

STABILITY **FOR** THE FUTURE



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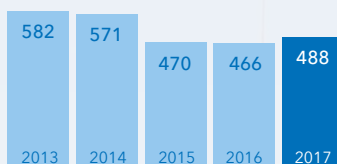
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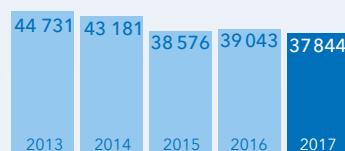
Our vision is to become one of the leading independent oil and gas exploration and production companies in the FSU. In order to achieve this vision we recognise our performance must be focused upon our operational, financial and social output.

2P Reserves - mmboe



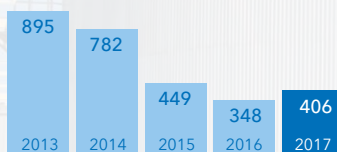
488 mmboe
+4.8%

Sales volumes - boepd



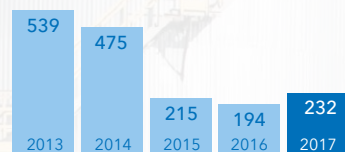
37 844 boepd
(3.1%)

Revenue - US\$m



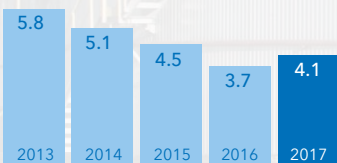
US\$406m
+16.5%

EBITDA - US\$m



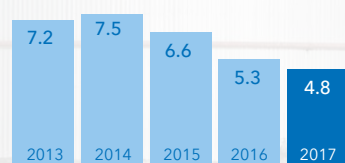
US\$232m
+19.4%

Opex / boe - US\$/boe



US\$4.1/boe
+10.9%

Transport / boe - US\$/boe



US\$4.8/boe
(9.2%)

STABILITY FOR THE FUTURE

We have diligently navigated challenging market conditions and maintained a stable cash position, all while making significant investments in our infrastructure, people and production capabilities. We are now ready to execute the next phase of our growth strategy and maximise returns from our growing reserve base.

First phase of development 2004-2013

over
US\$2 billion
invested
in infrastructure
over more than
10 years

2004
Zhaikmunai LLP
is acquired

2007
GTU1&2 project
commenced

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

2009
US\$300m
placing at \$4
per GDR

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

Opening of fully
automated rail
loading terminal

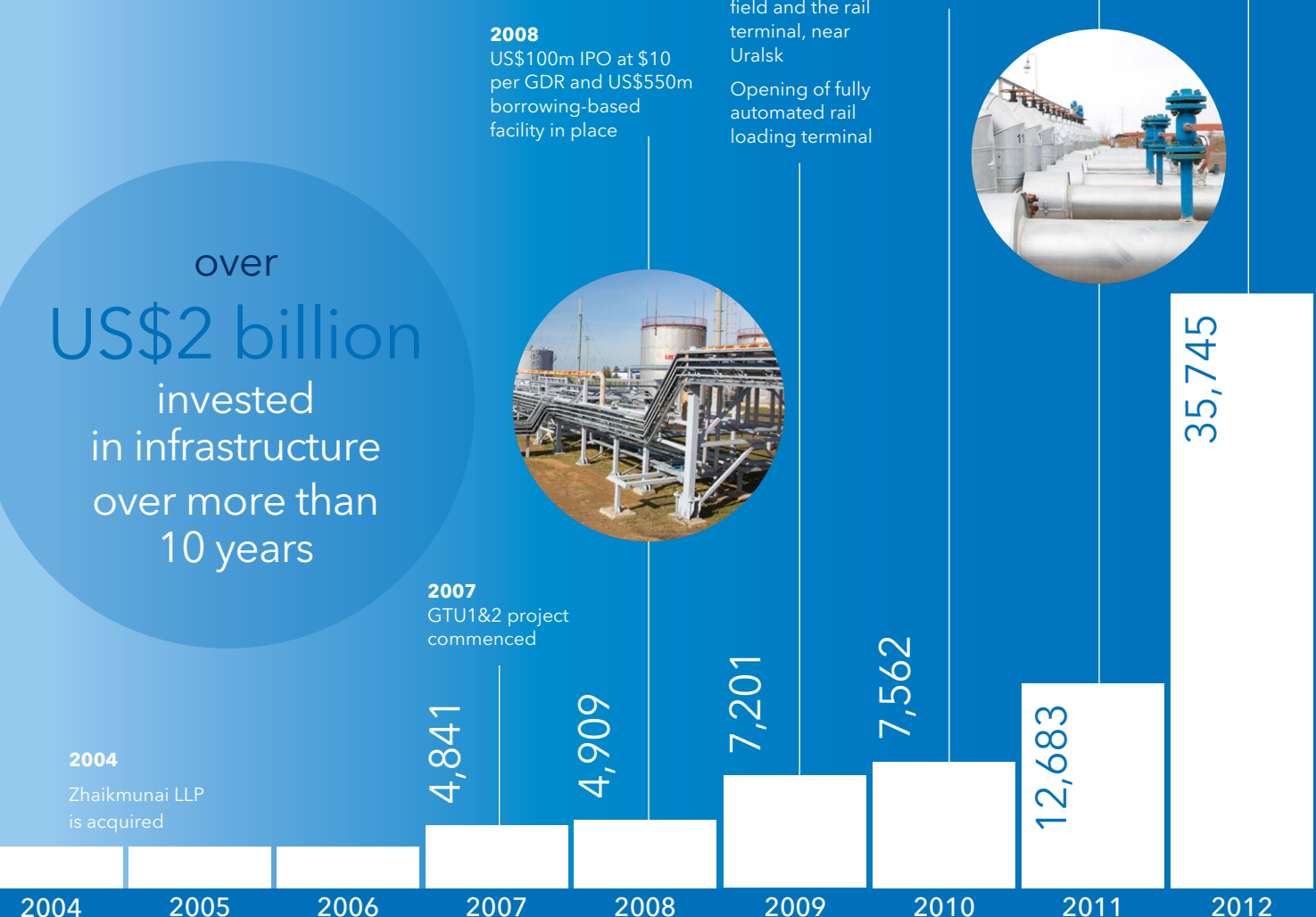
2010
US\$450m bond
raised at 10.5%

2011
Gas Treatment
Facility completed

17km dry gas
pipeline completed

2012
First distribution
payment of
US\$0.32/GDR

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



Stated figures represent historical sales volumes.

