nostrum Oil & Gas Coöperatief U.A. in respect to the employee benefit trust, are only repayable to the extent of amounts received (or recovered) from the Trust. Considering the fact that the loan is repayable to the extent of the assets of the Trust, which are reflected in treasury shares held by the Trust, the Company has remeasured and reduced the loan payable as at 31 December 2019 by US$23,157 thousand (2018: US$15,084 thousand), representing the difference between the book value of the loan and the recoverable value of the treasury shares as of 31 December 2019.

In 2018 the Company received a loan from its indirect subsidiary Nostrum Oil & Gas Finance B.V. in the amount of US$ 2,500 thousand, at the interest rate of 7%, which is repayable on demand. During 2019 the Company received further proceeds on the loan agreement in the amount of US$500 thousand. Further during the year the Company entered into Intra-Group Payment Set-Off Agreement according to which the Company performed non-cash settlement of its loan payable to its indirect subsidiary Nostrum Oil & Gas Finance B.V. in the amount of US$3,000 thousand against its receivables from its subsidiary Nostrum Oil & Gas Coöperatief U.A. in the amount of $3,000 thousand. The interest accrued the loan at 31 December 2019 amounted to US$204 thousand (2018: US$160 thousand).

11. Auditors' remuneration

The fees for the audit of the Company amount to US$10 thousand (2018: US$10 thousand).

12. Directors' remuneration

The directors of the Company are also directors of the Group. The aggregate amount of remuneration paid to or receivable by executive directors in respect of qualifying services for the financial year ended 31 December 2019 was US$2,777 thousand (2018: US$1,202 thousand) and also includes remuneration paid by other companies of the Group. In addition, US$662 thousand (2018: US$854 thousand) was paid by the Company to the non-executive directors. The directors do not believe that it is practicable to apportion these amounts between their services as directors of the Company and their services as directors of the Group.

For the year ended 31 December 2019 the Company employed an average of 6 non-executive directors (FY 2018: 6 non-executive directors).

Full details of individual directors' remuneration are given in the directors' remuneration report on pages 86-94 of the annual report.

13. Long-term incentive plan

In 2017 the Company 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.

Employees (including senior executives and executive directors) of members of the Company 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 there are no legal limitations expected on issue of shares for these upon vesting, the Company has a choice of settlement and the intention is to settle them in equity.

The award ordinarily vests and becomes exercisable as from later of the third anniversary of grant or two years after the date on which the Company determines whether the performance condition has been satisfied, subject to employee's continued service and to the extent to which the performance condition is satisfied, till the end of the contractual life. The contractual life of the share options is ten years.

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The cost of equity-settled transactions are measured at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element of "shares to be issued under LTIP", which is not remeasured subsequently until the settlement date.

The following table summarizes the movement in the number of share options during 2018 and 2019:

	Equity-settled awards	Cash-settled awards	Total awards
Total outstanding as at 1 January 2018	**1,121,587**	**69,697**	**1,191,284**
Share options granted	1,095,691	67,349	1,163,040
Share options performance adjusted	(542,120)	(38,140)	(580,260)
Share options forfeited	(106,235)	–	(106,235)
Share options lapsed	(24,670)	–	(24,670)
Total outstanding as at 31 December 2018	**1,544,253**	**98,906**	**1,643,159**
Share options performance adjusted	(1,058,073)	(67,349)	(1,125,422)
Share options forfeited	(19,070)	–	(19,070)
Total outstanding as at 31 December 2019	**467,110**	**31,557**	**498,667**

After adjusting for the nonachievement of performance conditions explained below, 498,667 share options are capable of vesting as of 31 December 2019 and 369,785 share options were vested as of 31 December 2019, in accordance with the management's best estimate. These represent a portion of 1,101,342 share options with a grant date of 10 October 2017, for which 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 granted in 2017.

On 28 November 2018 the Company granted a further 1,163,040 share options, however due to the performance conditions not being met none of these share options are capable of vesting.

In accordance with the management's best estimate 369,785 share options were vested as at 31 December 2019. The fair value of the equity-settled share options at the valuation dates of 28 November 2018 and 23 March 2018 amounted to US$ 1.25 and US$ 2.76 per share option, respectively. Based on these estimations, during the year ended 31 December 2019 the Company recognized employee share option expense in the amount of US$633 thousand (2018: US$711 thousand). 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 valuation of the share options at the grant date:

	28 November 2018	23 March 2018
Price at the reporting date	**1.40**	3.08
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**43.4%**	40.4%
Risk-free interest rate (%)	**1.38%**	1.45%
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.

