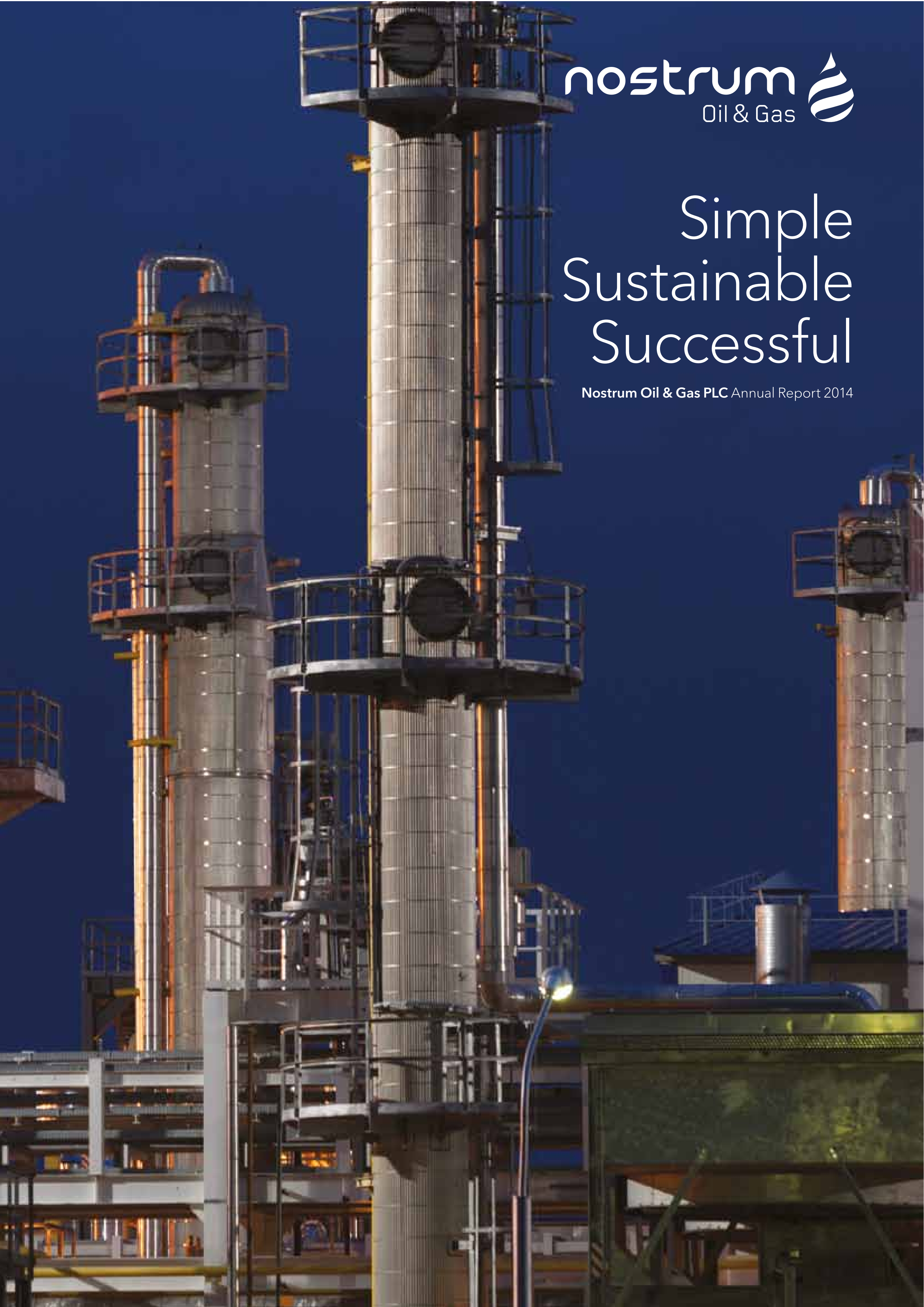
nostrum Oil & Gas

Simple Sustainable Successful

Nostrum Oil & Gas PLC Annual Report 2014



Nostrum Oil & Gas PLC is an independent oil and gas company engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin.

Our vision is to become the leading independent oil and gas exploration and production company in the region. In order to achieve our vision we recognise that our responsibilities need to go beyond our financial and operational targets.

Our track record demonstrates that we have successfully achieved our strategic goals to date. We are now well positioned, both financially and operationally, to deliver on our vision.

In order to establish Nostrum as the leading independent E&P company in the FSU we have developed a simple and sustainable strategy that will allow us to successfully deliver near term growth combined with long term value creation.

Corporate Structure

Nostrum Oil & Gas PLC ("Nostrum") is a public limited company incorporated and registered in England and Wales with its corporate headquarters located in Amsterdam, the Netherlands. Nostrum's ordinary shares are admitted to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange plc's main market for listed securities. Nostrum indirectly holds a 100% interest in Zhaikmunai LLP, a Kazakhstan-registered limited liability partnership engaged in the exploration, production and sale of hydrocarbons from the Chinarevskoye field in north-west Kazakhstan.

See the report online:
http://annualreport2014.nostrumoilandgas.com

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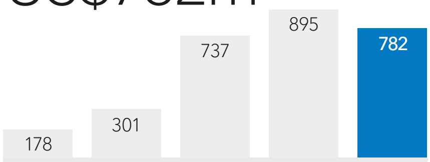
Revenue

US$782m



KPIs

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Strategic objective

To become the leading independent oil and gas company in the FSU

Our strategy

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How we are performing

Our simple and sustainable strategy has first allowed us to maintain steady production. We now look forward to continuing this whilst we move towards completion of our second gas plant and a doubling of our production capacity.

Find out more on page 08

Subsidiary companies

In June 2014 Nostrum underwent a full corporate restructuring, cancelling its GDRs and replacing them with shares listed on the main board of the London Stock Exchange. This restructuring required a number of steps to dissolve the partnership and replace it with a public limited company. The Company currently has a number of intermediary companies between the PLC and its operating entity in Kazakhstan, Zhaikmunai LLP. This structure is currently being simplified. The structure as at the date of this report can be found in Additional disclosures.

Nostrum at a glance
Overview

Who we are

Nostrum Oil & Gas PLC is an independent oil and gas company engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin.

We are a simple, sustainable and successful organisation with the vision to become the leading independent oil and gas exploration and production company in the Former Soviet Union (FSU).

We recognise that our financial and operational targets need to be pursued in a responsible way and we believe that our track record clearly demonstrates the successful achievement of our strategic goals.

Whilst we continue to make progress towards our financial and operational goals, we have developed a simple strategy that will allow us to successfully deliver the near term growth we have targeted, combined with long term, sustainable value creation.

What we do

We focus on creating long term shareholder value through the development and discovery of oil and gas reserves, as well as the production and sale of crude oil, stabilised condensate, LPG and dry gas. Our highly skilled management team has managed the investment of over US$1.5 billion in our licence area since 2004, delivering on a number of infrastructure projects as well as significantly expanding the reserve base over the last ten years through our own appraisal work, as well as successful M&A activity.

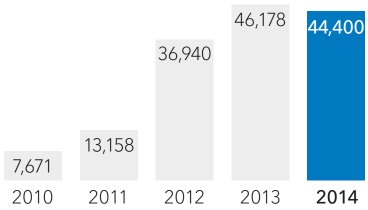
Our commercial products

Our range of products at Nostrum are crude oil, stabilised liquid condensate, LPG and dry gas. Currently all our production comes from the Chinarevskoye licence. We have invested in developing our own infrastructure to control the transportation of our products until they reach the final off-taker, which serves a wide network of destinations and off-takers, helping to ensure we always obtain the best possible prices.

Key statistics

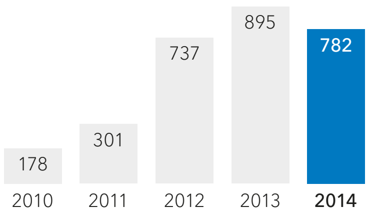
Production

44,400 boepd



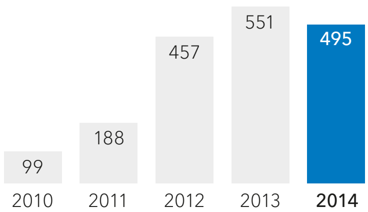
Revenue

US$782m



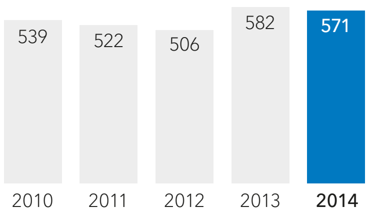
EBITDA

US$495m

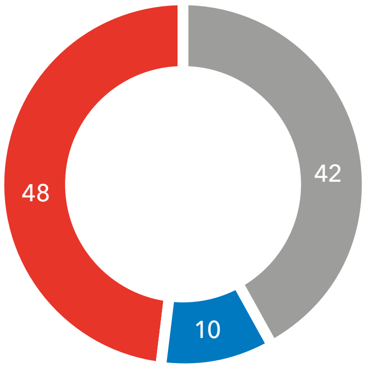


2P reserves

571m boe



FY 2014 product mix %



- Crude oil and condensate
- LPG
- Dry gas

Average daily production rates

We have increased production every year from 2004–2013 when full capacity of our processing facilities was achieved. The 2014 production from the Chinarevskoye licence of 44,400 boepd will remain broadly steady for 2015 and only represents half of what we are aiming to achieve from the field. We are currently working to increase our processing capacity, allowing us to more than double production.

Market positioning

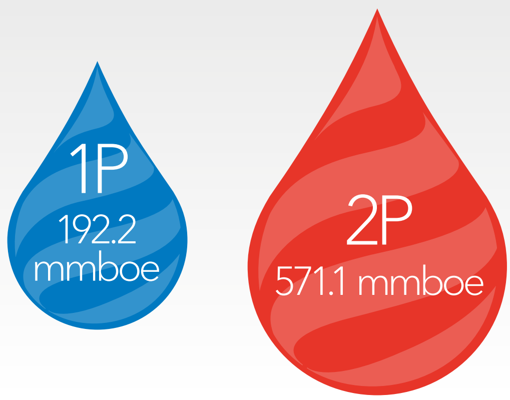
We are in a unique position in the market, with our front-loaded investment programme meaning we are now a leader in terms of infrastructure in the region, with the ability to process significant volumes of raw gas via our gas treatment facility. In addition, our advantageous location in north-west Kazakhstan places us closer to our final off-take destinations, such as the Black Sea ports and Finland.

Operational structure

Nostrum has a simple and familiar operating structure. It has a board of directors led by the chairman and a senior management team led by the CEO. Nostrum aims to keep its operating structure as simple as possible to reflect its simple investment case. The senior management team manages the major units involved in operations according to the interaction chart on page 58.

Reserves

Ryder Scott completed an update of Nostrum's reserves report in December 2014. This report includes the reserves at Chinarevskoye and the three additional licences acquired in 2013.



For more information on reserves please see our website: www.nog.co.uk

Strategic report

Our investment case
A simple investment case

Nostrum has developed a world-class portfolio of assets in north-west Kazakhstan. The front-loaded investment programme has been the foundation on which strong production growth has been built allowing the Company to enjoy sustainable cash flow during challenging conditions.

Stable financial platform with strong cash flows and flexibility

Nostrum generated US$349.1 million of operating cash flow in 2014. In addition, the Group ended the year with over US$400 million of cash[1] on its balance sheet and a hedge on 7,500 bopd until February 2016 at US$85. This places Nostrum in a strong position within the E&P space as a company with significant cash reserves despite the more challenging oil price environment.

Over half a billion of 2P reserves

With 571.1 million of 2P reserves and production of more than 16 million barrels of oil equivalent per year, we provide a unique combination of significant production and reserve upside along with strong operational cash flow.

Steady levels of production

2014's average daily production was 44,400 boepd, remaining broadly constant with 2013 levels.

1 Cash on the balance sheet is defined as cash and cash equivalents including current and non-current investments.

World-class assets

We have four licence areas all located in the pre-Caspian Basin, to the north-west of Uralsk. Nostrum's current producing asset is the Chinarevskoye field and the three additional licences are all located within 60-120km of the field.

Strong governance and responsibility

We are committed to achieving the highest possible standard of corporate governance and social responsibility and are aiming for a positive and lasting contribution to the areas in which we operate, with a focus on delivering shareholder value for a sustainable future.

Experienced management team

We are confident in the ability of our experienced and dedicated management team, who are used to operating in Kazakhstan, to deliver on our clear strategy.

Simple business case, successful model and sustainable strategy

We have a clear strategy, based on a solid foundation and compelling business case. We will deliver near term production growth, with preparations to double production capacity by the end of 2016 well underway.

In addition, with our continued appraisal of the existing Chinarevskoye field and our three additional licences, we are continually transferring reserves to the 1P category, aiming for 700m boe of proved reserves. This will allow us to maintain production above 100,000 boepd up until the end of the Chinarevskoye licence (2031-2033).

We are also constantly looking at areas to make additional acquisitions that would further expand the reserve base. These would be both within reach of our existing infrastructure as well as further afield in Kazakhstan.

Where we operate
Advantageous location of assets

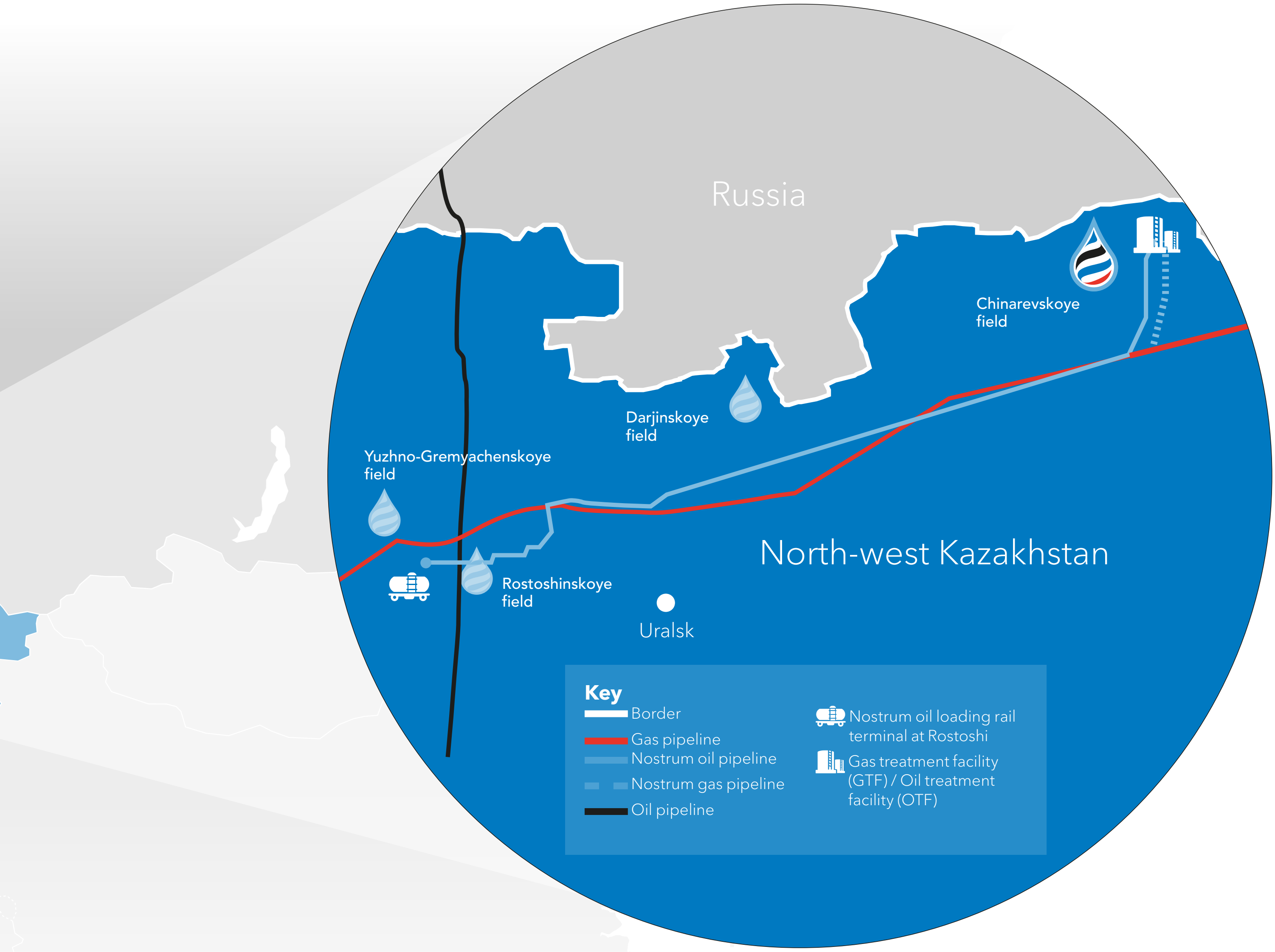
Our main operational facilities are located at the 274 square kilometre Chinarevskoye field in north-west Kazakhstan. We now have three additional licenses, all within a 120km radius of this location. This advantageous location is core to our business case, allowing us to leverage our existing infrastructure and operating and development teams.

Transportation dynamics and routes

Crude
Crude oil is transported through our own liquids pipeline directly from the field site. 15% is sold domestically and the remainder is sold through our rail terminal to various destinations in Finland and through the Black Sea ports.

Condensate
Condensate is transported through our own liquids pipeline from the field site and then 100% is exported by rail to the Russian Black Sea Port of Taman. We have a long term off-take agreement with Trafigura for our condensate in place until 2016.

LPG
LPG is transported on trucks from the field site to our rail terminal where it is loaded on to special trains and then transported to the off-taker. The majority of our LPG is sold at Black Sea ports and distributed by traders to Eastern Europe and Turkey.



Dry gas

Dry gas is transported along our own 17km pipeline, which connects to the Central Asia gas pipeline – the gas is sold domestically at this connection point.

Expanding for the future

With the preparatory work to double production capacity firmly underway, all of the related infrastructure, upon completion of GTU3, will accommodate the potential increased levels of production.

This will again further improve our efficiencies and effective use of existing infrastructure. Transportation routes and destinations are currently expected to remain unchanged.

As a company, Nostrum is continually evaluating the destinations to which we sell in order to achieve the best possible netbacks for the Company.

Key performance indicators
A successful year

Financial KPIs

2014 saw continued cash flow generation from our processing facilities along with significant further investments in our next growth phase. Despite a challenging oil price environment, at the end of the year Nostrum has ensured it is fully financed to continue with its process facility expansion by the end of 2016.

Revenue

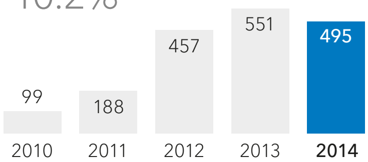
US$782m

-12.6%

EBITDA

US$495m

-10.2%



EPS

US$0.79

-33.6%

Net income

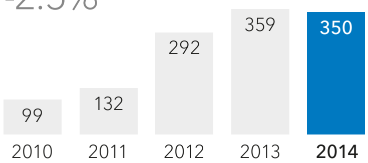
US$146m

-33.6%

Operating cash flow

US$350m

-2.5%



Opex per barrel

US$5.0

-12.3%

The main contributing factor to the variance between forecast and actual results was the drop in the oil price by 47.5% during 2014.

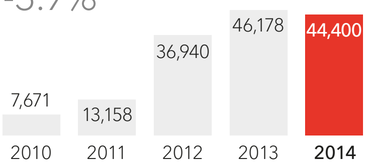
Non-financial KPIs

Nostrum's strategic goals are spread across both financial performance and also operational and social indicators. We believe that a focus across all these areas is necessary to ensure the Company's success in the longer term. Thus, we set ourselves non-financial KPIs to ensure that we maintain our focus in these areas.

Production

44,400 boepd

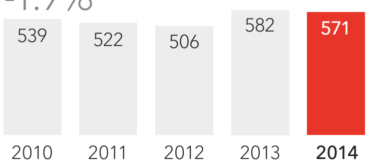
-3.9%



2P reserves

571m boe

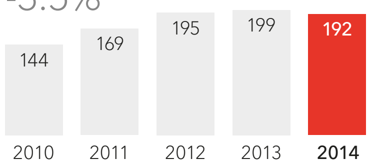
-1.9%



Proven reserves

192m boe

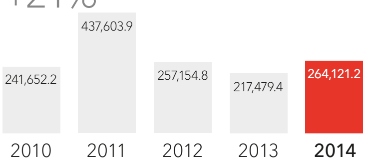
-3.5%



Total GHG emissions

264,121.2 $mtCO_2e$

+21%



2014 milestones

Principal developments in the reporting period

Strategic

February

US$400 million Eurobond – successfully issued in February with a five-year maturity at a fixed coupon of 6.375% per annum with a call option after 3 years.

March

Hedging – equating to production of 7,500 barrels of oil per day. This was put in place with a zero cost capped collar with a floor price of US$85. There were no upfront costs to the Company and the option has a two-year maturity, settled annually.

June

Admission to the Main Board of The London Stock Exchange – the ordinary share capital of the Company (188,182,958 shares), was admitted to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange plc's main market for listed securities under the ticker NOG.

August

Changes to the Board composition – Mr Mark Martin, INED, was appointed Chairman of the Remuneration Committee; Sir Christopher Codrington, INED, was appointed Chairman of the Nomination and Governance Committee; Mr Eike von der Linden, SINED, to continue to serve as a member of the Remuneration Committee and the Nomination and Governance Committee, and as Chairman of the Audit Committee.

September

FTSE 250 admission – Nostrum was notified by the FTSE Group that it would be joining the FTSE 250 Index from 22 September.

Financial

February

US$400 million Eurobond – successfully issued in February with a five-year maturity at a fixed coupon of 6.375% per annum with a call option after 3 years.

March

Hedging – equating to production of 7,500 barrels of oil per day. This was put in place with a zero cost capped collar with a floor price of US$85. There was no upfront costs to the Company and the option has a two-year maturity, settled annually.

April

Redemption of 2015 bonds – Nostrum exercised its right of optional redemption of its outstanding US$92,505,000 10.5% Senior Notes, which were due in 2015. The redemption price was 105.25 plus accrued and unpaid interest.

May

Distribution of US$0.35 per common unit – made by the Partnership to holders of common units representing limited partnership interests. This was paid on 6 June.

Operational

July

KSS as contractor – a contract was entered into with JSC "OGCC KazStroyService" for the construction of the third unit of the Group's gas treatment facility for a consideration of US$150 million.

September

Annual shutdown of GTU 1 & 2 – the semi-annual planned shutdown for maintenance was completed within nine days.

December

GTU3 – remains fully funded and on time and on budget for completion during 2016 at a cost of no more than US$500 million.

Other

Producing wells – 18 oil wells and 16 gas condensate wells were producing at the Chinarevskoye field, with four drilling rigs and one work-over rig in operation at the Chinarevskoye field.

Eight wells were drilled – at Chinarevskoye during the 12 months to end-2014.

Key historical developments
Successful development

First phase of development

2004-2013

Total capex: US$1.5 billion

2004 | 2008 | 2010 | 2011 | 2012 | 2013

2004
Zhaikmunai LLP is acquired

2008
120km crude oil and stabilised condensate pipeline completed (between the Chinarevskoye field and the rail terminal, near Uralsk)

2008
US$100 million IPO at $10 per GDR and US$550 million borrowing-based facility in place

2008
Production of
5,095
bopd

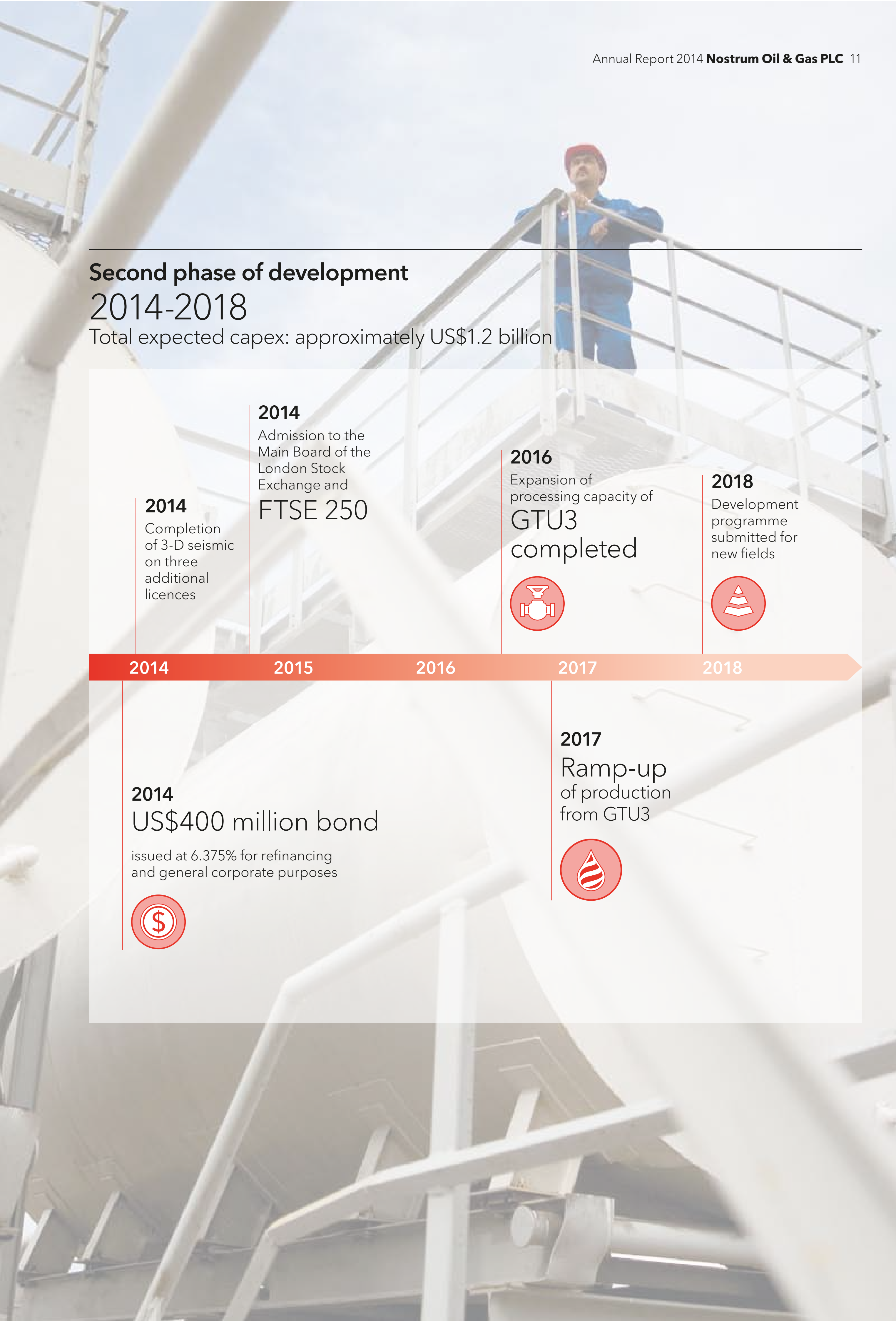
2010
US$450 million bond raised at 10.5%

2011
17km dry gas pipeline completed

2011
Gas treatment facility completed

2012
US$560 million bond
issued at 7.125% to refinance part of bond debt and for general corporate purposes

2013
Annual average production of
46,178
boepd



Second phase of development

2014-2018

Total expected capex: approximately US$1.2 billion

2014
Completion of 3-D seismic on three additional licences

2014
Admission to the Main Board of the London Stock Exchange and
FTSE 250

2016
Expansion of processing capacity of
GTU3 completed

2018
Development programme submitted for new fields

2014 2015 2016 2017 2018

2014
US$400 million bond
issued at 6.375% for refinancing and general corporate purposes

2017
Ramp-up
of production from GTU3

Chairman's statement
Delivering continued growth

"Nostrum's growth and success centres around the quality and commitment of our people."

Our vision

Nostrum's vision is to grow production to over 100,000 boepd and to build a reserve base that allows the Company to continue to produce at this level far into the future. Our vision of achieving production of 100,000 boepd from our existing field in north-west Kazakhstan is now only a few years away. As a result, we are also looking to further build Nostrum's reserve base, not only with reserves to prolong the plateau production of 100,000 boepd, but also to increase this through acquisitions outside of our current production hub. Our vision is to become one of the leading independent E&P companies in the FSU.

Nostrum intends to realise its vision through a clearly defined strategy, balancing organic development with opportunistic expansion through acquisitions. Its main priority remains, as always, to continue to deliver growth and shareholder value in a responsible and efficient way.

Our ambition and strong financial position

Nostrum continued to perform well in 2014 despite the year ending with a challenging oil price environment. We consistently delivered production of approximately 45,000 boepd and started the appraisal programme on our three additional fields. Whilst the financial performance of the Company was not as strong as in 2013, as a result of a falling oil price during the second half of the year, we were still able to end the year with over US$400 million of cash and cash equivalents on our balance sheet. The combination of the US$400m bond we placed in early 2014 and the hedge we put in place from February 2014 means that we are well positioned to be able to sustain a period of prolonged low oil prices and still deliver on our strategy. Thus, our ambitions to build the leading CIS independent E&P company remain as strong as ever. We completed our Premium Listing on the London Stock exchange during 2014 and we are now a member of the FTSE 250 which further demonstrates the ambition we have to achieve the highest standards in everything we do. I believe the current environment can provide opportunities, rather than limitations, for Nostrum.

Solid financial performance

Nostrum's financial performance was steady as production levels remained broadly similar to 2013. We started more meaningful investment into the second gas treatment facility and raised additional financing in early 2014 to ensure that we were fully financed for this phase of infrastructure building. At the same time we implemented our hedging programme to cover all non-scalable capex for 2014 and 2015. We continue to manage our cash position prudently. We take into account, first and foremost, the liquidity position of the Company. Secondly, we ensure that use of excess cash is carefully considered before deploying it, and that we are maximising shareholder returns with each investment we make. Despite the falling oil price, 2014 was a good year financially and net income for the year was US$146.4 million. I believe we have struck the right balance between reinvesting in future growth and returning cash to our shareholders in the current environment.

I am pleased that the Board is proposing a final dividend for 2014 of US$0.27 per Ordinary Share, subject to shareholder approval at the AGM.

Stable production levels

The financial performance of the Company was built on another strong year of operational results. Production of 44,400 boepd was extremely close to our target of 45,000 boepd and Nostrum is now enjoying a period of sustained production at levels around 45,000 boepd. This steady production and associated cash flow continues to allow Nostrum to invest in further infrastructure to double our production capacity by the end of 2016 without the need to raise more capital. In addition to this organic growth, the cash flows Nostrum generates allows the Company to grow reserves and extend production through its recently established M&A strategy.

Multi-field asset base established
Nostrum has started the appraisal programme on the three additional licences acquired in 2013. We have adopted the same approach with our additional fields that we undertook with Chinarevskoye to fully understand the geology and de-risk the development programme as much as possible. We have carried out new 3-D seismic on each field and have now interpreted it, allowing us to have a much better understanding of where to position our first appraisal wells. We plan to start drilling an appraisal well in the largest field, Rostochinskoye, in 2015. We look forward to developing these fields and to bringing them into production to utilise our infrastructure development.

Governance and the Board
The Board understands the importance of providing effective and clear leadership and direction on all matters relating to corporate governance and places great significance on achieving high standards of governance to underpin the Group's good business conduct and strong ethical culture. With this in mind I am very pleased with how the Company has handled the increased regulatory obligations imposed as a result of the Company's admission to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange plc's main market for listed securities in June 2014. I believe the Company handled this transition very well. During 2015 the Board will continue to work closely with management to maintain good standards of corporate governance and to ensure the Company's continued compliance with the rules imposed by the Financial Conduct Authority and associated guidance under the UK Corporate Governance Code.

Our commitment to corporate responsibility
At Nostrum we strive to be a responsible and transparent business. Our Corporate Responsibility approach covers the relationships we have with all our stakeholders including shareholders, employees, contractors, local communities and host government as well as the environments in which we work. Nostrum's strategy on Corporate Responsibility focuses around three key areas – people, planet, and profit – and includes the following initiatives:

- Nostrum has made it a priority to communicate its approach to its various stakeholders, emphasising its stringent corporate governance provisions and business ethics;
- Nostrum monitors and reports on the well-being of its employees, health and safety measures, working environment specifics and overall benefits. Nostrum also reports on its direct involvement in the community through programmes providing social infrastructure, sponsoring activities and charitable work; and
- Nostrum manages its environmental footprint carefully and adheres fully to relevant legislation. The Company is also proactive in liking its environmental objectives to the highest possible standards and ensuring stringent compliance and progress monitoring.

In 2014, we believe Nostrum's actions have deemed to have a positive impact on its wide range of stakeholders, including investors, business partners, regulators, employees, customers, local communities, the environment and society more generally.

Our people
We are entering a changing environment in relation to recruitment, as a falling oil price will inevitably lead to the scaling back of costs in the industry. Nostrum's growth and success revolves around the quality and commitment of our people and we believe we have an excellent team that can deliver our strategy even with a lower oil price. We continued to grow our team during 2014 with a 6% increase in Kazakhstan. Our total global workforce now counts more than 1,000 people. We remain committed to developing local content and employed 98% local nationals in Kazakhstan as at the end of 2014. We will continue to develop our employment practices and policies to ensure we can attract and retain the best talent. At the same time we will continue to monitor our cost base and ensure we do not carry unnecessary excess costs into 2015.

The future
2014 was a solid year for the Company. For most of the year we had a strong oil price environment, however this rapidly changed in the fourth quarter and we need to be prudent as we enter 2015 to ensure we are ready for a sustained period of low oil prices. In 2015 our main focus is ensuring the timely completion of GTU3 in 2016 and building the feedstock to allow us to double production. We enter this next investment phase with a very solid cash position, low levels of leverage and healthy margins in place. We believe we have the platform to execute our strategic initiatives which gives me confidence in our prospects for 2015 and beyond.

Frank Monstrey
Chairman

Chief Executive's review
Maintaining steady production

"During 2014 we have made significant steps towards the construction of our next gas treatment unit."

How we performed in 2014

2014 was another strong year from an operational perspective. It saw the gas treatment facility continue to operate at full capacity with a complete range of hydrocarbon products being delivered to various destinations outside Kazakhstan. Nostrum is now deep into its second development phase, which will entail the engineering, planning, procurement, construction and commissioning of a new gas plant as well as a scalable drilling programme spanning the next 4-5 years.

Our performance against our four key objectives for the Company in 2014 was as follows:

1. Ensure construction of the next gas plant remained on track for 2016

- Significant steps have been made in the construction of our next GTU, which will allow us to double our production capacity by the end of 2016. We have spent over US$150 million and expect the total cost to be below US$500 million.

2. Continue to grow our Proven reserve base through appraisal of Chinarevskoye and our three new fields

- Our Proven reserves remained stable as we replaced over 60% of our production since August 2013. Whilst the oil price environment is extremely different from the end of 2013 our strategy remains unchanged. We have made some reductions to our drilling programme but aim to fill the GTU3 by the end of 2017, as to reach a combined, together with GTU1 and 2, production of 100,000 boepd. We are well positioned to withstand the low oil price environment as we have a healthy cash balance and low costs of production. I am very excited about the future of our current asset base as well as the potential we have for further expansion over the coming years.

3. Establish a dedicated business development team

- We established a dedicated business development team to ensure we can quickly and accurately evaluate the opportunities in the region.

4. Ensure that the financial position of the Company remains stable

- The financial position of the Company remains stable despite the challenging oil price environment.

Steady production levels

The Chinarevskoye field is now in full production with both the Oil Treatment Facility (OTF) and the Gas Treatment Facility (GTF) being operated at their nameplate capacities. Nostrum expects a daily total production average of at least 45,000 boepd for 2015 and 2016. All products – crude oil, stabilised condensate, LPG and dry gas – are sold at the best possible prices on the world markets, and our operations are running at optimal levels. We remain on target to meet our objective of doubling capacity by the end of 2016.

Future drilling programme at Chinarevskoye

In 2014, we drilled eight wells and are fortunate to have a scalable drilling programme in front of us. Our ability to quickly scale drilling up or down allows us to react to the current oil price environment smoothly and without jeopardising our non-scalable capex. We are required to complete six wells in 2015 to maintain production at current levels which is comfortably achievable. We are able to maintain production at around 45,000 boepd and complete the GTU3 at substantially lower oil prices than today. Any increase in the oil price above these levels allows us to drill more wells for the purpose of filling the GTU3 and to appraise the new fields.

Construction of second gas plant

During 2014 we have made significant steps towards the construction of our next gas plant. The rationale behind the plant is that it will allow faster monetisation of reserves, by increasing treatment capacity by an additional 2.5 bcm of raw gas per year, bringing total capacity to 4.2 bcm of raw gas per annum. Over US$150 million has already been invested in the plant and contracts relating to over US$300 million in total for procurement and construction have been entered into. We remain on track to deliver the plant on time and on budget in the second half of 2016.

Building up further reserves beyond the Chinarevskoye field

In addition to proving up reserves at Chinarevskoye Nostrum's development plan also focuses on sustaining its long term production beyond the Chinarevskoye field alone. This target is the basis on which Nostrum's mergers & acquisitions strategy is formed. This is exemplified by the 2013 acquisition of the subsoil use rights related to three adjacent oil and gas fields, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye, in the near vicinity of the Chinarevskoye field. Based on Ryder Scott's analysis these fields could add up to 98m of 2P reserves. Nostrum looks forward to drilling its first well in Rostoshinskoye during 2015.

By virtue of its size, development stage and production track record, Nostrum has acquired high visibility both locally and internationally. As a result it regularly monitors further M&A opportunities and its approach is to remain both pragmatic and prudent as it considers these options. Nostrum's main focus remains on north-west Kazakhstan, where it knows the landscape and is already operating successfully. However we will also consider opportunities outside of North Western Kazakhstan where we see the potential to create further shareholder value.

Key priority tasks for 2015

In 2015 there are three key objectives for the Company in order to continue to deliver on our strategy.

1. Ensure that the financial position of the Company remains stable.
2. Ensure construction of the next gas plant remains on track for 2016.
3. Optimise the drilling programme to ensure that we can fill the GTU3 as quickly as possible whilst not jeopardising the Company's financial position.

I believe that these objectives, if successfully achieved, will provide the platform to significantly enhance shareholder value. We have demonstrated in the past that we can deliver on all these objectives and I am therefore confident as we enter 2015 that we are well positioned to achieve our goals. I believe we are well positioned to successfully execute the next phase of infrastructure whilst also ensuring the reserve base is not only maintained but added to over the coming years.

Kai-Uwe Kessel
Chief Executive Officer

Market overview
The oil and gas market in Kazakhstan[1]

Kazakhstan is a vast country, the size of western Europe. Its substantial reserves of natural resources ensure its enormous economic potential.