Fully utilising processing facility capacity beyond 2021



Second phase of development 2014-2018

2013
GTU3 project commenced
Distribution payment of \$US0.34/GDR

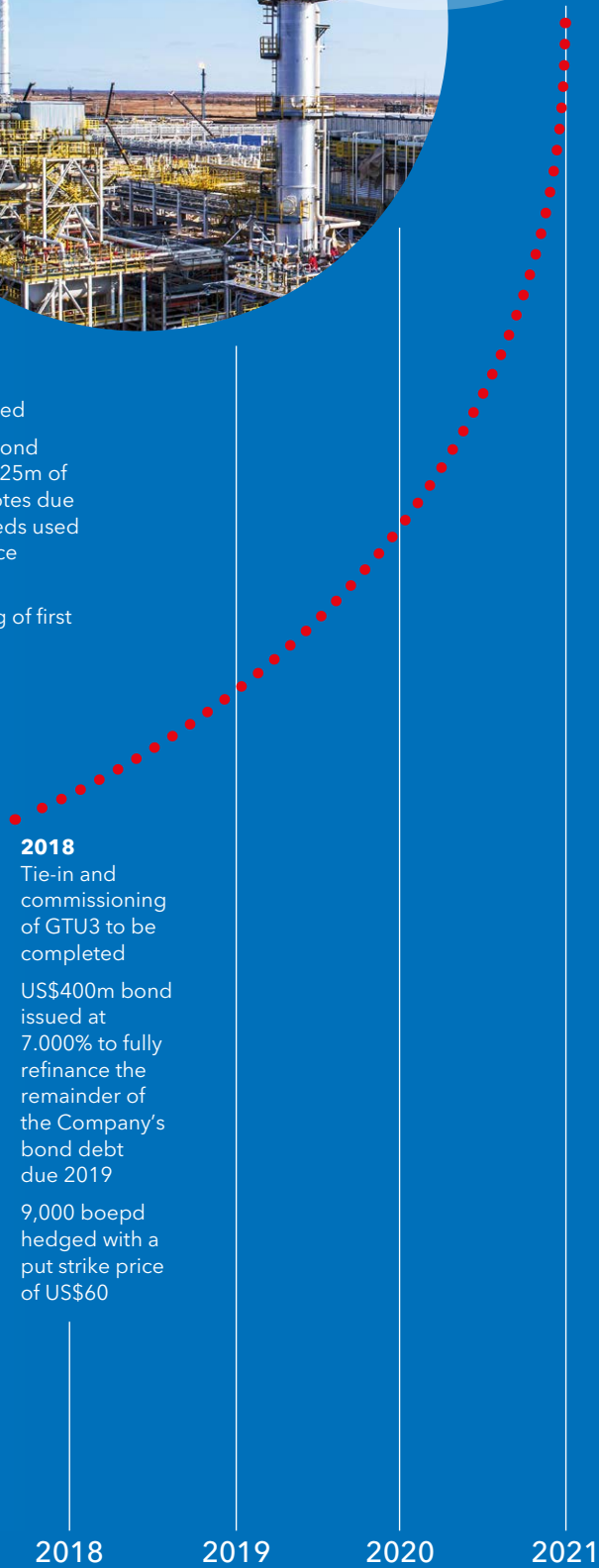
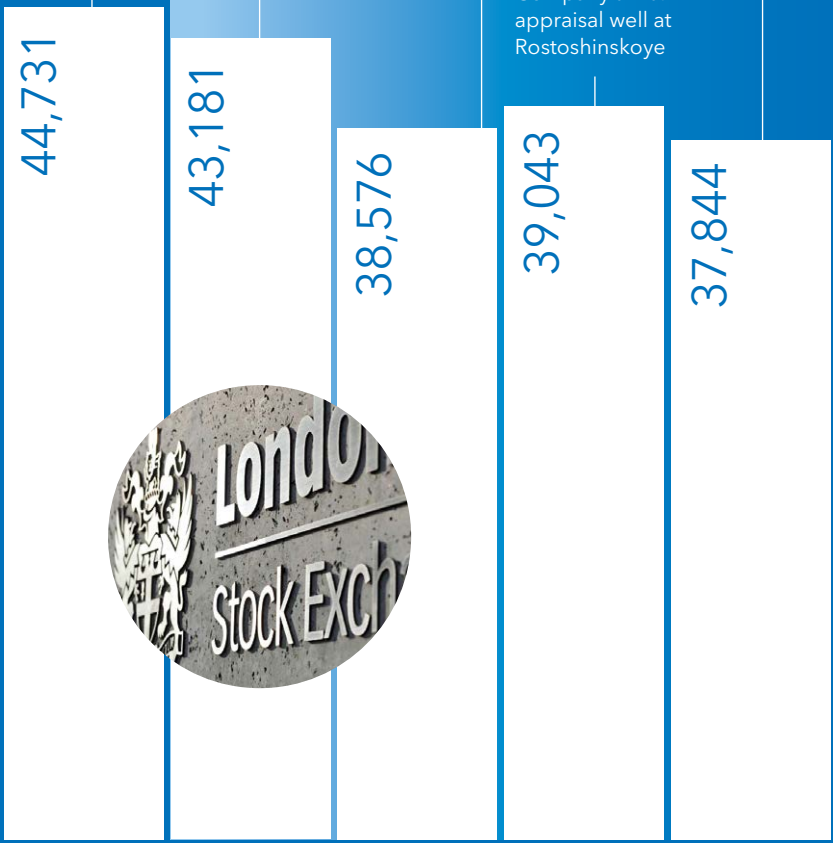
2014
Admission to the premium listing category of the London Stock Exchange and FTSE 250
Completion of 3D seismic on three additional licences
US\$400m bond issued at 6.375% for refinancing and general corporate purposes
7,500 boepd hedged with strike price of US\$85
Distribution payment of US\$0.35/GDR