14. Related party transactions

Related parties of the Company include its direct and indirect subsidiaries, key management personnel and other entities that are under the control or significant influence of the key management personnel.

Accounts receivable from related parties represented by Company's subsidiaries as at 31 December 2019 and 31 December 2018 consisted of the following:

In thousands of US dollars	**31 December 2019**	31 December 2018 (restated)	1 January 2018 (restated)
Receivables from Nostrum Oil & Gas Benefit Trust, net (Note 6)	**655**	8,728	12,977
Receivables from Nostrum Oil & Gas Coöperatief U.A.	**-**	3,574	2,821
Receivables from Nostrum Oil & Gas UK Ltd.	**10**	–	–
	665	12,302	15,798

Accounts payable to related parties represented by Company's subsidiaries as at 31 December 2019 and 31 December 2018 consisted of the following:

In thousands of US dollars	**31 December 2019**	31 December 2018 (restated)	1 January 2018 (restated)
Payables to Nostrum Oil & Gas Coöperatief U.A.	**655**	8,728	12,977
Loan and interest payable Nostrum Oil & Gas Finance B.V.	**204**	2,855	–
Payables to Nostrum Oil & Gas UK Ltd.	**-**	650	–
Payables to Nostrum Oil & Gas BV	**-**	50	5
	859	12,283	12,982

Financial guarantees are comprised of the following as at 31 December 2019 and 31 December 2018:

In thousands of US dollars	2019	2018
Financial guarantee as at 1 January	**5,681**	6,127
Charge for expected credit losses	**428,436**	–
Release upon repayment of the Notes	**-**	(2,255)
Recognition on issue of the Notes	**-**	2,731
Amortisation for the period	**-**	(922)
Financial guarantee as at 31 December	**434,117**	5,681
Less amounts due within 12 months	**-**	(1,003)
Amounts due after 12 months	**434,117**	4,678

Advances received from related parties represented by Company's subsidiaries as at 31 December 2019 were represented by advances received from Nostrum Oil & Gas Coöperatief U.A. in the amount of US$304 thousand (2018: nil).

During the years ended 31 December 2019 and 2018 the Company had the following transactions with related parties represented by Company's subsidiaries:

In thousands of US dollars	31 December 2019	31 December 2018
Income from provision of services		
Nostrum Oil & Gas Coöperatief U.A.	**7,590**	4,039
Income / (loss) from financial guarantee		
Nostrum Oil & Gas Finance B.V. (Note 9)	**(428,436)**	3,177

15. Financial risk management objectives and policies

The Company's financial assets consist of receivables from shareholders and cash and cash equivalents. The Company's financial liabilities consist of payables to related parties, trade and other payables and accrued liabilities.

The main risks arising from the Company's financial instruments are foreign exchange risk and credit risk. The Company's management reviews and agrees policies for managing each of these risks, which are summarized below.

Foreign currency risk

Most of the Company's operation is denominated in USD, therefore the Company's statement of financial position is not significantly affected by exchange rate movements.

Credit risk

Financial instruments, which potentially subject the Company to credit risk, consist primarily of receivables and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Company considers that its maximum exposure is reflected by the amount of receivables from shareholders and cash and cash equivalents.

The Company places its US Dollar, British Pound and Euro denominated cash with ING which has a credit rating of P-1 (upper medium grade) from Moody's rating agency at 31 December 2019.

Receivables are amounts receivable from Group companies, thus risk of credit default is low, except for the loan receivable from the Trust for which loss allowance has been recognized.

Fair values of financial instruments

The fair value of the financial assets represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The management assessed that its assets and liabilities approximate their carrying amounts largely due to their nature or the short-term maturities of these instruments.

Capital management

For the purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Company's capital management is to maximise the shareholder value.

16. Events after the reporting period

OPEC and non-OPEC allies

On 6 March 2020, OPEC and non-OPEC allies (OPEC+) met to discuss the need to cut oil supply to balance oil markets in the wake of the COVID-19 outbreak which has had a material impact on oil demand. The parties failed to reach agreement on 7 March 2020, and Saudi Aramco aggressively cut its Official Selling Prices (OSP) in an attempt to prioritise market share rather than price stability and effectively started a price war. As a result, on 9 March 2020, Brent oil prices fell by around 20%, and the forward curve for 2020 and 2021 fell to approximately $38/bbl and $43/bbl respectively. This was compounded by a perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 ('COVID-19'). Whilst the OPEC+ countries together with a wider group of producers have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price. These events continue to have an impact on oil price volatility with spot prices for Brent reaching a low of $20/bbl in March 2020. The Group's realised oil prices for January and February 2020 averaged around $55/bbl.