(1) This information has, unless otherwise stated, been extracted from documents, websites and other publications released by the President of Kazakhstan, the Statistics Agency of Kazakhstan, the Ministry of Finance of Kazakhstan, the Competent Authority and other public sources.

Some of the market and competitive position data has been obtained from US government publications and other third-party sources, including publicly available data from the World Bank, the Economist Intelligence Unit, the annual BP Statistical Review of World Energy for 2013, as well as from Kazakh press reports and publications, and edicts and resolutions of the Kazakh government. In the case of statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

Certain sources are only updated periodically. This means that certain data for current periods cannot be obtained and we cannot assure you that such data has not been revised or will not be subsequently amended.

Overview – The larger Caspian Region

To date, Kazakhstan and Azerbaijan are the two significant crude oil producing countries in the Caspian region. It is expected that these countries will continue to lead the region in crude oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields. Turkmenistan and Uzbekistan are the predominant gas producers in the region. Russia plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea, however this part of Russia is not a source of substantial crude.

Oil price outlook

The oil price decline has changed our short-term view on oil prices. We believe that the new forward curve is the best benchmark for estimating short-term oil prices and therefore see the short-term oil price around US$60 per barrel.

In the longer term, we also believe that the forward curves reflect our view of the market as they show the longer-term price of oil increasing from US$60 per barrel to above US$70 per barrel. Our internal assumption for long-term oil remains unchanged with a view that it will average at least US$85 over the long term.

Economic growth and investment in Kazakhstan's oil and gas industry

Since 2000, Kazakhstan has experienced significant economic growth mainly through economic reform and foreign investment. Exports of crude oil have grown significantly and, due to Kazakhstan being landlocked, most of the oil from Kazakhstan is currently delivered to international markets using pipelines, which run through Russia, to shipping points on the Black Sea.

International investment into the Kazakh oil and gas sector has largely taken the form of joint ventures, including cooperation with the state-owned oil and gas company NC KazMunayGas JSC ("NC KMG"), as well as production sharing agreements and direct grants of exploration/production rights to subsoil users. Major projects in Kazakhstan include the Tengiz, Karachaganak and Kashagan fields.

Oil supply and demand

According to BP's Statistical Review of World Energy 2014, as at 31 December 2014, Kazakhstan ranked 12th in the world by oil reserves and 20th in the world by gas reserves. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet Republics and has the Caspian region's largest recoverable oil reserves. Kazakhstan's proved oil and gas reserves were 3.9 billion tonnes and 1.5 trillion cubic metres respectively, as at 31 December 2013.

The Kazakh government has stated that it expects oil and gas production to increase to 150 million tonnes per year and 79.4 billion cubic metres per year in 2015. Most of this growth is expected to come from the Tengiz, Karachaganak and Kashagan fields.

There are three major refineries in Kazakhstan supplying the northern region (at Pavlodar), the western region (at Atyrau) and the southern region (at Shymkent). All three major refineries are either under the control or joint control of NC KMG.

Market overview continued
The oil and gas market in Kazakhstan

Gas supply and demand

Increases in Kazakhstan's gas production are expected to come primarily from associated gas at the Tengiz, Karachaganak and Kashagan fields. Most of Kazakhstan's gas reserves are located in the west of the country and over half are located in the Karachaganak field.

Gas production has increased significantly since 2004 when the Parliament passed a law prohibiting the industrial production of oil and gas deposits without the utilisation of natural and associated gas.

Transportation

An important aspect of increasing hydrocarbon production in Kazakhstan has been the development of transportation infrastructure, as this in turn has raised Kazakhstan's export capacity.

Crude oil

Currently over 7,920km of Kazakhstan's 20,238km of pipeline are used in oil transportation. The three main pipelines are the Uzen-Atyrau-Samara ("UAS") pipeline, CPC pipeline, and the Kazakhstan-China pipeline.

Other pipeline routes from Kazakhstan are being considered, such as routes through the Caucasus region to Turkey and routes through Iran and Afghanistan.

Natural gas

Most of the gas pipelines in western Kazakhstan, with the exception of Makat-Atyrau-Astrakhan, are designed to provide gas to CAC. The pipeline has two branches that meet in the south-western Kazakh city of Beyneu before crossing into Russia and connecting with the Russian pipeline system.

The construction of the Beineu-Bozoi-Shymkent gas pipeline designed to transport gas from west Kazakhstan for use in the southern regions of Kazakhstan and export to China, started in 2010.

The Bukhara Urals gas pipeline was initially built to supply gas from Uzbekistan to north-east Kazakhstan and Russia's south-east Ural's region.

Bukhara-Tashkent-Bishkek-Almaty is a transit pipeline that provides gas from Uzbekistan to Kazakhstan's main southern population centre.

Regulation in Kazakhstan

Regulation of the oil and gas sector can be divided into three broad areas:

- Regulation in relation to subsoil use rights
- Regulation in relation to environmental, health and safety matters
- Anti-monopoly regulation

Macro economic and micro economic changes during 2014

Macro economic and micro economic changes that occurred in the reporting period and their impact on results:

- Export duties have remained at US$80 per tonne of crude oil from 11 March, 2014
- The devaluation of the Tenge against the US Dollar and other major currencies in February 2014 affected the Company in two ways. The Company recognised a foreign exchange loss as the Group had a net asset position of Tenge denominated accounts around this date, and also an increase in deferred tax expenses due to a significant decrease in the tax base for property, plant and equipment, which is denominated in Tenge.

Major oil and gas projects in Kazakhstan

TCO

The TCO joint venture was created in 1993 with the aim of developing the Tengiz and Korolev fields that have estimated recoverable reserves of between 5.5 billion barrels and 8.1 billion barrels of oil. The participants in the joint venture are Chevron Overseas Company, ExxonMobil, NC KMG and LukArco.

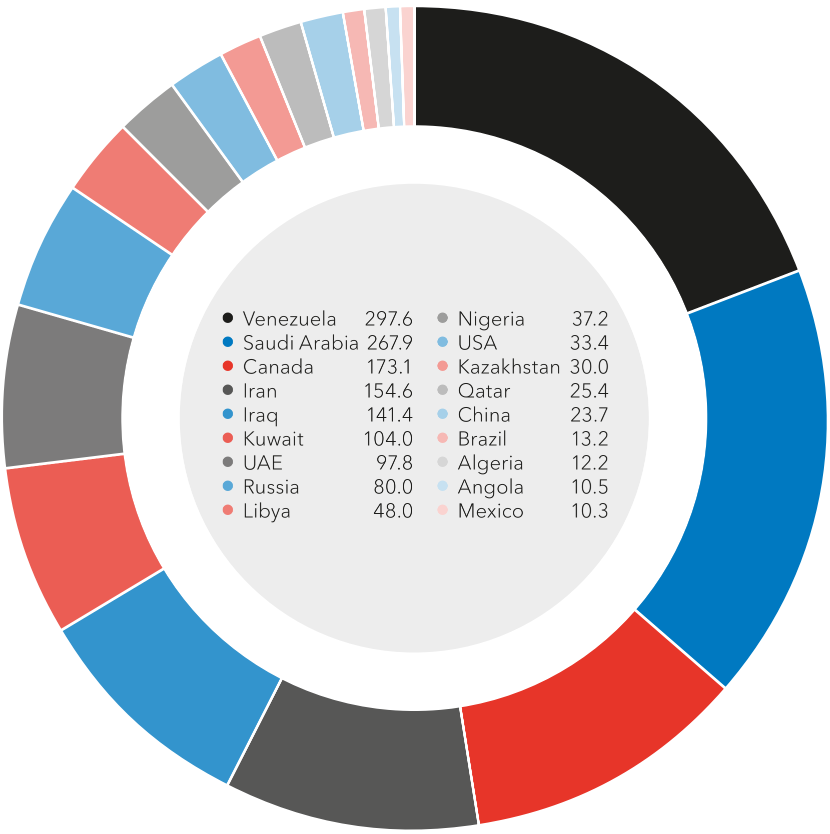
Karachaganak Project

The Karachaganak field is a 280 square kilometre gas condensate field located in north-west Kazakhstan which was discovered in 1979. BG Group and ENI are joint operators and each hold a 29.25% interest in the venture. The Karachaganak field is Kazakhstan's main gas field, holding an estimated 9 billion barrels of gas condensate and 48 trillion cubic feet of gas.

North Caspian Project

The Kashagan field is located off the northern shore of the Caspian Sea, near to the city of Atyrau. In 1997, a consortium of companies signed a 40-year production sharing agreement covering five structures. The structures consist of 11 offshore blocks over an area of 5,600 square kilometres. The North Caspian Operating Company (NCOC), a consortium that includes ENI SPA, ExxonMobil Corporation, Shell, Total S.A., INPEX Corporation and NC KMG, owns the project.

Proven reserves
(billion barrels)



Source: EIA May 2013

Benchmarking of our business against peers

Strengths

- Advantageous location gives access to multiple transportation routes
- Investment in infrastructure gives the Company complete control of its liquids transportation
- Investment in gas plant allows Nostrum to produce raw gas in north-west Kazakhstan where there is a shortage of processing capacity
- High-quality light sweet crude and condensate

Weaknesses

- Nostrum is subject to fluctuations in the market prices for its products, however we do have hedges in place
- Geological risks are unavoidable in the oil and gas business
- The harsh operating environment means temperatures fluctuate significantly between summer and winter
- Lack of significant population reduces size of skilled workforce

Our business model

A simple, sustainable and successful business model

Our track record of successfully building and financing large infrastructure while developing reserves into commercial production puts us in a unique position.

With our management team's outstanding technical and regional expertise in both oil and gas we can use this platform to deliver future growth to our shareholders.

World-class assets

Over ½ billion boe 2P reserves

A strong and growing reserve base in north-west Kazakhstan

State-of-the-art infrastructure

Highest standards of corporate governance

Experienced team

Outstanding technical and regional expertise

Social and economic development

Continued financial stability of the Company

Production, development & exploration

Expand processing capacity by the end of 2016

Continue to grow the proven reserve base through the appraisal of Chinarevskoye and the three new fields

Interpreting new 3-D seismic data of the three additional licences

How we run our business is equally important in enabling us to successfully deliver our business plan and map our growth strategy. Protecting our business, sustaining our good reputation, maintaining our entrepreneurial culture and contributing to social and economic development are the cornerstones on which we are building our business.

Fully funded

- Access to debt and equity capital markets
- $1.2 billion investment programme in place
- Excellent financial performance

M&A

- Creating economies of scale through the value chain
- Investing in strategic acquisitions
- Establishing a business development team in the region

Shareholder returns

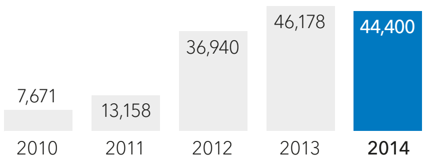
Our strategy
A sustainable strategy for growth

Strategic priorities	Our progress in 2014	KPIs aligned to our strategic objectives

Delivering near term production growth

- Production stable at 44,400 boepd
- Steady production from Chinarevskoye field and consistent performance from existing gas treatment facility

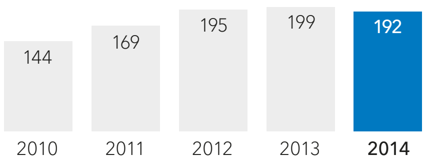
Production (boepd)



Appraising and developing near term projects

- Continued to grow proven reserve base through appraisal of Chinarevskoye and three new fields
- Eight wells drilled during 2014, including two appraisal wells

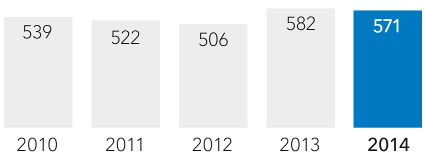
Proven reserves (mboe)



Exploration upside through M&A

- Established a dedicated business development team
- Cash flow allows the Group to look for compelling acquisitions

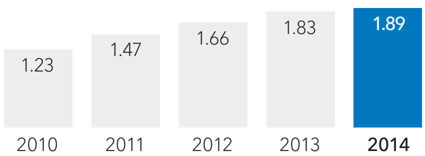
2P reserves (mboe)



Linking corporate responsibility to the growth of the Company

- Increased presence in local communities, and reported on well-being of employees and working environment
- Benefits to all stakeholders through creation of economic growth

Number of man-hours without loss of working hours (millions)



Focusing on delivering shareholder value

- Declared dividend of US$0.35 per common unit in 2014, recognising the business's growth and cash generation

Distributions per common unit US$

Underpinned by the strength of our business model

Risks associated with our strategy	Development plans for 2015-2017
• GTU3 development project is subject to risks related to delay, non-completion and cost overruns	• Expansion plan for GTU3 on track for completion by the end of 2016, allowing the Group to double its production capacity
• Inaccurate assessments or unsuccessful exploration of the new fields could result in the overstatement of the Group's oil and gas reserves	• Further appraisal wells are scheduled to be drilled during 2015 in the Chinarevskoye and Rostoshinskoye fields
• Future earnings may be adversely impacted by changes in the market price of crude oil	• Opportunities for acquisitive growth will be evaluated on an ongoing and opportunistic basis
• Legal framework for environmental protection and operational safety still being developed in Kazakhstan	• Focus on expanding QHSE policy to include initiatives that go beyond day-to-day activities, such as contractor HSE management and environmental reporting
• The Group's activities in the Chinarevskoye field are currently the Group's sole source of revenue	• The Group aims to strike a balance between reinvesting in future growth and returning cash to our shareholders • The dividend policy will be progressively reviewed by the Board of Directors in line with the achievement of the Group's strategic milestones

Strategic objective

To become the leading independent oil and gas company in the FSU.

Performance review
Building a world-class portfolio of assets

Performance review continued
Building a world-class portfolio of assets

Chinarevskoye field

Stable business environment

Exploration and production licence
We were granted an exploration and production licence for the Chinarevskoye field in May 1997, which was extended in 2008, to 2033, for all oil- and gas-bearing reservoirs and horizons covering 185 square kilometres of the licence area. The licence for the north-eastern Tournaisian reservoir is valid until 2031.

Production Sharing Agreement (PSA)
Nostrum operates under a grandfathered PSA with the Government of Kazakhstan, which sets the parameters for the exploration and development of the Chinarevskoye field, and the respective royalties, profit share and tax liabilities payable to the government.

Outlook
The licence and the PSA are currently valid until 2031 (with respect to the north-eastern Tournaisian reservoir) and 2033 (for the rest of the Chinarevskoye field), and we must comply with the terms of the exploration permit, the production permit and the development plans during this period. To date, Nostrum has met all of its capital investment obligations under the PSA.

Geology, reserves and drilling

Geology
The Chinarevskoye field is a multi-layer structure with ten reservoirs and 44 compartments spread over three areas: the western area contains 16 compartments; the northern area has 24 compartments and the southern area has four compartments. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian, Famennian, Mulinski, Ardatovski, and Biski-Afoninsk reservoirs.

Reserves
Based on the Ryder Scott report, dated 31 December 2014, the proved and probable reserves for the Chinarevskoye field amount to 473 mmboe. Proven reserves amount to 192.2 mmboe and probable reserves to 280.7 mmboe.

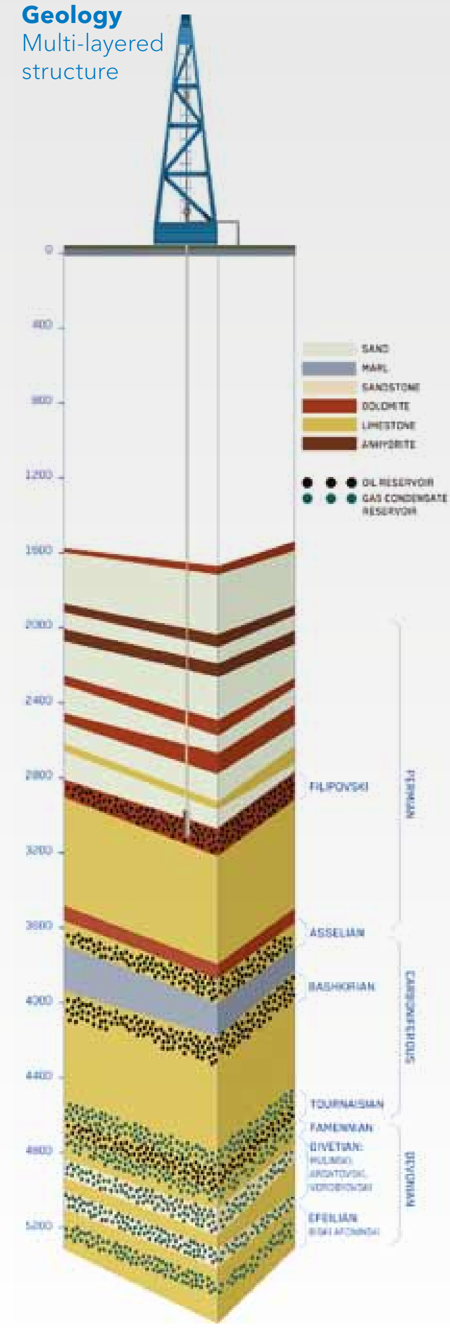
Oil and condensate amount to 197.6 mmbl of proven and probable reserves, LPG to 68.3 mmbl and gas to 207 mmboe.

Drilling
Hydrocarbons were first discovered in the Chinarevskoye reservoirs during the drilling of nine wells in the Soviet era. Between 2004-2014, 69 wells and side-tracks have been drilled under the PSA.

Our drilling target in 2014 was 10-12 wells and side-tracks. This was not met due to the declining oil price during the second half of the year with eight wells drilled in total.

During 2015, we plan to complete a total of eight wells in line with our strategy to move more reserves from the Probable to Proven category.

Geology
Multi-layered structure



On-site facilities

Location

All our facilities are close to major international railway lines, as well as several major oil and gas pipelines. This advantageous location provides access to flexible transportation links for the off-takers of our products. Our on-site facilities have grown substantially, with our second US$1.2 billion capital investment phase currently underway.

Crude oil infrastructure

Our oil infrastructure consists of an oil treatment and gathering facility (OTF), capable of processing 400,000 tonnes of crude oil per year; a 120-kilometre oil pipeline; oil gathering and transportation lines; an oil-loading facility at the rail terminal; oil storage facilities for up to 30,000 cubic metres of oil and railway cars for the associated crude oil and stabilised liquid condensate.

Oil and stabilised condensate pipeline and railway loading terminal

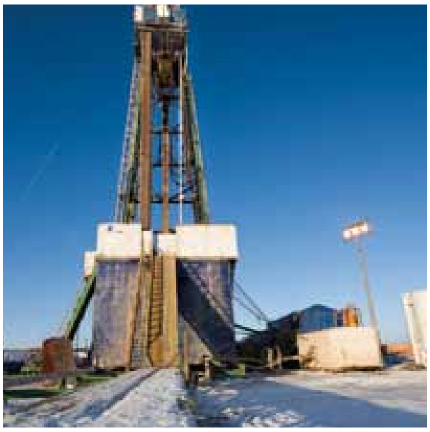
Our 120-kilometre oil pipeline and railway-loading terminal, at Rostoshi near Uralsk, were successfully completed in 2008. Since 2009, our crude oil has been transported via the pipeline from the Chinarevskoye field site to the railway-loading terminal where it is stored and transported by railcar to final off-takers.

Our stabilised liquid condensate is also transported through the same pipeline using a "PIG" system, which separates the crude oil from the stabilised condensate. This protects the product's quality from being reduced as it would in a multi-purpose pipeline and ensures the ability to command higher export prices.

Our oil pipeline has a maximum throughput of 3 million tonnes per year. The rail-loading terminal, which receives the crude oil and condensate, has a capacity of 3-4 million tonnes per year.

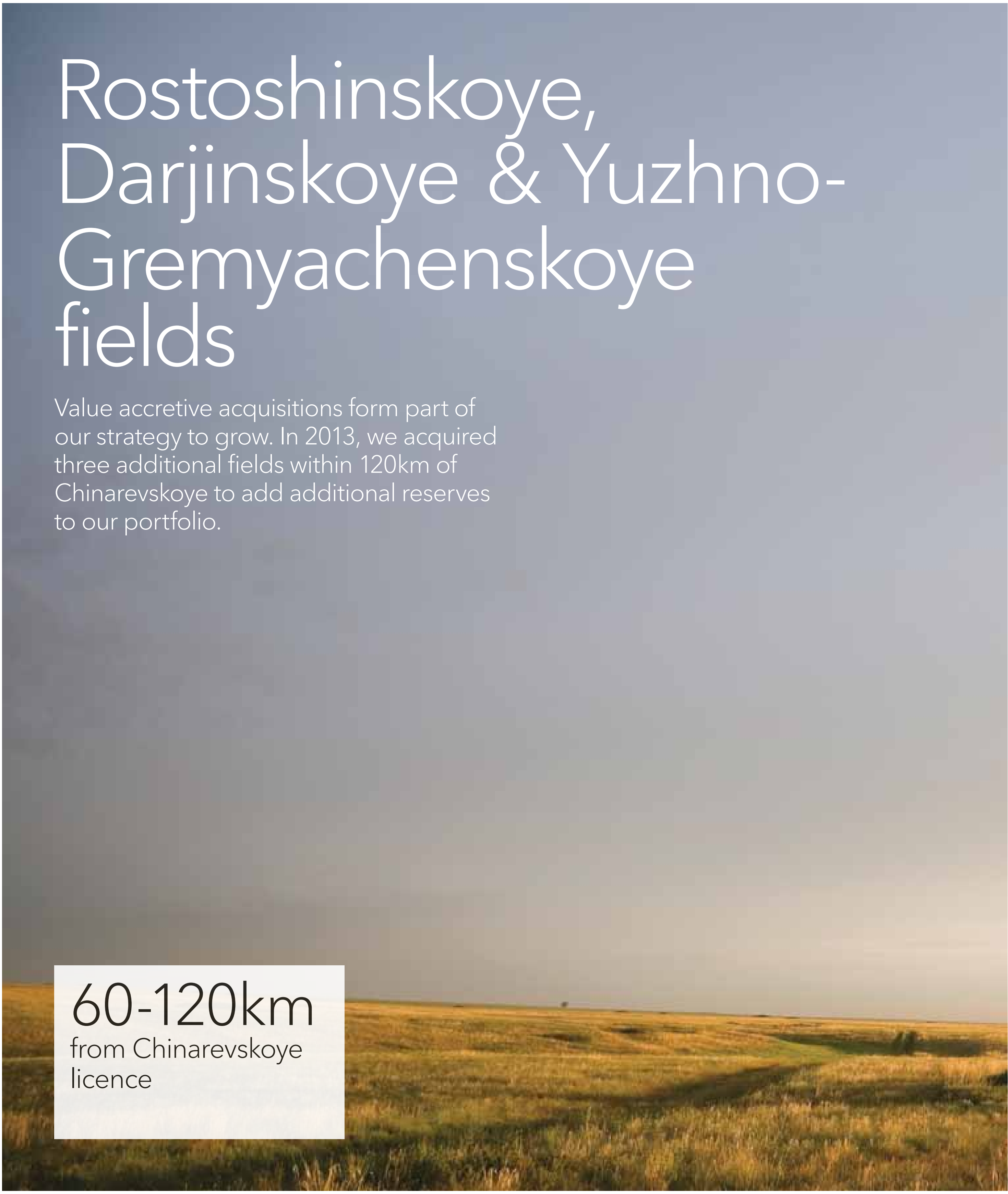
Our infrastructure also includes crude oil storage tanks on site and at the rail terminal; condensate tanks on site and at the terminal and a loading facility at the railway terminal. The loading terminal allows for 32 railcars to be loaded simultaneously. The facility is also equipped with a vapour recovery unit – the first in Kazakhstan's history.

All of our infrastructure has the capacity to accommodate the planned increase in throughput, in line with our strategy to double production.



Performance review continued

Assessing the potential of our adjacent fields



Rostoshinskoye, Darjinskoye & Yuzhno-Gremyachenskoye fields

Value accretive acquisitions form part of our strategy to grow. In 2013, we acquired three additional fields within 120km of Chinarevskoye to add additional reserves to our portfolio.

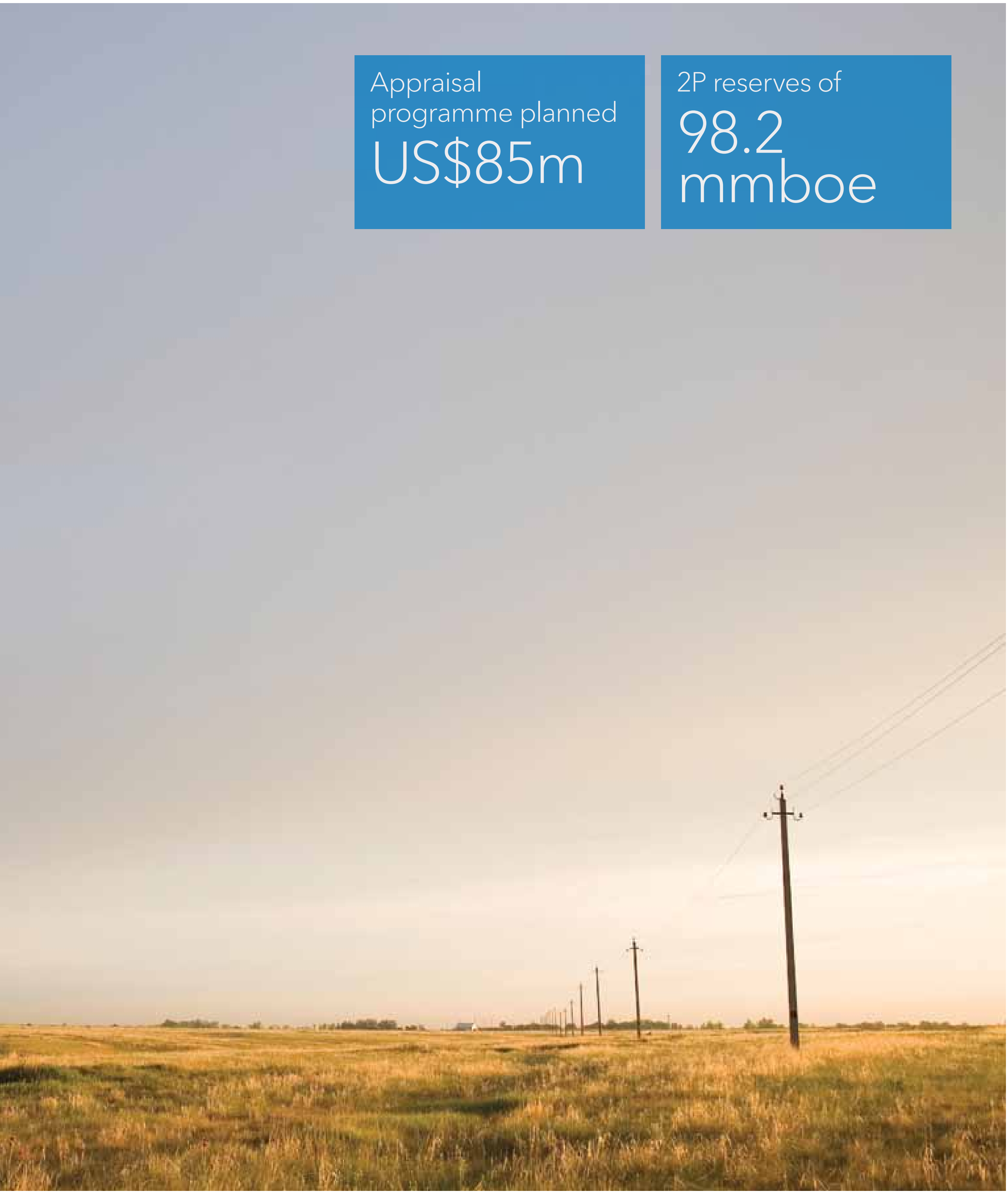
60-120km
from Chinarevskoye licence

Appraisal programme planned

US$85m

2P reserves of

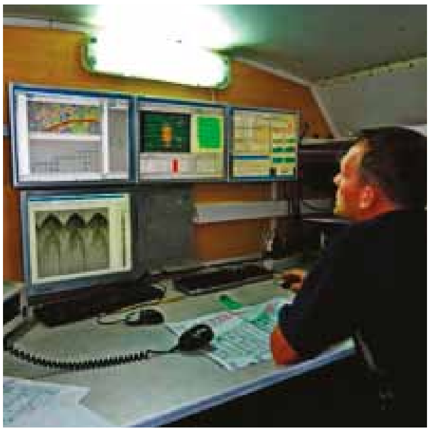
98.2 mmboe



Strategic report
Corporate governance
Financial report
Regulatory information
Additional disclosures

Performance review continued
Assessing the potential of our adjacent fields

Rostoshinskoye, Darjinskoye & Yuzhno-Gremyachenskoye fields



Rostoshinskoye, Darjinskoye & Yuzhno-Gremyachenskoye fields

Subsoil rights acquisition completed
In 2013, Nostrum signed an asset purchase agreement to acquire 100% of the subsoil use rights related to three oil and gas fields in the pre-Caspian Basin to the north-west of Uralsk. The signing of the supplementary agreements by the Ministry of Oil & Gas became effective from 1 March 2013.

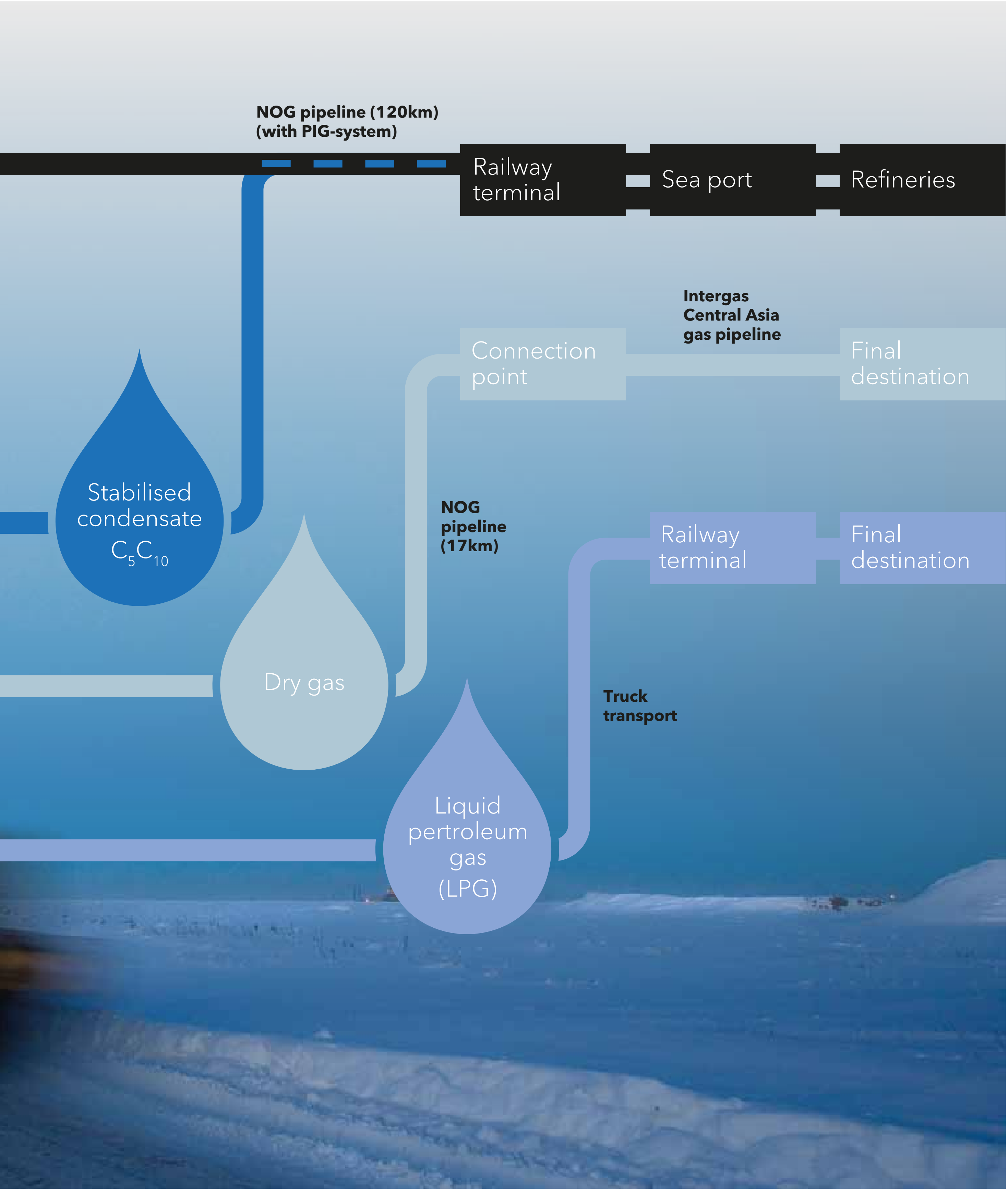
Geology
Exploration activities over the past decades have successfully showed that the three fields contain hydrocarbons suitable for commercial production in several reservoirs of Permo-Carboniferous age. More specifically, the bulk of the hydrocarbons are located in the Bashkirian stage of the Carboniferous. Significant appraisal of the existing accumulations and exploration of deeper intervals is still required prior to their development.

Appraisal programme
The cost of the appraisal programme for the next 2-3 years is expected to be approximately US$85 million. During 2014, we have processed and interpreted the 3-D seismic survey of Rostoshinskoye, and completed the re-processing and re-interpretation of Darjinskoye 3-D and Yuzhno-Gremyachenskoye 3-D seismic surveys. A new reserves report will be prepared after drilling of new appraisal wells. The results of the reserves report will determine the development programme as well as provide greater detail on reservoir size and fluid composition.

Total combined reserves
At Nostrum, we have an outstanding track record of converting reserves. An updated reserve report by Ryder Scott, as at 31 December 2014, has shown 571.1 mmboe of proved and probable reserves for the Chinarevskoye and additional fields.

In line with our strategy, we are continuing to grow the reserve base and successfully increase production further.

Performance review continued
Products and processes


NOG pipeline (120km)
(with PIG-system)
Railway terminal
Sea port
Refineries
Intergas Central Asia gas pipeline
Connection point
Final destination
Stabilised condensate
C_5C_{10}
NOG pipeline (17km)
Railway terminal
Final destination
Dry gas
Truck transport
Liquid pertroleum gas (LPG)

Performance review continued
Products and processes

Products	Quality	Sales	Pricing	Transportation
Crude oil	• Density – 0.815g/cm^3 • 42-43 degrees API • Average sulphur – 0.4% • Superior in quality to other primary benchmark crude oils produced in Kazakhstan	• 85% exported in accordance with the PSA, 15% sold domestically. Destinations include Neste's refinery in Finland	• Brent-based pricing for exports • Domestic sales at 50% discount	• Shipped through our own 120km pipeline from the field site to our own rail terminal in Uralsk, from where it is shipped in railcars to off-takers at various destinations
Stabilised condensate	• Density – 0.750-0.790g/cm^3 • Average sulphur <0.2% • 56 degrees API	• 100% exported 30,000 tonnes per month are sold to Trafigura. Destinations include the Russian Black Sea port of Taman	• Brent-based pricing	• Shipped through the same 120km pipeline to the rail terminal in Uralsk, from where it is shipped in railcars to various destinations
LPG	• Field grade quality. No olefins and low sulphur content	• 85%-100% exported. Destinations include the Russian Black Sea ports	• International Mediterranean LPG price Sonatrach for Black Sea deliveries, or the Brest quotation for Eastern European deliveries	• Shipped in special LPG trucks from the field to the rail terminal in Uralsk. From here it is shipped in railcars to end consumers and traders
Dry gas		• 100% domestic market	• Local supply agreements (negotiated annually with the off-takers in a long term framework agreement)	• Shipped through our own 17km pipeline from the field to the connection point with the Intergas Central Asia gas pipeline, from where it is distributed by the off-taker

Sales and pricing policy

We closely monitor the production, marketing and transportation of our liquids as this makes up the largest proportion of our revenues. We are able to achieve a relatively high netback for our export production due to the transportation of our products through our own infrastructure and the resulting quality guarantees.

The commercial production of dry gas adds significant benefits through the easy off-take of dry gas volumes using straightforward pipeline logistics, the generation of our own power supply, and the partially sponsored supply of dry gas to neighbouring communities.

Marketing

Our sales and marketing department employs experienced traders. The team is constantly working towards negotiating new off-take contracts and identifying efficient transportation options for these new products.

Development of infrastructure

The gas treatment facility 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 3 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.

GTU 1 & 2

This included the construction of two gas treatment units, each with the capacity to treat approximately 850m cubic metres of raw gas. The gas treatment facility is now producing at capacity with an average annual production of 44,400 boepd for 2014.

GTU 3

The third unit of the gas treatment facility will add 2.5 billion cubic metres of processing capacity, bringing the total to 4.2 billion cubic metres and consequently more than doubling production. The third unit of the gas treatment facility is due to be completed during 2016.

Power generation plant

The gas-fired power generation plant is linked to the gas treatment facility with an output of 15 megawatts, and provides the field site with the electricity it requires.

Gas pipeline

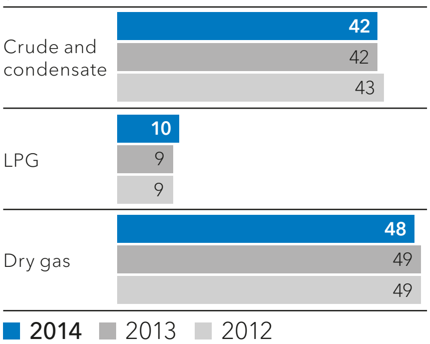
Nostrum has its own 17km gas pipeline which was completed in 2011 and is linked to the Orenburg-Novopskov gas pipeline. The maximum annual throughput of this pipeline is several billion cubic metres.

New field camp facilities

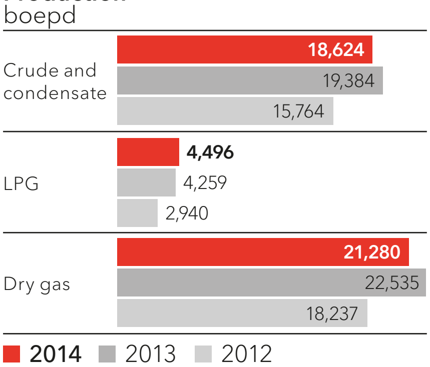
A new employee camp was completed in 2012 at the field site, providing more than 460 beds and modern facilities, as well as a canteen, recreational areas and a health clinic. This ensures comfortable indoor living conditions throughout the year for our field site employees.

Changes in production

Production
%



Production
boepd



The stable production for 2014 shows the facility operating in a steady manner and at full capacity. We expect this to remain unchanged until GTU3 is completed.