2015
15,000 boepd hedged with a strike price of US\$49.16
Distribution payment of US\$0.27/share

2016
Realised target depth on the Company's first appraisal well at Rostoshinskoye

2017
Connection to the KazTransOil pipeline completed
Successful new bond issuance of US\$725m of 8.000% senior notes due 2022 with proceeds used in part to refinance existing notes
Successful testing of first appraisal well at Rostoshinskoye

2018
Tie-in and commissioning of GTU3 to be completed
US\$400m bond issued at 7.000% to fully refinance the remainder of the Company's bond debt due 2019
9,000 boepd hedged with a put strike price of US\$60



2013 2014 2015 2016 2017 2018 2019 2020 2021

INVESTMENT CASE

**WE HAVE A HIGHLY
ATTRACTIVE PORTFOLIO
OF ASSETS
WE WILL DOUBLE
OUR PRODUCTION
CAPACITY
WE HAVE UNIQUE
INFRASTRUCTURE
FOR VALUE
CREATION**



WE HAVE A HIGHLY ATTRACTIVE PORTFOLIO OF ASSETS...

Strategically located
in the pre-Caspian basin

Our operations are concentrated on optimising the value of four prime licence areas which are advantageously located within a 120km radius of our own substantial oil & gas processing and export infrastructure.



488
million barrels
of independently
reviewed 2P reserves

With substantial reserves and significant potential

We have so far appraised and explored only one third
of the Chinarevskoye field, while our neighbouring
three licences exhibit additional growth potential.



For further information see
Highly attractive assets on page 22.

Ryder Scott – 1 January 2018

WE WILL DOUBLE OUR PRODUCTION CAPACITY...

With the completion
of GTU3

+US\$500m
invested

4.2 bcm
total capacity

When completed, our third gas treatment unit will double our production capacity to over 100,000 boepd. We aim to fully utilise our infrastructure beyond 2021.



WE HAVE UNIQUE INFRASTRUCTURE

For value creation

We have invested over US\$2 billion during the past decade to create a substantial infrastructure hub in North-West Kazakhstan which is ideally positioned to monetise the substantial resources in the region.

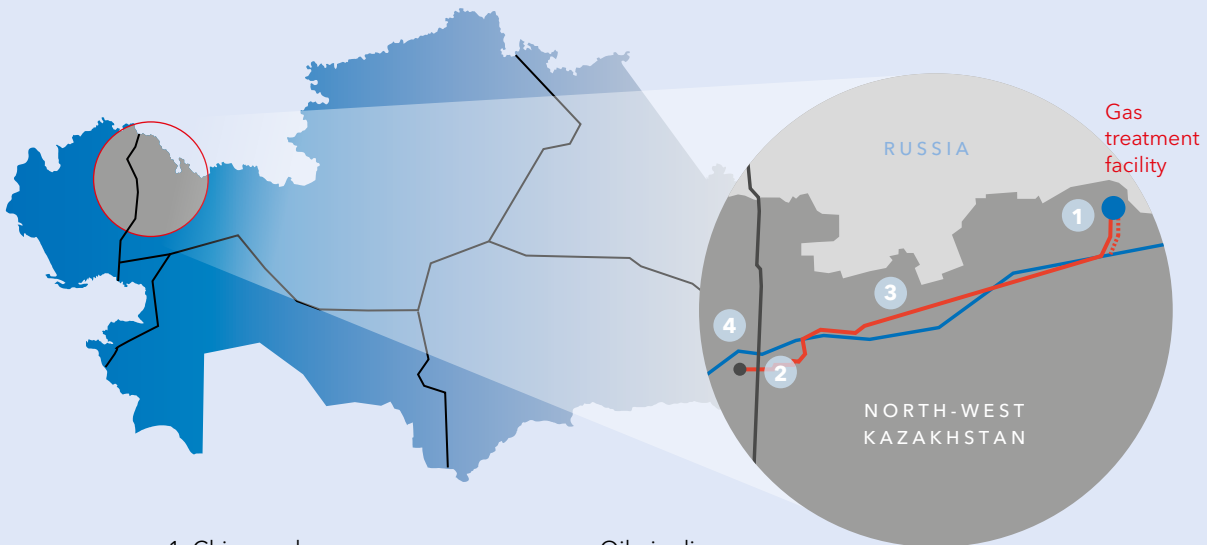
KTO Pipeline connection cost

US\$7m

Crude oil transportation costs reduced as a result

50%

PIPELINES AND FIELDS



1. Chinarevskoye
2. Rostoshinskoye
3. Darjinskoye
4. Yuzhno-Gremyachinskoye

- Oil pipeline
- Nostrum oil pipeline
- Gas pipeline
- Nostrum gas pipeline

And a robust financial platform

With low operating costs, a prudent hedging programme and strong cash reserves on our balance sheet, the Group is in a strong position to execute its strategic ambitions.

Operating costs	Cash reserves
US\$4.1/boe	US\$127m



As at 31 December 2017

Ensuring stability and continuity



...the quality and commitment of our people will be critical to achieving our goals for 2018...

Atul Gupta
Chairman

Vision

In 2018, we aim to ensure we establish the solid foundations on which Nostrum can become a leading London-listed E&P company. Nostrum's goal is to fully utilise its significant raw gas reserves and processing infrastructure in North-western Kazakhstan to deliver sustainable value to its shareholders. We are on target to complete our third Gas Treatment Unit ("GTU3") in 2018, which will give the Company the capacity to process over 4 billion cubic metres of raw gas per annum. Our mid-term aim is to fill our facilities to maximum capacity. To achieve this, we need to combine expansion through organic growth of our existing asset base alongside carefully considered acquisitions, while maintaining our high level of capital discipline.

From a social responsibility perspective, we will continue to invest in the local community and maintain our employee training programme to adapt to new technologies and industry standards. We are absolutely committed to improving our safety standards both for our own employees and third party contractors. From an environmental standpoint, we are constantly seeking to minimise the environmental footprint of our business, while also re-investing our cash to help create a cleaner environment in all the areas where we operate, to ensure we are a business designed for the future. This investment in our people, standards and infrastructure leaves us well placed to grow in a scalable and sustainable way.