Coronavirus outbreak

The existence of COVID-19 was confirmed in early 2020 and has spread across China and beyond, causing disruptions to businesses and economic activity. Governments in affected countries are imposing travel bans, quarantines and other emergency public safety measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak. Currently, the employees of the European offices of the Group are working from home due to travel restrictions imposed by respective governments. The Group's offices and facilities in Kazakhstan remain open with certain travel restrictions in place, but necessary workers are able to operate and maintain the assets to the high standards. The ultimate severity of the Covid-19 outbreak is uncertain at this time, and therefore the Group cannot reasonably estimate the impact it may have on future operations.

There is a significant uncertainty in relation to the extent and period over which these developments will continue, but they could have a significant impact on the Group's financial position, future cashflows and results of operations. For more details as to how these uncertainties have been considered in preparing these financial statements, please see the 'Viability Statement' and the 'Going Concern' section of the Financial Review (see pages 50 and 54 of the Annual Report).

In addition, the significant estimates and judgements that will be made in preparing future financial statements may also be impacted if the current macro-economic uncertainty continues and estimates of long-term commodity prices decrease. In particular, we expect the impact to be as follows:

- The estimated recoverable amount of our cash generating unit related to the Chinarevskoye field and related facilities would reduce. An additional impairment could be required as the CGU was impaired in 2019 and so is sensitive to changes in commodity prices as described in Note 4 to the consolidated financial statements of the Group; and
- The estimate of oil and gas reserves would be lower if the long-term planning price on which our estimates of reserves are based decreases.

Engagement with bondholders

On 31 March 2020 the Group announced that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds.

Investor information

Contact information

Investor contacts
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Registered office
Nostrum Oil & Gas PLC
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20 Eastbourne Terrace
London W2 6LG
United Kingdom
Tel: +44 20 3740 7430
Registered number: 8717287
Place of registration: England and Wales
VAT GB302 9250 35

Nostrum Oil & Gas BV
Activity: Holding company
Registered office and principal place of business:
Gustav Mahlerplein 23 B
1082 MS Amsterdam
The Netherlands

Directors:
Jan-Ru Muller
Thomas Hartnett

Nostrum Oil & Gas Coöperatief UA
Activity: Holding company
Registered office and principal place of business
Gustav Mahlerplein 23 B
1082 MS Amsterdam
The Netherlands

Directors:
Jan-Ru Muller
Thomas Hartnett

Nostrum Oil & Gas Finance BV
Activity: Finance company
Registered office and principal place of business
Gustav Mahlerplein 23 B
1082 MS Amsterdam
The Netherlands

Directors:
Jan-Ru Muller
Thomas Hartnett

Nostrum Services NV
Activity: Holding company
Registered office and principal place of business
Kunstlaan 56
1000 Brussels
Belgium

Directors:
Jan-Ru Muller
Thomas Hartnett BVBA

Zhaikmunai LLP
Activity: Operating company
Registered office and principal place of business
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General Director:
Zhomart Darkeyev

Nostrum Associated Investments LLP
Activity: Dormant
Registered office and principal place of business
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General Director:
Dinara Urazova

Nostrum Services Central Asia LLP
Activity: Dormant
Registered office and principal place of business
Building 75/38
Microrayon Aksay 3a
050031 Almaty

General Director:
Kalamkas Shakenova

Nostrum Oil & Gas UK Limited
Activity: Dormant
Registered office and principal place of business
9th Floor
20 Eastbourne Terrace
London W2 6LG
United Kingdom

Directors:
Thomas Hartnett

Martin Cocker

Nostrum E&P Services LLC
Activity: Dormant
Registered office and principal place of business
Prospekt Liteniy 26A
191028 St Petersburg
Russian Federation

General Director:
Tatiana Kichina

1. Information as to the direct and indirect shareholdings is given in note 1 of the 2019 consolidated financial statements and in the Group structure chart on page 185.
2. Information as to staffing is given on page 38.
3. No investments were made in the equity of subsidiaries in 2019.

Auditor
Ernst & Young LLP
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Registrar
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The Registry
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United Kingdom
Tel: 0871 664 0300
Tel: +44 20 8639 3399

Corporate broker
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10 Paternoster Square
London EC4M 7LT
United Kingdom

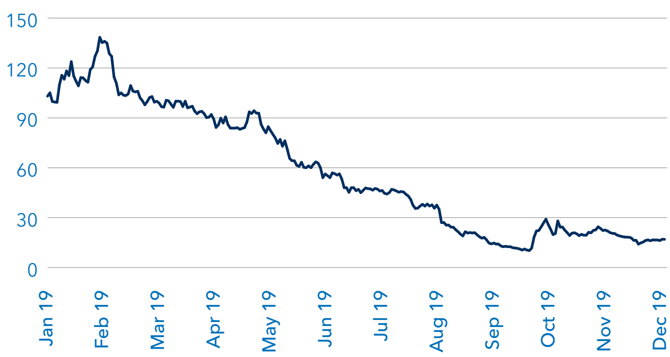
Website and electronic communications details

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

In addition, to reduce impact our on the environment, we encourage all shareholders to opt for electronic shareholder communications, including annual reports and notices of meetings.