Corporate social responsibility
A sustainable business

Our continuing development as a successful and sustainable E&P company, in Kazakhstan, has created economic growth and increased our presence in both the local and regional communities. Our approach to corporate social responsibility (CSR) is based on our commitment to make a positive impact on all our stakeholders through our business activities.

We place public interest at the core of our business decision-making process, and through our operations, the Board and management team have developed a thorough understanding of and strong commitment to Kazakhstan.

The sustainability of our business is made possible through the active management of our people, community and QHSE (Quality, Health, Safety and Environment) programmes, and our specific focus on environmental issues such as greenhouse gas (GHG) emissions.

Total number of training days

8,504

Total workforce growth in Kazakhstan

6%

Social infrastructure investment

US$794,000

Liquidation fund contribution

US$813,403

Sponsorship of activities in social projects and charitable work

US$979,000

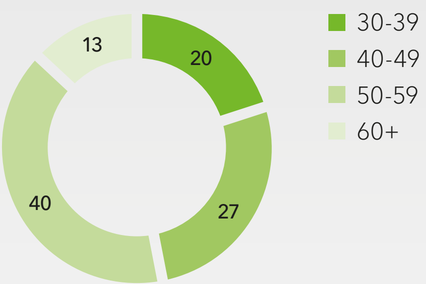
Corporate social responsibility continued
Our people

A diverse management team

Nostrum has a dedicated management team with specialised teams in strategic locations as well as operational personnel in Kazakhstan.

The Nostrum and Zhaikmunai LLP management team has 15 members and is composed as follows:

Age diversity %



Nationality diversity %

Dutch **6%**

British **7%**

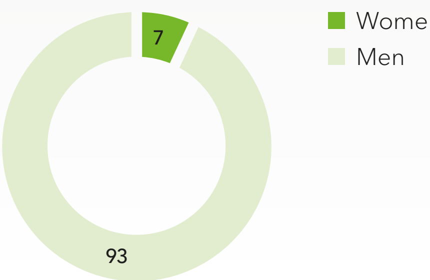
Belgian **20%**

German **40%**

Russian **7%**

Kazakh **20%**

Gender diversity %



A large team of dedicated employees

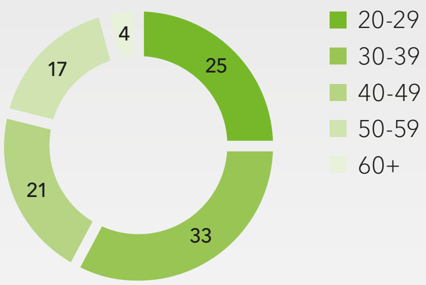
One of our most significant contributions to Kazakhstan is the wealth generated by hundreds of employees working in our fields and in Uralsk. The number of employees at our operations has more than doubled since 2005, making us one of the largest employers in the Batys province.

In addition to our assets and representative offices in Kazakhstan, we have offices in Amsterdam, London, St Petersburg and Brussels.

Number of full-time equivalent employees (as per 31 December 2014)

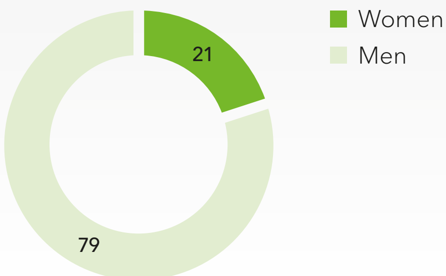
Location	2010	2011	2012	2013	2014
Chinarevskoye field	500	552	631	633	**686**
Uralsk	144	170	207	274	**268**
Other	33	36	46	56	**51**
Total	677	758	884	963	**1,005**

Age diversity %



In 2014, the total workforce in Kazakhstan grew by 6% and the staff turnover rate was 5.4%.

Gender diversity %



Salary package and growth rates

Nostrum offers competitive remuneration packages to its employees and is in full compliance with all regulatory bodies, guidelines and requirements.

Description	2010	2011	2012	2013	2014
Average number of full-time equivalent employees in Kazakhstan	619	722	838	907	**961**
Change in average monthly salary of employees %	9%	16%	28%	6%	**21%**

Effective social guarantees

We offer effective social guarantees in the following areas:

- Social security
- Pension fund
- Medical assistance and care
- Insurance plans

Training

Under the terms of the PSA with the Government of Kazakhstan, we are required to:

- Adhere to an accrual of 1% per annum of the field development cost relating to the Chinarevskoye field; and
- Develop an education spending schedule up to, and including 2020, for purposes of training local specialists and educating Kazakh citizens.

For 2014, the Oil Ministry committee approved a training budget of US$1,089 million. The actual training cost for 2014 was US$2,006 million.

Well control programming and monitoring

Four field employees were selected to follow specialised training in Moscow. This allowed the implementation of a fully automated control process from some 11 condensate wells all the way to the monitoring centre which can now be managed by one operator receiving all of the information from the different wells simultaneously in real time.

International certificate in technological processes in the oil and gas industry (OPITO PPTC)

In October/November 2014, consultants of the Abiroy Technical Center selected candidates at Zhaikmunai for the OPITO PPTC training programme. A total of 60 potential candidates were selected on the basis of various tests and 15 were finally chosen to enter the 10-module certified training programme.

Total training budget in 2014

US$2,006 million

Total number of training days in 2014:

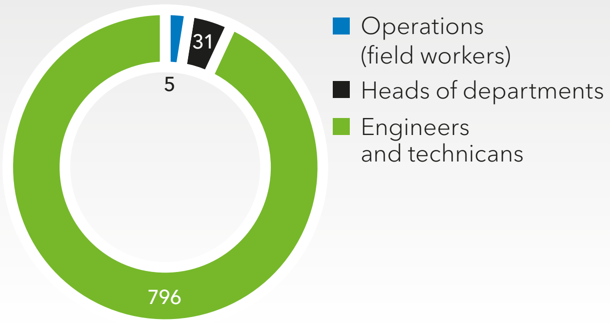
8,504

Number of employees benefitting from education and training programmes in 2014:

832

Corporate social responsibility continued
Our people

Categories and numbers of NOG personnel trained



Training type	People enrolled
Computing QHSE training	69%
Special skills training	27%
Professional training	4%

Labour relations
We consider our relations with our employees to be strong, and have not experienced any work stoppages, strikes or similar actions to date. Relations with our employees are a key priority for our business.

Human rights policy and diversity
The *Nostrum Code of Conduct* sets out certain principles that guide business conduct and provides a non-exhaustive outline of what Nostrum considers permissible conduct by its employees. Violations of this Code of Conduct may result in disciplinary action, including dismissal from employment, or criminal prosecution.

For further details please see our website: www.nog.co.uk

Our community

Our community approach

Nostrum's approach to community relations places great emphasis on creating an integrated, caring and secure community for its personnel and subcontractors.

Our social infrastructure

Under the terms of the PSA linked to the Chinarevskoye field, as well as the subsoil agreements linked to the additional fields, we spend US$300,000 and US$350,000 per annum respectively to finance social infrastructure.

In addition to these PSA social fund obligations, Nostrum also invested in significant social infrastructure projects in 2014, which contribute to the quality of life of employees and the stability of communities.

Significant social infrastructure projects in 2014

Project type	Infrastructure	Beneficiaries	Budget allocated
Roads (repair and maintenance)	Inside and outside licence area	All stakeholders	US$536,000
New camp	Chinarevskoye field site	Rotational personnel	US$258,000
Total			**US$794,000**

Sponsoring activities, charitable work and participation in social projects

Significant projects in 2014

Project type	Definition	Beneficiaries	Budget allocated
KazEnergy	Membership	All stakeholders	US$445,000
Regional volleyball team	Sponsorship	Staff and community	US$275,000
Education Support Programme	Contributions	All stakeholders	US$101,000
Public associations	Membership	Staff and community	US$56,000
Other types of sponsorships	Various events	Staff and community	US$47,000
Zelenoysky area	Assistance in Mayor's office	All stakeholders	US$31,000
Other sporting events	Sponsorships	Staff and community	US$23,000
Total			**US$978,000**

Liquidation fund

Under the terms of the PSA, Nostrum is building up a liquidation fund of US$12 million to provide funds for the removal of oil and property at the end of the PSA. In 2014, the required US$813,403 contribution was set aside for this purpose.

Corporate social responsibility continued
QHSE

Our QHSE approach and organisation

QHSE at Nostrum focuses on improving the management and mitigation of risks relating to health, safety and the environment, and preventing any injury or ill health to employees. This is achieved through the provision of comprehensive rules and guidelines based on a series of well-defined strategic objectives.

Centralised function

Our QHSE strategy is demonstrable throughout our organisation thanks to a centralised function with a flexible organisational structure.

This organisational structure encompasses such activities as health & safety (production facilities, drilling, camp and roads), occupational health & hygiene (including environmental and greenhouse gases monitoring), civil defence and emergency response as well as overarching safety and engineering best practice implementation.

QHSE policy and priorities

QHSE policy

Priorities for 2015
Building on the progress made in 2014, the focus for 2015 will be to expand the QHSE policy to include initiatives that go beyond our day-to-day activities. Specifically:

- HSE leadership and supervision;
- Contractor HSE management;
- Hazard awareness and risk control;
- Driving and transportation safety; and
- Environmental reporting.

Health and safety

A safe working environment
Health and safety at Kazakh oil and gas companies is subject to state legislation and regulation. Our PSA also requires that our operations meet applicable health and safety requirements.

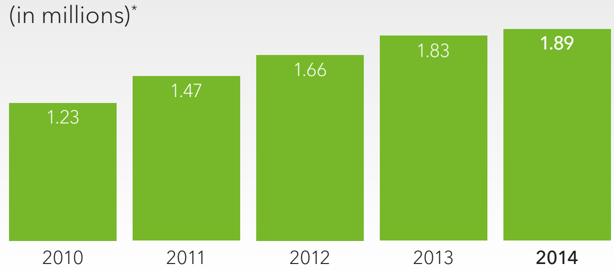
HSE Code of Conduct
Nostrum's QHSE Policy and associated Code of Conduct stipulate that we must comply with all applicable laws and regulations, as well as best practice with regard to health, safety and environmental issues.

To ensure the well-being of employees the Company frequently undertakes the following practices:

- Safety training;
- Implementing a proactive prevention culture; and
- Written plans and policies with regard to the mandatory supply of personal protective equipment including protective clothes, adapted footwear and special tools.

Standards reached
In 2014, standards have been established around indicators such as lost time injuries and total recordable injuries. Ongoing monitoring is done against these standards and reported monthly.

Number of man-hours without loss of working hours
(in millions)*



* Number of man-hours without loss of working hours: Total number of man-hours worked by the Company and contractors' personnel without any injuries resulting in a lost working day, while performing activities on company premises or non-company premises subject to company management controls applied through contractual terms, if the are executed on behalf of the Company.

Corporate social responsibility continued
Our environment

Managing our environmental footprint through our Site Environmental Monitoring Programme

Our approach to environmental protection follows a structured commitment to a series of yearly environmental objectives. These key priorities are in line with strategic, regulatory and communication imperatives and structured in accordance to Kazakh regulations:

- Air pollution control;
- Water resources protection and rational use;
- Land protection;
- Control and sustainable subsurface use;
- Flora and fauna protection;
- Radiological, biological and chemical safety;
- Ecological education and information; and
- Research and development, exploratory development and other works.

In 2014, specific monitoring activities were carried out in these areas in order to establish benchmarks which are/will be integrated into our environmental targets. These include the monitoring of the atmosphere, surface water, soil and the control of pollutant emissions sources and sewage works.

Nostrum has developed a Site Monitoring Programme, managed by the QHSE Department, to organise and monitor our environmental activities, identify any potential operational environmental impact and enable us to take prompt corrective measures in case of any incident.

Programme aims:

- Obtaining relevant information for environmental policy decision-making, including environment quality target values and information on regulatory instruments applicable to environmental impact of production processes;
- Ensuring full compliance with the environmental legislation of the Republic of Kazakhstan;
- Reducing the impact of production processes on the environment;
- Increasing the efficiency of natural and energy resource use;
- Developing a pre-emptive operational emergency response;
- Increasing environmental awareness and responsibility among managers and employees;
- Reporting on environmental activities and community health risks;
- Increasing compliance with environmental requirements;
- Increasing the efficiency of the QHSE management system; and
- Taking account of environmental risks in investment and finance decisions.

Programme methods and controls:

- Compulsory criteria to be followed in site monitoring;
- Time, duration and frequency of site monitoring activities and measurements;
- Detailed site monitoring methodologies;
- Sampling points and places of measurement;
- Methods and frequency of data accounting, analysis and reporting;
- Schedule of internal checks and procedures for rectifying violations of national environmental laws, including the internal response to any violations;
- Monitoring quality assurance procedures;
- Emergency actions plans;
- Organisational and functional structure of internal employee responsibilities for carrying out site environmental monitoring; and
- Other data on organising and carrying out site environmental monitoring.

Compliance with legislation

The Site Environmental Monitoring Annual Report (2014)[1] is a comprehensive document detailing the content, methodology and results of the environmental efforts at Nostrum. It shows that the environmental monitoring programme activities were carried out according to the established scope. In addition, its "Conclusions" section, states the following:

"From the report it follows that in 2014, as well as previously, the Company has not exceeded the established environmental pollution standards for production facilities located in the area."

1 Zhaikmunai LLP 2014 Site Environmental Monitoring Annual Report, General Director – Heinz Wendel.

Industrial waste management and contaminated soil reclamation

Nostrum complies with all current Kazakh legislation with regard to industrial waste management and contaminated soil reclamation.

Our greenhouse gas (GHG) reporting

Nostrum has been monitoring and reporting its GHG emissions over the last several years in accordance with Kazakh regulatory requirements. Starting in 2013, the Company has also developed its GHG reporting in line with the new regulations amending company law requirements in the UK.

The data is reported from all emission sources, as required under the Companies Act 2006 (Strategic Report and Directors' Report) – Regulations 2013. The period for which the Company is reporting the information matches the periods 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.

Direct GHG emissions (Scope 1)

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. 2010 was chosen as the base year for GHGs as per the National Plan for GHG Quota Distribution for 2014, pursuant to the Republic of Kazakhstan government resolution 1588 dated 13 December 2012.

Historically, the major part of stationary combustion emissions was attributed to flaring of associated gas at the Oil Treatment Unit (OUT) and at the Gas Treatment Facility (GTF). The situation has changed considerably since the GTF was completed.

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

Table 1: Scope 1 GHG emissions subdivided by gas types

GHG emissions ($mtCO_2e$)	2010	2011	2012	2013	**2014**
Carbon dioxide (CO_2)	240,259.4	420,992.8	256,050.4	188,604.0	**236,556.0**
Methane (CH_4)	81.4	15,419.7	805.2	28,693.6	**27,424.8**
Nitrous oxide (N_2O)	1,308.4	1,188.4	283.1	165.7	**124.3**
Hydrofluorocarbons (HFCs)	3.0	3.0	16.1	16.1	**16.1**
Perfluorocarbons (PFCs)	–	–	–	–	**-**
Sulphur hexafluoride (SF_6)	–	–	–	–	**-**
Total	241,652.2	437,603.9	257,154.8	217,479.4	**264,121.2**

Table 2: Scope 1 GHG emissions subdivided by source types

GHG emissions ($mtCO_2e$)	2010	2011	2012	2013	**2014**
Stationary combustion	240,383.3	433,132.5	252,138.9	212,612.3	**260,124.4**
Mobile combustion	1,194.3	2,086.7	2,312.1	2,876.3	**2,135.2**
Process sources	–	–	–	–	**-**
Fugitive sources	74.6	2,384.7	2,703.8	1,990.8	**1,861.6**
Agricultural sources	–	–	–	–	**-**
Total	241,652.2	437,603.9	257,154.8	217,479.4	**264,121.2**

Corporate social responsibility continued
Our environment

Indirect GHG emissions (Scope 2)

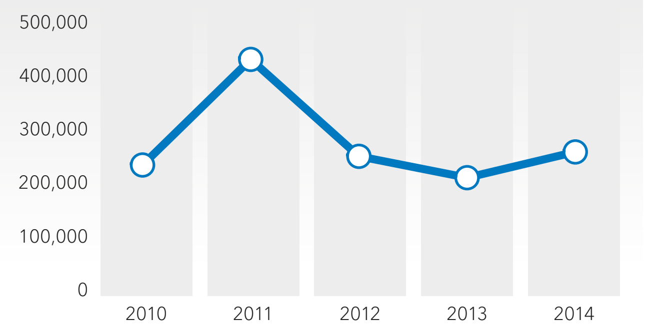
Nostrum does not use purchased steam, heating or cooling. The only purchased power related to indirect GHG emissions is electrical power, which is supplied to Nostrum facilities via the Zelenovskaya distribution network (ZapKazREK JSC), through its subsidiary Batys Energoresursy LLC. The regional emission 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 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

GHG emissions ($mtCO_2e$)	2010	2011	2012	2013	**2014**
Direct (Scope 1)	241,652.2	437,603.9	257,154.8	217,479.4	**264,121.2**
Indirect Energy (Scope 2)	3,464.0	3,766.5	4,094.5	4,058.4	**5,278.6**
Total emissions ($mtCO_2e$)	245,116.2	441,370.4	261,249.3	221,537.8	**269,399.8**

Total GHG emissions ($mtCO_2e$)



Emissions intensity ratio

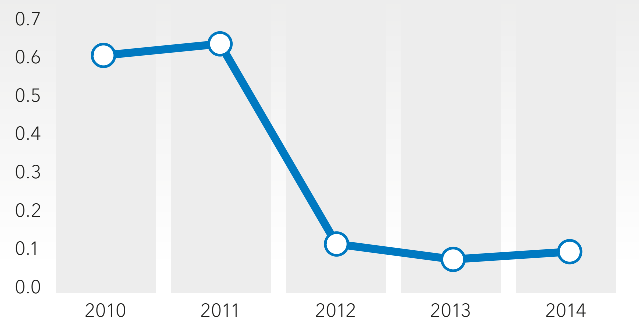
Tonnes of CO_2 per tonne of output is a recommended intensity ratio for the oil and gas sector, as per Appendix F of the Defra Environmental Reporting Guidelines (2013). Taking into account the variety of products of Nostrum Oil & Gas – crude oil, stabilised condensate, LPG and dry gas – the chosen intensity 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 2011 to 2014.

Table 4: Emissions intensity ratios for total GHG emissions (Scope 1 and Scope 2) in the period 2010-2014

Production – intensity ratio	2010	2011	2012	2013	**2014**
Production, toe	392,000	672,000	189,000	2,307,748	**2,369,823**
$mtCO_2$/toe	0.63	0.66	1.38	0.1	**0.11**
Production, mmboe	2.8	4.8	13.5	16.48	**16.23**
$mtCO_2$/mmboe	87,541.50	91,952.17	19,351.80	13,065.07	**16,598.88**

Emission intensity ratios ($mtCO_2$/toe)



GHG emissions were considerably reduced after the GTF came into operation in 2012. Further operational optimisation initiatives have subsequently been carried out in 2013 and 2014 with the aim of further lowering the emissions intensity ratio.

Developing a GHG reduction capacity

According to its GHG emissions reduction strategy, Nostrum evaluates the potential for GHG emissions reductions yearly to plan for the subsequent introduction of energy and resource saving measures. To establish this reduction potential we go through the following steps:

- Create a conceptual framework for our greenhouse gas emissions enterprise management systems (GHG EMS);
- Create a consistent information system for GHG emissions monitoring;
- Perform an energy audit at the Company's production facilities;
- Develop an action plan to improve energy efficiency at industrial sites;
- Develop the concept of transition to low-carbon development;
- Consider the participation of the Company in carbon finance activities; and
- Demonstrate the efficiency of the Company's GHG emissions reduction measures.

To meet these ambitious targets, Nostrum plans to strengthen its QHSE department by conducting training for managers and identify contractors that are able to provide effective assistance in improving energy efficiency and reducing GHG emissions.

Financial review

Key performance indicators

Net cash from operating activities

In millions of US Dollars

2014	**349.1**
2013	358.6
2012	291.8
2011	132.2

Net cash from operating activities is the net of all cash receipts and payments associated with Nostrum Oil & Gas's sales. This indicator reflects the Group's ability to generate cash for investment and financing activities.

Net income

In millions of US Dollars

2014	**146.4**
2013	219.5
2012	162.0
2011	81.6

Income for the period is the total of all the earnings. It is of fundamental importance for a sustainable commercial enterprise.

EBITDA

In millions of US Dollars

2014	**494.7**
2013	551.5
2012	456.5
2011	187.9

EBITDA is defined as profit before tax net of non-recurring expenses, finance costs, foreign exchange loss/gain, ESOP, depreciation, interest income, other income and expenses.

EBITDA margin

In percentage

2014	**63.3%**
2013	61.6%
2012	61.9%
2011	62.5%

EBITDA margin is defined as EBITDA as a percentage of Revenue.

Net cash used in investing activities

In millions of US Dollars

2014	**304.5**
2013	239.0
2012	269.7
2011	103.7

Net cash used in investing activities is capital investment (capital expenditure, exploration expense, new equity and loans in equity-accounted investments and other adjustments), less divestment proceeds.

Production

In mboe

2014	**16.2**
2013	16.9
2012	13.5
2011	4.8

Production is the sum of all average daily volumes of unrefined oil products (crude oil and stabilised condensate) and gas products (LPG and dry gas) produced for sale. Changes in production have a significant impact on the Group's cash flow.

Proven oil and gas reserves

In mboe

2014	**192.2**
2013	199.2
2012	194.8
2011	169.1

Proved oil and gas reserves are the total estimated quantities of oil and gas that can, with reasonable certainty, be recovered in future years from known reservoirs, as at December 31, under existing economic and operating conditions. Gas volumes are converted into barrels of oil equivalent (boe). Reserves are crucial to an oil and gas company, since they constitute the source of future production.

OPEX per barrel

In US Dollars

2014	**5.0**
2013	5.7
2012	5.3
2011	8.4

OPEX per barrel is defined as operating expenditures divided by the total barrel of oil equivalent production.

Dividend

In US Dollars per common unit

2014	**0.35**
2013	0.34
2012	0.32
2011	–

In September 2012, the Board of Directors has approved the implementation of an ongoing distribution policy with the intention of making an annual distribution of not less than 20 per cent of the Company's consolidated net profit. The policy will be progressively reviewed by the Board of Directors in line with the achievement of Nostrum's strategic milestones.

The Board is proposing a dividend of US$0.27 per Ordinary Share for the year ended 31 December 2014. The dividend is subject to shareholder approval at the AGM.

Return on investment

In percentage

2014	**6.71%**
2013	12.87%
2012	10.43%
2011	6.25%

Return on Investment (ROI) is defined as Net Income divided by Invested Capital. Invested Capital equals total debt plus total equity minus non-operating cash and investments.

Net debt

In millions of US Dollars

2014	**544.7**
2013	388.5
2012	375.2
2011	322.1

Net Debt is defined as total debt minus cash and cash equivalents including current and non-current investments.

Effect of realized profit on the structure of assets, capital, liquidity and liability

Profit is appropriated to strengthen the Group's financial position: to finance investment in oil & gas assets, to grow capital, to maintain liquidity, to keep net debt at defined levels and to pay dividends. Reference is made to KPIs: Investing Activities, Dividend, and Net Debt.

Financial review continued

Analysis of revenue, expenses and results – 2014/2013 comparison

The table below sets forth the line items of the Group's consolidated statements of comprehensive income for the year ended 2014 and 2013 in US Dollars and as a percentage of revenue.

In thousands of US Dollars	2014	% of revenue	2013	% of revenue
Revenue	**781,878**	**100.0%**	895,014	100.0%
Cost of sales	**(221,921)**	**28.4%**	(286,222)	32.0%
Gross profit	**559,957**	**71.6%**	608,792	68.0%
General and administrative expenses	**(54,878)**	**7.0%**	(56,019)	6.3%
Selling and transportation expenses	**(122,254)**	**15.6%**	(121,674)	13.6%
Finance costs	**(61,939)**	**7.9%**	(43,615)	4.9%
Finance costs - reorganisation	**(29,572)**	**3.8%**	–	0.0%
Employee share option plan fair value adjustment	**3,092**	**0.4%**	(4,430)	0.5%
Foreign exchange loss	**(4,235)**	**0.5%**	(636)	0.1%
Gain on derivative financial instruments	**60,301**	**7.7%**	–	0.0%
Interest income	**986**	**0.1%**	764	0.1%
Other expenses	**(49,844)**	**6.4%**	(25,593)	2.9%
Other income	**10,086**	**1.3%**	4,426	0.5%
Profit before income tax	**311,700**	**39.9%**	362,015	40.4%
Income tax expense	**(165,275)**	**21.1%**	(142,496)	15.9%
Profit for the year	**146,425**	**18.7%**	219,519	24.5%

For the year ended 31 December 2014 (the "reporting period") realised profit of the Group decreased by US$73.1 million to US$146.4 million (FY 2013: US$219.5 million). The decrease in realised profit is mainly driven by a decrease in the oil prices during the second half year of 2014, resulting in a decrease in revenue combined with an increase in other operating costs and income tax expenses, partially offset by a gain on derivative financial instruments.

Revenue

The Group's revenue decreased by 12.6% to US$781.9 million for the reporting period (FY 2013: US$895.0 million). The decrease in Group revenue was driven primarily by a significant decrease in the overall oil prices during the second half of 2014.

The Group's revenue breakdown by products, sales volumes and the commodity price of Brent crude oil for the years ended 31 December 2014 and 2013 is presented below:

In thousands of US Dollars	2014	2013	Variance	Variance, %
Oil and gas condensate	**620,164**	709,107	(88,943)	(12.5)%
Gas and LPG	**161,714**	185,907	(24,193)	(13.0)%
Total revenue	**781,878**	895,014	(113,136)	(12.6)%
Sales volumes (boe)	**16,205,641**	16,854,970	(649,329)	(3.9)%
Average Brent crude oil price on which Nostrum Oil & Gas based its sales (US$/bbl)	**99.6**	108.4		

The following table shows the Group's revenue breakdown by export/domestic sales for the years ended 31 December 2014 and 2013 is presented below:

In thousands of US Dollars	**2014**	2013	Variance	Variance, %
Revenue from export sales	**676,064**	765,029	(88,965)	(11.6)%
Revenue from domestic sales	**105,814**	129,985	(24,171)	(18.6)%
Total	**781,878**	895,014	(113,136)	(12.6)%

Cost of sales

Cost of sales decreased by 22.5% to US$221.9 million for the reporting period (FY 2013: US$286.2 million). The decrease is primarily explained by a decrease in depreciation, depletion and amortisation, royalties, government profit share, repair, maintenance and other services, materials and supplies expenses, although this is partially offset by an increase in payroll and related taxes, well workover costs and other expenses. On a boe basis, cost of sales decreased by US$3.29 or 19.4% to US$13.69 for the reporting period (FY 2013: US$16.98) and cost of sales net of depreciation per boe decreased by US$3.05, or 30.7%, to US$6.88 (FY 2013: US$9.92).

Depreciation, depletion and amortisation decreased by 7.1% to US$110.5 million for the reporting period (FY 2013: US$119.0 million). The decrease is mainly due to an increase in proved developed reserves starting from 31 August 2013, which was partially offset by an increase of production volumes.

Repair, maintenance and other services decreased by 31.6% to US$35.8 million for the reporting period (FY 2013: US$52.4 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of the Group, engineering and geophysical study expenses. These costs fluctuate depending on the planned works on certain objects.

Royalties, which are calculated on the basis of production and market prices for the different products, decreased by 38.2% to US$24.3 million for the reporting period (FY 2013: US$39.4 million). This decrease resulted from the reversal of royalty expenses from prior periods amounting to US$5.5 million. The reversal was due to the adoption of a new work program for oilfield operations and a change in the coefficients used for converting condensate, sales gas and LPG volumes into natural gas equivalent volumes.

Costs for government profit share decreased by US$26.2 million to US$4.6 million for the reporting period (FY 2013: US$30.7 million). The decrease resulted from the adoption of a new work program for oilfield operations and a change in the coefficient of natural gas equivalent which resulted in a reversal of the government profit share expense from prior periods amounting to US$17.8 million.

Materials and supplies expenses decreased by 10.9% to US$10.9 million for the reporting period (FY 2013: US$12.3 million). This decrease resulted from less need for spare parts and other materials for repairs and maintenance of the facilities, specifically for the gas treatment facility and wells.

Well workover costs increased by 125.3% to US$6.3 million for the reporting period (FY 2013: US$2.8 million). The increase resulted from the scheduled work on several wells.

Management fees are absent in cost of sales for the reporting period (FY 2013: US$3.6 million). The fees incurred by the Group relate to the services provided by Probel Capital Management N.V., which was acquired by the Group on 30 December 2013 and is now being consolidated. The related costs of this entity are included in general and administrative expenses for the reporting period as professional services (related to the rendering of geological, geophysical, drilling, technical and other consultancy services) and payroll and related taxes.

General and administrative expenses

General and administrative expenses decreased by 2.0% to US$54.9 million for the reporting period (FY 2013: US$56.0 million). This was primarily due to an increase in expenses for professional services, payroll and related taxes, which was partially offset by decreased management fees, other taxes and training. The change in the structure of general and administrative expenses can be explained by the acquisition of Probel Capital Management N.V. on 30 December 2013, which led to the elimination of intercompany management fees, and the recognition of its expenses as professional services and payroll and related taxes.

Financial review continued

Selling and transportation expenses
Selling and transportation expenses increased by 0.5% to US$122.3 million for the reporting period (FY 2013: US$121.7 million). The significant decrease in transportation costs and increase in loading and storage costs is primarily due to transportation costs including certain loading and storage costs for the prior year. Part of the increase in loading and storage costs was driven by a rise in sales volumes for LPG and condensate.

Finance costs
Finance costs increased by US$18.3 million to US$61.9 million for the reporting period (FY 2013: US$43.6 million). The increase in these costs was primarily driven by the expenses relating to the early redemption of the 2010 Notes and the amortization of the remainder of transaction cost, incurred for the issuance of 2010 Notes.

Finance costs – reorganisation
The "finance costs – reorganisation" represent the costs associated with the introduction of Nostrum Oil & Gas PLC as the new holding company of the Group and respective reorganisation.

Derivative financial instruments
The "Gain on derivative financial instruments" represents the fair value of the hedge that the Group entered into on 3 March 2014 and which runs through 29 February 2016.

Other
Foreign exchange losses amounted to US$4.2 million for the reporting period (FY 2013: US$0.6 million). This is explained by the fact that on 11 February 2014 the Tenge was devalued against the US Dollar and other major currencies. The exchange rates before and after devaluation were 155 Tenge/US Dollar and 185 Tenge/US Dollar respectively. Since the Group had a net asset position of Tenge denominated accounts around this date, the devaluation of the Tenge resulted in a significant foreign exchange loss recognised in the reporting period.

Other expenses increased by 94.8% to US$49.8 million for the reporting period (FY 2013: US$25.6 million). Other expenses mainly represent export duties paid by the Group. The export duties represent custom duties for the export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc. Other expenses for the reporting period also include fines and penalties amounting to US$2.6 million, which were the result of court decisions.

Income tax expense increased by 16.0% to US$165.3 million for the reporting period (FY 2013: US$142.5 million). The increase in income tax expense is primarily due to an increased deferred tax for the reporting period. This was driven by the Tenge devaluation in February 2014, which led to a significant decrease in the tax base of property, plant and equipment, which is denominated in Tenge.

The following table shows the Group's total corporate income tax split between current income tax, adjustments and deferred income tax for the years ended 31 December 2014 and 2013 is presented below:

In thousands of US Dollars	**2014**	2013	Variance	Variance, %
Current income tax	**117,827**	138,883	(21,056)	(15.2)%
Adjustment in respect of the current income tax for the prior periods	**(6,785)**	–	(6,785)	N/A
Deferred income tax expense/(benefit)	**54,233**	3,613	50,620	1401.1%
Total	**165,275**	142,496	22,779	16.0%

Liquidity and capital resources – 2014/2013 comparison

General

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

The following table sets forth the Group's consolidated cash flow statement data for the years ended 31 December 2014 and 2013.

In thousands of US Dollars	2014	2013
Cash and equivalents at the beginning of the period	**184,914**	197,730
Net cash flows from operating activities	**349,636**	358,554
Net cash used in investing activities[1]	**(305,063)**	(239,020)
Net cash from/(used in) financing activities	**147,462**	(132,350)
Effects of exchange rate changes on cash and cash equivalents	**(1,506)**	–
Cash and equivalents at the end of the period*	**375,443**	184,914

* Excluding deposits and restricted cash.

Net cash flows from operating activities

Net cash flow from operating activities was US$349.6 million for the reporting period (FY 2013: US$358.6 million) and was primarily attributable to:

- profit before income tax for the reporting period of US$311.7 million (FY 2013: US$362.0 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$111.9 million (FY 2013: US$120.4 million), and finance costs of US$61.9 million (FY 2013: US$43.6 million).
- a US$19.5 million change in working capital (FY 2013: US$16.7 million) primarily attributable to a decrease in trade receivables of US$36.5 million (FY 2013: an increase of US$12.6 million), an increase in prepayments and other current assets of US$7.7 million (FY 2013: an increase of US$6.8 million), an decrease in trade payables of US$5.6 million (FY 2013: a decrease of US$5.7 million) and an increase in other current liabilities of US$0.3 million (FY 2013: US$8.8 million).
- income tax paid of US$118.2 million (FY 2013: US$154.5 million).

Net cash used in investing activities

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

Net cash used in investing activities for the reporting period was US$305.1 million (FY 2013: US$239.0 million) due primarily to the drilling of new wells resulting in cash spent of approximately US$126.8 million (FY 2013: US$108.1 million), costs associated with the third gas treatment unit of approximately US$142.8 million (FY 2013: US$12.4 million) and costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US$10,4 million (FY 2013: 5,0 million), partially offset by the redemption of US$30.0 million of cash deposits (FY 2013: redemption of US$25 million and placement of US$30.0 million of bank deposits).

Net cash (used in)/provided by financing activities

Net cash provided from financing activities during the reporting period was US$147.5 million, primarily attributable to the issue of the 2014 Notes amounting to US$400.0 million, offset by an early redemption of the 2010 Notes amounting to US$92.5 million, payment of US$64.6 million in distributions and the finance costs paid on the Group's 2010 Notes, 2012 Notes and 2014 Notes. Net cash used in financing activities during the FY 2013 was US$132.4 million, which was mainly represented by the finance costs paid on the Group's 2010 Notes and 2012 Notes.

Financial review continued

Analysis of revenue, expenses and results – 2013/2012 comparison

The table below sets forth the line items of the Group's consolidated statements of comprehensive income for the year ended 2013 and 2012 in US Dollars and as a percentage of revenue.

In thousands of US Dollars	2013	% of revenue	2012	% of revenue
Revenue	895,014	100.0	737,065	100.0
Cost of sales	(286,222)	32.0	(238,224)	32.3
Gross profit	608,792	68.0	498,841	67.7
General and administrative expenses	(56,019)	6.3	(62,412)	8.5
Selling and transport expenses	(121,674)	13.6	(103,604)	14.1
Finance costs	(43,615)	4.9	(46,785)	6.3
Employee share option plan	(4,430)	0.5	(2,470)	0.3
Foreign exchange (loss)/gain, net	(636)	0.1	776	0.1
Interest income	764	0.1	698	0.1
Other expense	(25,593)	2.9	(6,612)	0.9
Other income	4,426	0.5	3,940	0.5
Profit before income tax	362,015	40.4	282,372	38.3
Income tax expense	(142,496)	15.9	(120,363)	16.3
Profit for the year	219,519	24.5	162,009	22.0

Revenue increased by US$157.9 million, or 21.4%, to US$895.0 million in the year ended 31 December 2013 from US$737.1 million in the year ended 31 December 2012 primarily due to the increase in output from the gas treatment facility. For the year ended 31 December 2013, revenue from sales to the Group's top two customers amounted to US$203.0 million and US$173.4 million, respectively. For the year ended 31 December 2012, revenue from sales to the Group's top three customers amounted to US$200.6 million, US$54.0 million and US$118.8 million, respectively.

The following table shows the Group's revenue and sales volumes for years ended 31 December 2013 and 2012:

	Year ended 31 December	
In thousands of US Dollars	**2013**	**2012**
Oil and gas condensate	709,107	587,371
Gas and LPG	185,907	149,694
Total revenue	**895,014**	**737,065**
Sales volumes (boe)	16,854,970	13,629,245

The following table shows the Group's revenue breakdown by export/domestic sales for the year ended 31 December 2013 and 2012:

	Year ended 31 December	
In thousands of US Dollars	**2013**	**2012**
Revenue from export sales	765,029	630,412
Revenue from domestic sales	129,985	106,653
Total	895,014	737,065

Cost of sales increased by US$48.0 million, or 20.2%, to US$286.2 million in the year ended 31 December 2013 from US$238.2 million in the year ended 31 December 2012 primarily due to an increase in depreciation, depletion and amortisation, royalties, government profit share, materials and supply expenses and changes in stock, partially offset by a decrease in payroll and related taxes, well workover costs and repair and maintenance expenses. The increase of 20% in cost of sales is in line with the increase in revenue in 2013 of 21% compared to 2012. On a boe basis, cost of sales decreased marginally by US$0.5, or 2.86%, to US$16.98 in the year ended 31 December 2013 from US$17.48, and cost of sales net of depreciation per boe decreased by US$0.12, or 1.20%, to US$9.92 in the year ended 31 December 2013 from US$10.04 in the year ended 31 December 2012.

Depreciation, depletion and amortisation increased by 17.4%, or US$17.6 million, in the year ended 31 December 2013 to US$119.0 million from US$101.4 million in the year ended 31 December 2012. The increase is due to an increase of production without a similar increase in proved developed reserves during the period.

Royalty costs are calculated on the basis of production and market prices for the different products. Royalties rose 15.2% to US$39.4 million up from US$34.2 million in the year ended 31 December 2013, whereas production was up 25% to an average production of 46,178 boepd in 2013 up from 36,940 boepd in 2012. The average brent price for the year was down 0.6% to US$108.41 per bbl from US$109.03 per bbl in 2012.

Costs for government profit share increased by US$22.8 million, or 288.6%, to US$30.7 million in the year ended 31 December 2013 from US$7.9 million in the year ended 31 December 2012, mainly due to the fact that the cost oil balance which had been carried forward from previous years was depleted in August 2013, causing the Government share to substantially rise in the second half of 2013.

Materials and supply expenses, taken together with repair, maintenance and other services and well workover costs increased 1.5% to US$67.4 million in 2013 up from US$68.4 million in 2012. The increase of 132% in materials and supplies from US$5.3 million in 2012 to US$12.3 million in 2013 is the result of repair and maintenance works in 2013 being focused on the facilities, specifically the Gas Treatment Facility, and less so on wells.