Operational Performance

2017 has been a challenging year operationally. We experienced drilling results that were below our expectations, but we also achieved some unexpected successes. The biggest challenge we faced was a higher decline in production than we had anticipated. This was primarily due to the loss of two producing wells and the inability to bring on new production wells in time to replace this lost production. A priority for 2018 is to learn from this experience, and to recover our planned growth path. We will also be working hard to complete the construction of GTU3 once we are through the winter months. As a result of the 2017 production decline, we will focus first on drilling four production wells in the first half of 2018. The second half of the year will depend on the results we achieve from existing wells under test production and new production wells. 2018 is an opportunity for us to demonstrate that we can extract the significant hydrocarbon potential of the Chinarevskoye field economically. In the Rostoshinskoye field, we also achieved some success which could lead to a material upgrade in our expectations from this field. We will further analyse the potential of this field and the other two Trident fields once we have stabilised production at Chinarevskoye.

Financial Performance

Our 2017 financial performance was impacted by our operations and the continued oil price volatility. However, we continued to reduce costs and will aim to maintain this control through 2018. We have continued to enhance the stability of our balance sheet. We successfully refinanced almost two thirds of our debt during 2017 and completed the final part in the first quarter of 2018. As a result, we have no debt maturities coming due until July of 2022 and this provides a solid foundation from which to focus on the operational side of the business and increasing production over the next four years. To ensure that we are not over-exposed to oil price volatility during 2018, we have entered into a hedge on 9,000 boepd with a floor price of US\$60 per barrel for the rest of the year. This reaffirms that we are able to fully finance GTU3 completion under any oil price scenario.

Raw gas processing capacity

4.2 billion
cubic metres
per annum

Over
US\$2bn
invested since 2004

Governance

Nostrum attaches great importance to achieving best practice corporate governance standards. I took over the Chairmanship of the Board in April 2017 under challenging circumstances following the departure of the Executive Chairman, Frank Monstrey. Mr Monstrey had resigned from the Board as a consequence of a freezing order and charging order obtained by BTA Bank on Nostrum shares held by two companies owned by him. Such freezing order and charging order were subsequently lifted in June 2017 pursuant to a settlement between Mr Monstrey and BTA Bank, as a result of which BTA Bank became a shareholder in Nostrum. Nostrum was not a party to any legal proceedings between BTA Bank and Mr Monstrey or his companies. However, as a result of these developments the Board deemed it essential to stabilise the Company's position going forward and took the following steps during 2017 in order to do so. First, we improved our governance structure and independence. We welcomed Martin Cocker as a non-executive director and established, for the first time in the Company's history, an equal balance of four independent to four non-independent directors. In addition, the Board welcomed Michael Calvey, who represents Baring Vostok's 17% stake in the Company. Baring Vostok increased their holding in Nostrum from 15% to 17% during the fourth quarter of 2017. Baring Vostok has been an investor since 2009 and, alongside Mayfair, brings a wealth of experience investing in the former Soviet Union. Second, we entered into a mutual waiver of claims with BTA in January

2018, which removes any risk of the Company being made party to any of the claims made by BTA. I believe we have an excellent Board with a broad range of expertise and experience that was able to navigate us through some difficult periods in 2017. I look forward to leading Nostrum into 2018 and beyond.

Corporate and Social Responsibility

CSR is a central tenet of Nostrum's business ethic. We recognise that we need to ensure that high standards of QHSE are established and maintained. We are also cognisant that, due to the nature of the Oil & Gas industry, our business must operate with the right safeguards to prevent damage to the environment and danger to our employees.

During 2017, we saw our Lost Time Injury Frequency increase to 2.48 and we will be focusing on this acutely during 2018 to ensure the safety of our employees and contractors is constantly assessed and improved. In relation to emissions and environmental impact, I am pleased to note that an independent environmental audit found Nostrum complied with all relevant regulatory and legislative requirements in relation to environmental monitoring. While we did see an increase in our GHG emissions intensity ratio, this was primarily a result of commissioning a gas turbine power station, which we anticipate will help reduce our environmental impact in the future. We remain focused on reducing our GHG emissions, and also developing a better understanding of and response to climate change risks in 2018.

Our people

We have a strong team with a wealth of experience on the Chinarevskoye field. I was happy to see their commitment to tackling the Company's financial and operational issues over the last 12 months. In order to achieve the objectives we have set ourselves for 2018 and beyond, we will strive to ensure that Nostrum continues to be an attractive place to work. We place a high level of importance on developing the skills of our local employees through training and sponsorship, with 947 out of 989 staff employed by the Nostrum Group based in Kazakhstan. In addition, we seek to ensure we can retain our key talent while also being able to attract new staff. The quality and commitment of our people will be critical to us achieving our goals for 2018.

CSR priorities for 2018

- Reducing health & safety incidents
- Continuing to finance local social infrastructure projects
- Targeting a reduction in our emissions intensity ratio
- Developing a better understanding of and response to climate change risks

For further information see [CSR Priorities for 2018 on page 26](#)

Future Growth

2018 promises to be a very exciting year for Nostrum. We look forward to bringing the Company's processing capacity to over 100,000 boepd and we are seeking to build a low cost base from which to realise the full value of the licences we own. This requires us to focus on stabilising production in the first half of the year, before looking at expanding production in the second half through advancing our drilling campaigns, while preserving our disciplined approach to capital. We have now completed all our refinancing, allowing us to focus purely on the critical operational targets for 2018.



Atul Gupta
Chairman

Sustainable growth platform

We leverage our strengths

Financial

Deploying capital generated from operations or obtained through financing to create value for our stakeholders.

Cash reserves

US\$127 million

Engineering

Investing capital to create a world-class hydrocarbon processing and transportation infrastructure hub to realise the value of the material resources in North-western Kazakhstan.

Investment in infrastructure

US\$2 billion

Management

Leveraging extensive senior management experience in exploring, appraising and developing hydrocarbon assets in Kazakhstan with a unique understanding of the regional geology and what is required to realise its potential.