Share price performance

Nostrum Oil & Gas share price (GBp)



Financial Calendar 2020

Q1 2020	Operational Update	30 April 2020
Q1 2020	Financial Results	19 May 2020
H1 2020	Operational Update	30 July 2020
H1 2020	Financial Results	18 August 2020
Q3 2020	Operational Update	30 October 2020
Q3 2020	Financial Results	17 November 2020

Capitalisation-weighted index of FTSE 350 E&P

Earnings per share (as at 31 December 2019): US$(5.34)/share

Book value per share (as at 31 December 2019): US$2.75/share

Share price information

Exchange	London Stock Exchange
Ticker	NOG.LN
Reuters code	NOGN.L
ISIN code	GB00BGP6Q951

Equity financing

Equity raising	Timing	Amount	Lead manager
IPO	March 2008	US$100m	ING Bank NB
Secondary equity issue	September 2009	US$300m	ING Bank NV Mirabaud Securities Renaissance Securities

Debt financing

Current outstanding bond issues for Nostrum Oil & Gas PLC are provided in the following table:

Settlement	Maturity	Currency	Amount (m)	Coupon	Listing		RegS	Rule 144A
Jul 2017	Jul 2022	USD	725	8.000%	Dublin	CUSIP	N64884AB0	66978CAB8
						ISIN	USN64884AB02	US66978CAB81
						Common Code	16453439	164534073
Feb 2018	Feb 2025	USD	400	7.000%	Dublin	CUSIP	N64884AD6	66978CAC6
						ISIN	USN64884AD67	US66978CAC64
						Common Code	176959886	176959878

For a summary of certain covenants relating to the 2017 and 2018 Notes, please see the consolidated financial statements.

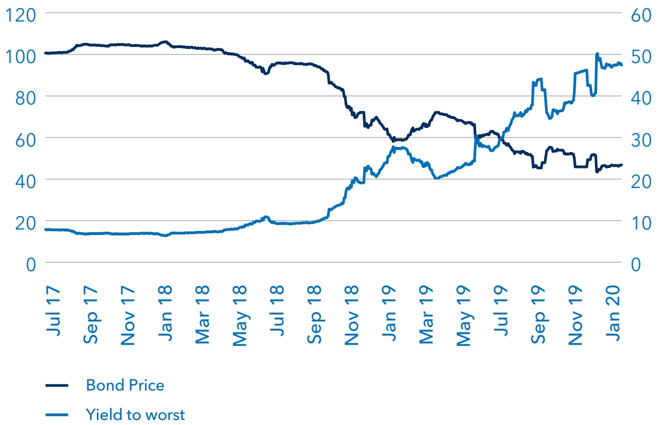
Internally held Bond Financing of the Nostrum Group

Bond issues wholly-owned by Nostrum Oil & Gas Finance BV are provided in the following table:

Settlement	Maturity	Currency	Amount (m)	Coupon	Listing		RegS	Rule 144A
Feb 2014	Jan 2033	USD	400	9.5%	Dublin/Almaty	CUSIP	N64884AA2	66978CAA0
						ISIN	USN64884AA29	US66978CAA09
						Common Code	103302323	103302307
Nov 2012	Jun 2033	USD	560	9.5%	Dublin/Almaty	CUSIP	N97716AA7	98953VAA0
						ISIN	USN97716AA72	US98953VAA08
						Common Code	085313177	085259776

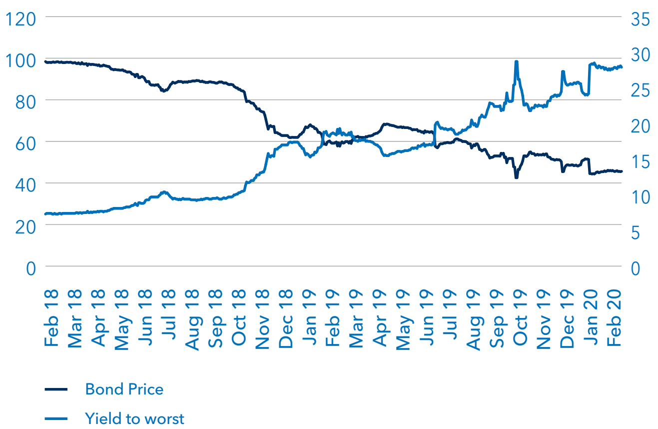
8.000% Bond output

Bond Price (US$)