General and administrative expenses decreased by US$4.4 million, or 6.8%, to US$60.4 million in the year ended 31 December 2013 from US$64.9 million in the year ended 31 December 2012 due primarily to a decrease in social programme expenditures of US$21.5 million in the year ended 31 December 2013 from US$21.8 million in the year 31 December 2012. This decrease was related to the completion in 2012 of construction of a 37 kilometre asphalt road accessing the field site with no similar expense incurred in 2013. The decrease in social costs was primarily offset by increased management fees and professional services.

Selling and transportation expenses increased by US$18.1 million, or 17.5%, to US$121.7 million in the year ended 31 December 2013 from US$103.6 million in the year ended 31 December 2012. This was driven primarily by an increase of US$15.4 million in loading and storage costs to US$37.0 million in the year ended 31 December 2013 from US$21.6 million in the year ended 31 December 2012. This increase was primarily driven by the rise in output of LPG and condensate volumes.

Finance costs decreased by US$3.2 million, to US$43.6 million in the year ended 31 December 2013 from US$46.8 million in the year ended 31 December 2012. The decrease in costs was primarily driven by the raise of a new bond in November 2012 with significantly lower interest rate with which the first bond was repaid.

Foreign exchange loss amounted to US$636 thousand in the year ended 31 December 2013 compared to a gain of US$776 thousand in the year ended 31 December 2012.

Other expenses increased to US$25.6 million in the year ended 31 December 2013 from US$6.6 million in the year ended 31 December 2012. The increase in other expenses was due to the increase in export duties paid by the Group. The export duties represent custom duties for export of crude oil and customs fees for its services such as processing of declarations, temporary warehousing etc. The Kazakhstan custom authorities, based on their interpretation of CIS free-trade legislation, have imposed custom duties on oil exports from Kazakhstan to Ukraine starting from December 2012.

Profit before income tax amounted to a profit of US$362.0 million in the year ended 31 December 2013 compared to a profit of US$282.4 million in the year ended 31 December 2012. The higher profitability was driven primarily by the increased revenue due to the increase in output of the gas treatment facility.

Financial review continued

Income tax expense increased to US$142.5 million in the year ended 31 December 2013 compared to US$120.4 million in the year ended 31 December 2012, a 18.4% increase. The increase in income tax expense was primarily due to the increase in profit before income tax.

Net income amounted to US$219.5 million in the year ended 31 December 2013, an increase of US$57.5 million from US$162.0 million in the year ended 31 December 2012. This higher profitability was driven by increased revenue from increased production of hydrocarbons.

Liquidity and capital resources – 2013/2012 comparison

During the periods under review, Nostrum's principal sources of funds were cash from operations and amounts raised under the 2010 Notes and the 2012 Notes. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2010 Notes and the 2012 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 years ended 31 December 2013 and 2012.

In thousands of US Dollars	Year ended 31 December 2013	2012
Net cash flows from operating activities	358,554	291,825
Net cash used in investing activities[1]	(239,020)	(269,674)
Net cash used in financing activities	(132,350)	50,390
Cash and equivalents at the end of the year	184,914	197,730

1 Net cash used in investing activities includes US$30 million of bank deposits that are not included in cash and cash equivalents due to the long-term nature of the deposits, and includes a redemption of US$25 million that is not included in cash and cash equivalents due to the short-term nature of the deposits, at year-ended 31 December 2013.

Net cash flows from operating activities

Net cash flows from operating activities were US$358.6 million for the year ended 31 December 2013 as compared to US$291.8 million for the year ended 31 December 2012 and were primarily attributable to:

- profit before income tax for the year of US$362.0 million, adjusted by a non-cash charge for depreciation, depletion and amortisation of US$120.4 million, and finance costs of US$43.6 million.
- a US$14.5 million increase in working capital primarily attributable to (i) an increase in receivables of US$12.6 million, (ii) an increase in prepayments and other current assets of US$6.8 million and (iii) an increase other current liabilities of US$8.8 million.
- income tax paid of US$154.5 million.

Net cash used in investing activities

The substantial portion of cash used in investing activities is related to the drilling programme and the construction of gas treatment units one, two and three. During the period from 1 January 2010 through 31 December 2013, cash used in the drilling programme represented between 43% and 70% of total cash flow from investment activities. During the period from 1 January 2010 through 31 December 2013, cash used in the construction of gas treatment units one, two and three represented between 14% and 40% of total cash flow from investment activities. Together, drilling and the construction of the gas treatment units represented between 57% and 92% of cash used for investment in property, plant and equipment.

Net cash used in investing activities was US$239.0 million for the year ended 31 December 2013 due primarily to the drilling of new wells (US$108.1 million), costs associated with the third gas treatment unit and Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields, the placement of US$30.0 million of cash deposits partially offset by the redemption of US$25.0 million of short-term bank deposits and the acquisition of Probel for which a payment was made of US$28.4 million. On 30 December 2013, Nostrum Oil & Gas Coöperatief U.A. signed a purchase agreement to acquire 100% of Probel Capital Management N.V.. See "Related Parties and Related Party Transactions".

Net cash used in investing activities was US$269.7 million for the year ended 31 December 2012 due primarily to the drilling of new wells (US$116.2 million), investments in the gas treatment facility (US$38.6 million), US$50.0 million short-term bank deposits and costs associated with the first two units of the gas treatment facility and Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields.

Net cash (used in)/provided by financing activities

Net cash used in financing activities was US$132.4 million for the year ended 31 December 2013, primarily attributable to the payment of US$63.2 million in distributions and the interest paid on the Group's 2010 Notes and 2012 Notes.

Net cash provided by financing activities was US$50.4 million for the year ended 31 December 2012, primarily attributable to the receipt of proceeds of the 2012 Notes partially offset by the partial repurchase of the 2010 Notes at a premium and the payment of US$59.5 million in distributions.

Five-year summary

In millions of US Dollars unless stated otherwise	2014 Audited	2013 Audited	2012 Audited	2011 Audited	2010 Audited
Revenue	781.9	895.0	737.0	300.8	178.2
Cost of sales	(221.9)	(286.2)	(238.2)	(70.8)	(53.9)
Gross profit	**560.0**	**608.8**	**498.8**	**230.0**	**124.3**
General and administrative expenses	(54.9)	(56.1)	(62.4)	(32.8)	(24.0)
Selling and transportation expenses	(122.3)	(121.7)	(103.6)	(35.4)	(17.0)
Finance costs	(62)	(43.6)	(46.8)	(4.7)	(21.3)
Finance costs – reorganisation	(29.6)	–	–	–	–
Employee share option plan fair value adjustment	3.1	(4.4)	(2.5)	(3.5)	(3.1)
Foreign exchange (loss)/gain, net	(4.2)	(0.6)	0.8	(0.4)	–
Gain on derivative financial instruments	60.3	–	–	–	(0.5)
Interest income	1.0	0.8	0.7	0.3	0.2
Other expenses	(49.8)	(25.6)	(6.6)	(7.9)	(1.1)
Other income	10.1	4.4	4.0	3.4	3.3
Profit before income tax	**311.7**	**362.0**	**282.4**	**149.0**	**60.8**
Income tax expense	(165.3)	(142.5)	(120.4)	(67.4)	(37.9)
Net income	**146.4**	**219.5**	**162.0**	**81.6**	**22.9**
Non-current assets	1,698.6	1,426.0	1,251.6	1,126.9	965.0
Current assets	509.6	334.8	351.1	179.3	172.4
Total assets	**2,208.2**	**1,760.8**	**1,602.7**	**1,306.2**	**1,137.6**
Equity	917.6	832.5	695.1	585.2	500.7
Non-current liabilities	1,163.7	793.6	781.9	599.7	546.6
Current liabilities	126.9	134.7	125.7	121.3	90.3
Total equity and liabilities	**2,208.2**	**1,760.8**	**1,602.7**	**1,306.2**	**1,137.6**
Net cash flows from operating activities	349.6	358.6	291.8	132.2	99.0
Net cash used in investing activities[1]	(305.1)	(239.0)	(269.7)	(103.7)	(132.2)
Net cash from/(used in) financing activities	147.5	(132.4)	50.4	(47.4)	39.7
Profit margin %	18.7%	24.5%	22.0%	27.1%	12.9%
Equity/assets ratio %	41.6%	47.3%	43.4%	44.8%	44.0%
Share price at end of period (US$)[2]	6.56	13.00	10.70	9.70	12.30
Shares outstanding ('000s)	188,183	188,183	188,183	186,762	185,000
Options outstanding ('000s)	2,611	2,912	2,132	2,868	2,983
Dividend per share (US$)	0.35	0.34	0.32	–	–

1 IFRS term based on indirect cash flow methodology.
2 Prior to 20 June 2014 the equity of the Group was represented by GDRs, 2014 end of period share price is calculated as 4.20 GBP/share x 1,5608 US$/GBP = 6.56 US$/share.

Risk management

Identification and assessment of the Group's key risks

The Board acknowledges its responsibility for determining the significant risks which may potentially affect the Group in achieving its strategic objectives. A Group-wide risk assessment is performed periodically to identify the nature and extent of such risks and determine respective mitigating actions.

During 2013 the Group formalised the Director's Risk Register, which identified the risks and associated mitigating control activities and future actions. These identified risks were aggregated and categorised into the following risk categories:

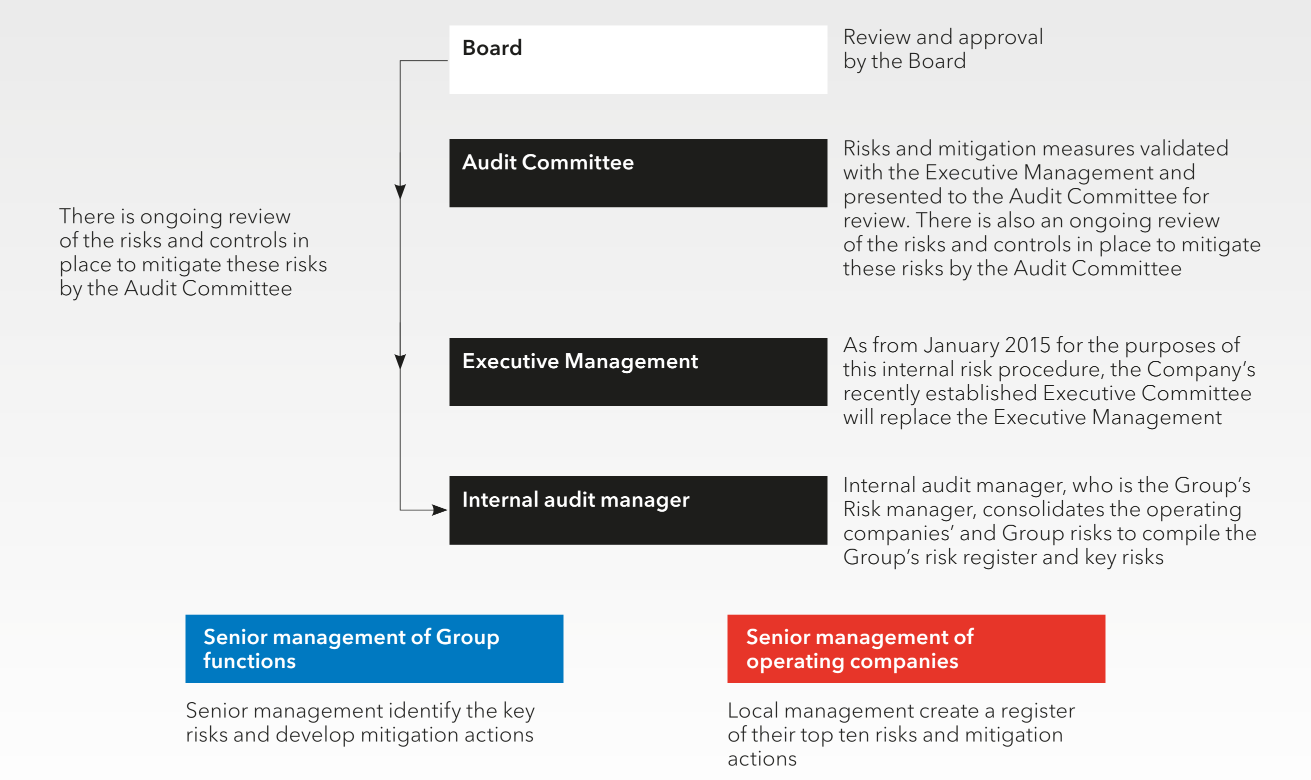
- strategic;
- operational;
- financial; and
- compliance.

Based on this risk register and further analysis and discussions, the executive 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".

Risk assessment and management

The Group has in place risk management processes and procedures and is currently in the process of formalising them into a Risk Management Policy, which will reflect the following interaction chart and key management principles:

Risk assessment and management



The Risk Management Policy will contain a description of the risk management process consisting of the following cycle of coordinated activities:

- recognition or identification of risks;
- ranking or evaluation of risks;
- responding to significant risks:
  - tolerate, when they are outside the Group's ability to mitigate;
  - treat by reducing their impact or likelihood of occurrence;
  - transfer to a third party;
  - terminate the activity creating them;
- resourcing controls;
- reaction planning;
- reporting and monitoring risk performance; and
- reviewing the risk management framework.

Developments in the reporting period

Two new risks were identified to be significant in 2014:

- Estimation of oil and gas reserves – since these may significantly affect the value of the non-current assets of the Group and its strategic objectives.
- Risk of non-compliance with anti-bribery legislation due to perceived practices in jurisdiction of operation.

The following three risks assessed and disclosed in 2013 as principal financial risks and uncertainties were removed from the list of significant risks in 2014. However, these are addressed in the note "Financial risk management objectives and policies" of the consolidated financial statements:

- Interest rate risk
- Foreign currency exchange rate risk
- Credit risk

The risk "Gas sales price" assessed and disclosed as principal risks and uncertainties in 2013 was incorporated to another risk from the prior year "Commodity price risk" due to their similar nature.

The significant risks are presented overleaf, grouped into the four above-mentioned categories.

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Principal risks and uncertainties

Strategic risks	Description of risk	Risk management
Development projects	The Group's planned development projects, in particular GTU3 and well drilling, are subject to customary risks related to delay, non-completion and cost overruns, which could impact future production.	The Group has engaged an experienced international project management firm to assist with its development of GTU3 and is contracting with reputable international equipment suppliers employing proven technologies for the project. The timing and scope of the drilling programme is also tailored taking into account the states of the GTU3 project and the oil price development.
Commodity price risk	The Group is exposed to the risk that its future earnings will be adversely impacted by changes in the market price of crude oil, given that all sales prices of crude oil and condensate are based on market prices. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. The Group could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve.	The Group's hedging policy is that, upon entering into longer term non-scalable capital expenditure commitments, it will hedge up to a maximum of 70% of its liquids production. Currently, the hedge in place is in the order of 30% of the liquids production. The instrument the Group has been employing is a zero-cost capped-collar. Such a contract fixes the floor and ceiling price at a certain predetermined level, with the limitation of the ceiling price at a certain range. The Group intends to maintain the same hedging policy going forward. In relation to the gas sales price, based on the terms of its PSA and applicable law the Group does not believe that such legislation is applicable in its subsoil use of the Chinarevskoye field and has conveyed such a view to the Kazakh government.
Operational risks	**Description of risk**	**Risk management**
Single revenue source and business interruption	The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue.	In 2013 the Group acquired subsurface use rights for three oil and gas fields near the Chinarevskoye field. In 2014 the Group developed a work programme for the initial drilling of one well in each of these fields before the end of 2015. Due to the depressed oil price environment, it is currently proposed to drill one of these wells in 2015 and scale back drilling of the other two wells. The Group also has a team of dedicated specialists who assess further possible acquisitions of oil and gas fields and assets.
Estimation of oil and gas reserves	The Group is subject to the risk that if there are inaccurate assessments and overstatement of the oil and gas reserves the Group's non-current assets and goodwill may be overstated or impaired. This may also be a consequence of unsuccessful exploration of the new fields and may also result in inappropriate decision-making.	The Group has a department of highly skilled geologists, who perform periodic assessment of the oil and gas reserves in accordance with international standards on reserve estimations. The results of the assessments are audited by the Group's independent reserve auditor, Ryder Scott.

Compliance risks	Description of risk	Risk management
Subsoil use agreements	The Group may have disagreements with the Kazakh government regarding its subsoil operations or compliance with the terms of its subsoil use agreements.	The Group believes that it is in full compliance with the terms of its subsoil use agreements and maintains an open dialogue with Kazakh governmental authorities in this regard. In the event of any non-compliance the Group will pay any applicable penalties and fines.
Environmental compliance	The legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times.	The Group has strengthened its HSE department over the past 18 months, is regularly developing its internal HSE policies and has performed its first audit of supplier compliance with such policies. The Group also regularly commissions independent environmental audits to monitor its compliance and best practice in this area.
Perceived risk of non-compliance with anti-bribery legislation	There is a risk that the Group's employees will unintentionally or deliberately take actions prohibited by anti-bribery legislation given the perceived heightened risk in the jurisdiction in which the Group operates.	The Group has adopted an anti-bribery and corruption policy, and has included a provision on this subject in the Group's Code of Conduct and conducted training for employees in relation to their obligations in this area.

Financial risks	Description of risk	Risk management
Tax law uncertainty	The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create a risk of additional payments of tax from assessments which the Group believes are inapplicable to it.	The Group regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.
Going concern and liquidity risk	The Group is subject to the risk of encountering difficulties in raising funds to meet commitments associated with its financial liabilities and respective inappropriateness of going concern assumptions.	Liquidity requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise. The treasury policy requires the Group to maintain a minimum level of cash of US$50 million.

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

This strategic report is approved by the Board.

Kai-Uwe Kessel
Chief Executive Officer
24 March 2015

Jan-Ru Muller
Chief Financial Officer
24 March 2015

Corporate governance

Committed to excellence in our governance

Chairman's overview

"I am pleased with the way in which the Group has embraced and addressed the demands of the additional regulatory obligations."

Dear shareholder

Nostrum attaches a high priority to good practice in corporate governance, the system by which the Group is directed and managed, and is committed to implementing good corporate governance practices in the interests of all of our stakeholders. Adopting and implementing good corporate governance is a core principle of the Group's relations with investors, employees, customers, suppliers and business partners.

I am pleased with the way in which the Group has embraced and addressed the demands of the additional regulatory obligations made applicable to the Group as a result of the Company moving to a premium listing on the London Stock Exchange. In particular, as regards the UK Corporate Governance Code published by the Financial Reporting Council, in the few areas where Nostrum does not fully comply with the UK Corporate Governance Code the Company has valid reasons for such non-compliance which are explained in this section of the Annual Report and on the governance section of Nostrum's website http://www.nostrumoilandgas.com/en/corporate-governance.

The scope of activity of our Board committees has changed significantly over the past 12 months as they have worked to fulfil their obligations under their terms of reference and those under the relevant provisions of the UK Corporate Governance Code and other regulatory requirements applicable to the Company as a result of its premium listing.

In particular, the nomination and governance committee has discussed and considered issues of succession planning and suitable profiles for future Board candidates and the remuneration committee has focused a great deal of its attention this year on developing the Company's first remuneration policy, which will be put to a shareholder vote at the AGM this year in line with recently enacted regulations, and our first remuneration report.

The Board and the Group as a whole continuously take into account corporate governance considerations when making plans and setting out the Group's strategy and priorities.

As a result of the premium listing both Sir Christopher Codrington, Bt. and Mark Martin joined the Board on 19 May 2014 as non-executive directors. I am delighted to welcome Sir Christopher and Mark to the Board.

I am fortunate to act as chairman of a board of directors possessing diverse sectoral experience, ages and geographic and ethnic backgrounds. We value diversity on the Board and we will seek to foster diversity, including gender diversity, going forward. We believe that the directors have the appropriate mix of skills, experience, independence and knowledge to enable them to discharge their duties and responsibilities effectively.

We pride ourselves on taking a practical rather than formalistic approach to corporate governance as we endeavour to act in the interests of all our stakeholders. I am pleased with the way in which the Group has complied with the higher standards of corporate governance applicable to it since the premium listing and am looking forward to maintaining our good standards of corporate governance during the year ahead.

Frank Monstrey
Chairman

Board of directors

Frank Monstrey
Executive Chairman

- Date of birth: 22 April 1965
- Nationality: Belgian

Chairman of Nostrum's predecessor entities since 2004. Appointed as director and chairman of Nostrum Oil & Gas PLC on 3 October 2013.

Other current appointments
Probel Capital Management N.V. (now called Nostrum Services N.V.), Oostendse Investerings Vennootschap N.V., Magorium NV, Tensor Holding VOF, Tensor Property Investments S.A.R.L., Expression Inc., Septemium Investments S.A., Tensor Capital Partners LP, Tensor Carry Holdings LLC, Tensor Asset Management B.V., Thyler Holdings Limited, Claremont Holdings Limited, Camden Holdings Ltd, Secap Holdings Ltd, Roding Investments S.A., Orior Trading Ltd, Selag Holdings S.A., Tensor Property Investments Sarl, Nedmac BV, Thyler Holdings BV, Septinvest BV, Sepol Holdings GmbH, RusPetro plc, Crest Capital Management N.V.

The chairman has no other significant commitments.

Other positions(1)
- From 1991-2015, Chief Executive Officer of Probel Capital Management N.V. (now called Nostrum Services N.V.), a private equity and asset management firm based in Belgium specialising in long term capital management in emerging markets.
- Holds a degree in Business Economics from the University of Leuven (KUL), Belgium.

Board Committees
- Nomination and Governance

Kai-Uwe Kessel
Chief Executive Officer

- Date of birth: 17 December 1961
- Nationality: German

Director of Nostrum's predecessor entities since 2004. Appointed as director of Nostrum Oil & Gas PLC on 3 October 2013.

Other current appointments
BelGerAs S.A. – Director, Gervanca Investments Sarl – Director Cavendish

Other positions(1)
- 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.

Board Committees
- None

Jan-Ru Muller
Chief Financial Officer

- Date of birth: 20 May 1964
- Nationality: Dutch

Appointed as Chief Financial Officer of Nostrum's predecessor entity on 16 November 2007 and as a director of Nostrum Oil & Gas PLC on 3 October 2013.

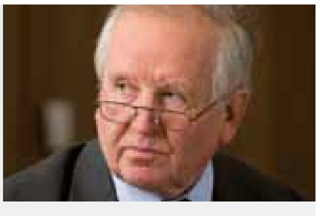
Other current appointments
Telco B.V. – Director, Tenggara B.V. – Director

Other positions(1)
- Since 2000, served in various capacities at Probel Capital Management N.V. (now called Nostrum Services N.V.), overseeing Nostrum's adoption of IFRS and the implementation of SAP.
- 1990-2000, founder and Managing Director of Axio Systems, an information technology company.
- 1988-1990, Andersen Consulting.
- Holds a BEng. degree from Utrecht Municipal Institute of Technology and an MBA degree from the University of Leuven (KUL).

Board Committees
- None

Eike von der Linden
Senior independent non-executive director

- Date of birth: 7 July 1941
- Nationality: German



Appointed as a director of Nostrum Oil & Gas Group Ltd on 16 November 2007 and as a director of Nostrum Oil & Gas PLC on 19 May 2014.

Other current appointments
Linden Advisory & Consulting Services – managing director, Appleton Resources Ltd – director, member of the Board (will be terminated end 2014), Jordan Energy and Mining Ltd. – technical director, Schullermann und Partner AG – member of supervisory board, Adveq Real Assets Funds – member of expert advisory panel

Other positions(1)
- Since 1988, managing director of Linden Advisory and Consulting Services.
- Since 1985, independent adviser to financial institutions for equity investments and mezzanine and debt funding (project finance) in the field of natural resources.
- Holds a PhD in mining economics from the Technical University of Clausthal.

Board Committees
- Audit (Chairman)
- Remuneration
- Nomination and Governance

(1) In chronological order.

Atul Gupta
Independent non-executive director

- Date of birth: 15 December 1959
- Nationality: British

Appointed as a director of Nostrum Oil & Gas Group Ltd on 30 November 2009 and as a director of Nostrum Oil & Gas PLC on 19 May 2014.

Other current appointments
Seven Energy International Limited – non-executive director, Vetra Energy – non-executive director

Other positions[1]
- 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).

Board committees
- Audit

Sir Christopher Codrington, Bt.
Independent non-executive director

- Date of birth: 20 February 1960
- Nationality: British

Appointed as a director on 19 May 2014.

Other current appointments
Navarino Services Limited – director

Other positions[1]
- More than 28 years of executive board and senior management experience in the oil and gas sector and the hospitality and other industries.
- Spent eight years 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.

Board committees
- Nomination and Governance (Chairman)
- Remuneration
- Audit

Piet Everaert
Non-executive director

- Date of birth: 28 March 1961
- Nationality: Belgian

Appointed as a director of Nostrum Oil & Gas Group Ltd on 16 November 2007 and as a director of Nostrum Oil & Gas PLC on 19 May 2014.

Other current appointments
BVBA Piet Everaert – director, VWEW Advocaten VOF – partner

Other positions[1]
- Since 1993, partner in the VWEW Advocaten law firm.
- Since 1986, lawyer at the Brussels Bar (active in the field of Belgian business law).
- Graduate from the University of Leuven (KUL) (1984) and from the College of Europe (Bruges) (1985), Belgium.

Board committees
- Remuneration

Mark Martin
Independent non-executive director

- Date of birth: 17 February 1969
- Nationality: British

Appointed as a director on 19 May 2014.

Other current appointments
None

Other positions[1]
- 20 years of investment banking experience with Barclays, Baring Securities and ING where he was Global Head of Equity Capital Markets from 2003-2011.
- 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
- Remuneration (Chairman)

Pankaj Jain
Non-executive director

- Date of birth: 14 June 1967
- Nationality: Indian

Appointed as a director of Nostrum Oil & Gas Group Ltd on 26 November 2013 and as a director of Nostrum Oil & Gas PLC on 19 May 2014.

Other current appointments
KazStroyService Global B.V. – Chief Executive Officer, ABN Heritage Developers Private Limited – director, RMG Properties Private Limited – director

Other positions[1]
- Since 2009, Chief Executive Officer of the KazStroyService (KSS) Group.
- More than 20 years of extensive experience in EPC (engineering, procurement and construction) projects in India, Kazakhstan, the Middle East and the Far East.
- Graduate from the Regional Engineering College, Trichy, India (BEng Hons in Civil Engineering (Major: oil and gas infrastructure)).

Board committees
- None

(1) In chronological order.

Strategic report
Corporate governance
Financial report
Regulatory information
Additional disclosures

Corporate governance

Nostrum Oil & Gas PLC management team

(See biographies of executive directors Frank Monstrey, Kai-Uwe Kessel and Jan-Ru Muller on page 64).

Thomas Hartnett
General Counsel and Company Secretary

- Year of Birth: 1964
- Nationality: American/Belgian

Appointed as Group General Counsel of the Nostrum Group on 5 September 2008 and as Company Secretary of Nostrum Oil & Gas PLC on 3 October 2013.

Other positions

- 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.

Jan Laga
Head of M&A

- Year of Birth: 1963
- Nationality: Belgian

Appointed Deputy CEO of Nostrum on 1 January 2010.

Other positions

- Wide experience in industrial group management: Picanol, Berry Group, Ackermans & van Haaren and Koramic.
- Holds a Master's degree in electro-mechanical engineering (University of Leuven) and an MBA (INSEAD).

Tom Richardson
Group Head of Corporate Finance

- Year of Birth: 1981
- Nationality: British

Appointed as Group Head of Corporate Finance on 31 August 2011.

Other positions

- Over seven years' experience in banking covering the emerging markets and has been involved in raising over US$5 billion for emerging markets companies in the capital markets.
- Two years of experience in consultancy work across the emerging markets, being involved in over US$1.25 billion of financings.

Alexei Erber
Head of Business Development

- Year of Birth: 1959
- Nationality: German

Appointed as Director of Geology and Reservoir Management of Zhaikmunai LLP in October 2007.

Other positions

- More than 20 years' extensive experience with the geological and exploration departments of Erdgas Erdöl-Gommern GmbH and Gaz de France.
- Graduate of the Gubkin Russian State University of Oil and Gas (Geology and Geology Engineering) and the Ernst Moritz Arndt University of Greiswald (Mathematical Methods in Geology).

Zhaikmunai LLP management team

Heinz Wendel
General Director, Zhaikmunai LLP

- Year of Birth: 1953
- Nationality: German

Appointed as Chief Operating Officer of Zhaikmunai LLP in January 2012, and as General Director of Zhaikmunai LLP in August 2013.

Other positions

- 30 years' board experience in oil & gas exploration and production, primarily as an oil and gas engineer.
- Served in various managerial and technical capacities in Germany, Poland, Russia and Kazakhstan with GDF Suez E&P, East German Erdöl-Erdgas Gommern (EEG), and others.
- Graduate of the Oil & Gas Institute of Baku, Azerbaijan.

Gudrun Wykrota
Chief Financial Officer, Zhaikmunai LLP

- Year of Birth: 1960
- Nationality: German

Appointed as Chief Financial Officer of Zhaikmunai LLP in April 2010.

Other positions

- Prior experience in the energy field: Head of Asset Management Upstream (Gazprom Germania GmbH), Finance and Administration Manager (Gaz de France Produktion Exploration Deutschland GmbH).
- Holds an MSc (Mining Engineering and Economy) from Moscow Geological Exploration University, and a Certificate in International Accounting from the German Chamber of Industry and Commerce in Berlin, Germany.

Zhaikmunai LLP management team

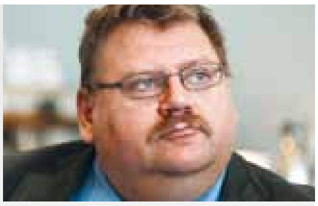
Berik Brekeshev
Commercial Director, Zhaikmunai LLP

- Year of Birth: 1975
- Nationality: Kazakh

Appointed as Commercial Director of Zhaikmunai LLP in January 2010.

Other positions
- More than 10 years' extensive experience in the oil and gas industry in Kazakhstan.
- Previously held senior positions with Starleigh Ltd, Tallahassee Holdings Limited and JSC NNGRE and commercial roles at Nelson Resources, Kazakhoil Aktobe, Buzachi Operating, Atlas Global Investment and Western-Siberian Drilling Company.
- Holds an MBA (International Marketing) from the Maastricht School of Management.

Jörg Pahl
Drilling Director, Zhaikmunai LLP



- Year of Birth: 1969
- Nationality: German

Appointed as Zhaikmunai LLP Drilling Director in 2005.

Other positions
- Extensive drilling experience (more than 10 years) in various positions in the Drilling/Workover Technology Department at Erdgas Erdöl GmbH and the Operation and Production Department at the E&P Division of Gaz de France.
- Holds qualifications from the Technical School for Deep Drilling Techniques, Stralsund and from the Technical University, TU Bergakademie, Freiberg, Germany (Drilling Technology and Fluid Mining).

Gernot Voigtländer
Director of geology and reservoir management

- Year of Birth: 1968
- Nationality: German

Appointed as director of geology and reservoir management in 2013.

Other positions
- Previously worked at GDF Suez Exploration & Production Deutschland GmbH and gained experience in petroleum geology from 1984.
- Extensive subsurface experience in the exploration, appraisal, development and production of hydrocarbons.
- Diploma of Geology from the Technical University of Berlin and degree in Exploration Geology from Moscow Institute of Exploration Geology, Russia.

Amankeldy Sanatov
Acting operations director

- Year of Birth: 1975
- Nationality: Kazakh

Appointed as acting operations director in 2013.

Other positions
- Diplomas in Operation of Oil and Gas fields and Oil and Gas Geology from Saraov Chernyshevsky State University.
- Has previously worked in other positions within the Company including as site manager, manager of the oil and gas production department and field superintendent for Zhaikmunai LLP.

Zhomart Darkeev
Administrative director

- Year of Birth: 1966
- Nationality: Kazakh

Other positions
- Previously worked for Derku Oil & Gas drilling as assistant driller and Kazakhgas State Holding Company as a leading reservoir engineer. At Zhaikmunai LLP, Mr Darkeev has held the positions of Assistant General Director, Chief Administrative Manager, Engineer Manager and Deputy General Manager.
- Graduate of Furmanov Secondary School with further education completed at the Ivano-Frankivsk Institute of Oil and Gas with a specialisation in drilling of oil and gas wells.

Vyascheslav Druzhinin
Government authorities relations director

- Year of Birth: 1954
- Nationality: Russian

Other positions
- Qualified mining engineer from the Polytechnical Institute, Tomsk (Russia) and the USSR Ministry of Geology.
- Completed drilling engineer training at the Hughes Christensen Company, Houston, Texas.
- Previous experience includes various positions in the Field Development Department of KazakhGaz State Holding Company, State Holding Company "Zharyk" and Volkovgeologia KGGP.

Corporate governance approach
Introduction

Corporate governance is very important to Nostrum and the Board promotes high standards of corporate governance. The Company fully complies with all provisions of the UK Corporate Governance Code (the "**Code**") with the exception of those matters set out on page 71, in respect of which the reasons for the divergence from the Code position is explained.

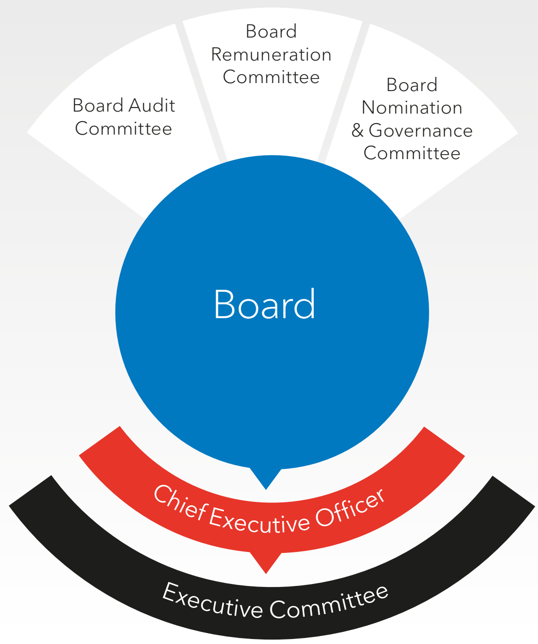
The Board considers all of its non-executive directors, other than Piet Everaert and Pankaj Jain, to be independent within the meaning of such term as defined in the Code. Piet Everaert and Pankaj Jain are not deemed to be independent as a result of having been nominated by Claremont Holdings C.V. (a Dutch limited partnership indirectly controlled by Frank Monstrey, the chairman of the Company, and his spouse) and Mayfair Investments B.V., respectively, who are the two largest shareholders in the Company.

The Code recommends that the Board should appoint one of its independent non-executive directors to act in the capacity of senior independent director. Eike von der Linden serves in such capacity as the Board's senior independent director.

The Board has appointed an audit committee, a remuneration committee and a nomination and governance committee. The members of these committees are appointed principally from among the independent directors and all appointments to these committees are for a period of one year. The terms of reference of the various committees have been drawn up in accordance with the provisions of the Code.

Each committee and each director has the authority to seek independent professional advice where necessary to discharge their respective duties, in each case at the Company's expense. In addition, each director and committee has access to the advice of the Company Secretary, Thomas Hartnett.

Governance framework



How the Board works

The Board schedules four regular meetings during the course of the year and in addition meets when appropriate to review trading performance, budgets and funding, set and monitor strategy, examine acquisition opportunities and report to shareholders.

The Board has a formal schedule of matters reserved for its decision which cover decisions relating to:

- strategy and management;
- structure and capital;
- financial reporting and controls;
- internal controls;
- contracts and expenditure;
- communication;
- Board membership and other appointments;
- remuneration;
- delegation of authority;
- corporate governance matters; and
- approval of certain Group policies.

The schedule is reviewed annually and is available on our website. Other specific responsibilities are delegated to Board committees.

The Board is responsible for considering all important management and policy matters in relation to the Company and the Group and has the powers and duties set out in the relevant laws of England and Wales and the Company's articles of association.

The key responsibilities of the Board include:

- setting the Company's strategic aims;
- ensuring that the necessary financial and human resources are in place for the Company to meet its objectives;
- reviewing Group management performance; and
- setting the Group's values and standards to ensure that its obligations to all shareholders are understood and met.

Board composition

The Board consist of nine directors. As at 31 December 2014, in addition to the Chairman, Frank Monstrey, there were two executive directors and six non-executive directors.

Within the Board, the roles of chairman and chief executive are separate, with each having distinct and clearly defined responsibilities. The chairman, Frank Monstrey, is responsible for leadership of the Board and for ensuring its effectiveness in all aspects of its role. The chairman sets the agenda for Board meetings in consultation with the chief executive, the chief financial officer and the general counsel and company secretary. The chairman is also responsible for ensuring that the directors receive accurate, timely and clear information and that there is effective communication with the directors. The chief executive provides leadership to the Group, which enables the successful planning and execution of the objectives and strategies agreed by the Board. The chief executive is also responsible for care of the Group's assets and, jointly with the chairman, representation of the Group to third parties.

Eike von der Linden as senior independent non-executive director provides a sounding board for the chairman and serves as an intermediary for the other directors when necessary. He is available should the need arise to convey concerns to the Board other than through the chairman or the chief executive.

The Board's nomination committee and governance committee keeps the balance, independence and succession plans of the Board under review so as to maintain an appropriate balance of skills and experience within the Company and on the Board in accordance with the UK Corporate Governance Code.

Board 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 in the Board. The Board is comprised of individuals with diverse sectoral experience, ages and geographic and ethnic backgrounds.

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 AGM of the Company.

The appointment of each of the non-executive directors commenced on 19 May 2014. Each appointment is for an initial term of three years, subject to being re-elected as a director at each subsequent AGM of the Company. The letters of appointment for non-executive directors do not set a fixed time commitment as it is anticipated that the time required of directors may fluctuate depending on demands of the Company's business and other events. It is expected that directors will allocate sufficient time to the Company in order to discharge their duties effectively.

Copies of the service agreements of the executive directors and the letters of appointment for the non-executive directors are available for inspection at the Company's registered office.