Geological

Developing a highly attractive asset base with multiple routes to export markets.

Reserves

488 million boe 2P

Human

We have 989 employees in five countries and pride ourselves on investing to develop their competencies, abilities and talent.

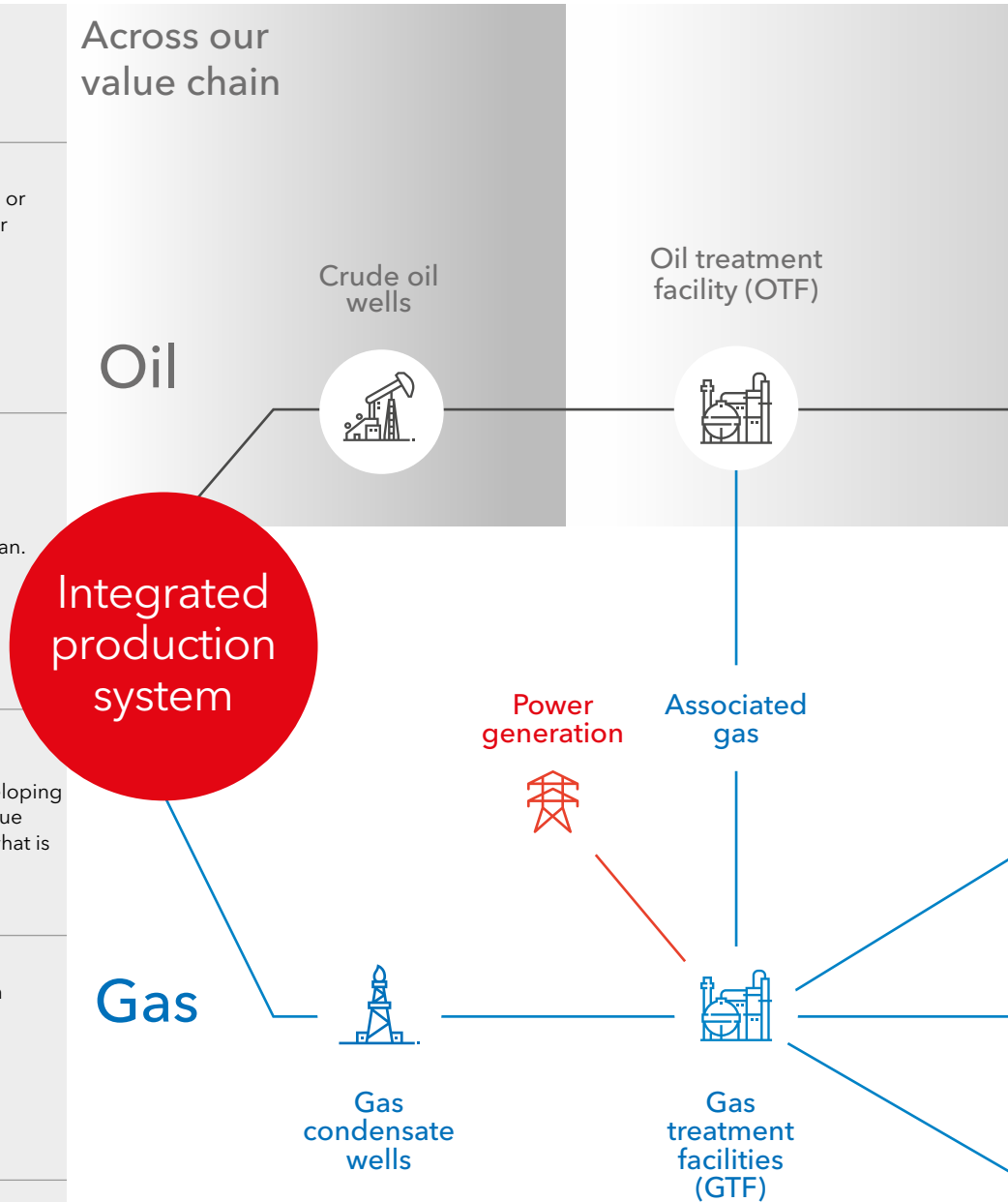
Highly skilled workforce

989 employees

Social and relationship

We have established an excellent reputation in Kazakhstan through operating in a responsible and socially conscious manner for over a decade to create value for our stakeholders and the local community.