7.000% Bond output

Bond Price (US$)



Credit ratings

Nostrum Oil & Gas PLC is currently being rated by two credit rating agencies: Standard and Poor's and Moody's Investor Services:

Agency	Rating	Outlook
Standard and Poor's	CCC	Negative
Moody's	Caa3	Negative

Zhaikmunai LLP is a wholly-owned indirect subsidiary of Nostrum and its equity is not listed, while Nostrum's equity is listed on the premium segment of the London Stock Exchange and the Kazakhstan Stock Exchange.

The Group's Investor Relations programme aims to develop an open and transparent communication between the Group (including Zhaikmunai LLP) and its shareholders, providing information about the financial and operational performance of the Company. The Investor Relations department of the Group seeks to ensure all questions received from any of the Group's stakeholders are dealt with in a timely manner based on the underlying principle that the Group is approachable and responsive to any potential queries.

Glossary

2010 Notes	10.500% notes issued in 2010.
2012 Notes	7.125% notes issued in 2012.
2014 Notes	6.375% notes issued in 2014.
2017 Notes	8.000% notes issued in 2017.
2018 Notes	7.000% notes issued in 2018.

A

API	American Petroleum Institute.
API gravity	The industry standard method of expressing specific density of crude oil or other liquid hydrocarbons as recommended by the American Petroleum Institute. Higher API gravities mean lower specific gravity and lighter oils. When the API gravity is greater than 10, the product is lighter and floats on water; if it is less than 10, it is heavier than water and sinks. Generally speaking, oil with an API gravity between 40 and 45 commands the highest prices.
appraisal well	A well or wells drilled to follow up a discovery and evaluate its commercial potential.
associated gas	Gas which occurs in crude oil reservoirs in a gaseous state.

B

barrel/bbl	The standard unit of volume:
	1 barrel = 159 litres or 42 US gallons.
basin	A large area holding a thick accumulation of sedimentary rock.
bcm	Billion cubic metres.
Boe	Barrels of (crude) oil equivalent, i.e. the factor used by Nostrum to convert volumes of different hydrocarbon production to barrels of oil equivalent.
Boepd	Barrels of (crude) oil equivalent per day.
Bopd	Barrels of crude oil per day.

C

C^1	Methane.
C^2	Ethane.
C^3	Propane.
C^4	Butane.
C^5	Pentane.
C^6	Hexane.
C^7	Heptane.
CAC	A pipeline with two branches originating in Turkmenistan and meeting in Kazakhstan before crossing into Russia and connecting to the Russian pipeline system, with an annual throughput capacity of 60.2 billion cubic metres.
Cash	Cash and cash equivalents, including current and non-current investments.
Casing	Relatively thin-walled, large diameter steel rods that are screwed together to form a casing string, which is run into a core hole or well and cemented in place.
Caspian region	Parts of countries adjacent to the Caspian Sea.
CDP	CDP is an organisation based in the United Kingdom which supports companies to disclose their environmental impact (formerly known as the Carbon Disclosure Project).
Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
CO_2	Carbon dioxide.
commissioning	Process to assure a facility or plant, such as GTU3, is tested to verify if it functions according to technical objectives and specifications before use.

Competent Authority	The State's central executive agency, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of subsoil use contracts, except for contracts for exploration and production of commonly occurring minerals. This is the Ministry of Energy of the Republic of Kazakhstan (MOE) with respect to the oil and gas industry.
condensate	Hydrocarbons which are gaseous in a reservoir, but which condense to form a liquid as they rise to the surface where the pressure is much less.
contingent resources	Deposits that are estimated, on a given date, to be potentially recoverable from known accumulations but that are not currently considered commercially recoverable.
cost oil	Cost oil denotes an amount of crude oil produced in respect of which the market value is equal to Nostrum's monthly expenses that may be deducted pursuant to the PSA (include all operating costs, exploration costs and development costs up to an annual maximum of 90% of the annual gross realised value of hydrocarbon production).
crude oil	A mixture of liquid hydrocarbons of different molecular weights.