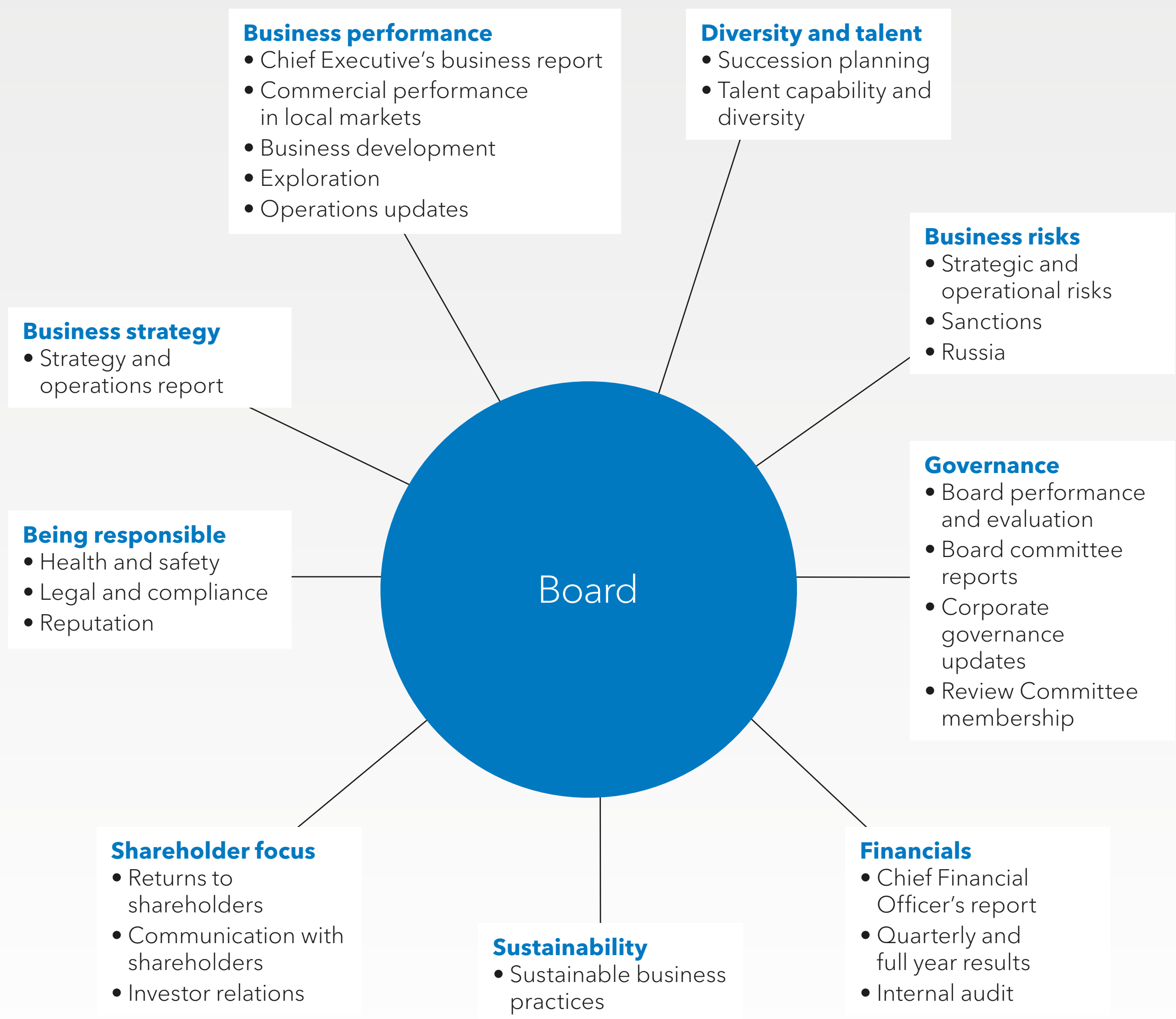
Whilst there are currently no women on Nostrum's Board, gender diversity is important to us. The nomination and governance committee will be taking this into account when considering succession planning and suitable profiles for Board candidates.

Corporate governance approach continued
Introduction

Board activities in the 2014 financial year

Board activities are structured to assist the Board in achieving its goal to support and advise executive management on the delivery of the Group's strategy within a transparent governance framework.

The diagram below shows the main areas of focus by the Board during 2014.



Board evaluation

In line with the requirements of the Code, the Company aims to review Board effectiveness annually, with Board effectiveness also being reviewed through an external performance evaluation every three years.

In 2014 a detailed questionnaire was prepared by the Company Secretary and distributed to directors for their feedback regarding the Board's performance and effectiveness. The directors were asked to provide their views on a range of subjects, including multiple questions in four principal areas: leadership, effectiveness, accountability and engagement.

Key findings and action items coming out of the self-evaluation include the following:

- Certain directors felt that materials for consideration by the Board in Board meetings had not been distributed sufficiently in advance of meetings and that communication between Board meetings could be improved. The Company has entered into a contract with an external service provider for the creation of a board portal designed to improve the efficiency of the information-sharing process and timeliness of the distribution of Board materials and other information and provide an additional platform for communication between directors.
- One director suggested that the Company's risk management and internal control systems function could be improved. The Company hired an Internal Audit Manager in 2014 who is responsible for this function, which includes providing the Board with quarterly internal audit reports. In addition, the hiring of an internal audit manager at the level of the Company's principal operating company has been adopted as an action item for 2015.
- There was a suggestion that the Company develop more formally agreed goals and objectives for the review and monitoring of management's performance. This has been adopted as an action item for 2015.

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 participate in discussions with members of the Board and representatives of major shareholders in order to obtain a good understanding of the challenges and opportunities faced by the Group. Directors are often given the opportunity to discuss their training and development needs and to make recommendations to the chairman regarding topics on which they would like to receive training.

The Company held a reservoir management workshop on 17 February 2014 in Berlin, which covered topics such as production performance, key subsurface events in 2013, geology and reservoir engineering and the Group's drilling and wellwork plan for 2014 in relation to the Chinarevskoye field. In addition, a training day was held for directors on 24 March 2014 in Frankfurt, Germany, which covered corporate governance topics including inside information and compliance with the Companies Act 2006, the Listing Rules and the Disclosure and Transparency Rules.

In response to requests from directors, a training day was also organised for 19 March 2015 and covered business and governance topics including but not limited to: (i) crisis management; (ii) self evaluation of director's performance; and (iii) regulatory updates.

Shareholder engagement

Nostrum is in regular contact with its shareholders. We regularly issue press releases, we attend investor conferences globally and our quarterly, half-yearly and annual results are always followed by an investor call. We are available for shareholder meetings with management and welcome enquiries. We are continually reacting to feedback to ensure our communications are in line with requests. 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. All shareholders are encouraged to attend the AGM to discuss the progress of the Group.

Availability of the relevant corporate governance code

The UK Corporate Governance Code is publicly available on the website of the UK Financial Reporting Council.

UK Corporate Governance Code Compliance

Nostrum complied throughout 2014 with the provisions of the Code, except in the following aspects:

A.3.1 The chairman does not meet the independence criteria set out in B.1.1 of the Code, in part given his executive position in the Company. Companies owned and controlled by the chairman acquired the Group's assets outright in 2004 and the chairman has been a leading driver behind the successful development of the business since that date. As such, the other members of the Board consider that the chairman's continued involvement as an executive director is important for the future of the business, given the chairman's experience and expertise in the development of the Group's oil and gas assets in Kazakhstan.

Corporate governance approach continued

Introduction

B.1.2 Given that the chairman fulfils an executive role and Piet Everaert and Pankaj Jain are not categorised as independent directors as a result of having been nominated by Claremont Holdings C.V. ("**Claremont**") and Mayfair Investments B.V. ("**Mayfair**"), respectively, five of the nine directors on the Board are not considered independent for the purposes of the Code. Mayfair, whilst not considered independent for the purposes of the Code, is independent of the other shareholders in the Company. Mayfair has no alignment with any other major shareholder and hence Mayfair's nominee to the Board is considered to be independent in character and judgement with no relationships that directly affect his judgement and no single group is therefore able to exercise majority influence over the Board as a whole.

In order to provide additional protections to the Company in respect of these areas of non-compliance with the Code, in 2014 the Company entered into relationship agreements with each of Claremont and KazStroyService Global B.V. ("**KSS Global**"). On 30 January 2015 Mayfair (an affiliate of KSS Global) acquired 48,333,300 ordinary shares in the Company from KSS Global and pursuant to a deed of adherence of the same date undertook to the Company to be bound by the terms of the relationship agreement previously signed between the Company and KSS Global and to observe and perform all of the provisions and obligations of such relationship agreement in so far as they fall to be observed or performed on or after the date of the transfer.

Policies

The Company has adopted a share dealing code, which incorporates the Model Code as published in the Listing Rules and applies to the directors, senior management and other relevant employees of the Group.

Bribery and corruption are significant risks in the oil and gas industry and as such the Company operates a group-wide anti-bribery and corruption 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.

In addition, the Company has adopted a whistle-blowing policy that takes account of the Whistle-blowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work.

Board Committees

The Board has a nomination and governance committee, an audit committee and a remuneration committee. Further details on each of these committees can be found in their reports on pages 74 to 91. The terms of reference of each of these committees can be found on our website at http://www.nog.com/en.

The committees are provided with all necessary resources to enable them to undertake their duties in an effective manner. The company secretary acts as secretary to the committees. The minutes of the committee meetings are circulated to all directors.

Meetings of the Board and its committees are scheduled for March, May, August and November each year. Directors unable to attend a Board meeting because of another engagement are provided with the briefing materials and can discuss issues arising in the meeting with the chairman or the chief executive. In addition to scheduled Board meetings, there are generally other ad hoc meetings called to deal with specific matters as and when they arise.

Attendance at meetings of the Board and its committees in the 2014 financial year:

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
Executive directors								
Frank Monstrey	7	7					1	1
Kai-Uwe Kessel	7	7						
Jan-Ru Muller	7	7						
Non-executive directors								
Eike von der Linden[1,4]	6	6	4	4	2	2	1	1
Piet Everaert[4]	6	6			2	2		
Atul Gupta[4]	6	4	4	2				
Pankaj Jain[4]	6	3						
Mark Martin[2,4]	6	6			2	2		
Sir Christopher Codrington, Bt.[3,4]	6	5	4	4	2	2	1	1

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

1 Chairman of the Audit Committee.
2 Chairman of the Remuneration Committee.
3 Chairman of the Nomination and Governance Committee.
4 Appointed as non-executive director of Nostrum Oil & Gas PLC on 19 May 2014.

The Corporate governance approach has been approved by the Board

Kai-Uwe Kessel
Chief Executive Officer
24 March 2015

Jan-Ru Muller
Chief Financial Officer
24 March 2015

Audit Committee Report
Letter from the Chairman

Eike von der Linden
Chairman, Audit Committee
Senior independent
non-executive director

Chairman's introduction

In 2014 the committee continued to focus on the appropriateness of the Group's financial reporting, which involved reviewing the adequacy of related disclosures, reviewing the Group's assessment and management of key risks, reviewing the Group's systems of internal control, establishing an internal audit function, and overseeing the relationship with Ernst & Young LLP, the Group's external auditor. The committee has also focused on the effect that the significant decline in oil prices is likely to have on any of the committee's key areas of focus.

I would like to take this opportunity to formally welcome Sir Christopher Codrington, Bt. who joined the committee on 19 May 2014 and who brings with him a wealth of experience in the oil and gas industry.

The committee has met four times during 2014. As Chairman of the committee I also meet regularly with our external auditor and the Group's internal audit manager to obtain their independent views on the Group's potential risk areas and to discuss any areas of concern identified by the committee. Subsequent to the monthly management reports, discussions took place between the audit committee members and conclusions have been drawn and, when considered necessary, recommendations have been made to the executive management.

Meetings of the committee usually take place just prior to a Board meeting to maximise the efficiency of the committee's interaction with the Board and, as Chairman of the committee, it is my responsibility to report to the Board on key topics discussed at committee meetings to ensure that all Directors are informed of the committee's work.

I believe that the committee consists of members with the correct balance of skills and experience to allow the committee to perform its tasks effectively whilst being supported by management, external auditor and the Group's internal audit manager.

Eike von der Linden
Chairman, Audit Committee
Senior independent non-executive director

Role and responsibilities of the Audit Committee

The primary role of the committee is to assist the Board in fulfilling its responsibilities in achieving the Group's strategic objectives and protecting stakeholder interests.

The key areas of responsibility of the committee are categorised as follows and are described in more detail in the committee terms of reference available on the Group's website at www.nog.co.uk.

- review of the Group's annual and interim reports including financial statements as well as formal announcements of the financial results and other information;
- review the effectiveness of the Group's internal controls and risk management systems including impairment testing, by assessing the consistency and clarity of related disclosures and conducting operating and financial reviews;
- monitor compliance with applicable legal and regulatory 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 their appointment, remuneration and terms of engagement whilst continually assessing their independence and objectivity; and
- review audit findings and assess the standard and effectiveness of the external audit.

The members of the committee during 2014 were:

Name	Nostrum Oil & Gas plc membership start date
Eike von der Linden	19 May 2014
Atul Gupta	19 May 2014
Sir Christopher Codrington, Bt.	19 May 2014

The membership of the committee has been selected with the aim of providing a wide range of financial and commercial expertise necessary to meet its responsibilities and all members of the committee are considered to have the required recent and relevant financial experience.

The committee meets on a quarterly basis or additionally as and when required. The chief financial officer and the internal audit manager are also invited to the meetings together with the external auditor.

In addition to these activities, on a monthly basis the members of the committee are updated by management and the internal audit manager on key issues and developments including the status of the Group's strategic initiatives, financial performance, risk management and internal controls. In the last quarter of 2014, the oil price impact on the financial results were assessed by the audit committee.

Activities of the Audit Committee during the year

Below is a summary of the major activities of the committee during the year, which include: compliance with corporate governance standards, financial reporting, external audit; internal audit, internal controls and risk management, significant issues and related actions and the committee review.

The committee held four meetings in 2014 and three between the beginning of 2015 and the publication date of this annual report. Committee members were present in person at four of the meetings, while three meetings were conducted by conference call.

Compliance with corporate governance standards

Nostrum's approach to corporate governance is primarily based on the UK Corporate Governance Code published by the Financial Reporting Council (FRC) and the Listing Rules of the UK Listing Authority.

As of 31 December 2014, Nostrum complied with all the principles and provisions of the UK Corporate Governance Code, in relation to the work of the committee.

The Chairman of the committee and external auditor participated in an annual reporting and accounts workshop organised by the Finance Team together with other departments in October 2014. As part of the workshop an experienced partner from Ernst & Young LLP gave an overview of best practice strategic and governance reporting as well as changes in related standards.

Nostrum has also established a Group whistle-blowing policy and has appointed two compliance liaison officers; one Russian speaking compliance liaison officer based in Kazakhstan and a further Dutch and English speaking compliance liaison officer based in Brussels, to ensure that all Group employees have access to someone who can provide them with support and guidance on their rights and obligations regarding whistle-blowing. The audit committee has close contact with the compliance liaison officers.

Financial reporting

While reviewing the draft quarterly and annual financial statements as well as the annual report the committee focused on challenging:

- the compliance of the accounting policies applied and disclosures made with financial reporting standards and relevant corporate governance requirements;
- the significant judgements and estimates applied by management, which are discussed in more detail in the section entitled "Significant issues and related actions" below; and
- whether the annual report, 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.

Audit Committee Report continued

Any questions and comments arising from such review as well as significant issues raised by the external auditor were discussed with management at meetings of the committee. Subsequently, based on its overall assessment the committee recommended that the Board approve the financial statements.

The committee continuously provides feedback to management on ways to improve the effectiveness and clarity of the Group's corporate reporting and has encouraged management to support and adopt initiatives by regulatory bodies which would enhance the Group's reporting.

External audit

During Q4 2014 the committee reviewed and discussed the detailed audit plan prepared by Ernst & Young LLP (UK) which identifies the audit scope, and their assessment of key risks. The key risks monitored by the committee coincide with those identified and assessed by management and the external auditor. These risks and remediating actions are explained in detail in the section entitled "Significant issues and related actions" below. All members of the committee support the application of professional scepticism by the Group's external auditor.

During 2014 and 2015 the members of the committee held several 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 include: the external auditor's assessment of significant risks and related management actions, confirmation that there has been no restriction in the scope placed on them by management, the adequacy of the audit fees, the independence of their audit and how they have exercised professional scepticism.

The effectiveness of the external auditor will be evaluated by the committee each year and takes into account the quality of the work and communication undertaken by the external auditor and the level of audit fees.

The committee reviewed the 2014 H1 interim and 2014 annual auditor's reports giving particular consideration to the audit procedures and findings in the areas of significant judgements and estimates. The committee also reviewed the letter of representation to be signed by management in respect of both the interim review and the annual audit. Lastly, the committee, together with the relevant management, considered the external auditor's management letter following the 2014 audit, and reviewed the steps proposed by management in response to the findings.

Appointment of external auditor

Ernst & Young LLP (Kazakhstan) was the auditor of the predecessor group of companies since 2007, and continued auditing Zhaikmunai LLP in 2014, while Ernst & Young LLP (UK) was appointed as an auditor of the Group on 19 May 2014 based on the recommendation of the committee and upon approval by the Company's shareholders.

Mr Richard Addison assumed the role of lead audit partner from Ernst & Young LLP (UK) for the 2014 Group audit in compliance with the requirements for the rotation of lead audit partners once every five years.

In 2015 the Group intends to adopt a policy on the Group's external audit, which details the Group's requirements for, amongst other things, external auditor selection and non-audit services. The committee also considered and took account of the guidance contained under provision C.3.7 of the UK Corporate Governance Code that provides that companies should put their external audit contract out to tender at least once every ten years.

Non-audit services

The committee monitors the external auditor to ensure that it does not provide non-audit services that are prohibited by the UK Auditing Practices Board (APB), and limits such services to due diligence services, other assurance services and tax compliance and advisory services.

In 2014, non-audit fees totalled US$1,089 thousand (2013: US$397 thousand) including US$730 thousand for assurance and due diligence services related to the premium listing (2013: US$252 thousand), US$319 thousand (2013: US$105 thousand) for quarterly reviews of the interim financial statements, US$40 thousand for tax compliance services. Notwithstanding a relatively significant amount of non-audit fees, the audit committee is satisfied that adequate safeguards to ensure Ernst & Young's independence are in place. The committee concurred with the external auditor's position that the majority of non-audit services have been of a one-off nature and do not impair the external auditor's independence.

In 2015 the Group is formalising its procedures relating to non-audit services in the abovementioned policy regarding the Group's external audit. It is expected that the policy will require 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. The policy will be under review and may be amended from time to time as necessary.

Internal audit

The committee receives quarterly reports and monthly updates from the Group's chief financial officer and internal audit manager throughout the year. The monthly report summarises current business performance and issues and the quarterly report provides information on internal audit findings and any action to be taken by management as a result.

During 2014 the Group developed its internal audit function and hired an internal audit manager. In connection with this an internal audit charter has been adopted, which develops a three-year internal audit plan and sets out the responsibilities of the internal audit function. The primary role of the internal audit function is to help the Board and executive management to protect the assets, reputation and sustainability of the organisation. This is intended to be 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 with regard to risk management and assurance across the Group.

The Company's ongoing process for identifying, evaluating and managing the significant risks faced by the Group accords with the FRC's 'Internal Control: Revised Guidance for Directors on the Combined Code' (formerly, the 'Turnbull Guidance'). The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's aim during 2015 is to develop the internal audit function further by hiring additional staff and refining the terms of the internal audit charter in consultation with the committee to ensure that it is effective and meets the requirements of the business.

Internal controls and risk management

The committee has been focusing on the Group's risk assessment and management system. A comprehensive financial procedures report (dated 20 May 2014), was developed by the Group during the process of the premium listing and was reviewed by the committee. The committee adopted the director's risk register and actively participates in further enhancing it. The Group is in the process of developing the internal controls manual and formalising the risk management policy. Particular attention is paid by the committee to the areas of risk management related to ensuring adequate maintenance of accounting records and accurate recording of transactions, which permit the preparation of financial statements in accordance with IFRS. In view of the oil price fluctuation, the committee focused on the review of impairment testing and going concern.

The committee also reviewed and challenged the Group's significant risks identified by the external auditor, and reviewed the effectiveness of the Group's risk management framework related to such risks.

The Committee review

The committee undertakes an annual evaluation of its performance and effectiveness.

Concerns were raised in May 2014 evaluation as to the adequacy of the induction material. Therefore, during the year suitable and detailed induction material was prepared and provided to Sir Christopher Codrington, Bt. as the newest member of the committee.

In March 2015 the committee used a survey which examined governance processes such as the mix of experience and skills amongst members, meeting content, information, training and resources. Areas of focus for 2015 arising from the evaluation include monitoring the length of committee papers, the inclusion of broader business topics on the agenda and suggestions for further committee training. Aside from this observation, the committee concluded that its mandate and oversight performance were appropriate.

Audit Committee Report continued

Significant issues and related actions

The following are the key risks and issues that the committee focused on during 2014:

Significant issues	Committee actions
Recoverability of non-current assets' carrying values The Group performs impairment testing of goodwill on an annual basis as required by IFRS. Moreover, the continuing fall in market oil prices since Q4 2014 was considered an impairment trigger event for oil & gas assets and exploration & evaluation assets. The impairment testing is subject to application of management judgement and various assumptions, underlying the calculation of the value in the use of this single cash generating unit, being the achievability of the long term business plan and the macroeconomic and related modelling assumptions underlying the valuation process.	The committee continuously reviewed the detailed reports on impairment testing prepared by management and challenged the appropriateness of the assumptions made. Areas of focus were the achievability of the business plans, as well as assumptions in relation to oil prices and discount rates, which have been subject to volatility given the current macroeconomic conditions. Special consideration was also given to the sensitivity analysis in relation to these assumptions. This has also been one of the main areas of audit focus and Ernst & Young LLP provided detailed reporting on these matters to the committee.
Oil & gas reserves estimation and accounting Oil & gas reserves, which are estimated by the Group's reserve engineers and audited by the independent reserve engineers, are used to calculate the depletion of oil & gas assets, and also used as input data for impairment testing models. Judgements and estimates are used when estimating the oil & gas reserves.	The committee reviewed judgemental aspects of the reserve estimation report as part of the Group's annual due diligence process. It also examined the governance framework for the oil and gas reserves process, training for staff and developments in regulations and controls.
Revenue recognition The timing of revenue recognition in accordance with Incoterms, the recognition of revenue on a gross or net basis, and the treatment of discounts are complex areas of accounting.	The committee has reviewed the Company's policy and controls in relation to revenue recognition and specifically compliance with PSA.
Related party transactions and disclosures This has been assessed as a significant risk area due to the inherent complexity of identifying related parties and the extensive disclosure requirements of IAS 24 regarding related party disclosures as well as the past history of significant related party transactions carried out by the Group.	The committee has been monitoring the procedures in place for the identification of related parties and ensures that pre-approvals are obtained before entering into contracts with them. Also the committee considered any observations made by the auditor as part of their reporting to the committee.
GTU3 construction and well drilling There are internal and external factors threatening the ability of the Group to achieve its strategic objectives such as the construction of GTU3 and well drilling. These include, but are not limited to, inadequate project management, supplier delays, availability of financial and other resources and cost overruns.	The construction of GTU3 and the drilling programme were one of the key areas of focus for the committee in 2014, particularly in light of the decline in oil prices. The committee has been reviewing monthly reports prepared by management and meeting regularly to discuss and identify potential problems and to provide advice on future steps to be taken by the Group.
Tax contingencies and compliance with PSA The Group is subject to risks associated with uncertainties surrounding the application of tax laws in Kazakhstan as well as the uncertainties and complexities of the calculation of taxes and other obligatory contributions under its production sharing agreement. As a result, management is required to make judgements and estimates in relation to provisioning for related taxes and contributions.	The committee considered management reports setting out the results of assessments in relation to significant taxes and other contributions to the government. Having received input from the external auditor and challenging decisions made, the committee agreed with management's assessment of the provision to be recognised in respect of taxes and uncertain tax positions, (Transfer pricing and social commitments) and the associated disclosures.
Provisions and contingencies The recognition of provisions for the future decommissioning of oil & gas assets at the end of their economic lives requires management's judgement when estimating settlement dates, the scope of work, technology and legal requirements. Also the level of provisioning for contingent and other liabilities is an issue where management and legal judgements are important.	The committee reviewed management's reports on the Group's decommissioning, environmental remediation and litigation provisioning, including key assumptions used, the governance framework applied, discount rates and the movement in provisions over time.

Significant issues	Committee actions
Going concern The determination that the Group will continue on a going concern basis for the foreseeable future requires management to exercise judgement.	The committee considered the reports prepared by management and their assumptions and concluded that management's recommendation to prepare the accounts on a going concern basis was appropriate. The committee also discussed these reports and assumptions with the external auditors.
Derivative financial instruments The estimation of the fair value of derivative financial instruments involves the use of judgement and estimations in relation to oil price volatilities by both external service providers and management. In addition, there are risks associated with the complexity of accounting and disclosures related to derivative financial instruments.	The committee reviewed management's report on the valuation of derivative financial instruments and the respective disclosures made in the notes to the financial statements. The external auditor's conclusions on the valuation models were also discussed at committee meetings.
Information security risks Given its public nature the Group needs to ensure that its environment is sufficiently secure to protect it against the risk of loss or corruption of sensitive information. Failure to adequately protect such information could have a material adverse effect on the Group's reputation and may lead to legal action against the Group.	At its quarterly meetings, the Committee pays attention to information security related matters and discusses with the management past and planned actions directed at addressing the recommendations from external consultants.
Environmental compliance Given the changing nature of environmental regulations in Kazakhstan, there is a risk that the Group will not be in full compliance with all regulations at all times.	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. The committee has also reviewed the annual report prepared by the independent environmental auditor outlining the Group's compliance and the environmental auditor's recommendations for improvement.

On behalf of the Board

Kai-Uwe Kessel
Chief Executive Officer
24 March 2015

Jan-Ru Muller
Chief Financial Officer
24 March 2015

Nomination and Governance Committee Report
Letter from the Chairman

Sir Christopher Codrington, Bt.
Independent
non-executive director

Chairman's introduction
I am pleased to report on the Nominations and Governance Committee, which I chair.

As the Nomination and Governance Committee was established in June 2014, following the premium listing of the Company, it has met once this year. However, going forward, it is intended that it will meet at least twice a year and more frequently if required.

Membership

Name	Membership status
Sir Christopher Codrington, Bt.	Member since 19 May 2014
Frank Monstrey	Member since 19 May 2014
Eike von der Linden	Member since 19 May 2014

Role of the Nomination and Governance Committee
The key responsibilities of the committee are to:

- 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) required 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.

Committee meetings
Only members of the committee have the right to attend committee meetings. However, other individuals such as the chief executive, the head of human resources and external advisers may be invited to attend all or part of any meeting, as and when appropriate.

Main activities of the committee during the year
At its initial meeting in 2014 the committee began to consider the desired profile of candidates for future Board appointments. This is a topic that the committee considers important and on which the committee intends to focus its attention throughout 2015, laying down criteria and key attributes for potential new directors, especially in terms of the experience and diversity of Board members.

In the year ahead the committee will continue to assess the performance of the Board and what changes, if any, should be made to the composition of the Board and its committees in order to maximise their effectiveness, and will continue to monitor developments in corporate governance to ensure that the Board is operating efficiently and in compliance with its obligations.

Sir Christopher Codrington, Bt.
On behalf of the Nomination and Governance Committee
24 March 2015

Remuneration Committee Report
Letter from the Chairman

Mark Martin
Remuneration Committee Chair

Dear shareholder

This year is Nostrum's first as a public company. The committee has endeavoured to ensure that the Company's remuneration structures evolve to adopt aspects of good practice that are expected of a company with a premium listing on the London Stock Exchange. As such and in compliance with Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "**Regulations**") this report has been divided into the following parts:

- this "Annual Statement" which identifies the key messages on remuneration for the year under review;
- a forward looking "Director's Remuneration Policy" which proposes an overall executive remuneration framework that will be adopted and implemented by the Company in 2015 and the following two financial years – if approved by shareholders the policy set out in this part of the report will become binding with effect from the AGM; and
- an "Annual Report on Remuneration" which provides shareholders with details of the remuneration that was actually paid to the Company's directors during 2014 and explains how the new policy referred to above will be applied in 2015 – this final part of the report will be subject to an advisory vote at the forthcoming AGM.

We have structured our remuneration policy in such a way that it:

- allows the Company to attract and retain the best talent capable of delivering the Company's strategic objectives;
- aligns the remuneration of executives and senior managers with the interests of our shareholders;
- ensures rewards are justified by performance; and
- ensures remuneration is intrinsically linked to and complies with corporate governance best practice.

The Company's performance and link to incentives

In 2013 the Group had a record financial and operational year. With record production levels of over 46,000 boepd and a strong oil price the Company's performance was the best in its history. The Company also made its first steps into M&As acquiring three licences at a cost of less than 20 cents a 2P barrel. With this in mind, the Company paid bonuses to executive directors in 2014 equal to between 30% and 35% of the amount of fixed compensation. This is extremely low in comparison to the Company's FTSE 250 peers.

Risk management

The committee continually reviews our incentive arrangements to ensure they do not encourage or reward excessive or inappropriate financial or operational risk-taking. The committee has reviewed the risks involved in the incentive schemes and is satisfied that they do not encourage excessive risk taking and that the Company has in place adequate governance procedures to mitigate any principal risks.

Shareholder support and feedback

We welcome questions and feedback from all parties on the content and style of this report and hope that shareholders are supportive of the remuneration-related resolutions that are to be proposed at the AGM.

Mark Martin
Remuneration Committee Chair
24 March 2015

Remuneration Committee Report continued
Annual report on remuneration

This remuneration report has been prepared in accordance with Part 4 of the Regulations and section 420 Companies Act 2006 (the "**Act**"). In accordance with the Regulations and the Act, our remuneration policy (as detailed on pages 87-91) will be subject to a separate binding vote at the 2015 AGM and, subject to shareholders' approval, it is intended that the remuneration policy will remain in operation for three years. We will also seek an advisory vote on the remuneration report at the AGM.

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 2014 were:

Name	Membership since status
Mark Martin	19 May 2014
Eike von der Linden	19 May 2014
Piet Everaert	19 May 2014
Sir Christopher Codrington, Bt.	19 May 2014

None of the committee members have day-to-day involvement with the business. Their biographies are given on pages 64-65. The company secretary acts as secretary to the committee.

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

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 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.

The committee held two meetings in 2014. The principal agenda items at the formal meetings were as follows:

Meeting	Agenda item
August 2014	• Change in the chairmanship of the committee. • Approval of senior management compensation and bonuses. • Define scope of the activity of the committee. • Discuss the remuneration policy.
November 2014	• Status update on remuneration report. • Discuss and approve outline of remuneration policy.

With the exception of the chairman of the Board, no other executive directors participated in the committee meetings during 2014.

During the year the committee received advice internally from Frank Monstrey (Chairman of the Board), Kai-Uwe Kessel (Chief Executive) and Thomas Hartnett (Company Secretary). The chairman and the chief executive 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 chairman of the Board, the chief executive 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 senior members of the executive management team below Board level.

During 2014 the Company did not engage any external advisers to advise on remuneration.

Statement of 2015 Remuneration policy implementation

The proposed directors' remuneration policy as outlined on pages 87-91 is the Company's first remuneration policy and will, subject to shareholder approval, apply from the day after the Company's 2015 AGM.

Single total figure of remuneration for executive directors

The table below shows the single total figure of remuneration for each of the executive directors.

Director[1] Amounts in USD[2]	**Period**	**Salary and fees**	**Benefits in kind**	**Annual bonus**[4]	**Option exercise**	**(Audited) Total**
Frank Monstrey (Chairman)	2014	904,483	–	314,213	–	**1,218,696**
	2013	931,500	–	–	–	**931,500**
Kai-Uwe Kessel (Chief Executive Officer)	2014	937,884	6,803	337,320	1,750,008[3]	**3,032,015**
	2013	927,987	6,525	292,608	–	**1,227,120**
Jan-Ru Muller (Chief Financial Officer)	2014	574,709	–	166,822	–	**741,531**
	2013	557,106	–	182,861	–	**739,967**

1 Mr Monstrey, Mr Kessel and Mr Muller are remunerated for their services as Group Executives through management fees payable under a technical assistance agreement with Probel Capital Management NV (now named Nostrum Services N.V.).
2 The executive directors are remunerated in EUR; the EUR amounts are converted to USD using the 2014 and 2013 average EUR/USD exchange rate (respectively 1.33 and 1.38).
3 Proceeds from exercise of the share options are converted to USD using EUR/USD exchange rate as at 10 September 2014 (1.61082).
4 Bonus figures relate to bonus paid in 2014 and 2013 in respect of the prior year performance period.

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.

Director Amounts in USD	**Period**	**Fees**	**(Audited) Total**
Eike von der Linden[1]	2014	115,000	**115,000**
	2013	100,000	**100,000**
Piet Everaert	2014	100,000	**100,000**
	2013	100,000	**100,000**
Sir Christopher Codrington, Bt.[2]	2014	55,000	**55,000**
	2013	–	**–**
Mark Martin[3]	2014	55,000	**55,000**
	2013	–	**–**
Pankaj Jain	2014	100,000	**100,000**
	2013	100,000	**100,000**
Atul Gupta	2014	100,000	**100,000**
	2013	100,000	**100,000**

1 Mr Von der Linden receives an additional fee being both the senior independent director and the chairman of the audit committee.
2 Sir Christopher Codrington, Bt. receives an additional fee being the chairman of the nominations and governance committee.
3 Mr Martin receives an additional fee being the chairman of the remuneration committee.

Remuneration Committee Report continued
Annual report on remuneration

Notes on the single total figure remuneration table

Base salaries
Salaries are reviewed annually in July of each year. In July 2014 salaries were increased by 1.5% for the chairman of the Board, the chief executive and the chief financial officer, effective as of August 2014.

The committee intends to review salaries in July 2015. In making salary determinations, the committee will consider the provisions of the remuneration policy.

Annual bonus
In the last financial year all executive directors were eligible for a bonus. Prior to the premium listing of the Company annual bonuses were determined on the basis of the Group's performance. Going forward and in accordance with the Company's remuneration policy the annual bonus opportunity absent extraordinary circumstances will be 40% of base compensation and will be assessed against financial and operational objectives. Refer to page 88 of the remuneration policy for more information in relation to the bonus policy going forward.

Long term incentive awards
In 2014 the Company did not operate a performance based long term incentive scheme.

Pension entitlements
The Company does not operate a pension scheme and accordingly no element of remuneration is pensionable.

Payments to past directors
No payments were made to past directors of the Company during the year ended 31 December 2014.

Payments for loss of office
No payments were made in respect of loss of office during the year ended 31 December 2014.

Non-executive director fees
The annual fees for non-executive directors for 2015 will remain the same as those for 2014, being $100,000 per annum. Fees for non-executive directors were reviewed prior to the premium listing of the Company and in determining their levels the Board took account of fees paid by other premium listed companies. In addition, in August 2014 it was agreed that, in order to bring the Company into line with other premium listed FTSE 250 companies; (i) Eike von der Linden's fees would be increased by $20,000 to reflect his additional responsibilities as senior independent director; and (ii) Eike von der Linden, Mark Martin and Sir Christopher Codrington, Bt. would each receive an additional $10,000 to reflect their roles as chairmen of the audit, remuneration and nomination and governance committees respectively.

Directors' shareholdings
At present, and in accordance with the Company's remuneration policy, the directors are not subject to any minimum shareholding requirements.

The beneficial interests of the directors in the share capital of the Company as at 31 December 2014 is as follows:

Director	(Audited) Total
Frank Monstrey	51,190,476
Kai-Uwe Kessel	10,000
Jan-Ru Muller	–
Eike von der Linden	13,160
Atul Gupta	–
Sir Christopher Codrington, Bt.	3,312
Mark Martin	–
Piet Everaert	22,000
Pankaj Jain	119,700

Between the end of the 2014 financial year and the date of this annual report, there was no change to the above table of beneficial interests of directors in the share capital of the Company.

Phantom share option plan

The Company currently operates one non-performance related share option plan (the "**Plan**"). As at 31 December 2014, the following executive directors 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 ten years from the date of grant, pursuant to the Plan:

(Audited) Director	Date of grant	Number of options	Face value (in USD)	Options exercised during the financial year 2014	Options lapsed during the financial year 2014	Options held at 31 December 2014	Option exercise price (US$ per option)	Expiry date
Frank Monstrey	–	–	–	–	–	–	–	–
Kai-Uwe Kessel	27.03.08	900,974	–[1]	(200,000)[4]	–	700,974	4.0	26.03.18
	26.03.13	200,000	18,000[2]	–	–	200,000	10.0	25.03.23
Jan-Ru Muller[3]	27.03.08	120,130	–[1]	–	–	120,130	4.0	26.03.18
	26.03.13	70,000	6,300[2]	–	–	70,000	10.0	25.03.23

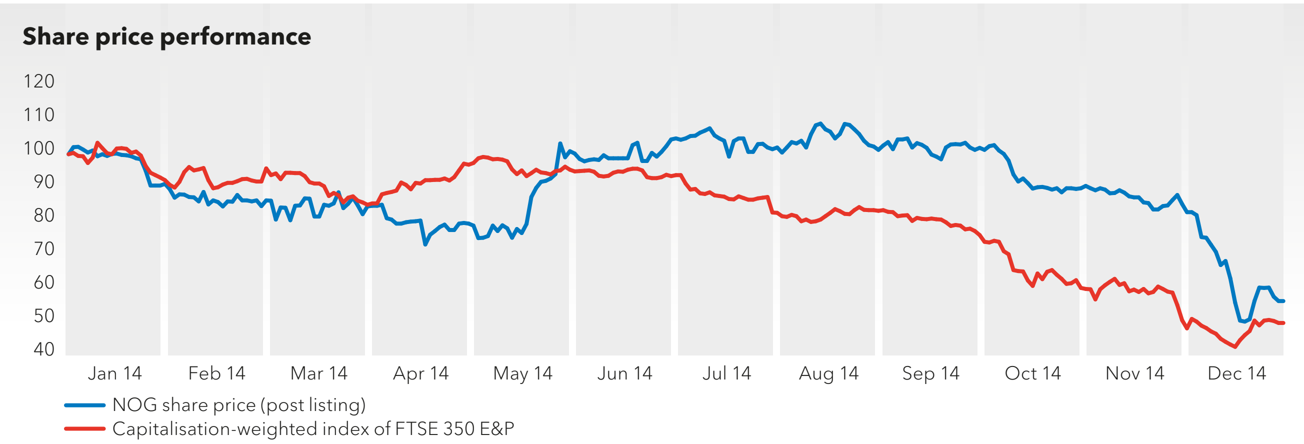
1 The options do not have a face value at the date of the grant, since the grant date was before the GDR listing on the London Stock Exchange on 1 April 2008.
2 Calculated by multiplying the market value of the options at the date of grant (USD$10.09) less $10.00 by the number of options granted.
3 Such options are held by a company associated with Mr Muller, Tenggara B.V.
4 Proceeds received by Mr Kessel from the option exercise are shown in the single total figure of remuneration for executive directors table on page 83.