Across our value chain



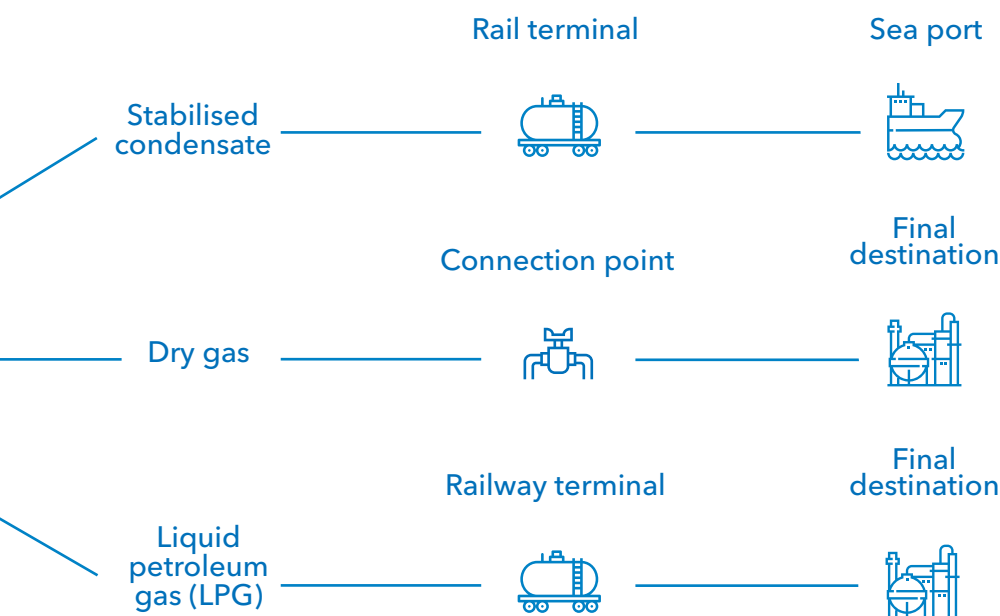
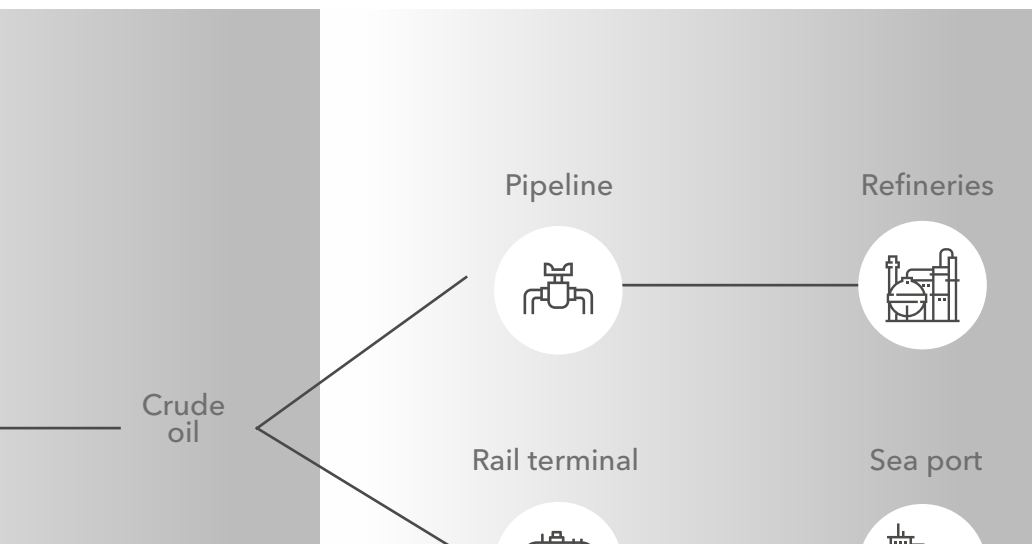
Exploration

Maximise our extensive geological expertise and regional knowledge to execute high-impact exploration and appraisal programmes in Kazakhstan.

Production

Our main facilities are located at the 274 square kilometre Chinarevskoye field in North-western Kazakhstan. We have three additional licences all within a 120 kilometre radius of this location. This advantageous location is central to our business case, allowing us to leverage existing infrastructure and experienced operating and development teams to drive production growth.

Underpinned by a strong governance



Transportation

We have substantial storage, loading and transport infrastructure capabilities which allow us to access multiple export markets for our sales products.

To deliver value to our stakeholders

Shareholders

Value creation for our stakeholders and the Republic of Kazakhstan.

EBITDA

US\$232 million

Customers

Delivering a reliable stream of valuable energy resources to regional communities and export markets.

Sales volumes:

37,844 boepd

People

Employment, social investment and opportunities for local communities.

Training days:

12,956 training days

Number of employees benefiting from training

721 employees

Society

Safe and sustainable operations which actively seek to minimise adverse environmental and social impacts.

2017 liquidation fund contribution

US\$683,000

2018 Lost Time Injury Frequency target:

2.00 LTI per 1 million man hours worked

framework and our exemplary CSR programme

Establishing a solid foundation for future growth



“We need to maximise the full potential of our fields by efficiently and quickly extracting as many hydrocarbons as possible prior to the end of our licences.”



Kai-Uwe Kessel
Chief Executive Officer

Q: How did Nostrum perform in 2017?

A: 2017 was a challenging year operationally. We encountered a delay to the completion of GTU3 and some disappointing results from wells that watered out in one of our producing reservoirs, which led to a 3.1% decrease in sales volumes. However, we also received results that could open up a new northern area in the Chinarevskoye field, which suggests we have more reserves than initially thought in our producing field. We will be analysing these results further in 2018 to better understand our full reserve potential.

Financially, 2017 was more positive for Nostrum. We successfully refinanced all of our debt due in 2019 and now have no maturities until 2022. As we last went to market in 2014 when the oil price was over US\$100 per barrel, a lower oil price environment meant that the cost of the refinancing in July 2017 was slightly higher. We refinanced when oil was below US\$50 and we achieved a coupon of 8%. We were then able to bring this down in February 2018, when oil prices were above US\$60 per barrel. Overall, I am very pleased that we are now fully refinanced and moved our debt maturities out to 2022.

Q: How strong is Nostrum's financial position?

A: The Company is now in a strong position in relation to its balance sheet with no debt maturities until 2022. This gives the Company an excellent platform to focus on delivering all our operational objectives over the coming months and years to firstly stabilise and then ramp up our production.

We have over US\$100 million of cash on our balance sheet which gives us plenty of headroom to both finalise GTU3 and to then focus on executing a smooth drilling programme. We will look to preserve the balance sheet to avoid running our cash balances too low while ramping up the drilling programme.

Q: Can you provide an update on the timeline for the GTU3 project?

A: We look forward to completing GTU3 during 2018 and to seeing the benefits from additional LPG production. The hydro-testing and link up with GTU1 & 2 remain on target for Q2.

Q: What are your expectations for production in 2018?

A: We had a challenging year production-wise in 2017, so the key focus for H1 2018 is to stabilise production by drilling four production wells. The time it will take to drill these four wells means that production will start to stabilise and increase in H2 2018. Stabilising and growing production is our primary focus in 2018 as increased sales volumes will lead directly to improved cash flows and drive further value for the Company. The target is to continue to decrease operating costs on a boe basis over the medium term.

There is no doubt that in our Chinarevskoye and Trident fields we have a very significant amount of hydrocarbons, which was confirmed by an increase in overall 2P reserves following an independent review. We need to maximise the full potential of our fields by efficiently and quickly extracting as many hydrocarbons as possible prior to the end of our licences in 2031-2033. In 2017, although our proven reserves declined, we saw an increase in our 2P reserves as we continually improve our understanding of the field. An example of this is the potential to unlock reserves in the northern area of the field where historically no reserves have been booked. Well 724 has shown there is the possibility of additional near-term production from this area.