D

development	During development, engineering teams design the most efficient development options to build wells and associated infrastructure to produce hydrocarbons from a gas field within a proven productive reservoir (as defined by exploration and appraisal activities). The three phases of development are exploration and appraisal, development, and production.
downstream	Downstream refers to all petroleum operations occurring after delivery of crude oil or gas to a refinery or fractionation plant.
Development Plans	The development plans approved by the SCFD in March 2009.
directors or Board	The directors of the Company.
dry gas	Dry gas is natural gas (methane and ethane) with no significant content of heavier hydrocarbons. It is gaseous at subsurface and surface conditions.

E

E&P	Exploration and production.
EBITDA	Profit Before Tax non-recurring expenses + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation – Interest Income + Other Expenses/(Income).
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
Exploration Permit	The geological allotment (Annex to the Licence) issued by the Competent Authority to Zhaikmunai LLP.
exploration phase	The phase of operations which covers the search for oil or gas by carrying out detailed geological and geophysical surveys followed up where appropriate by exploratory drilling.
exploration well	Well drilled purely for exploratory (information gathering) purposes in a particular area.

F

farm-in	Transfer of a percentage of an oil or gas permit held by the farmor in return for (partial or complete) delivery of the work programme by the farmee(s). Note that this work would normally have had to have been delivered and paid for by the farmor.
farm-out	A contractual agreement with the holder of an oil and gas permit to assign all (or a percentage of) that interest to another party in exchange for delivering the work programme required by the permit, or fulfilling other contractually specified conditions.
FCA	Financial Conduct Authority of the United Kingdom.
FCA Uralsk	Sales made under free carrier terms according to which Nostrum delivers to the terminal in Uralsk and transportation risk and risk of loss are transferred to the buyer after delivery to the carrier.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition.
FOB	Sales made under free on board terms.
FSU	Former Soviet Union.

G

G&A	General and administrative expenses.
gas	Petroleum that consists principally of light hydrocarbons. It can be divided into lean gas, primarily methane, but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane, as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.
gas condensate	The mixture of liquid hydrocarbons that results from condensation of petroleum hydrocarbons existing initially in a gaseous phase in an underground reservoir.
Gas Treatment Facility (GTF)	Facility for the treatment of associated gas and gas condensate resulting in different products (stabilised condensate, LPG and dry gas) for commercial sales. GTU1 means the first unit of the Gas Treatment Facility. GTU2 means the second unit of the Gas Treatment Facility. GTU3 means the third unit of the Gas Treatment Facility.
GDRs	The global depository receipts of Nostrum Oil & Gas LP.
greenhouse gas	A gas that contributes to the greenhouse effect by absorbing infrared radiation, e.g. carbon dioxide.
Group	Nostrum Oil & Gas PLC and, as the context requires, its direct and indirect consolidated subsidiaries.

H

HSE	Health, safety and environment.
hydrocarbons	Compounds formed from the elements hydrogen (H) and carbon (C), which may be in solid, liquid or gaseous form.
hydrocarbon reserves	Hydrocarbon reserves have been proved, and are referred to as 3P, 2P and 1P depending on the likelihood of commercial production from that field.

I

IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
INED	Independent non-executive director.

J

joint venture	A joint venture is a set of trading entities who have agreed to act in concert to share the cost and rewards of exploring for and producing oil or gas from a permit.
joule	Unit of energy used for measuring gas volumes. megajoules = 106 gigajoules = 109 terrajoules = 1012 petajoules = 1015

K

KASE	Kazakhstan Stock Exchange.
Kazakhstan	The Republic of Kazakhstan.
KazMunaiGas	State-owned oil and gas company of Kazakhstan.
KazMunaiGas Exploration Production (KMG EP)	Onshore oil and gas exploration production subsidiary of KazMunayGas.
KazTransOil (KTO) pipeline	A tie-in to the KTO pipeline enables crude oil export sales via the Atyrau-Samara international export pipeline.

L

Licence	Licence series MG No. 253-D (Oil) issued to Zhaikmunai LLP by the Government on 26 May 1997, including amendments.
Licencing Law	The Kazakhstan Law "On Licensing" (No. 214, dated 11 January 2007, as amended, which came into effect on 9 August 2007).
liquids	A sales product in liquid form produced as a result of further processing by the onshore plant; for example, condensate and LPG.
LNG	Liquefied natural gas. Comprises mainly methane.
Listing Rules	The listing rules made by the Financial Services Authority (FSA) under section 73A of the FSMA.
London Stock Exchange or LSE	London Stock Exchange.
LPG	Liquefied petroleum gas, the name given to the mix of propane and butane in their liquid state.
LTIP	Long-term incentive plan.

M

m	Metre(s).
m3	Cubic metres.
m3/d	Cubic metres per day.
Man-hours	An hour regarded in terms of the amount of work that can be done by one person within this period.
Mboe	Thousands of barrels of oil equivalent.
Mechanical completion	Final construction or installation phase whereby a facility can then undergo commissioning activities.
Mmbbls	Millions of barrels of oil.
Mmboe	Millions of barrels of oil equivalent.