There have been no changes in the interests in the Phantom share option plan between the end of the financial year 2014 and the date of this annual report.

Remuneration statistics and comparisons

Historical TSR performance

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 to the FTSE 350 E&P index. The committee selected the FTSE 350 E&P Index as the most appropriate comparator as it feels that it is a broad-based index which includes many of the Company's competitors.



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.

Year	Total CEO remuneration	Annual bonus as % of maximum opportunity[5]
2010	743,215	100%
2011	958,501	100%
2012	1,019,398	100%
2013	1,227,120	100%
2014	3,032,015[6]	100%

5 For the period 2010 until 2014 the bonus scenarios were either 0% or 100%. For the bonus scenarios as of 2015 refer to the remuneration policy on pages 87 to 88.
6 Total CEO remuneration of 2014 includes the remuneration from the exercise of share options.

Remuneration Committee Report continued
Annual report on remuneration

Percentage change in CEO remuneration

The table below compares Kai-Uwe Kessel's 2013 and 2014 remuneration in his role as chief executive with that of a comparative group. The comparator group comprises the Group's European based employee population. The committee has chosen this comparator group as it feels it is employed on more readily comparable terms.

	Chief executive officer	**Comparator group**
Salaries[1]	1.5%	1.5%
Annual bonus[2]	0.0%	0.0%

1 The salary increases are determined and awarded in the course of the calendar year.
2 There was no change in bonus overall. Bonus is linked to salary.

Relative importance of spend on pay

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

Key expenditure areas (in thousands of US Dollars)	**2014**	2013	% Change
Remuneration paid to all employees[1]	**40,358**	28,451	41.9%[2]
Distributions to shareholders (total)	**64,615**	85,344	-24.3%
• distributions[3]	**64,615**	63,179	2.3%
• share buy-backs	**0**	22,165	-100.0%

1 Total remuneration reflects overall payroll and related taxes. Refer to the consolidated financial statements for further information.
2 The increase in payroll and administrative expenses is mainly is driven by the acquisition of Probel Capital Management N.V. (now named Nostrum Services N.V.) on 30 December 2013, which led to the elimination of the initial management fees and recognition of its expenses as payroll and related taxes.
3 These distributions were paid before the reorganisation when the Company was an LP and so we refer to them as "distributions".

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 contracts and the non-executive directors' letters of appointment can be found in the Company's remuneration policy on page 88 of this annual report. All directors are subject to annual re-appointment and accordingly all executive and non-executive directors will stand for re-election at the AGM.

Approval of the Directors' remuneration report

The Directors' remuneration report, including both the remuneration policy and the annual report on remuneration was approved by the Board on 24 March 2015.

On behalf of the Board

Kai-Uwe Kessel
Chief Executive Officer
24 March 2015

Jan-Ru Muller
Chief Financial Officer
24 March 2015

Directors' remuneration policy

This sets out the remuneration policy (the "**Policy**") for the Board which, if approved by shareholders at the AGM, will take effect from the date of that meeting and will be effective until the Company's 2018 AGM, unless a further policy is proposed by the Company and approved by shareholders in the meantime.

Policy coverage

This policy applies automatically to the following: 1) all executive directors of the Company and the company secretary, 2) any other senior members of the executive management of the Group, 3) any other member of the executive management of the Group as may be required by the Board, and 4) any grant of shares, options or similar securities or rights relating to more than 10,000 Company shares.

Policy objectives

This policy is designed to:

- Provide a structure and level of pay that attracts and retains high calibre directors, managers and employees capable of delivering the Company's strategic objectives.
- 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.
- Align the remuneration of executives and senior managers with the interests of the Company's shareholders, and ensure that rewards are justified by performance.
- Ensure that the pay of the executive directors and senior members of the executive management takes into account: (i) pay and conditions throughout the Company; and (ii) corporate governance best practice including health & safety, environmental, social and governance risks.

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 250 companies of a similar size to Nostrum.
- Oil and gas E&P companies globally which compete for scarce skills within the industry.
- 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.

The remuneration policy table

The table on page 88 sets out the key components of the reward package for executive directors.

Remuneration Committee Report continued

Directors' remuneration policy

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 – life insurance – permanent health insurance (long term disability or income protection insurance) – a company car is provided to the CEO	• None.
Annual bonus	• Executive directors may be eligible for an annual cash bonus for good performance (as determined at the Board's discretion).	• In general, maximum opportunity of 40% of base salary compensation. • Any larger bonus will be set based on specific medium term objectives that have been agreed in advance by the committee.	• The annual bonus is determined by reference to performance in the prior calendar year. • Annual bonuses are generally paid in cash in August of each year.	• Good performance (as determined at the Board's discretion). In exercising its discretion to determine whether there has been good performance by executive directors the Board shall have regard primarily to the extent to which the performance target set by the Board for such executive directors have been achieved. • Targets for bonuses are those to which individuals can personally contribute by strong performance and not based on macro variables (such as market cap, oil prices, etc.) that are not within the control of individuals.
Phantom share option 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.	• 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.	• Elian 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 opposite. • 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.	
Pensions	• Not currently provided.	• N/A	• N/A	
Shareholding	• 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.	• The Committee monitors the holdings of executive directors.	

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 award; and (iii) the size of the award.

Treatment of existing arrangement

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 2015. Three scenarios are presented for each executive director: (i) "minimum" remuneration, reflecting no bonus award; (ii) "on target" remuneration, where the Board's expectations for the executive director's performance have been met and a bonus of 25% of base salary is awarded; and (iii) "maximum" remuneration, where the Board's expectations for good performance by the executive director have been exceeded and a bonus of 40% of base salary is awarded. At present, the executive directors do not receive any pension or any long term compensation.

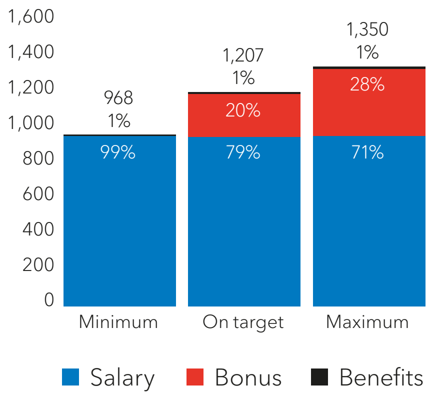
According to the policy of the Boards, benefits are not expected to be a significant component of remuneration. In 2015, only Mr Kessel is expected to receive benefit payments directly. Benefits are not paid to Mr Monstrey and Mr Muller. Instead, Mr Monstrey and Mr Muller are paid a base salary out of which they may arrange any benefits themselves.

The bar charts below do not include any amounts in relation to the Phantom Share Option Plan because: (i) as at the time of this annual report the Board is not able to determine whether any options will be issued under the Phantom Share Option Plan in 2015 (as described in the Executive Directors' remuneration policy, option awards will only be made on the basis of achieving concrete long term objectives defined in advance by the committee and will vest over several years); and

(ii) as at the date of this annual report, any options vesting in 2015 in respect of awards made from prior years would not generate proceeds to the executive directors at the current share price.

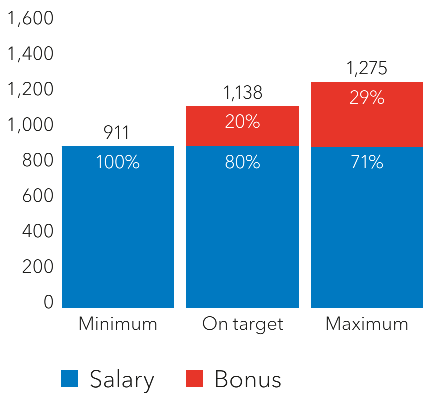
Kai-Uwe Kessel, Chief Executive Officer

amounts in USD thousand



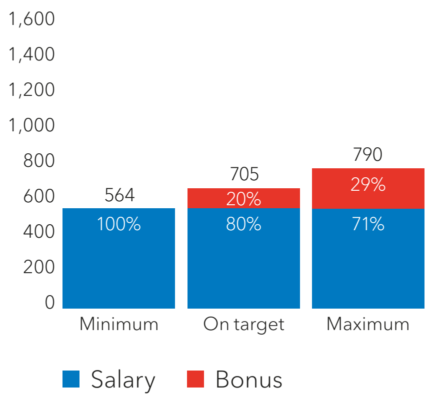
Frank Monstrey, Chairman of the Board

amounts in USD thousand



Jan-Ru Muller, Chief Financial Officer

amounts in USD thousand



Remuneration Committee Report continued
Directors' remuneration policy

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 page 88.
- 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 salary 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 forms of 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:

	Service agreement date	Salary as at 1 January 2015 (US$)[1]
Frank Monstrey	19 May 2014	911,216
Kai-Uwe Kessel	19 May 2014	955,996
Jan-Ru Muller	19 May 2014	564,409

1 The executive directors are remunerated in EUR, the EUR amounts are converted to USD using EUR/USD exchange rate (1.33).

The appointment of each of the executive directors continues until the Company's AGM and their ongoing appointment is subject to being re-elected as a director at each subsequent AGM. 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;
- 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.

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	• 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.

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.

Non-executive directors' remuneration policy table

Fee structure	Approach to setting fees	Other remuneration
• Non-executive directors receive a fixed annual fee for their directorship. • Additional annual fees are payable to any director who serves as senior independent director or as a Board committee chairman.	• The chairman of the Board and the executive directors determine the remuneration of all non-executive directors, including members of the committees.	• Business expenses incurred in respect of the performance of a non-executive director's duties will be reimbursed by the Company. Such expenses could include travel between the home and office or between the home and the location of a Board or committee meeting. • Non-executive directors are not eligible to participate in the Plan.

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 above and subject to the Company's Articles of Association (the "**Articles**").

Non-executive director appointment letters

All non-executive directors of the Company were appointed on 19 May 2014. The Company intends to comply with provision B.7.1 of the UK Corporate Governance Code and accordingly all directors will stand for re-election by shareholders at future AGMs 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.

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 meets with shareholders and solicits their views on the Company's policies in relation to director and executive remuneration, and takes 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 Company financial statements of the Company for the year ended 31 December 2014.

This report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. Certain information that fulfils the requirements of the directors' report can be found elsewhere in this document and is referred to below. This information is incorporated into this directors' report by reference.

Directors and their interests

Full biographical details of the individuals who were directors of the Company during the financial year ended 31 December 2014 is set out on pages 64 and 65 of this Annual Report.

Details of each director's interests in the Company's ordinary shares and options held over ordinary shares are set out in full in the directors' remuneration report on pages 84 and 85 respectively.

Dividends[1]

Details of the distribution paid during the year are disclosed in the notes to the consolidated audited financial statements for the year ended 31 December 2014.

In addition, the Board is proposing a final dividend of US$0.27 per Ordinary Share for the year ended 31 December 2014, subject to shareholder approval at the AGM.

Auditor

Each director in office at the date of this directors' report confirms that (a) so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware and (b) he has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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.

Political donations

The Group has made no political donations during the year 2014.

Contributions to non-EU political parties

No contributions to non-EU political parties were made during the year 2014.

Financial risk management objectives and policies

Disclosures relating to financial risk management objectives and policies, including our policy for hedging are set out in the Principal risks and uncertainties table on page 60.

Important events since the end of the financial year

The major events after 31 December 2014 are disclosed in note 36 to the consolidated audited financial statements.

Future developments within the Group

The strategic report on pages 2-61 contains details of likely future developments within the Group.

Branches

The Company is registered in England and Wales but has its place of effective management and tax residence in the Netherlands. The Company has no branches but has subsidiaries in Kazakhstan, the United Kingdom, the Netherlands, Belgium, Russia and the BVI.

Share capital

As of 31 December 2014 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.[2] 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. The Elian 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 2014 the Trust held 3,354,139 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 Company 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 member present in person or by proxy has one vote for every share held by him. No member 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.

1 These were paid before the reorganisation when the Company was an LP, and so we refer to them as "distributions".

2 There is no longer any concept of authorised share capital in English Law.

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 AGM 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 2014. 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 AGM within the limits set out in the notice of the meeting.

Employment policies and equal opportunities

The Group is an inclusive and equal opportunity employer and complies with all applicable laws governing employment practices. The Group has also adopted and implemented policies and procedures which cover the recruitment, selection, training and development, and promotion and retirement of its employees.

Nostrum aims to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind based on race, religion, national origin, age, gender, disability, sexual orientation or political opinion or any other similarly protected characteristic is not tolerated. This principle applies to all aspects of employment from recruitment and promotion through to termination and all other terms and conditions of employment.

It is the Group's aim that all employment policies are fair and equitable and consistent with the skills and abilities of the employee and the needs of the business. Employees are free to join a trade union or participate in collective bargaining arrangements.

Further details are included in "Our People" on pages 38 to 40.

In accordance with the Group's Code of Conduct the Company's policy is to fully comply with the UK Equality Act 2010, which imposes a duty on employers to make reasonable adjustments to help disabled job applicants, employees and former employees in certain circumstances and prohibits direct disability discrimination, discrimination arising from disability, indirect disability discrimination, harassment relating to disability and victimisation.

Where the duty to make reasonable adjustments arises, the Company's policy is to effectively treat the disabled person more favourably than others in an attempt to reduce or remove that individual's disadvantage.

The Company's policy is to give full and fair consideration to applications for employment made by disabled people. Disabled job applicants and employees are encouraged to tell the Company about their condition so that the Company can support them as appropriate. Employees experiencing difficulties at work because of a disability may contact their supervisor or the Human Resources Department to discuss any reasonable adjustments that would help overcome or minimise the difficulty. Their line manager or the Human Resources Department may consult with the disabled person and his or her medical adviser about possible adjustments. The Company will consider the matter carefully and try to accommodate the disabled person's needs within reason. Support provided by the Company to disabled employees may include training and career development support. If the Company considers a particular adjustment would not be reasonable it will explain its reasons and try to find an alternative solution where possible.

The Company will monitor the physical features of its premises to consider whether they might place anyone with a disability at a substantial disadvantage. Where necessary, it will take reasonable steps to improve access.

Employee communications and involvement

The Group has processes in place for communicating with all its employees. Employee communications include information about the performance of the Group, on major matters affecting their work, employment or workplace. The Group has also developed an intranet, which assists in communicating with employees across borders and provides key information to all Group employees.

The Company also operates an employee share option plan further details of which can be found in the Directors' Remuneration Policy on page 88 and the notes to the consolidated audited financial statements for the year ended 31 December 2014.

Directors' Report continued

Substantial shareholders

As of 31 December 2014, the following significant holdings of voting rights in the share capital of the Company had been disclosed to the Company under Disclosure and Transparency Rule 5 or otherwise.

Name	Number of Ordinary Shares	% of Issued Ordinary Shares
Claremont Holdings C.V.	51,190,476	27.2
KazStroyService Global B.V.	50,000,000	26.6
Baring Vostok Capital Partners	29,050,054	15.4
M&G Investment Management Limited	17,532,045	9.3
J.P. Morgan Asset Management (Korea) Company, Ltd.	7,672,181	4.1

There were no major transactions in the share capital of the Company or any change in the structure of shareholders, holding 5 or more per cent of the Ordinary Shares in the reporting period.

Apart from as disclosed in the section 'Deed of adherence with Mayfair Investments B.V.', there have been no changes in the interests disclosed to the Company in respect of substantial shareholders in the period between the end of the financial year 2014 and the date of this annual report.

Related party transactions

Refer to note 32 of the Consolidated Financial Statements for a description of related party transactions in the reporting period.

Significant contractual arrangements

On 19 May 2014 the Company entered into relationship agreements with Claremont Holdings C.V. ("**Claremont**") (the "**Claremont Relationship Agreement**") and KazStroyService Global B.V. ("**KSS Global**") (the "**KSS Global Relationship Agreement** and together with the Claremont Relationship Agreement, the "**Relationship Agreements**") to regulate (in part) the degree of influence that Claremont and KSS Global and their affiliates may exercise over the management of the Company. The principal purposes of the Relationship Agreements are to ensure that the Company is capable at all times of carrying on its business independently of Claremont and KSS Global and their affiliates and that all of the Company's transactions and relationships with Claremont and KSS Global and its affiliates are at arm's length and on normal commercial terms.

Pursuant to its terms, each of the Relationship Agreements 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) Claremont and/or KSS Global (together with any of their 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 Claremont Relationship Agreement

Under the Claremont Relationship Agreement, Claremont has agreed that (a) it will, and will procure its affiliates to, allow the business and affairs of the Company and the Group to be operated in the best interests of the shareholders as a whole (b) it will, and will procure its affiliates will, allow the Company and its affiliates at all times to carry on its business independently of Claremont and its affiliates (c) 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 Claremont or its affiliates (d) it will, and will procure its affiliates to, allow the Company to be managed in accordance with the Corporate Governance Code to the extent and on such terms as may be determined by the Board and to comply with any further amendments or supplements to the Corporate Governance Code as may be adopted by the Board, and it acknowledges its obligations under, and agrees to comply with, and will procure its affiliates comply with, the Disclosure and Transparency Rules in respect of its interests in the Ordinary Shares (e) 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 Claremont (or any other person) from: (i) accepting a takeover offer for the Company made in accordance with the City Code (a "**Takeover Offer** ") in relation to their respective interests in the Company or, where such Takeover Offer is made by way of a scheme of arrangement under Part 26 of the Companies Act (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 (f) 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 (g) 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 independent directors and the Remuneration Committee shall comprise not less than three independent directors; and (iii) the Nomination 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.

Terms of the KSS Global Relationship Agreement

Under the KSS Global Relationship Agreement, KSS Global has 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 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:

- In the event of a takeover of the Company all options under the Company's Employee Share Option Plan shall be deemed to have vested and the Board shall direct Elian Employee Benefit Trustee Limited to allow each option holder to exercise his or her options at any time from the date of the change of control up to the tenth anniversary of the date of grant. Any options that have not been exercised will lapse at the end of this period.
- The 2012 Bonds and the 2014 Bonds contain change of control provisions. If a change of control occurs the Company will be required to offer to repurchase the 2019 Bonds and the New 2019 Bonds at 101% of their principal amount, plus accrued and unpaid interest to the date of purchase.

Sustainability

Information about the Company's approach to sustainability risks and opportunities is set out on pages 36 to 47. Also included on these pages are details of our greenhouse gas emissions.

Corporate Governance Statement

Pursuant to Disclosure 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.

Going concern

The financial position and performance of the Company and the Group and its cash flows are set out in the Financial Review section of this Annual Report on pages 48-57.

The going concern statement required by the Listing Rules and the UK Corporate Governance Code is set out in the notes to the consolidated audited financial statements and the notes to the Parent Company financial statements for the year ended 31 December 2014.

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.

Listing rule requirement	
A statement of the amount of interest capitalised by the Group during the period under review with an indication of the amount and treatment of any related tax relief.	Please refer to note 8 in the financial statements.
Any information required by LR 9.2.18R (publication of unaudited financial information).	Not applicable.
Details of any long term incentive schemes as required by LR 9.4.3R.	Not applicable.
Details of any arrangements under which a director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking. Where a director has agreed to waive future emoluments, details of such waiver together with those relating to emoluments which were waived during the period under review.	No such waivers.
Details required in the cash of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the Company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the Company's shareholders.	No such share allotments.
Where a listed company has listed shares in issue and is a subsidiary undertaking of another company, details of the participation by the parent undertaking in any placing made during the period under review.	Not applicable.
Details of any contract of significance subsisting during the period under review: (a) to which the listed company, or one of its subsidiary undertakings, is a party and in which a director of the listed company is or was materially interested; and (b) between the listed company, or one of its subsidiary undertakings, and a controlling shareholder.	Please refer to the Directors' Report.
Details of contracts for the provision of services to the Company or any of its subsidiary undertakings by the controlling shareholder.	Not applicable.
Details of any arrangement under which a shareholder has waived or agreed to waive any dividends, where a shareholder has agreed to waive future dividends, details of such waiver together with those relating to dividends which are payable during the period under review.	Under the trust deed relating to the Phantom Share Option Plan, the trustee has agreed to waive any dividends or shares held under the Phantom Share Option Plan.
Board statement in respect of relationship agreement with the controlling shareholder.	Not applicable as the Company does not have a "controlling shareholder" within the definition under the Listing Rules, however, please refer to the Directors' Report, for details of relationship agreements the Company has entered into with certain shareholders.

Important events affecting the Company since year-end
On 30 January 2015 KSS Global transferred its 50 million ordinary shares in Nostrum 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.

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.

The Directors consider that the Group has used appropriate accounting policies, supported by reasonable judgments and estimates, in preparing the financial statements, and that all accounting standards which they consider to be applicable have been followed.

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 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
- for the maintenance and integrity of the corporate and financial information on the Company's website.[1]

To the best of the Directors' knowledge

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and

(b) the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Kai-Uwe Kessel
Chief Executive Officer
24 March 2015

Jan-Ru Muller
Chief Financial Officer
24 March 2015

1 Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOSTRUM OIL & GAS PLC

Dear members

We present our audit report on the Group and Parent company financial statements of Nostrum Oil & Gas PLC (the 'financial statements'), which comprise the Group and Parent primary statements and related notes.

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.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related group Notes 1 to 36 and Parent company notes 1 to 14. 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.

Opinion 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; and
- 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.

Our application of materiality

Materiality is a key part of planning and executing our audit strategy. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. As we develop our audit strategy, we determine materiality at the overall financial statement level and at the individual account level. Performance materiality is the application of materiality at the individual account level. In assessing whether errors are material, either individually or in aggregate, we consider qualitative as well as quantitative factors.

Planning Materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected and undetected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be US$ 17.0 million (2013: US$ 18.4 million) which is approximately 5% (2013: 5%) of adjusted pre-tax profit which is explained below. We believe this provides us with a consistent year on year basis for determining planning materiality and the most relevant performance measure for the stakeholders of the group. In 2014 profit before tax was adjusted by US$29 million mainly relating to the costs associated with the reorganisation of the Group that we concluded are non-recurring and therefore added back when calculating materiality. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

Performance Materiality

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group was 50% (2013:50%) of planning materiality, namely US$ 8.5 million (2013: US$ 9.2 million). Our objective in adopting this approach was to ensure that the total uncorrected and undetected audit differences did not exceed our planning materiality of US$17 million for the financial statements as a whole.

Reporting Threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$ 0.85 million (2013: US$ 0.92 million), which is set at 5% of planning materiality. We report all corrected audit differences that in our view warrant reporting on qualitative grounds or where the corrected difference exceeds performance materiality. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accountings policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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An overview of the scope of our audit

For the Parent company – our assessment of audit risk and our evaluation of materiality determines our audit scope for the Parent company financial statements. This helps us to form an opinion on the company financial statements under the International Standards on Auditing (UK and Ireland).

For the Group - our assessment of audit risk, our evaluation of materiality and our allocation of that materiality determine our audit scope for each entity within the Group which, when taken together, enable us to form an opinion on the consolidated financial statements under International Standards on Auditing (UK and Ireland). We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each entity. The range of performance materiality allocated to components in 2014 was US$ 1.7 million to US$ 6.4 million.

In establishing our overall approach to the Group audit we determined the type of work that needed to be undertaken at each of the components by us, as the Group engagement team, or by component auditors from another EY global network firm operating under our instructions. The Group engagement team performed the audit of the consolidation in Amsterdam. In assessing the risk of material misstatement to the Group financial statements, our Group audit scope focused on the Group's main operating locations. We selected five components covering entities within the Netherlands, Belgium, and Kazakhstan, which represent the principal business units within the Group and account for 99% of the Group's profit before tax. Two of these components were subject to a full scope audit, whereas the remaining three were subject to audit procedures on specific accounts based on our risk assessment. The two full scope components account for 97% of the Group net assets, 99% of the Group's revenue and 99% of the Group's profit before tax. The specific scope locations do not have operating activities and we audited cash, payroll, the employee share option plan, other current liabilities and the costs associated with the reorganisation of the Group.

We are satisfied that the components selected have provided an appropriate basis for undertaking audit work to address the risks of material misstatement identified below. The audit work performed at the five components was executed based on levels of materiality applicable to each individual entity. These materiality thresholds were lower than Group materiality. For the remaining components we assessed group wide controls and performed analytical reviews and enquiry procedures to address the residual risk of material misstatement.

The Group audit team followed a programme of planned site visits that was designed to ensure that a senior member of the team visited each of the three audit locations at least once a year. In 2014, the Group audit team including the Senior Statutory Auditor, who leads the audit, visited Kazakhstan where the operations of the Group take place. These visits involved discussing the audit approach and any issues arising from the work with the component team. The Group audit team interacted regularly with the component team during various stages of the audit, reviewed key working papers and were responsible for the scope and the direction of the audit process. This, together with the additional procedures performed at Group level in Amsterdam, gave us appropriate audit evidence for our opinion on the Group financial statements.

Our assessment of risks of material misstatement

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considered future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

We have identified the risks of material misstatement which had the greatest effect on the audit strategy and directed the efforts and resources of the engagement team to:

- Impairment of exploration licenses and goodwill
- Estimation of oil and gas reserves and its impact of the estimation of DDA expense
- Revenue recognition
- Completeness of related party transactions and the related disclosures
- Risk of management override

Our responses to the risk of material misstatement identified

AREA OF FOCUS	AUDIT APPROACH
Impairment of exploration licenses and goodwill ***Refer to the Group Audit Committee report on page 78, the estimates and judgments on page 123 and the disclosures in note 6 of the Group Financial Statements***	
The potential impairment of goodwill and exploration licenses is a key area of audit focus due to their value. Further, management are required to make a number of significant judgements in determining the recognition of, and the carrying value of these assets and in determining whether there are any indicators of impairment. The fall in oil prices will impact financial performance, as well as increase the risk of uncommercial exploration activities and potential non-renewal of exploration licenses.	We focused on this area as it involves complex and subjective judgements about forecasts. In evaluating whether any impairment was necessary to the remaining carrying value of goodwill and other assets, our audit work involved obtaining evidence regarding their recoverable amount. We utilised our valuation specialists and challenged management's impairment assessment by evaluating the following key assumptions: • forecast cash flows by comparing the assumptions used within the impairment model to the approved budgets, business plans and other evidence of future intentions; • forecast oil prices were compared to independent external sources; and • the discount rate was benchmarked to the risks faced by the group. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance. We evaluated management's sensitivity analysis of goodwill impairment testing in order to assess the potential impact of a range of reasonably possible outcomes. We evaluated the financial statement disclosures for compliance with the requirements of accounting standards.
Estimation of oil and gas reserves and its impact of the estimation of depreciation, depletion and amortisation ("DDA") expense ***Refer to the Group Audit Committee report on page 78, the estimates and judgments on page 122 and the disclosures in note 8 of the Group Financial Statements***	
This was considered to be a significant risk due to the subjective nature of reserves estimates and	We gained an understanding of the Group's internal process for reserves estimation and challenged

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<table>
<tr><td>their impact on the financial statements through impairment and DD&A calculations. Management has engaged a third party expert in connection with the estimation of reserves.</td><td>management’s assumptions including commercial assumptions to ensure that they are based on supportable evidence. In doing so, we have:
met with management’s third party expert during the planning and execution of the audit and assessed their competence as well as that of internal specialists involved in due diligence procedures over oil and gas reserves;
reviewed the final oil and gas reserves estimation report prepared by management’s third party expert in light of our understanding of the business and agreed key financial inputs to corroborative evidence; and
assessed the reasonableness of key assumptions (such as oil price, gas and LPG price, opex and capex per barrel) by comparing them to external data.</td></tr>
<tr><td colspan="2">Revenue recognition

Refer to the Group Audit Committee report on page 78,and the disclosures of revenue in note 22 of the Group Financial Statements</td></tr>
<tr><td>The risk of recognising revenue in the wrong period is heightened due to the complexity of the Production Sharing Agreement (“the PSA”) and the point at which title passes to the customer and therefore revenue can be recognised.</td><td>We identified and tested controls over the sales process, made enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with the terms. We specifically:
audited sales agreements to understand the contractual terms and checked compliance with the PSA and appropriate revenue recognition;
performed analytical procedures, test of details, cut-off testing on customer delivery notes around period end and tested a sample of journals relating to revenue; and
ensured that the financial statement disclosures were in accordance with accounting standards.</td></tr>
<tr><td colspan="2">Completeness of related party transactions (“RPT”) and the related disclosures

Refer to the Group Audit Committee report on page 78 and the disclosures of related party transactions in note 32 of the Group Financial Statements</td></tr>
<tr><td>As part of the premium listing on the LSE, the Group undertook restructuring activities and has entered into material contracts with related parties. Therefore RPTs and the related disclosures are considered to be a significant risk.</td><td>In order to obtain evidence over the completeness of related party transactions and the related disclosures, we have:
obtained an understanding of the process that management has established to identify, account for and disclose RPTs and authorise and approve significant RPTs and arrangements outside the normal course of business;
inspected bank and legal confirmations, minutes of meetings and significant agreements with new counterparties;
obtained sufficient evidence that RPTs were conducted on terms equivalent to an arm’s length transaction;
obtained an updated list of all related parties to the</td></tr>
</table>

	Group and reviewed the general ledger against this list to ensure completeness of transactions; • investigated any unusual or high value transactions; • made enquiries of management in order to identify if any related party transactions outside the normal course of business have taken place; and • verified the completeness of disclosures in the financial statements.
Risk of management override	
We consider the likelihood of management override occurring. We base our consideration on our understanding of the nature and risk of both management's opportunity and incentive to manipulate earnings or financial ratios or to misappropriate assets. **Specifically we considered the heightened expectations following the premium listing of the Group on the LSE and the sizable shareholdings of senior executives.**	We considered whether there was evidence of bias by the Directors in significant accounting estimates and judgements. We tested journal entries and also assessed the control environment and interviewed internal audit.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 97, the directors are responsible for the preparation of the group and parent financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group and parent financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- ► materially inconsistent with the information in the audited financial statements; or
- ► apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- ► is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required 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; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 95, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Richard Addison (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

24 March 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

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

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:

Kai-Uwe Kessel	Jan-Ru Muller
Chief Executive Officer	Chief Financial Officer

The accounting policies and explanatory notes on pages 111 through 157 are an integral part of these consolidated financial statements

Consolidated financial statements

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

In thousands of US Dollars	Notes	2014	2013
Revenue			
Revenue from export sales		**676,064**	765,029
Revenue from domestic sales		**105,814**	129,985
	22	**781,878**	895,014
Cost of sales	23	**(221,921)**	(286,222)
Gross profit		**559,957**	608,792
General and administrative expenses	24	**(54,878)**	(56,019)
Selling and transportation expenses	25	**(122,254)**	(121,674)
Finance costs	26	**(61,939)**	(43,615)
Finance costs - reorganisation	27	**(29,572)**	–
Employee share option plan fair value adjustment		**3,092**	(4,430)
Foreign exchange loss		**(4,235)**	(636)
Gain on derivative financial instruments	29	**60,301**	–
Interest income		**986**	764
Other expenses	30	**(49,844)**	(25,593)
Other income		**10,086**	4,426
Profit before income tax		**311,700**	362,015
Income tax expense	31	**(165,275)**	(142,496)
Profit for the year		**146,425**	219,519
Total comprehensive income for the year		**146,425**	219,519
Profit for the year attributable to the holders of Common Units/shares (in thousands of US Dollars)		**146,425**	219,519
Weighted average number of Common Units/shares		**184,678,352**	185,289,560
Basic and diluted earnings per Common Unit/share (in US Dollars)		**0.79**	1.18

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

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

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

During the year ended 31 December 2014, non-cash transactions included offset of tax liabilities in the amount of US$9,426 thousand, including corporate income tax liabilities in the amount of US$2,480 thousand with value added tax receivables.

The accounting policies and explanatory notes on pages 111 through 157 are an integral part of these consolidated financial statements

Consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

In thousands of US Dollars	Notes	Share capital	Share premium	Partnership capital	Treasury capital	Additional paid-in capital	Other reserves	Retained earnings	Total
As at 1 January 2013		**–**	**–**	**380,874**	**(9,727)**	**6,095**	**3,437**	**314,425**	**695,104**
Profit for the year		–	–	–	–	–	–	219,519	219,519
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**219,519**	**219,519**
Buyback of GDRs		–	–	–	(22,165)	–	–	–	(22,165)
Sale of treasury capital		–	–	–	1,141	2,031	–	–	3,172
Profit distribution		–	–	–	–	–	–	(63,179)	(63,179)
As at 31 December 2013		**–**	**–**	**380,874**	**(30,751)**	**8,126**	**3,437**	**470,765**	**832,451**
Profit for the year		–	–	–	–	–	–	146,425	146,425
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**146,425**	**146,425**
Sale of treasury capital		–	–	–	440	769	–	–	1,209
Profit distribution	**15**	–	–	–	–	–	–	(64,615)	(64,615)
Group reorganisation:									–
Replacement of GDRs		–	–	(380,874)	30,311	(8,895)	255,459	–	(103,999)
Issue of share capital		3,203	102,797	–	(2,001)	–	–	–	103,999
Effect of the Group reorganisation	**15**	**3,203**	**102,797**	**(380,874)**	**28,310**	**(8,895)**	**255,459**	**–**	**–**
Transfer to distributable reserves		–	(102,797)	–	–	–	–	102,797	–
Sale of treasury capital		–	–	–	113	–	2,393	–	2,506
Transaction costs		–	–	–	–	–	–	(296)	(296)
As at 31 December 2014		**3,203**	**–**	**–**	**(1,888)**	**–**	**261,289**	**655,076**	**917,680**

The accounting policies and explanatory notes on pages 111 through 157 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: 4th Floor, 53-54 Grosvenor Street, London, UK, W1K 3HU.

The Parent became the holding company of the remainder of the Group (via its subsidiary Nostrum Oil Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange ("LSE") on 20 June 2014 (Note 15). On the same date the former parent of the Group, Nostrum Oil & Gas LP, was delisted from the LSE. In addition to the subsidiaries of Nostrum Oil & Gas LP, Nostrum Oil Coöperatief U.A. acquired substantially all of the assets and liabilities of Nostrum Oil & Gas LP on 18 June 2014. The Parent does not have an ultimate controlling party.

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

Company	**Country of registration or incorporation**	**Form of capital**	**Ownership, %**
Claydon Industrial Limited	British Virgin Islands	Ordinary shares	100
Condensate Holding LLP	Republic of Kazakhstan	Participatory interests	100
Grandstil LLC	Russian Federation	Participatory interests	100
Investprofi LLC	Russian Federation	Participatory interests	100
Jubilata Investments Limited	British Virgin Islands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	England and Wales	Ordinary shares	100
Nostrum Oil BV	Netherlands	Ordinary shares	100
Nostrum Oil Coöperatief U.A.	Netherlands	Members' interests	100
Probel Capital Management N.V.	Belgium	Ordinary shares	100
Prolag BVBA	Belgium	Ordinary shares	100
Zhaikmunai LLP	Republic of Kazakhstan	Participatory interests	100
Zhaikmunai Netherlands B.V.	Netherlands	Ordinary shares	100

Nostrum Oil & Gas plc, its wholly-owned subsidiaries and Amersham Oil LLP 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 2014, the Group employed 1005 employees.

Sale and purchase agreements for the acquisition of Amersham Oil LLP ("Amersham") and Prolag BVBA ("Prolag") were entered into on 19 May 2014 by Nostrum Oil Coöperatief U.A. Under the terms of the sale and purchase agreements, the Group controls the entities and has the economic risk and benefit in the entities since 19 May 2014.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the Ministry of Oil and Gas (the "MOG") of the Republic of Kazakhstan.

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. Zhaikmunai LLP applied to the MOG for another extension of the exploration period.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision to extend the exploration period until 8 February 2015 and the corresponding supplementary agreement between MOG and Zhaikmunai LLP was signed on 9 August 2013 (Note 36).

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. On 21 October 2008 the exploration period was extended for 6 months so as to expire on 28 January 2013. On 27 April 2009 the exploration period was extended until 28 January 2015. On 23 January 2014 the exploration period was further extended until 31 December 2015.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. On 27 April 2009 the exploration period was extended until 28 July 2012. On 8 July 2011 the exploration period was further extended until 28 July 2014. On 23 January 2014 the exploration period was further extended until 31 December 2015.

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.

Change in estimates

The volumes of hydrocarbons extracted and the sales prices of the products form the basis of the royalty and government profit share calculations. During the year ended 31 December 2014 Zhaikmunai LLP changed the calculation of the coefficient of natural gas equivalent from density ratio used in the prior periods to compression ratio based on newly received researches on the conversion coefficient conducted by independent consultants.

As a result Zhaikmunai LLP revised the calculations of the royalty and government profit share for the prior periods. This change in estimate was applied prospectively since updated information on composition of the natural gas became available only in 2014. Also during the year ended 31 December 2014 Zhaikmunai LLP reassessed the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

government profit share for 2013 following the revision of the work program for the Chinarevskoye oil and gas condensate field operations.

This change in estimate was applied prospectively since updated information on composition of the natural gas became available only in 2014.

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements for the year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by 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 thousands, 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment 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 2014. 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;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result 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;
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Group reorganisation

The Group has been formed through a reorganisation in which Nostrum Oil & Gas plc became a new parent entity of the Group (Note 15). The reorganisation is not a business combination and does not result in any change of economic substance of the Group. Accordingly, the consolidated financial statements of Nostrum Oil & Gas plc are a continuation of the existing group (Nostrum Oil & Gas LP and its subsidiaries). The consolidated financial statements reflect the difference in share capital as an adjustment to equity (Other reserves) that is not subject to reclassification to income statement in the future periods.

Going concern

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2014:

Amendments to IFRS 10, IFRS12 and IAS 27 – Investment Entities

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

Amendments to IAS 36 – Disclosures on Recoverable Amount for Non-financial Assets

These amendments eliminate unintended consequences of IFRS 13 Fair Value Measurement in part of information disclosure according to IAS 36 Asset Impairment. Besides, these amendments require disclosing the recoverable amount of assets or cash generation unit (“CGU”) on which the impairment loss was recognized or recovered during the reporting period. These amendments had no impact on the consolidated financial statements of the Group.

Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

principles under *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of *IFRIC 21* in prior years.

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 Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 is not expected to have an effect on the classification and measurement of the Group's financial assets and the Group's financial liabilities.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard does not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

It is not expected that this amendment would have impact on the Group's future consolidated financial statements.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). It is not expected that this amendment would have any impact on the Group's future consolidated financial statements.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

These amendments are not expected to have any impact on the Group's financial position or performance.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. These amendments are not expected to have any impact on the Group's future consolidated financial statements considering that the Group's property, plant and equipment are stated at historical cost.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. These amendments are not expected to have effect on the Group's future consolidated financial statements, since the Group always disclosed the companies providing management services as related parties.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

These amendments are not expected to have impact on the Group's future consolidated financial statements, since the Group has no joint arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). It is not expected that the amendment will have material effect on the Group's financial position or performance.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

These amendments are not expected to have any impact on the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material change to the carrying amounts of assets and liabilities are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortization (the "DD&A"). The Group estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under 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 (Note 6) 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. The estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Abandonment and site restoration provision

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 adjusted for expected inflation and discounted at applicable rate. The Group reviews site restoration provisions at each date of financial position and adjusts it to reflect the current best estimate in accordance with

IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimate of discount rate and timing of cash flow. The management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights.