Q: What are your development plans for Chinarevskoye and what are your expectations for costs?

A: We aim to fully develop the Chinarevskoye field prior to the end of the licences in 2031-2033 and we have shown over the last two years that we employ strong capital discipline. Our aim is to keep the operating cost base as low as possible and maintain that level whilst we grow. The target is to continue to decrease operating costs on a boe basis over the medium term.

We also plan to keep our drilling costs as low as possible. After the completion of GTU3, drilling expenditure will become the single largest cost for the Company over the next four years. Therefore, it is imperative to closely control these costs. This requires focus across the whole business, from finance to procurement through to drilling, to ensure we are negotiating the most beneficial contractual terms and operating the rigs in an efficient manner.



Q: What is the status of your Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye (Trident) fields?

A: We continue to see potential in the Trident fields and will aim to develop these over the coming years. We were encouraged by the initial testing results from the Rostoshinskoye 3 well which provided a basis for us to believe there are more hydrocarbons than had previously been anticipated under this licence. Our independent reserve review found 2P reserves at the three Trident fields amounting to 131 mmbœ. Whilst our current focus is on near-term production at Chinarevskoye, we will seek to set out a development strategy for Trident during 2018 to maximise its value.

The licence providing for the exploration of hydrocarbons from the Rostoshinskoye field expired in February 2018 and the exploration licences for Darjinskoye and Yuzhno-Gremyachinskoye expired in December 2017. Applications for extension of the three licences have been submitted to the Competent Authority.

Q: Are you still looking at M&A opportunities?

A: Our focus on M&A is very specific. We are only currently looking at the area around the infrastructure we have built. In the same way we acquired Trident, we will look to analyse local licences to determine whether they could tie in to our infrastructure. At the same time, we will only pursue assets we consider to be value-accretive to Nostrum as we have plenty of existing reserves to focus on in the near-term within the Chinarevskoye field. Thus, our approach to M&A is judiciously balanced between the returns we can generate from our own licences and the added value of any new licences.

Q: How did Nostrum deliver against its QHSE commitments during the year?

A: This is an area we intend to focus on more during 2018. We are disappointed with our Total Recordable Injury Frequency results and are committed to fully investigating and addressing what caused the increase in 2017 and how we can resolve these issues. We believe it was primarily as a result of increased construction activity throughout the year and contractor road traffic incidents. We will review our contractor management systems and focus on implementing improved road safety procedures amongst all of our contractors, particularly in relation to the transport companies we engage. We plan to

Navigating challenging market conditions

The oil and gas market in Kazakhstan

Kazakhstan is among the world's top countries by size of oil and gas reserves and is the second largest oil producer in the FSU after Russia. Production has grown significantly over time with the majority of oil production being delivered to international markets via pipelines which run through Russia to shipping points on the Black Sea. Since 2005, production in Kazakhstan has increased substantially with oil and gas volumes growing at an annualised rate of 2.7% and 4.0% respectively.¹ The country produced 79 million tonnes of oil during 2016 and, according to Ministry of Energy forecasts, is expected to produce over 85 million tonnes during 2017, rising to 88 million tonnes by 2020.²

More than half of Kazakhstan's production comes from three supergiant fields situated in the north-west of the country (Tengiz, Karachaganak and Kashagan fields). The resumption of full scale production at the Kashagan field during 2017 has been a significant contributor to overall production growth in the country with crude oil and condensate output expected to increase to 370,000 boepd by the middle of 2018, from around 250,000 boepd at the end of 2017 and less than 100,000 boepd in 2016.³ Expansion projects at the Tengiz and Karachaganak fields are currently being developed to increase liquid recovery volumes as the fields mature.

What it means for us

Nostrum's assets are all located in the oil-rich Pre-Caspian Basin close to the Russian border and in close proximity to some of the most significant hydrocarbon resources in the FSU. In addition to the Company's own processing, storage and transportation infrastructure Nostrum's advantageous location means that the Group has access to multiple export markets and additional resources to support its operations.

Kazakhstan's oil reserves

3.0 billion MT

Kazakhstan's gas reserves

1.0 trillion m³

National oil exports

80% of production value

Average Brent price

US\$54.74

Benchmarking of our business against our 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

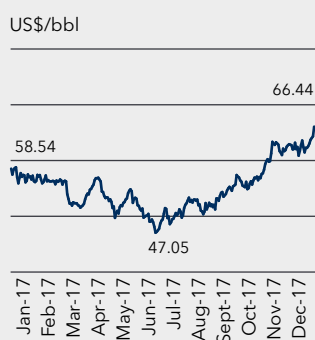
Weaknesses

- Nostrum is subject to fluctuations in the market prices for its products, however, we do have hedges in place
- Unavoidable geological risks
- Seasonal temperature fluctuations in a harsh operating environment
- Lack of significant population reduces the size of the skilled workforce locally

Sources: BP Statistical Review of World Energy, The Ministry of Energy of the Republic of Kazakhstan, S&P Global Platts, The World Bank Group, Trading economics, CEIC

Key macroeconomic and microeconomic trends

1 Low oil prices



Market drivers

Oil prices continued to be volatile throughout 2017, hitting a low of US\$47/bbl in mid-June before recovering to a two-year high of US\$66/bbl in early November. Despite this volatility, consensus views of long-term prices at around US\$50-60/bbl have remained broadly consistent. The 'lower for longer' paradigm which has prevailed since US shale's emergence as a global force in oil markets looks set to continue for the foreseeable future.

What it means for us

With no debt maturities until 2022, over US\$100 million of cash on our balance sheet and 9,000 boepd of 2018 production hedged at US\$60/bbl the Group is well positioned to weather near term fluctuations in the oil price. Nostrum continues to focus on reducing its operating cost base as we look to deliver material production growth and free cash flow in a long-term oil price environment above US\$50/bbl.