N

NBK	National Bank of Kazakhstan.
NED	Non-executive director.
Nostrum	Nostrum Oil & Gas PLC, the listed company of the Group.
Nostrum Oil & Gas PLC	Registered Office: 9th Floor 20 Eastbourne Terrace London W2 6LG United Kingdom

O

OPEC	The Organisation of Petroleum Exporting Countries.
operator	The individual or company responsible for conducting oil and gas exploration, development and production activities on an oil and gas lease or concession on its own behalf and, if applicable, for other working interest owners, generally pursuant to the terms of a joint operating agreement or comparable agreement.

P

Partnership	Nostrum Oil & Gas LP, which was the holding company of the Group before the reorganisation.
petroleum	Hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.
Possible Reserves (3P)	Possible reserves are those reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves. Proven, probable and possible reserves are referred to as 3P.
Probable Reserves (2P)	Probable reserves are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Probable Reserves. Proven plus probable reserves are referred to as 2P.
processing	Processing of saleable product from hydrocarbons sourced from oil wells and gas wells.
Production Permit	The mining allotment (Annex to the Licence), issued by the Competent Authority to Zhaikmunai LLP.
production well	A well that has been drilled for producing oil or gas, or one that is capable of production once the producing structure and characteristics are determined.
Profit oil	Profit oil is the difference between cost oil and the total amount of crude oil produced each month, which is shared between the State and Zhaikmunai LLP.
Prospective resources	Quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.
Proven Reserves (1P)	Proven or proved reserves (1P) are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.
PRMS	2007 Petroleum Resources Management System, which are a set of definitions and guidelines designed to provide a common reference for the international petroleum industry, sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers.
PSA or Production Sharing Agreement	The contract for additional exploration, production and production sharing of crude oil hydrocarbons in the Chinarevskoye oil and gas condensate field in the West-Kazakhstan oblast No. 81, dated October 31 1997, as amended, between Zhaikmunai LLP and the Competent Authority (currently MOE), representing the State.
PSA Law	Kazakhstan Law No. 68-III "On Production Sharing Agreements for Constructing Offshore Petroleum Operations", dated 8 July 2005.

Q

QHSE	Quality, Health, Safety and the Environment.

R

recovery	The second stage of hydrocarbon production during which an external fluid such as water or gas is injected into the reservoir to maintain reservoir pressure and displace hydrocarbons towards the wellbore.
Reservoir	A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers, and is individual and separate from other reservoirs.
RoK	Republic of Kazakhstan.
Royalty	An interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production.
Ryder Scott	Independent petroleum consultants Ryder Scott Company LP, headquartered at 621 Seventeenth Street, Suite 1550, Denver, Colorado, 80293, USA.

S

sales gas	Natural gas that has been processed by gas plant facilities and meets the required specifications under gas sales agreements.
Seismic	The use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures.
Shut in	Cease production from a well.
sidetrack well	A well or borehole that runs partly to one side of the original line of drilling.
Social infrastructure:	Assets that accommodate social services, i.e. hospitals, schools, community housing etc.
spud	The commencement of drilling operations.
stakeholder	A person or entity who may affect, be affected by or perceive themselves to be affected by an entity's decisions or activities.
State	Republic of Kazakhstan.
State Share	The share of hydrocarbon production due (in cash or kind) to the Republic of Kazakhstan under the PSA.
Suspended well	A suspended well is not currently used for assessment or production and has been shut in. It will either be returned to assessment or production or plugged and abandoned.

T

TCFD	Task Force on Climate-related Financial Disclosures.
Tenge or KZT	The lawful currency of the Republic of Kazakhstan.
Tonne	Metric tonne.
Trillion	10 to the power of 12.

U

UNGG	Uralsk Oil and Gas Explorations Expedition. The Government of the Kazakh Soviet Socialist Republic decided in March 1960 to create a consortium "Uralskneftegazrazvedka" for conducting oil and gas exploration in the Uralsk region. In the 1960's, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed "Uralsk Enlarged Oil-Gas Exploration Expedition".
UOG	Ural Oil & Gas LLP.
UK Corporate Governance Code	Set of principles of good corporate governance for listed companies promulgated by the UK Financial Reporting Council.