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 shall provide best estimates of applicable risk uncorrected discount rate. The discount rate shall be applied to the nominal risk adjusted amounts the management expects to spend on site restoration in the future. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

Due to fact that cash outflows related to abandonment and site restoration cost are mainly denominated in USD, during the year ended 31 December 2014 the Group revisited the assumptions used, including abandonment cost, US$ inflation rate and discount rates. All these changes resulted in increase of abandonment and site restoration provision and respective asset in the amount of US$ 4,306 thousand. These changes were accounted for prospectively.

The long term inflation and discount rates used to determine the balance sheet obligation at 31 December 2014 were 3.75% and 4.88% respectively. Movements in the provision for decommissioning liability are disclosed in Note 18.

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 provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions 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.

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 currency of the Group’s subsidiaries is the US dollar, except for Condensate (functional currency of which is Kazakhstani Tenge (the “Tenge”).

Transactions and balances denominated in foreign currencies

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value, and any resulting gain or loss is recognised in the statement of profit or loss and other comprehensive income. It is then considered in the determination of goodwill. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration arrangements classified as liabilities or assets arising from a business combination are subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

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.

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.

Property, plant and equipment

Exploration expenditure

Geological and geophysical exploration costs are charged to profit or loss as incurred. 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 and materials and fuel used, rig costs and payments made to contractors and asset retirement obligation fees. If hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

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. When this is no longer the case, the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

costs are written off. The exploration expenditure expensed to profit or loss during 2014 amounted to nil (2013: US$ 3,810 thousand).

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. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

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 its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, 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 amortised 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.

Oil and gas reserves

Proved oil and gas reserves are estimated quantities of commercially viable hydrocarbons which existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.

The Group uses the reserve estimates provided by an independent appraiser on an annual basis to assess the oil and gas reserves of its oil and gas fields. These reserve quantities are used for calculating the unit of production depreciation rate as it reflects the expected pattern of consumption of future economic benefits by the Group.

Advances for non-current assets

Advances paid for capital investments/acquisition of non-current assets shall be 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.

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 recognized 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Years
Buildings and constructions	7-15
Vehicles	8
Machinery and equipment	3-13
Other	3-10

Impairment of non-financial assets

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Group makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, 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 discount rate that reflects current market assessments of the time value of money.

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Impairment losses of continuing operations, including impairment of inventories, are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

Goodwill

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.

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 amortized, 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

Inventories

Inventories are stated at the lower of cost or net realizable 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 realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Provisions

Provisions are recognized 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.

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, 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 amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation 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 recognized 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.

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:

a) 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 recognized immediately in the profit or loss; and

b) 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.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash, long-term and short-term deposits, trade and other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method ("EIR"), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

Accounts receivable

Accounts receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as expense (credit) in the period in which they become known.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and borrowings.

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the profit or loss.

Derecognition

A financial liability is derecognized 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 35.

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 recognized 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.

The fair value of financial instruments is determined by reference to market values for similar instruments.

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.

Taxation

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 provisions 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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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.

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 the sale of crude oil, gas condensate, gas and LPG is recognized when delivery has taken place and risks and rewards of ownership have passed to the customer.

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured.

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 Group measures the cost of cash-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. 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. BUSINESS COMBINATIONS

On 19 May 2014 the Group agreed to acquire 100% of the share capital of Prolag BVBA (Prolag) and Amersham Oil LLP (Amersham), companies providing management and consulting services to the Group, from related parties of the Group, in connection with the premium listing on the London Stock Exchange of the Group's listed entity, so as to comply with certain exchange requirements that listed companies be managed by persons employed by entities within the listed company's group.

A cash consideration consisting of initial purchase price of US$1 and a price adjustment of US$212 thousand was agreed and paid with respect to the acquisition of Prolag. Historically, Prolag provided consulting services to the Group on certain marketing, transportation and logistics matters.

Consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

It was agreed that Amersham be acquired in exchange for a cash consideration consisting of initial purchase price of US$1,915 thousand, subject to a price adjustment based on accounts of Amersham at 31 December 2014. The amount of the price adjustment with respect to the acquisition of Amersham has not yet been agreed or paid as at the date of the authorisation of the financial statements for issue, but it is estimated at US$487 thousand. Respective liability for this amount has been recognised within other current liabilities (Note 21) as at 31 December 2014. Certain managers of the Group historically provided services to the Group pursuant to a service agreement between Amersham and the Group.

The goodwill arising on acquisition represents the savings of the Group on management fees and is not expected to be deductible for tax purposes.

There were no significant revenues or profits/losses of the acquired subsidiaries since the respective acquisition dates included in the consolidated statements of comprehensive income for the years ended 31 December 2014 and 2013.

The provisional fair values of the identifiable assets and liabilities of Amersham and Prolag as at the date of acquisition were:

In thousands of US Dollars	**Prolag BVBA**	**Amersham Oil**	**Total**
Assets			
Property, plant and equipment	15	2	17
Advances for non-current assets	287	–	287
Prepayments and other current assets	721	15	736
Cash and cash equivalents	219	365	584
	1,242	**382**	**1,624**
Liabilities			
Trade payables	496	7	503
Other current liabilities	427	12	439
	923	**19**	**942**
Total identifiable net assets at fair value	**319**	**363**	**682**
Goodwill arising on acquisition		2,039	2,039
Gain arising on acquisition	(106)		(106)
Total purchase consideration	**212**	**2,402**	**2,615**

The purchase consideration comprised of:

In thousands of US Dollars	
Consideration satisfied by cash	212
Working capital adjustment	2,402
Total purchase consideration	**2,615**
Consideration satisfied by cash	(212)
Cash and cash equivalents acquired	584
Purchase of subsidiaries per the cash flow statement	**372**

On 30 December 2013 the Group has acquired 100% of the share capital of Probel Capital Management N.V. ("Probel"), a company providing management and consulting services to the Group, from Group's related parties, in exchange for a cash consideration consisting of initial purchase price of US$28,836 thousand and a price adjustment of US$4,598 thousand estimated as at the acquisition date based on accounts of Probel at 30 December 2013. The actual amount of price adjustment agreed was US$3,631 thousand and paid on 18 June 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Historically, certain senior managers of the Group have provided their services to the Group pursuant to a service agreement between Probel and the Group. The Probel acquisition was agreed upon in connection with the premium listing on the London Stock Exchange of the Group's listed entity, so as to comply with certain exchange requirements that listed companies be managed by persons employed by entities within the listed company's group. The goodwill arising on acquisition represents the savings of the Group on management fees.

The provisional fair values of the identifiable assets and liabilities of Probel as at the date of acquisition were:

In thousands of US Dollars	**Probel Capital Management N.V.**
Assets	
Property, plant and equipment	32
Prepayments and other current assets	2,554
Cash and cash equivalents	1,953
	4,539
Liabilities	
Trade payables	1,021
Other current liabilities	470
	1,491
Total identifiable net assets at fair value	3,048
Goodwill arising on acquisition	30,386
Total purchase consideration	**33,434**

The purchase consideration comprised of:

In thousands of US Dollars	
Consideration satisfied by cash	28,836
Working capital adjustment	4,598
Total purchase consideration	**33,434**
Consideration satisfied by cash	(28,836)
Cash and cash equivalents acquired	1,953
Purchase of subsidiaries per the cash flow statement	**(26,883)**

6. GOODWILL

As at 31 December 2014 and 2013, goodwill comprised the following due to business combinations:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Balance at the beginning of the period	**30,386**	–
Goodwill addition	**2,039**	30,386
Balance at the end of the period	**32,425**	30,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Impairment testing

The goodwill arising from the purchase of Probel and Amersham relates to a single cash-generating unit. Respectively, goodwill is tested for impairment by comparing the recoverable amount against the carrying value of the underlying cash generating unit.

The 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 and gas treatment facility. Impairment testing is performed by comparing the recoverable amount against the carrying value of the cash generating unit. The recoverable amount is determined by calculation of the value-in-use based on discounted cash flow model as no recent third party transactions exist on which a reliable market-based fair value can be established. The value-in-use calculation model, which formally approved by the management, takes into consideration cashflows, which are expected to arise until 2032, i.e. during the license term of the Chinarevskoye field. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers and respective past history of the Group's ability to transfer probable reserves into proved.

The key assumptions used in the Group's discounted cash flow models reflect past experience and take account of external factors. These assumptions are:

- Oil prices for 2015-2022 are based on the forward curve of the ICE Brent Oil Futures, and for 2023-2032 are kept constant at the level applied for 2022;
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cashflows 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
- Pre-tax discount rate of 14%.

None of the reasonably possible changes in key assumptions causes the cash generating unit's carrying amount to exceed its recoverable amount.

7. EXPLORATION AND EVALUATION ASSETS

In thousands of US Dollars	**31 December 2014**	31 December 2013
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**8,545**	4,599
	24,380	20,434

During the year ended 31 December 2014 the Group had additions to exploration and evaluation assets of US$3,946 thousand which includes capitalised expenditures on geological and geophysical studies (2013: US$20,434 thousand, mainly represented by capitalised consideration under the acquisition agreements for the Darjinskoye, Rostoshinskoye and Yuzhno-Gremyachinskoye oilfields). Interest was not capitalised in exploration and evaluation assets. During the year ended 31 December 2014; the Group repaid capitalised contingent consideration under the acquisition agreements for the Darjinskoye and Yuzhno-Gremyachinskoye oil and gas fields in the amount of US$ 5,300 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2014 and 2013 property, plant and equipment comprised the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Oil and gas properties	**1,401,847**	1,292,073
Other property, plant and equipment	**40,310**	38,830
	1,442,157	1,330,903

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 2014 and 2013 was as follows:

In thousands of US Dollars	**Working assets**	**Construction in progress**	**Total**
Balance at 1 January 2013, net of accumulated depreciation and depletion	**1,002,602**	**189,446**	**1,192,048**
Additions	5,108	210,076	215,184
Transfers	197,271	(197,271)	–
Depreciation and depletion charge	(115,159)	–	(115,159)
Balance at 31 December 2013, net of accumulated depreciation and depletion	**1,089,822**	**202,251**	**1,292,073**
Additions	9,730	205,153	214,883
Transfers	38,640	(38,445)	195
Disposals	(666)	–	(666)
Disposals depreciation	214	–	214
Depreciation and depletion charge	(104,852)	–	(104,852)
Balance at 31 December 2014, net of accumulated depreciation and depletion	**1,032,888**	**368,959**	**1,401,847**
As at 31 December 2012			
Cost	1,209,373	189,446	1,398,819
Accumulated depreciation	(206,771)	–	(206,771)
Balance, net of accumulated depreciation and depletion	**1,002,602**	**189,446**	**1,192,048**
As at 31 December 2013			
Cost	1,411,752	202,251	1,614,003
Accumulated depreciation	(321,930)	–	(321,930)
Balance, net of accumulated depreciation and depletion	**1,089,822**	**202,251**	**1,292,073**
As at 31 December 2014			
Cost	1,459,457	368,959	1,828,416
Accumulated depreciation	(426,569)	–	(426,569)
Balance, net of accumulated depreciation and depletion	**1,032,888**	**368,959**	**1,401,847**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The subcategory “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 10.02% and 12.14% in 2014 and 2013, respectively.

The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2014 and 2013:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Borrowing costs including amortisation of arrangement fee	**77,959**	56,023
Capitalisation rate	**7.28%**	8.95%
Capitalised borrowing costs	**17,134**	14,609

Other property, plant and equipment

In thousands of US Dollars	**Buildings**	**Machinery & Equipment**	**Vehicles**	**Others**	**Construction in progress**	**Total**
Balance at 1 January 2013, net of accumulated depreciation	**5,607**	**6,496**	**1,170**	**4,002**	**13,342**	**30,617**
Additions	562	2,410	560	1,217	8,654	13,403
Transfers	21,799	–	–	150	(21,949)	–
Disposals	(35)	(102)	(50)	(44)	–	(231)
Disposals depreciation	16	52	49	30	–	147
Depreciation	(1,653)	(2,378)	(334)	(741)	–	(5,106)
Balance at 31 December 2013, net of accumulated depreciation	**26,296**	**6,478**	**1,395**	**4,614**	**47**	**38,830**
Additions	585	1,501	324	6,279	258	8,947
Transfers	24	309	412	(940)	–	(195)
Disposals	(6)	(24)	(159)	(244)	–	(433)
Disposals depreciation	5	16	157	193	–	371
Depreciation	(3,136)	(2,430)	(484)	(1,160)	–	(7,210)
Balance at 31 December 2014, net of accumulated depreciation	**23,768**	**5,850**	**1,645**	**8,742**	**305**	**40,310**
As at 31 December 2012						
Cost	8,561	10,977	3,003	5,853	13,342	41,736
Accumulated depreciation	(2,954)	(4,481)	(1,833)	(1,851)	–	(11,119)
Balance, net of accumulated depreciation	**5,607**	**6,496**	**1,170**	**4,002**	**13,342**	**30,617**
As at 31 December 2013						
Cost	30,887	13,285	3,513	7,166	47	54,898
Accumulated depreciation	(4,591)	(6,807)	(2,118)	(2,552)	–	(16,068)
Balance, net of accumulated depreciation	**26,296**	**6,478**	**1,395**	**4,614**	**47**	**38,830**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2014						
Cost	31,497	15,068	4,167	12,270	305	63,307
Accumulated depreciation	(7,729)	(9,218)	(2,522)	(3,528)	–	(22,997)
Balance, net of accumulated depreciation	**23,768**	**5,850**	**1,645**	**8,742**	**305**	**40,310**

9. ADVANCES FOR NON-CURRENT ASSETS

As at 31 December 2014 and 2013, advances for non-current assets comprised the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Advances for pipes and construction materials	**67,465**	6,241
Advances for construction services	**66,884**	3,796
Advances for purchase of software licenses	**6**	–
	134,355	10,037

During the year ended 31 December 2014 the Group made significant advances for construction services and related materials for the construction of the third unit of the Group's gas treatment facility.

10. INVENTORIES

As at 31 December 2014 and 2013 inventories comprised the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Materials and supplies	**20,472**	16,739
Gas condensate	**3,383**	2,986
Crude oil	**1,262**	1,754
LPG	**326**	606
	25,443	22,085

As at 31 December 2014 and 2013 inventories are carried at cost.

11. TRADE RECEIVABLES

As at 31 December 2014 and 2013 trade receivables were not interest bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 31 December 2014 and 2013 the ageing analysis of trade receivables is as follows:

			Past due but not impaired			
In thousands of US Dollars	**Total**	**Neither past due nor impaired**	**<30 days**	**60-90 days**	**90-120 days**	**>120 days**
31 December 2014	**30,110**	**30,110**	**–**	**–**	**–**	**–**
31 December 2013	66,565	66,561	–	–	–	4

12. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December 2014 and 2013 prepayments and other current assets comprised the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
VAT receivable	**28,502**	17,192
Advances paid	**9,184**	7,817
Other	**1,956**	6,183
	39,642	31,192

Advances paid consist primarily of prepayments made to service providers.

13. CURRENT AND NON-CURRENT INVESTMENTS

Current investments as at 31 December 2014 were represented by an interest bearing deposit placed on 30 September 2014 for a six-month period with an interest rate of 0.24% per annum. As at 31 December 2014 no non-current investments were placed by the Group.

Current investments as at 31 December 2013 were represented by an interest bearing short-term deposit placed on 30 September 2013 for a six-month period with interest rate of 0.31% per annum. Non-current investments as at 31 December 2013 were represented by an interest bearing deposit placed on 30 September 2013 for a period of more than one year and an interest bearing deposit placed on 4 March 2013 for a two-year period, which was terminated on 23 April 2014.

14. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**31 December 2014**	31 December 2013
Current accounts in US Dollars	**356,316**	150,931
Current accounts in tenge	**8,709**	5,485
Current accounts in other currencies	**10,413**	3,492
Petty cash	**5**	6
Bank deposits with maturity less than three months	**–**	25,000
	375,443	184,914

The Group has restricted cash accounts as liquidation fund deposit in the amount of US$5,023 thousand with Kazkommertsbank JSC and Sberbank in Kazakhstan (31 December 2013: US$4,217 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liability of the Group.

Bank deposits with maturity of less than three months as at 31 December 2013 represent an interest bearing short-term deposit placed on 30 December 2013.

15. SHARE CAPITAL AND RESERVES

Partnership capital of Nostrum Oil & Gas LP before the reorganisation

Other reserves include foreign currency translation reserve accumulated before 2009, when the functional currency of the Group was Kazakhstani Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Prior to the reorganization the partnership capital of the Group comprised of the partnership capital of Nostrum Oil & Gas LP.

Distributions

During the year ended 31 December 2014 Nostrum Oil & Gas LP made a distribution of US$0.35 per Common Unit (2013: US$0.34 per Common Unit) to the holders of Common Units representing limited partnership interests which amounted to a total of US$64,615 thousand and was paid in full on 6 June 2014 (2013: a distribution of US$63,179 thousand was announced which was paid in full on 19 July 2013).

Reorganisation

On 17 June 2014 the limited partners of Nostrum Oil & Gas LP duly passed all proposed resolutions at the special general meeting of limited partners.

The resolutions passed by the limited partners included a resolution to approve the new corporate structure (the "Scheme") whereby Nostrum Oil & Gas plc was to become the new holding company for the business of Nostrum Oil & Gas LP.

Furthermore the limited partners approved special resolutions to approve the amendment to the limited partnership agreement (to permit implementation of the Scheme) and the dissolution of Nostrum Oil & Gas LP, which was completed on 27 August 2014.

On 18 June 2014, following the decision of the board of directors, Nostrum Oil & Gas LP commenced the Group's reorganization. This was implemented by means of an exchange offer made by the Company to the GDR holders of Nostrum Oil & Gas LP, which were entitled to receive 1 share of Nostrum Oil & Gas plc for each GDR of Nostrum Oil & Gas LP.

The GDR facility was cancelled on 22 September 2014.

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 as at the date of the transaction amounting to US$255,459 has been included in the other reserves of the Group.

On 17 September 2014 US$102,797,484 were transferred from the share premium account to distributable reserves based on a Special Resolution passed at a general meeting of the Parent, which was confirmed by an Order of the High Court of Justice.

The following table represents the movement of GDRs/shares:

Number of GDRs/shares	**In circulation**	**Treasury capital**	**Total**
As at 1 January 2013	**186,051,235**	**2,131,723**	**188,182,958**
Buyback of GDRs	(1,808,726)	1,808,726	–
Share options exercised	285,375	(285,375)	–
As at 31 December 2013	**184,527,884**	**3,655,074**	**188,182,958**
Share options exercised	100,935	(100,935)	–
Replacement of GDRs	(184,628,819)	(3,554,139)	(188,182,958)
Shares issued	184,628,819	3,554,139	188,182,958
Share options exercised	200,000	(200,000)	–
As at 31 December 2014	**184,828,819**	**3,354,139**	**188,182,958**

Please refer to Note 27 for information on the costs related to the reorganisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Share capital of Nostrum Oil & Gas plc

As at 31 December 2014 the ownership interests in the Parent consist of issued and fully paid ordinary shares, which are listed on the London Stock Exchange. As at 31 December 2013 the Parent had subscriber shares and redeemable preference shares, all of which were cancelled on 7 August 2014.

After the reorganisation the share capital of the Group comprised of the share capital of Nostrum Oil & Gas Plc:

		31 December 2014
Number of shares	**Subscriber and redeemable preference shares**	Ordinary shares
Balance at the beginning of the period	**410,002**	-
Share capital	**–**	188,182,958
Cancellation of shares	**(410,002)**	–
Balance at the end of the period	**–**	188,182,958

The subscriber and redeemable preference shares had a nominal value of GB£ 1 and the ordinary shares have a nominal value of GB£ 0.01.

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 2014 the book value per share amounted to US$4.70 (31 December 2013: US$4.26).

16. EARNINGS PER SHARE

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of Common Units/ 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 authorization of these financial statements.

	2014	2013
Profit for the year attributable to the holders of Common Units/shares (in thousands of US Dollars)	**146,425**	219,519
Weighted average number of Common Units/shares	**184,678,352**	185,289,560
Basic and diluted earnings per Common Unit/share (in US Dollars)	**0.79**	1.18

17. BORROWINGS

Borrowings comprise the following as at 31 December 2014 and 2013:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Notes issued in 2012 and maturing in 2019	**540,793**	536,301
Notes issued in 2014 and maturing in 2019	**404,321**	–
Notes issued in 2010 and maturing in 2015	**–**	92,122
	945,114	628,423
Less amounts due within 12 months	**(15,024)**	(7,263)
Amounts due after 12 months	**930,090**	621,160

2010 Notes

On 19 October 2010 Zhaikmunai Finance B.V. (the "2010 Initial Issuer") issued US$ 450,000 thousand notes (the "2010 Notes").

On 28 February 2011 Zhaikmunai LLP (the "2010 Issuer") replaced the 2010 Initial Issuer of the 2010 Notes, whereupon it assumed all of the obligations of the 2010 Initial Issuer under the 2010 Notes.

The 2010 Notes bore interest at the rate of 10.50% per year. Interest on the 2010 Notes was payable on 19 April and 19 October of each year, beginning on 19 April 2011. Prior to 19 October 2013, the 2010 Issuer could, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2010 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 110.50% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2010 Notes (including Additional Notes as defined in the indenture relating to the 2010 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2010 Notes could have been redeemed, in whole or in part, at any time prior to 19 October 2013 at the option of the 2010 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2010 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2010 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2010 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2010 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2010 Note at 19 October 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2010 Note through 19 October 2013 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2010 Note.

The 2010 Notes were jointly and severally guaranteed (the "2010 Guarantees") on a senior basis by Nostrum Oil & Gas LP and all of its subsidiaries other than the 2010 Issuer (the "2010 Guarantors"). The 2010 Notes were the 2010 Issuer's and the 2010 Guarantors' senior obligations and rank equally with all of the 2010 Issuer's and the 2010 Guarantors' other senior indebtedness. The 2010 Notes and the 2010 Guarantees had the benefit of first priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

On 19 October 2012, Zhaikmunai International B.V. commenced a cash tender offer (the "Tender Offer") to purchase any and all of the 2010 Notes. US$ 347,604 thousand aggregate principal amount of the 2010 Notes had been tendered into the Tender Offer, representing approximately 77% of the outstanding 2010 Notes, by the time the Tender Offer for 2010 Notes expired on 19 November 2012. The holders of US$ 200,732 thousand 2010 Notes that accepted the Tender Offer have subscribed to the 2012 Notes of the same amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

On 14 March 2014 the Group submitted a notice of early redemption on 14 April 2014 of the principal amount of the 2010 Notes plus accrued interest and premium. As at that date the outstanding principal amount of US$ 92,505 thousand was reclassified to the current portion of long-term borrowings and the related unamortised transaction costs were expensed to profit and loss. The Group has also accrued related early redemption premium in the amount of US$ 4,857 thousand. On 14 April 2014 Zhaikmunai LLP repaid the outstanding 2010 Notes including interest and premium.

2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US$ 560,000 thousand notes (the "2012 Notes").

On 24 April 2013 Zhaikmunai LLP (the "2012 Issuer") replaced the 2012 Initial Issuer of the 2012 Notes, whereupon it assumed all of the obligations of the 2012 Initial Issuer under the 2012 Notes.

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013. Prior to 13 November 2016, the 2012 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2012 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2012 Notes (including Additional Notes as defined in the indenture relating to the 2012 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2012 Notes may be redeemed, in whole or in part, at any time prior to 13 November 2016 at the option of the 2012 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2012 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2012 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2012 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2012 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2012 Note at 13 November 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through 13 November 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2012 Note.

The 2012 Notes are jointly and severally guaranteed (the "2012 Guarantees") on a senior basis by Nostrum Oil & Gas plc and all of its subsidiaries other than the 2012 Issuer (the "2012 Guarantors"). The 2012 Notes are the 2012 Issuer's and the 2012 Guarantors' senior obligations and rank equally with all of the 2012 Issuer's and the 2012 Guarantors' other senior indebtedness. The 2012 Notes and the 2012 Guarantees do not have the benefit of first priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

2014 Notes

On 14 February 2014, Nostrum Oil & Gas Finance B.V. (the "2014 Initial Issuer") issued US$ 400,000 thousand notes (the "2014 Notes").

On 6 May 2014, Zhaikmunai LLP (the "2014 Issuer") replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes, whereupon it assumed all of the obligations of the 2014 Initial Issuer. under the 2014 Notes.

The 2014 Notes bear interest at the rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and 14 August of each year, beginning on 14 August 2014. Prior to 14 February 2017, the 2014 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2014 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 106.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2014 Notes (including Additional Notes as defined in the indenture relating to the 2014 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

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

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

Costs directly attributable to the 2014 Notes arrangement amounted to US$6,525 thousand.

Covenants contained in the 2010 Notes, the 2012 Notes and the 2014 Notes

The indentures governing the 2010 Notes, the 2012 Notes and the 2014 Notes contain a number of covenants that, among other things, restrict, subject to certain exceptions,

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during years ended 31 December 2014 and 2013 is as follows:

In thousands of US Dollars	**2014**	2013
Abandonment and site restoration provision as at 1 January	**13,874**	11,064
Unwinding of discount	**197**	1,034
Additional provision	**2,500**	2,500
Change in estimates	**4,306**	(724)
Abandonment and site restoration provision as at 31 December	**20,877**	13,874

The 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 2014 were 3.75% and 4.88%, respectively (31 December 2013: 7% and 10%). Change in the discount rate resulted in the increase of the provision by US$19,068 thousand which was offset by a decrease of the provision by US$14,762 thousand due to change in the inflation rate and other assumptions.

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 May 26, 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 2014 and 2013 is as follows:

In thousands of US Dollars	**2014**	2013
Due to Government of Kazakhstan as at 1 January	**7,052**	7,153
Unwinding of discount	**917**	930
Paid during the year	**(1,032)**	(1,031)
	6,937	7,052
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,906**	6,021

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20. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2014 and 2013:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Tenge denominated trade payables	**27,030**	42,950
US dollar denominated trade payables	**17,889**	12,719
Trade payables denominated in other currencies	**4,700**	2,849
	49,619	58,518

21. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 31 December 2014 and 2013:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Taxes payable, other than corporate income tax	**17,191**	32,110
Accruals under the subsoil use agreements	**14,435**	–
Training obligations accrual	**9,686**	8,986
Due to employees	**4,605**	3,227
Liability accrued with respect to acquisitions	**2,402**	1,953
Production bonus	**449**	–
Pension obligations	**314**	204
Contingent consideration	**–**	5,300
Other current liabilities	**1,534**	2,848
	50,616	54,628

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

22. REVENUE

In thousands of US Dollars	**2014**	2013
Oil and gas condensate	**620,164**	709,107
Gas and LPG	**161,714**	185,907
	781,878	895,014

The Group's exports are mainly represented by deliveries to Finland and the Black Sea ports of Russia.

During the year ended 31 December 2014 the revenue from sales to three major customers amounted to US$321,755 thousand, US$124,823 thousand and US$77,113 thousand respectively (2013: two major customers: US$202,945 thousand and US$173,440 thousand respectively).

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23. COST OF SALES

In thousands of US Dollars	**2014**	2013
Depreciation, depletion and amortisation	**110,460**	118,957
Repair, maintenance and other services	**35,818**	52,361
Royalties	**24,330**	39,356
Payroll and related taxes	**21,560**	17,240
Materials and supplies	**10,929**	12,262
Well workover costs	**6,296**	2,794
Government profit share	**4,594**	30,747
Other transportation services	**2,929**	4,306
Environmental levies	**1,098**	1,029
Management fees	**–**	3,558
Change in stock	**376**	2,490
Other	**3,531**	1,122
	221,921	286,222

The change in the structure of cost of sales is driven by the acquisition of Probel Capital Management N.V. on 30 December 2013 and agreement on 19 May 2014 to acquire Prolag BVBA and Amersham Oil LLP, which led to the elimination of intercompany management fees, and recognition of those expenses as payroll and related taxes.

Besides that Zhaikmunai LLP revised the estimates related to the government profit share and royalties in accordance with the recent supplement to the Chinarevskoye subsoil use rights and change in the coefficient of natural gas equivalent (Note 1), which resulted in the total reversal of the government profit share in the amount of US$17,846 thousand and in the total reversal of the royalties in the amount of US$5,451 thousand related to prior periods.

24. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**2014**	2013
Professional services	**19,776**	9,072
Payroll and related taxes	**15,668**	7,576
Business travel	**4,786**	4,089
Training	**2,535**	2,736
Sponsorship	**1,826**	2,919
Insurance fees	**1,768**	2,050
Depreciation and amortization	**1,409**	1,413
Communication	**1,195**	1,010
Other taxes	**1,006**	4,839
Lease payments	**895**	585
Bank charges	**813**	1,100
Materials and supplies	**626**	664
Management fees	**605**	16,006
Social program	**300**	300
Other	**1,670**	1,660
	54,878	56,019

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The change in the structure of general and administrative expenses is driven by the acquisition of Probel Capital Management N.V. on 30 December 2013 and agreement on 19 May 2014 to acquire Prolag BVBA and Amersham Oil LLP, which led to the elimination of intercompany management fees, and recognition of those expenses as professional services and payroll and related taxes.

25. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollars	**2014**	2013
Loading and storage costs	**56,351**	36,991
Transportation costs	**54,878**	72,229
Payroll and related taxes	**2,211**	2,486
Management fees	**183**	701
Other	**8,631**	9,267
	122,254	121,674

The transportation costs for the year ended 31 December 2013 also included certain loading and storage costs provided by the transportation companies, which are included in loading and storage costs for the year ended 31 December 2014.

26. FINANCE COSTS

In thousands of US Dollars	**2014**	2013
Interest expense on borrowings	**60,825**	41,651
Unwinding of discount on amounts Due to Government	**917**	930
Unwinding of discount on Abandonment and site restoration provision	**197**	1,034
	61,939	43,615

27. FINANCE COSTS – REORGANISATION

The "finance costs – reorganisation" are represented by the costs associated with introduction of Nostrum Oil & Gas plc as the new holding company of the Group and respective reorganisation. These costs include US$14,389 thousand under the facility agreements with VTB Capital plc (under which US$3,000,000 thousand were committed and US$2,350,405 thousand were lent), US$7,193 thousand related to the new listing and the cancellation of the GDR program and US$7,990 thousand financing costs related to advisory and other services incurred in relation to the reorganisation.

28. EMPLOYEES' REMUNERATION

The average monthly number of employees (including Executive Directors) employed was as follows:

	2014	**2013**
Management and administrative	**289**	259
Technical and operational	**721**	702
	1,010	961

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Their aggregate remuneration comprised:

In thousands of US Dollars	**2014**	2013
Wages and salaries	**36,025**	24,545
Share-based payments	**2,475**	2,346
Social security costs	**4,333**	3,906
	42,833	30,797

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$39,440 thousand (2013: US$27,302 thousand).

Key management personnel remuneration

In thousands of US Dollars	**2014**	2013
Short-term employee benefits	**1,506**	634
Share-based payments	**725**	2,202
	2,231	2,836

During the year ended 31 December 2013 certain key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management N.V. and their remuneration formed part of management fees and consulting services rendered to the Group. During 2014 all key management personnel are employed and paid by the Group.

Directors' remuneration

In thousands of US Dollars	**2014**	2013
Short-term employees benefits	**3,242**	2,899
Share-based payments	**1,750**	–
	4,992	2,899

Employee share option plan

The Group operates one option plan (the Phantom Option Plan), that was adopted by the board of directors of the Company on 20 June 2014 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 (Note 2).

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.

The equity-based payment plan is described below.

During 2008-2014, 4,297,958 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 till 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 2,611,413 of SARs at 31 December 2014 is US$ 6,449 thousand (31 December 2013: 2,912,348 SARs with carrying value of US$ 12,016 thousand). During the year ended 31 December 2014 302,000 SARs were fully vested (2013:728,487).

The following table illustrates the number ("No.") and exercise prices ("EP") of, and movements in, SARs during the year:

	2014		2013	
	No.	**EP,US$**	No.	EP,US$
Total outstanding at the beginning of the year (with EP of US$ 4)	**1,646,348**	**4**	1,931,723	4
Total outstanding at the beginning of the year (with EP of US$ 10)	**1,266,000**	**10**	200,000	10
Total outstanding at the beginning of the year	**2,912,348**		2,131,723	
Share option granted	**–**	**10**	1,115,000	10
Share option exercised	**(294,935)**	**4**	(285,375)	4
Share option exercised	**(6,000)**	**10**	–	–
Share options lapsed	**–**	**10**	(49,000)	10
Total outstanding at the end of the year	**2,611,413**		2,912,348	
Total exercisable at the end of the year	**1,815,413**		1,808,348	

There were no SARs granted during the year ended 31 December 2014. The weighted average fair value of SARs granted during the year ended 31 December 2013 amounted to US$ 6.22 per SAR. The weighted average price at the date of exercise for SARs exercised during the year ended 31 December 2014 amounted to US$ 8.22 per SAR (2013: US$ 8.22 per SAR). 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 2014 and 2013:

	2014	2013
GDR (2013) or ordinary share (2014) price at the reporting date (US$)	**6.6**	13.0
Distribution yield (%)	**3.0%**	3.0%
Expected volatility (%)	**85.0%**	85.0%
Risk-free interest rate (%)	**1.0%**	2.0%
Expected life (years)	**10.0**	10.0
Option turnover (%)	**10.0%**	10.0%
Price trigger	**2.0**	2.0

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

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29. DERIVATIVE FINANCIAL INSTRUMENTS

On 3 March 2014, in accordance with its hedging policy, the Group entered, at nil upfront cost, into a long-term hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through to 29 February 2016. The counterparty to the hedging agreement is Citibank. Based on the hedging contract the Group bought a put at US$85/bbl, which protects it against any fall in the price of oil below US$85/bbl, i.e. Citibank will compensate the difference in price below US$85/bbl. As part of this contract the Group also sold a call at US$111.5/bbl and bought a call at US$117.5/bbl, under which Zhaikmunai LLP is obliged to compensate the difference in price above US$111.5/bbl with an upper limit of US$117.5/bbl, i.e. up to US$6/bbl. If the spot price goes above US$117.5/bbl, then Zhaikmunai LLP will be obliged to pay US$6/bbl to Citibank.

During the years ended 31 December 2014 and 2013 the movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US Dollars	**2014**	2013
Derivative financial instruments at fair value at 1 January	**–**	–
Gain on derivative financial instruments	**60,301**	–
Derivative financial instruments at fair value at 31 December	**60,301**	–

The Group classifies the asset constituted by the hedging contract as non-current since no settlement is expected to occur under or in respect of the hedging contract until 29 February 2016.

Gains and losses on the derivative financial instruments, which do not qualify for hedge accounting, are taken directly to profit or loss.

30. OTHER EXPENSES

In thousands of US Dollars	**2014**	2013
Export customs duty	**19,733**	12,268
Accruals under subsoil use agreements	**16,083**	–
Compensation	**10,116**	6,387
Other	**3,912**	6,938
	49,844	25,593

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. Based on their interpretation of CIS free-trade legislation the Kazakhstan customs authorities imposed customs duties on oil exports from Kazakhstan to Ukraine starting from December 2012.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX

The income tax expense comprised the following:

In thousands of US Dollars	**2014**	2013
Corporate income tax	**117,827**	138,883
Adjustment in respect of the current income tax for the prior periods	**(6,785)**	–
Deferred income tax expense /(benefit)	**54,233**	3,613
Total income tax expense	**165,275**	142,496

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	**2014**	2013
Profit before income tax	**311,700**	362,015
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**93,510**	108,605
Effect of exchange rate on the tax base	**34,533**	2,836
Adjustments in respect of current income tax of previous years	**(6,785)**	–
Effect of income taxed at different rate[1]	**(3,790)**	31
Non-deductible interest expense on borrowings	**23,390**	19,084
Deferred tax asset not recognised	**10,384**	–
Non-deductible penalties	**4,556**	2,037
Non-deductible compensation for gas	**2,813**	1,711
Net foreign exchange loss	**1,020**	1,624
Non-deductible social expenditures	**886**	890
Non-deductible cost of technological loss	**192**	1,850
Other non-deductible expenses	**4,566**	3,828
Income tax expenses reported in the consolidated financial statements	**165,275**	142,496

[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 20%.*

As at 31 December 2014 the Group has tax losses of US$41,643 thousand (mainly originated from the Group reorganisation costs) that are available to offset against future taxable profits in the companies in which the losses arose. 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:

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In thousands of US Dollars	**31 December 2014**	31 December 2013
Deferred tax asset:		
Accounts payable and provisions	**3,616**	2,811
Deferred tax liability:		
Property, plant and equipment	**(196,855)**	(155,356)
Derivative financial instruments	**(12,060)**	
Other	**(1,485)**	
Net deferred tax liability	**(206,784)**	(152,545)

The movements in the deferred tax liability were as follows:

In thousands of US Dollars	**2014**	2013
Balance at 1 January	**152,545**	148,932
Current period charge to statement of income	**54,239**	3,613
Balance at 31 December	**206,784**	152,545

32. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties represented by entities controlled by the shareholders with significant influence over the Group as at 31 December 2014 and 2013 consisted of the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Trade receivables and advances paid		
KazStroyService JSC	**36,915**	–

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Accounts payable to related parties represented by entities controlled by the shareholders with significant influence over the Group as at 31 December 2014 and 2013 consisted of the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Trade payables		
KazStroyService JSC	**2,753**	50
Telco B.V.	**29**	–
Prolag BVBA	**–**	240
Amersham Oil LLP	**–**	52

During the years ended 31 December 2014 and 2013 the Group had the following transactions with related parties represented by entities controlled by the shareholders with significant influence over the Group:

In thousands of US Dollars	**2014**	2013
Purchases		
KazStroyService JSC	**6,538**	–
Management fees and consulting services		
Cervus Business Services	**1,981**	–
Amersham Oil LLP	**455**	1,506
Prolag BVBA	**668**	1,253
Probel Capital Management N.V.	**–**	17,507
Crest Capital Management N.V.	**824**	–
Telco B.V.	**744**	–

On 19 May 2014, SEPOL AG and Nostrum Oil Coöperatief U.A. ("Co-op") entered into a purchase agreement for the acquisition by Co-op of the entire issued share capital of Amersham Oil LLP (the "Amersham Acquisition Agreement") for an initial consideration of US$1,915 thousand.

On 19 May 2014 Crest Capital Management NV, Petra Noé and Co-op entered into a purchase agreement for the acquisition by Co-op of the entire issued share capital of Prolag BVBA (the "Prolag Acquisition Agreement") for an initial consideration of US$1, as all services previously provided by Prolag to the Group were internalised within Probel prior to the acquisition of Probel. A price adjustment of US$212 thousand was agreed and paid with respect to the acquisition of Prolag BVBA.

On 28 July 2014 Zhaikmunai LLP entered into a contract with JSC "OGCC KazStroyService" (the "Contractor") for the construction of the third unit of the Group's gas treatment facility for a consideration of US$150 million.

The Contractor is an affiliate of KazStroyService B.V., which as at 31 December 2014 owned approximately 26.6% of the Company's ordinary shares.

On 30 December 2013 ELATA Burgerlijke Maatschap, Petra Noé, Frank Monstrey and Co-op entered into a purchase agreement for the acquisition by Co-op of the entire issued share capital of Probel Capital Management NV for an initial consideration of US$28,836 thousand, and a price adjustment of US$3,631 thousand.

As at 31 December 2013 management fees and consulting services were payable in accordance with the Technical Assistance Agreements signed between members of the Group and Amersham Oil LLP and Prolag BVBA related to the rendering of geological, geophysical, drilling, technical and other consultancy services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the year ended 31 December 2014 management and consulting services were provided in accordance with business center and consultancy agreements signed between members of the Group and Cervus Business Services BVBA.

33. AUDIT AND NON-AUDIT FEES

During the years ended 31 December 2014 and 2013 audit and non-audit fees comprise the following:

In thousands of US Dollars	**2014**	2013
Audit of the financial statements	**684**	314
Total audit services	**684**	314
Audit-related assurance services	**319**	105
Taxation compliance services	**40**	40
Services relating to corporate finance transactions	**730**	252
Total non-audit services	**1,089**	397
Total fees	**1,773**	711

The audit fees in the table above include the audit fees of US$12 thousand in relation to parent company.

34. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2014. As at 31 December 2014 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. 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 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 2014 the Group had contractual capital commitments in the amount of US$248,644 thousand (31 December 2013: US$26,842 thousand) mainly in respect to the Group's oil field development activities.

Operating lease

The Group entered into a cancellable lease agreement for the main administrative office in Uralsk in October 2007 for a period of 20 years for US$ 15 thousand per month.

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

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

In thousands of US Dollars	**31 December 2014**	31 December 2013
No later than one year	**14,788**	12,501
Later than one year and no later than five years	**17,671**	23,846
Later than five years	**–**	–

Lease expenses of railway tank wagons for the year ended 31 December 2014 amounted to US$14,622 thousand (FY 2013: US$12,628 thousand).

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement #9), the Group is obliged to:

i. spend US$ 300 thousand per annum to finance social infrastructure;

ii. make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and

iii. adhere to a spending schedule on education which lasts until (and including) 2020.

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno Gremyachinskoye fields require fulfilment of several social and other obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 9 August 2013) require the subsurface user to:

i. spend US$1,196 thousand to finance social infrastructure of the region during the exploration stage (including US$1,000 thousand for funding of development of Astana city in case of commercial discovery);

ii. invest at least US$16,820 thousand for exploration of the field during the exploration period;

iii. reimburse historical costs of US$372 thousand to the Government upon commencement of production stage;

iv. create a liquidation fund (special deposit account with local bank) equal to US$ 206 thousand.

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The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 23 January 2014) require the subsurface user to:

i. spend at least US$52 thousand for education of personnel engaged to work under the contract during the exploration stage;
ii. spend US$73 thousand to finance social infrastructure of the region;
iii. invest at least US$19,392 thousand for exploration of the field during the exploration period;
iv. create a liquidation fund (special deposit account with local bank) equal to US$208 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 23 January 2014) require the subsurface user to:

i. spend at least US$101 thousand for education of personnel engaged to work under the contract during the exploration stage;
ii. spend US$74 thousand to finance social infrastructure of the region;
iii. invest at least US$32,298 thousand for exploration of the field during the exploration period;
iv. create a liquidation fund (special deposit account with local bank) equal to US$342 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.

35. 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 summarized 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 2014 and 2013 as the Group had no financial instruments with floating rates as at years ended 31 December 2014 and 2013.

Foreign currency risk

As a significant portion of the Group’s operation is the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US dollars exchange rate, with all other variables held constant, of the Group's profit before tax. 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
2014		
US Dollar thousand	+ 17.37%	(1,168)
US Dollar thousand	- 17.37%	1,168
2013		
US Dollar thousand	+ 30.00%	(3,294)
US Dollar thousand	+ 10.00%	(1,098)

During the year ended 31 December 2014 a significant drop in oil prices and some other non-economic factors were observed which caused increase in volatility of Tenge exchange rates and overall market volatility. Statistics for the year ended 31 December 2014 reflect the expected behaviour of market in 2015. The ranges of reasonably possible changes in market risk variables were estimated by analysing annual standard deviations based on the historical market data for the year ended 31 December 2014.

The Group's foreign currency denominated monetary assets and liabilities were as follows:

As at 31 December 2014	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	8,713	–	10,307	106	19,126
Trade receivables	12,331	–	–	–	12,331
Trade payables	(27,030)	(965)	(3,479)	(256)	(31,730)
Other current liabilities	(19,331)	(115)	(7,010)	(7)	(26,463)
	(25,317)	**(1,080)**	**(182)**	**(157)**	**(26,736)**

As at 31 December 2013	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	5,491	–	3,492	–	8,983
Trade receivables	27,619	–	1	–	27,620
Trade payables	(42,950)	(372)	(2,472)	(5)	(45,799)
Other current liabilities	(257)	–	(7,173)	–	(7,430)
	(10,097)	**(372)**	**(6,152)**	**(5)**	**(16,626)**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group's policy is that, while it has an investment program on-going: a) not more than 25% of borrowings should mature in the next twelve-month period and b) a minimum balance of US$ 50 million is retained on the balance sheet post repayment or refinancing of any debt due in the next twelve-month period.

The Group's total outstanding debt consists of two notes: US$ 560 million issued in 2012 and maturing in 2019 and US$ 400 million issued in 2014 and maturing in 2019. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted payments:

As at 31 December 2014	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	–	12,750	52,650	1,221,600	–	**1,287,000**
Trade payables	48,095	–	1,524	–	–	**49,619**
Other current liabilities	18,126	–	–	–	–	**18,126**
Due to the government of Kazakhstan	–	258	773	4,124	11,340	**16,495**
	66,221	**13,008**	**54,947**	**1,225,724**	**11,340**	**1,371,240**

As at 31 December 2013	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	–	–	43,613	259,902	594,691	**898,206**
Trade payables	58,518	–	–	–	–	**58,518**
Other current liabilities	20,571	–	–	–	–	**20,571**
Due to the government of Kazakhstan	–	258	773	4,124	12,371	**17,526**
	79,089	**258**	**44,386**	**264,026**	**607,062**	**994,821**

Credit risk

Financial instruments, which potentially subject the Group to credit risk, consist primarily of derivative financial instruments, 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, cash and cash equivalents and derivative financial instruments.

The Group places its Tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba3 (stable) from Moody's rating agency and its US Dollar denominated cash with BNP Paribas with a credit rating of A1 (negative) and ING with a credit rating of A2 (negative) from Moody's rating agency at 31 December 2014. The Group does not guarantee obligations of other parties.

The Group sells its products and makes advance payments only to recognized, 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.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Financial instruments measured at fair value				
Derivative financial instruments	**60,301**	–	**60,301**	–
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**945,114**	628,423	**1,037,320**	686,795
Total	**1,005,415**	628,423	**1,097,621**	686,795

The management assessed that cash and cash equivalents, short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until March 2016.

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 31 December 2014 and 31 December 2013:

	31 December 2014	31 December 2013
Future price at the reporting date (US$)	**59.2-67.9**	–
Historical volatility (%)	**16.02-17.73**	–
Risk-free interest rate (%)	**0.25-0.67**	–
Maturity (months)	**3-15**	–

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

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

In thousands of US Dollars	**Increase in the assumption**	**Decrease in the assumption**
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	(4,959)	5,165
Increase/(decrease) in gain on derivative financial instruments due to change in discount rate assumption (+/-2%)	808	(664)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The contingent consideration liability under acquisition agreement of Darjinskoye and Yuzhno-Gremyachenskoye oil and gas fields (Note 7 and 21) outstanding as at 31 December 2013 was recognised at fair value, which was assessed to be equal to its nominal amount due to its short-term nature and, respectively, categorised as Level 3 within the fair value hierarchy. There were no gains or losses arising during 2013 from fair value measurement of this contingent consideration liability.

During the years ended 31 December 2014 and 2013 there were no transfers between the levels of fair value hierarchy of the Groups' financial instruments.

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 distribution payment to participants, return capital to participants or increase partnership capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 40%. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

In thousands of US Dollars	**2014**	2013
Interest bearing borrowings	**945,114**	628,423
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(405,467)**	(244,131)
Net debt	**539,647**	384,292
Equity	**917,680**	832,451
Total capital	**917,680**	832,451
Capital and net debt	**1,457,327**	1,216,743
Gearing ratio	**37%**	32%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

36. EVENTS AFTER THE REPORTING PERIOD

The initial purchase price of US$1,915 thousand with respect to the acquisition of Amersham Oil LLP was paid on 28 January 2015. The amount of the price adjustment with respect to the acquisition of Amersham Oil LLP has not yet been agreed or paid as at the date of the authorisation of the financial statements for issue, but it is estimated at US$487 thousand. Respective liability for this amount has been recognised within other current liabilities (Note 21) as at 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The contract for exploration and production of hydrocarbons from Darjinskoye field and the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field were both amended on 24 February 2015 to reduce the obligations referred to in note 33 above in relation to those fields.

On 11 March 2015 the Group received the written permission on extension of the exploration period for the Rostoshinskoye field to 8 February 2017. The supplementary agreement is expected to be signed soon.

The Board is proposing a final dividend of US$0.27 per Ordinary Share for the year ended 31 December 2014, subject to shareholder approval at the AGM.

Parent company financial statements

Parent company financial statements

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Parent company financial statements

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

In thousands of US Dollars	**Notes**	**31 December 2014**	31 December 2013
ASSETS			
Non-current assets			
Investments in subsidiaries	**5**	**106,000**	–
		106,000	–
Current assets			
Receivables from shareholders		**–**	80
Receivables from related parties	**6**	**26,367**	–
Cash at bank and in hand	**7**	**216**	576
		26,583	656
TOTAL ASSETS		**132,583**	656
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued share capital	**8**	**3,203**	656
Retained earnings		**102,391**	–
		105,594	656
Current liabilities			
Payables from related parties	**9**	**26,333**	–
Trade payables		**238**	–
Accrued liabilities		**418**	–
		26,989	–
EQUITY AND LIABILITIES		**132,583**	656

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

Kai-Uwe Kessel
Chief Executive Officer

Jan-Ru Muller
Chief Financial Officer

The accounting policies and explanatory notes on pages 163 through 170 are an integral part of these parent company financial statements

PARENT COMPANY STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

In thousands of US Dollars	**Notes**	**2014**	2013
Cash flow from operating activities:			
Loss before income tax		**(406)**	–
Adjustments for:			
Accrued liabilities		**418**	–
Operating profit before working capital changes		**12**	–
Changes in working capital:			
Change in receivables		**43**	–
Change in payables		**243**	–
Cash generated from operations		**298**	–
Net cash flows from operating activities		**298**	–
Cash flow from investing activities:			
Contribution in subsidiary - Reorganisation	**8**	**(106,000)**	–
Net cash used in investing activities		**(106,000)**	–
Cash flow from financing activities:			
Funds borrowed - Reorganisation	**8**	**2,244,405**	–
Funds repaid - Reorganisation	**8**	**(2,244,405)**	–
Proceeds from issue of share capital	**8**	**106,000**	576
Redemption of shares	**8**	**(656)**	–
Net cash from / (used in) financing activities		**105,344**	576
Effects of exchange rate changes on cash and cash equivalents		**(2)**	–
Net increase/(decrease) in cash and cash equivalents		**(360)**	576
Cash and cash equivalents at the beginning of the year	**7**	**576**	–
Cash and cash equivalents at the end of the year	**7**	**216**	576

During the year ended 31 December 2014, non-cash transactions included receivables from Nostrum benefit trust in the amount of US$26,333 thousand and payables to Nostrum Oil Cooperatief U.A. in the amount of US$26,333 thousand, which were transferred to the Company as part of the Reorganisation.

The accounting policies and explanatory notes on pages 163 through 170 are an integral part of these parent company financial statements

Parent company financial statements

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
As at 31 December 2014

In thousands of US Dollars		**Issued share capital**	**Share premium account**	**Retained earnings**	**Total**
As at incorporation		**–**	**–**	**–**	**–**
Loss for the year		–	–	–	–
Total comprehensive loss for the year		**–**	**–**	**–**	**–**
Issue of shares	**8**	656	–	–	656
As at 31 December 2013		**656**	**–**	**–**	**656**
Loss for the year		–	–	(406)	(406)
Total comprehensive loss for the year		**–**	**–**	**(406)**	**(406)**
Redemption of shares	**8**	(656)	–	–	(656)
Issue of share capital	**8**	3,203	102,797	–	106,000
Transfer to distributable reserves	**8**	–	(102,797)	102,797	–
As at 31 December 2014		**3,203**	**–**	**102,391**	**105,594**

The accounting policies and explanatory notes on pages 163 through 170 are an integral part of these parent company 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: 4th Floor, 53-54 Grosvenor Street, London, UK, W1K 3HU.

The subsidiary undertakings of the Company as at 31 December 2014 and the percentage holding of their capital are set out below:

Company	**Country of registration or incorporation**	**Form of capital**	**Ownership, %**
Subsidiary undertakings			
Direct:			
Nostrum Oil BV	Netherlands	Ordinary shares	100
Nostrum Oil Coöperatief U.A.	Netherlands	Members' interests	100
Indirect:			
Claydon Industrial Limited	British Virgin Islands	Ordinary shares	100
Condensate Holding LLP	Republic of Kazakhstan	Participatory interests	100
Grandstil LLC	Russian Federation	Participatory interests	100
Investprofi LLC	Russian Federation	Participatory interests	100
Jubilata Investments Limited	British Virgin Islands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	England and Wales	Ordinary shares	100
Probel Capital Management N.V.	Belgium	Ordinary shares	100
Prolag BVBA	Belgium	Ordinary shares	100
Zhaikmunai LLP	Republic of Kazakhstan	Participatory interests	100
Zhaikmunai Netherlands B.V.	Netherlands	Ordinary shares	100

Nostrum Oil & Gas plc and its wholly-owned subsidiaries are hereinafter referred to as "the Group".

As part of the reorganisation the Company became the holding company of the Group through its direct subsidiaries. Notes 8 of the financial statements of the Company provides more information on the reorganisation.

2. BASIS OF PREPARATION

The Company financial statements for the year ended 31 December 2014 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.

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 financial statements. During the reporting periods there were no transactions impacting the statement of other comprehensive income.

Going concern

These Company financial statements have been prepared on a going concern basis. 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. Accordingly, they continue to adopt the going concern basis in preparing the Company financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (continued)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New standards, interpretations and amendments thereof, adopted by the Company

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2014:

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company, since none of the entities in the Company has any offsetting arrangements.

Amendments to IAS 36 – Disclosures on Recoverable Amount for Non-financial Assets

These amendments eliminate unintended consequences of IFRS 13 Fair Value Measurement in part of information disclosure according to IAS 36 Asset Impairment. Besides, these amendments require disclosing the recoverable amount of assets or cash generation unit ("CGU") on which the impairment loss was recognized or recovered during the reporting period. These amendments had no impact on the financial statements of the Company.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of *IFRIC 21* in prior years.

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.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 is not expected to have an effect on the classification and measurement of the Company's financial assets and the Company's financial liabilities.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (continued)

uses a management entity is required to disclose the expenses incurred for management services. These amendments are not expected to have effect on the Company's future financial statements, since the Company always disclosed the companies providing management services as related parties.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). It is not expected that the amendment will have material effect on the Company's financial position or performance.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company's financial statements.

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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (continued)

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.

Investments

Investments in subsidiaries are recorded at cost. The Company assesses investments for impairment whenever events or changes in the circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through the statement of comprehensive income, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include investments, loans, cash and cash equivalents and receivables.

Subsequent measurement

Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. 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 effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables

Accounts receivable are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as expense (credit) in the period in which they become known.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

The rights to receive cash flows from the asset have expired

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)

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (continued)

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.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include payables and accrued liabilities.

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of comprehensive income.

Derecognition

A financial liability is derecognized 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (continued)

5. INVESTMENTS IN SUBSIDIARIES

Investments of the Company as at 31 December 2014 comprised of::

In US Dollars

Company	**31 December 2014**	31 December 2013
Nostrum Oil BV	**1**	–
Nostrum Oil Coöperatief U.A.	**106,000,000**	–

6. RECEIVABLES FROM RELATED PARTIES

As at 31 December 2014 receivables from related parties are represented by a receivable from the Nostrum employee benefit trust in amount of US$ 25,433 thousand (2013: nil) and a receivable from Nostrum Oil Coöperatief U.A. in amount of US$ 934 thousand (2013: nil).

7. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**31 December 2014**	31 December 2013
Current accounts in US Dollars	**174**	576
Current accounts in other currencies	**42**	–
	216	576

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 Group reorganisation referred to in that resolution.

On 18 June 2014, following the decision of the board of directors, Nostrum Oil & Gas LP commenced the Group's reorganisation. This was implemented by means of an exchange offer made by the Company to the GDR holders of Nostrum Oil & Gas LP, which were entitled to receive 1 share of Nostrum Oil & Gas plc for each GDR of Nostrum Oil & Gas LP.

On 17 September 2014 US$102,797,484 were transferred from the share premium account to distributable reserves based on a Special Resolution passed at a general meeting of the Company, which was confirmed by an Order of the High Court of Justice.

As part of the reorganisation scheme the Company received funds in the amount of US$2,244,405 thousand from VTB Capital plc under the facility agreement and repaid them on the same day.

Share capital of Nostrum Oil & Gas plc

As at 31 December 2014 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 31 December 2013 the Company had subscriber shares and redeemable preference shares, all of which were cancelled on 7 August 2014.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (continued)

Number of shares	**Subscriber and redeemable preference shares**	Ordinary shares
Balance at 31 December 2013	**410,002**	-
Share capital	**–**	188,182,958
Cancellation of shares	**(410,002)**	–
Balance at 31 December 2014	**–**	188,182,958

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.

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company reported a loss for the financial year ended 31 December 2014 of US$406 thousand (2013: nil).

9. PAYABLES TO RELATED PARTIES

As at 31 December 2014 amounts payable to related parties in amount of US$26,333 thousand (2013: nil) are represented by arrangements with the Company's subsidiary Nostrum Oil Coöperatief U.A. in respect of the Nostrum employee benefit trust.

10. AUDITORS' REMUNERATION

The fees for the audit of the Company amount to US$12 thousand (2013: nil).

11. DIRECTORS' REMUNERATION

The directors of the Company are also directors of the Group. The aggregate amount of remuneration paid to or receivable by directors in respect of qualifying services for the financial year ended 31 December 2014 was US$4,992 thousand (2013: US$2,899 thousand) of which, US$325 thousand (2013: nil) was paid by the Company to the non-executive directors. The remaining amount was paid by other group companies to the 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.

Full details of individual directors' remuneration are given in the directors' remuneration report on pages 82-86 of the annual report.

12. RELATED PARTY TRANSACTIONS

Related parties of the Company include its direct and indirect subsidiaries, associates key management personnel and other entities that are under the control or significant influence of the key management personnel.

During the year ended 31 December 2014 based on the service agreement between the Company and its directly owned subsidiary Nostrum Oil Coöperatief UA, Nostrum Oil & Gas plc recorded an income of US$2,252 thousand.

As at 31 December 2014 receivables from related parties include US$25,433 thousand from Nostrum employee benefit trust, and US$934 thousand from Nostrum Oil Coöperatief UA.

As at 31 December 2014 liabilities to related parties include US$26,333 thousand payable to Nostrum Oil Coöperatief UA.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (continued)

13. 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 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 and Euro denominated cash with ING with a credit rating of A2 (negative) from Moody's rating agency at 31 December 2014.

Receivables are amounts receivable from group companies, thus risk of credit default is low.

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.

14. EVENTS AFTER THE REPORTING PERIOD

The Company's Board of directors is proposing a final dividend of US$0.27 per Ordinary Share for the year ended 31 December 2014, subject to shareholder approval at the AGM.

Investor information

Investor relations
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VAT number: NL85 33 00 288 B01
Registration number: KvK 59058323

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Registered number: 8717287
Place of registration: England and Wales

Zhaikmunai LLP Registered Office
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Uralsk, 090002
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Astana Representative Office
Zhaikmunai LLP
Office 319, 2/2
Kurman Batyr Prospect
Astana, 010000
Republic of Kazakhstan

Auditor
Ernst & Young LLP
London
United Kingdom

Legal Counsel
White & Case LLP
London
United Kingdom

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Tel: 0871 664 0300 / +44 20 8639 3399

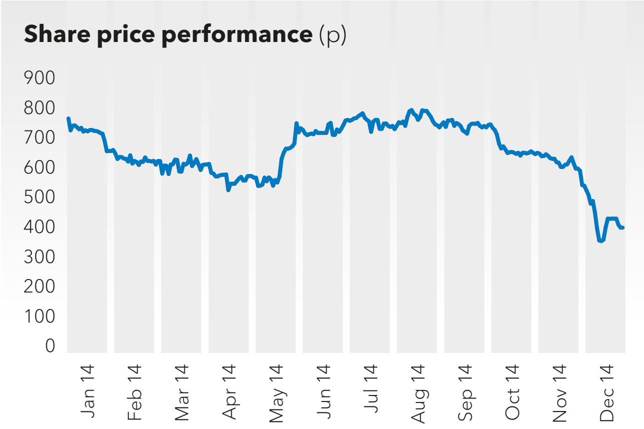
Electronic communications details
Nostrum's website provides valuable information on the activities of the Company, both regulatory and other, as well as the opportunity to sign up to our mailing list to ensure stakeholders are kept up to date with the most recent information. Please see www.nog.co.uk for more information.

In addition, to reduce the impact on the environment, we encourage all shareholders to receive the shareholder communications (including annual reports and notices of meetings) electronically.

Share price information

Exchange	London Stock Exchange
Ticker	NOG.LN
Reuters code	NOGN.L
ISIN code	GB00BGP6Q951

Historic share price performance



- Earnings per share US$0.79
- Book value per share US$4.97

Financial calendar – 2015

2015 Q1	Operational update	28 April
2015 Q1	Financial results	26 May
2015 H1	Operational update	28 July
2015 H1	Financial results	25 August
2015 Q3	Operational update	27 October
2015 Q3	Financial results	24 November

Equity financing

Equity raising	Timing	Amount	Lead manager
IPO	March 2008	US$100m	ING Bank NV
Secondary equity issue	September 2009	US$300m	ING Bank NV Mirabaud Securities Renaissance Securities

Investor information continued

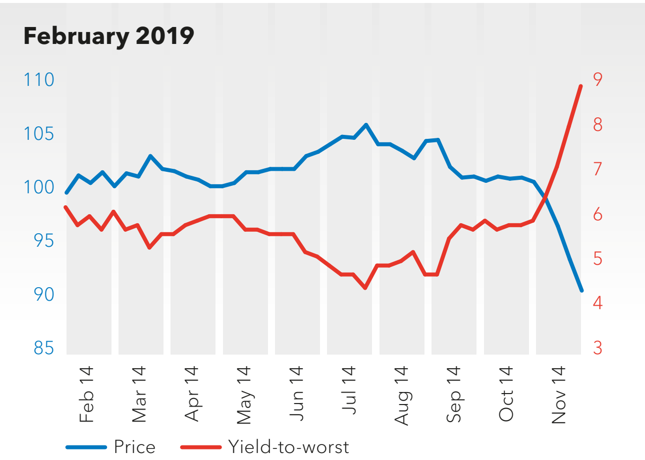
Debt financing

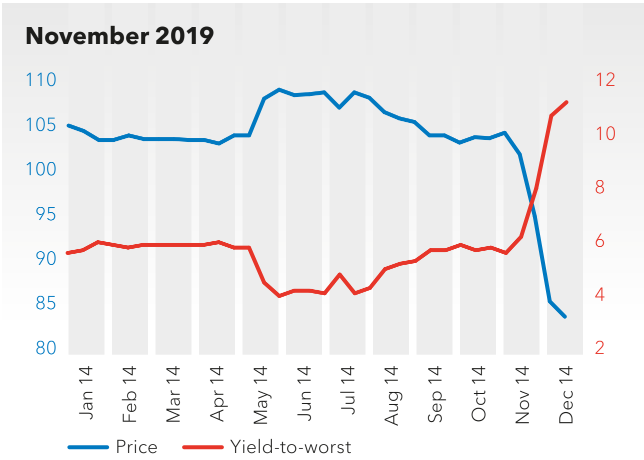
Current outstanding bond issues for Nostrum Oil & Gas are provided in the following table:

Settlement	Maturity	Currency	Amount (m)	Coupon	Listing		RegS	Rule 144A
Feb 2014	Feb 2019	USD	400	6.375%	Dublin / Almaty	CUSIP	N964884AA2	66978CAA0
						ISIN	USN64884AA29	US66978CAA09
						Common Code	103302323	103302307
Nov 2012	Nov 2019	USD	560	7.125%	Dublin / Almaty	CUSIP	N97716AA7	98953VAA0
						ISIN	USN97716AA72	US98953VAA08
						Common Code	085313177	085259776

For the summary of certain covenants relating to 2012 Notes and 2014 Notes please see the consolidated financial statements.

Bond yield information





Credit ratings

Nostrum Oil & Gas 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	B	Stable
Moody's	B2	Stable

Glossary

3-D seismic survey	Seismic survey that is acquired, processed and interpreted to yield a three-dimensional picture of the subsurface.
2009 Ryder Scott Report	The report prepared by Ryder Scott relating to the Group's reserves and resources, dated 1 July 2009.
2010 / 2011 / 2012 Ryder Scott Report	The report prepared by Ryder Scott relating to the Group's reserves, dated 31 December of the relevant year.
2013 Ryder Scott Report	The report prepared by Ryder Scott relating to the Group's reserves and resources, dated 31 August 2013.
2014 Ryder Scott Report	The report prepared by Ryder Scott relating to the Group's reserves and resources, dated 31 December 2014.
2010 Notes	10.5% notes issued in 2010.
2012 Notes	7.125% notes issued in 2012.
2014 Notes	6.375% notes issued in 2014.

A

Anti-Monopoly Agency	The Republic of Kazakhstan anti-monopoly authority.
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.
aquifer	Water bearing structure.
associated gas	Gas, which occurs in crude oil reservoirs in a gaseous state.
Authorised Oil and Gas Agency	The State's authorised agency in the area of oil and gas, acting on the instructions of the President and the Government, currently, the MOE.

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 sedentary rock.
bcf	Billion cubic feet, a billion defined as 1,000,000,000. On average 1 bcf of sales gas = 1.055 petajoules.
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.
bopd	Barrels of crude oil per day.
boepd	Barrels of (crude) oil equivalent per day.
bscf/d	Billion standard cubic feet per day.
btu	British Thermal Unit – measurement unit for energy.

C

C1	Methane.
C2	Ethane.
C3	Propane.
C4	Butane.
C5	Pentane.
C6	Hexane.
C7	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.

Glossary continued

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.
Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
CNG	Compressed natural gas.
CO_2	Carbon dioxide.
coal	A sedimentary rock composed primarily of carbonaceous material formed by plant remains transformed by heat and time.
Common Units	Limited partner interests each representing a fractional part of the rights and obligations of all limited partners of Nostrum Oil & Gas LP.
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 was, until recently, the Ministry of Energy and Mineral Resources of Kazakhstan, which in August 2014 was reorganised into the Ministry of Energy (MOE) with respect to the oil and gas industry.
Competition Law	The Kazakhstan Law "On Competition" (No 112-IV, dated 25 December 2008, which came into effect on 1 January 2009).
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.
cuft	Cubic feet.

D

DAF	Sales made on delivery at frontier terms.
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.
Development Plans	The development plans approved by the SCFD in March 2009.
Directors or Board	The directors of the Company.
downstream	Downstream refers to all petroleum operations occurring after delivery of crude oil or gas to refinery or fractionation plant.
downtime	Downtime is all time during which an operation is postponed, usually due to bad weather or mechanical failure.
drilling fluid/mud	A mixture of water and drilling additives used to cool the drill bit, lift cuttings and control swelling clays. Drilling fluid is stored in a sump during drilling.
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.
EBRD	European Bank for Reconstruction and Development.
EBIT	Earnings before interest and tax.
EBITDA	Profit Before Tax non recurring expenses + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation – Interest Income + Other Expenses/(Income).
ecological risk	Environmental stressors such as chemicals, land change, disease, invasive species and climate change.
EEA	European Economic Area.
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
ethane	Saturated hydrocarbon (alkane) with two carbon atoms in its molecule (C_2H_6). The second member of the paraffin series. A gas under normal conditions. A basic feedstock for petrochemical industries.
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 program by the farmee(s). Note that this work would normally have had to have been delivered and paid for by the farmor.
farmee	Earns a percentage interest in an oil and gas permit by helping the company that holds the permit to deliver the work program required by permit.
farmor	A farmor holds an oil and gas permit and agrees to work with another company who can deliver the work program required by the permit. In return, the farmee is given a percentage interest in the permit.
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 program required by the permit, or fulfilling other contractually specified conditions.
FCA	Sales made under free carrier terms.
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.
FSA	Financial Services Authority of the United Kingdom.
FSMA	The Financial Services and Markets Act 2000 (as amended).
FSU	Former Soviet Union.

Glossary continued

G	
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.
geology	The study of rocks.
geophysics	The study of the earth using physics and mathematics. Geophysics uses methods such as seismic surveying, magnetic and gravity imaging to explore the subsurface.
GJ	Gigajoule.
GJ/d	Gigajoules per day.
Government	The government of Kazakhstan.
greenhouse gas	A gas that contributes to the greenhouse effect by absorbing infrared radiation, e.g. carbon dioxide.
gross (oil and gas) wells / acres	Gross oil and gas wells or gross acres are the total number of wells or acres in which the Group has an interest, without regard to the size of that interest.
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 = 10^6. • gigajoules = 10^9. • terrajoules = 10^{12}. • petajoules = 10^{15}.

K

Kazakhstan	The Republic of Kazakhstan.
KASE	Kazakhstan Stock Exchange.
KazMunaiGas	State-owned oil and gas company of Kazakhstan.
KazMunaiGas Exploration Production (KMG EP)	Onshore oil and gas exploration production subsidiary of KazMunayGas.
kBOE	Thousand barrels of oil equivalent.
km	Kilometre(s).
Kyoto Protocol	The Kyoto Protocol to the United Nations Framework Convention on Climate Change.

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.

M

m	Metre(s).
m^3	Cubic metre(s).
m^3/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.
mbbls	Thousands of barrels of crude oil.
mmbbls	Millions of barrels of oil.
MJ	Megajoules.
mboe	Thousands of barrels of oil equivalent.
mmboe	Millions of barrels of oil equivalent.
mmcm	Millions of cubic metres.
MEP	The Kazakhstan Ministry of Environmental Protection.
MINT	The Kazakhstan Ministry of Industry and New Technologies.
MOE	The Ministry of Energy of Kazakhstan, the State's central executive agency, acting based upon its Regulations approved by the Resolution of the Government, which is currently the Competent Authority in oil and gas and the Authorised Oil and Gas Agency.
mmscf/d	Million standard cubic feet per day (for dry gas).
mscf	One thousand cubic feet.
mtpa	Million tonnes per annum.
multilateral well	A well with several small branches (laterals) drilled out from the main well.

Regulatory information

Glossary continued

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: 53-54 Grosvenor Street London W1K 3HU UK Corporate Headquarters: Gustav Mahlerplein 23B 1082 MS Amsterdam The Netherlands
O	
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	
P&A	Plugged and abandoned – to place a cement plug into a dry hole or noneconomic well and abandon the well.
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.
PJ	Petajoule.
PJ/a	Petajoules per annum.
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.
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.
Probable reserves	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.

Possible reserves	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.
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

QIB	A qualified institutional buyer as defined in Rule 144A under the Securities Act.

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.
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.
scf	Standard cubic feet.
SEC	The United States Securities and Exchange Commission.
secondee	A person who is transferred temporarily to alternative employment, or seconded.
Securities Act	The United States Securities Act of 1933, as amended.
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.
SPE	Society of Petroleum Engineers.
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 Acceptance Commission	A State Acceptance Commission of the Republic of Kazakhstan is the competent body authorised to, among other things, confirm that permanent operations can commence for certain facilities, including the Gas Treatment Facility.

Glossary continued

State Share	The share of hydrocarbon production due (in cash or kind) to the Republic of Kazakhstan under the PSA.
Subsoil Law:	
– Old Subsoil Law	The Kazakhstan Law "On Subsoil and Subsoil Use" (No. 2828, dated 27 January 1996, as amended), recently replaced with the New Subsoil Law.
– New Subsoil Law	The most recent Kazakhstan Law "On Subsoil and Subsoil Use" (No. 291-IV, dated 24 June 2010 as amended).
Substitution	The ability for Zhaikmunai LLP to elect to undertake, upon satisfaction of certain conditions, to be substituted for the Issuer as Issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes.
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

Takeover Code	The UK City Code on Takeovers and Mergers.
tcf	One trillion cubic feet.
Tenge or KZT	The lawful currency of the Republic of Kazakhstan.
titleholder	The titleholder is the party to whom a permit is granted by the government.
TJ	Terajoule.
tonne	Metric tonne.
trillion	10^{12}

U

UK Corporate Governance Code	Set of principles of good corporate governance for listed companies promulgated by the UK Financial Reporting Council.
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 1960s, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed "Uralsk Enlarged Oil-Gas Exploration Expedition".
US Dollars or US$	The lawful currency of the United States of America.

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.
workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
work program	A schedule of works agreed between parties (permit holders, farmees and government) contracted to be delivered in a defined time frame.
Water Code	The Water Code of Kazakhstan (No. 481, dated 9 July 2003, as amended).
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

Operating company of the Group

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Uralsk, 090002
Republic of Kazakhstan

Representative Office:
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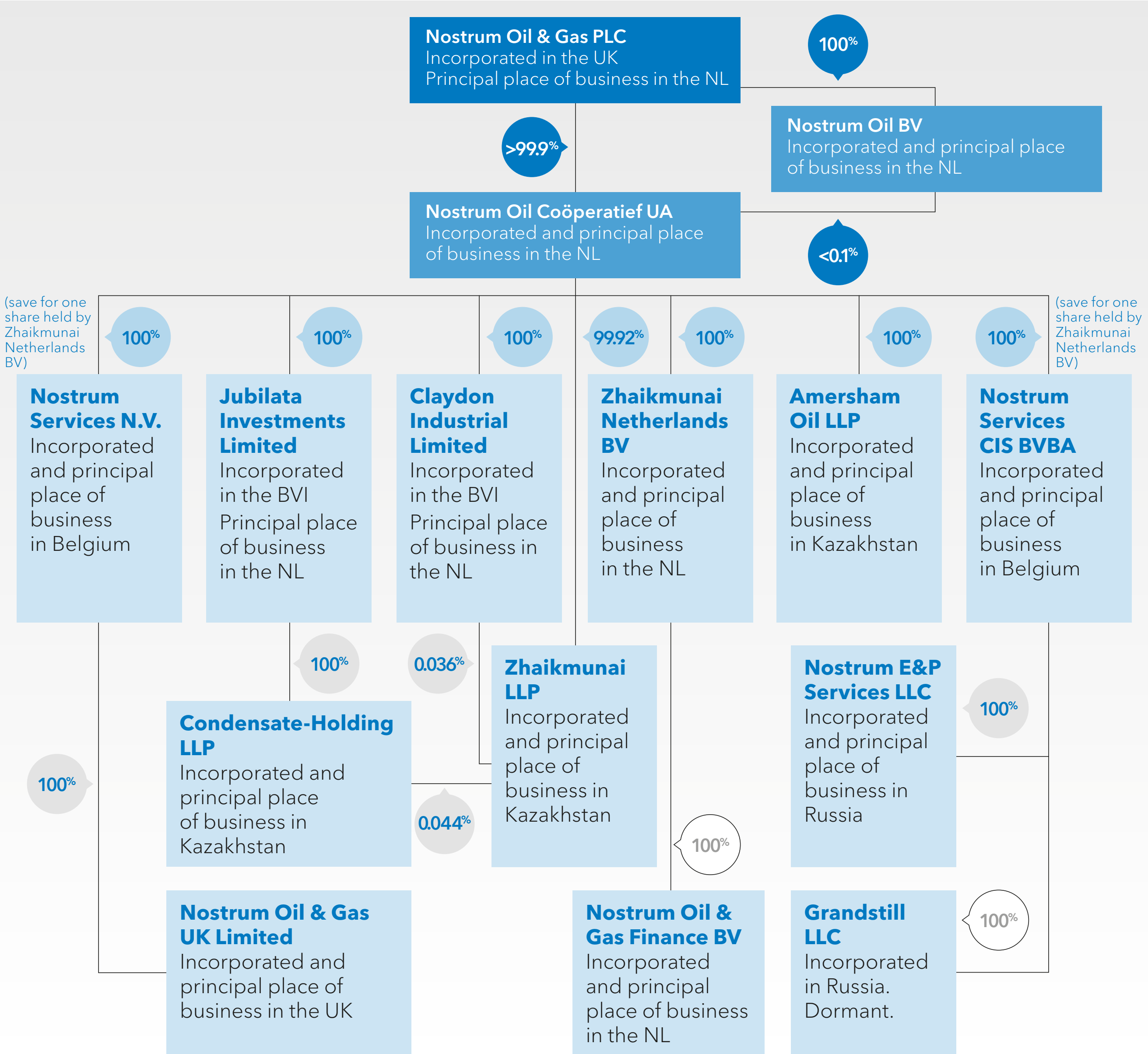
Astana, 010000
Republic of Kazakhstan

Structure chart

KPI figures on page 8 are derived from the KPIs of Zhaikmunai LLP. All other members of the Group have a negligible effect on such KPI measures.



The above structure chart shows the Group's structure as at the date of this report.

Notes

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