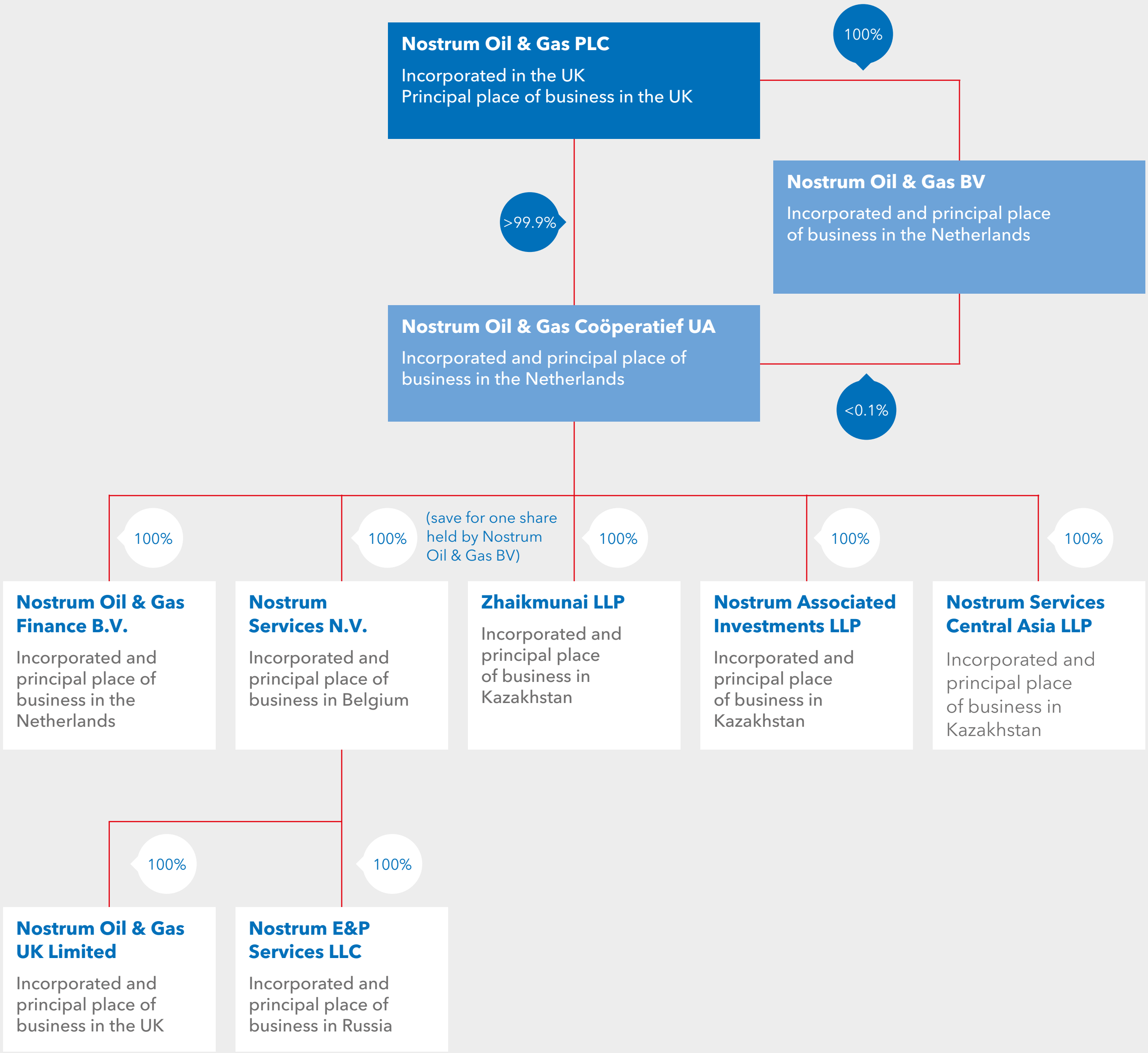
W

well	A hole drilled to test an unknown reservoir or to produce from a known reservoir.
wellhead	The wellhead includes the forged or cast steel fitting on top of a well (welded or bolted to the top of the surface casing), as well as casingheads, tubingheads, Christmas tree, stuffing box and pressure gauges.
work programme	A schedule of works agreed between parties (permit holders, farmees and government) contracted to be delivered in a defined time frame.
workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
WUP or Water Use Permit	The permit granted by the relevant Government authority with respect to water use pursuant to the Water Code.

Z

Zhaikmunai LLP	Principal operating entity of the Group

Nostrum Group Structure Chart as at 31 December 2019



* Apart from the external debt held by Nostrum Oil & Gas Finance B.V, the contribution and results of Nostrum Oil & Gas PLC and all of its subsidiaries (other than Zhaikmunai LLP) to the KPIs and results of the Group were insignificant. Except as stated above, there are no minority shareholdings.

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