2 Kazakhstan economy



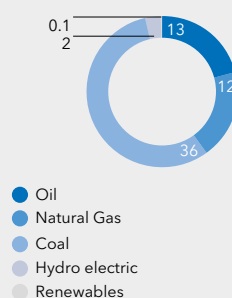
Market drivers

During 2017 Kazakhstan's economy started to recover from the crisis caused by the fall of global oil prices with real GDP growing by 4.3% year-on-year during 2017 (2016 = 1.1%). Economic growth remains heavily dependent on Kazakhstan's oil industry so the increase in oil prices and activity in the sector played a significant role. The KZT/USD average exchange rate remained broadly flat year-on-year at 326 Tenge to USD (2016: 342) and inflationary pressures were subdued with core inflation at 6.5% (2016 = 8.8%).⁴

What it means for us

The prominence of the oil industry in Kazakhstan meant that the downturn in oil prices during and after 2014 had a material impact on the country's economy. Although long-term broader structural reforms are required to address this imbalance, in the near-term the government has been extremely supportive of the industry as it seeks to foster growth, development and investment. The government's decision to unpeg the KZT/USD exchange rate has had a meaningful effect on the operating cost bases of producers as prices have recovered and inflation has remained subdued.

3 Evolving energy demand (million tonnes of oil equivalent)



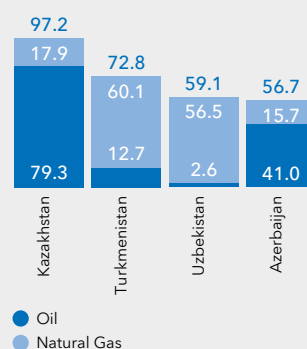
Market drivers

Kazakhstan is a substantial net exporter of oil and gas with domestic consumption only being 26% of overall production.⁵ Although a majority of the natural gas produced in Kazakhstan is re-injected into oil fields to aid production, Kazakhstan's marketed natural gas production has grown for several years and was 22.0bcm in 2016 (2015 = 21.1bcm). The majority of Kazakhstan's oil and gas exports are achieved through Russian pipeline and transmission networks which bisect the north-west of the country.

What it means for us

Nostrum is situated in the heart of the export corridor that exists between Russia and multiple markets to the west of the Caspian. Through its mix of liquids and gas sales products Nostrum has the ability to satisfy multiple sources of demand in export and domestic markets to maximise overall realisations. As gas production in the region increases to stabilise and increase liquid recovery in maturing fields, Nostrum has a unique opportunity to capitalise on its position as the only raw gas processing capacity in North-western Kazakhstan.

4 Competitive environment (million tonnes of oil equivalent)









Market drivers

Kazakhstan and Azerbaijan are the two significant oil producing countries in the Caspian region, producing 1.7m bopd and 0.8m bopd in 2016 respectively. It is expected these countries will continue to lead the region in oil production. Turkmenistan and Uzbekistan are the predominant gas producers in the region, producing 66.8 bcm and 62.8 bcm in 2016 respectively. Russia plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea, although this part of Russia is not a substantial source of crude.

What it means for us

Vast distances between Central Asian markets, long established trading relationships and in-place infrastructure promote co-dependence between FSU exporters. Kazakhstan naturally benefits from its geo-strategic position between Russia and China.

Our strategy for future growth

Main goals and objectives for 2018 	KPIs	Risks
 <p>Stabilising production</p>	<p>Produce plant products in excess of 37,000 boepd</p> <p>Completion of GTU3 in 2018</p>	<ul style="list-style-type: none"> • Drilling can be subject to cost overruns and technical issues preventing successful outcome of wells • GTU3 development and low pressure system subject to risks related to delay, non-completion and cost overruns
 <p>Continue to recognise cost savings</p>	<p>Opex, transport and G&A expenses below US\$11/bbl</p> <p>Drilling capex below US\$90 million</p>	<ul style="list-style-type: none"> • Higher oil prices can drive cost inflation • Cutting costs too aggressively can lead to poor production results
 <p>2P reserve growth through M&A</p>	<p>Grow 2P Reserves (boe) in North-western Kazakhstan</p>	<ul style="list-style-type: none"> • Any acquisitions come with geological risk such that expected reserve figures can prove to be lower following further appraisal
 <p>Linking corporate responsibility to the growth of the Company</p>	<p>Number of man hours without loss of working hours (millions)</p>	<ul style="list-style-type: none"> • Legal framework for environmental protection and operational safety still being developed in Kazakhstan
 <p>Focus on delivering shareholder value</p>	<p>Target free cash flow post-tax for 2018</p>	<ul style="list-style-type: none"> • Free cash flow will be impacted if production falls or costs rise

Forecasts, objectives and prospects for 2018-2020

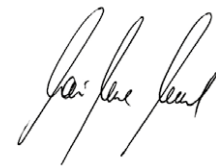
- Grow production to reach full capacity of our treatment facilities
- Prolong life of existing wells to maximise extraction of 2P reserves
- Reduce costs by 20% on a boe basis by 2020
- Grow reserves and raw gas processing to allow for 100% utilisation of gas plants for many years beyond 2020
- Focus on expanding QHSE policies to include initiatives such as contractor QHSE management, environmental reporting and developing GHG reduction strategies
- Generate significant post-tax free cash flow beyond 2020

review working conditions to ensure compliance with established health and safety requirements, as well as conduct meetings with contractors to improve safety awareness. This will be complemented by the further development and implementation of our 2018 HSE Competency Program which will be focused on continuous training of Group personnel and contractors.


While we saw an increase in our GHG emission intensity ratio in 2017, this was largely as a result of emissions associated with the commissioning of a gas turbine power station, which we anticipate will have many future benefits. The electricity generated by this station is used to power our internal operations including drilling processes and is also supplied to administrative and household consumers. The fact that we have replaced old diesel generators which used to power the drilling rigs at site with electricity from our power plant has led to an overall reduction in emissions at field site.

Q: What will your capital allocation priorities be once production is ramped up? Will you reinstate the dividend?

A: The near-term focus is production growth to deliver increased cash flow and de-leverage the business. At the same time, we will look to add reserves both organically and inorganically if the returns can be justified. We have invested over US\$1 billion into gas processing infrastructure and aim to maximise the value of these assets through filling them for as long as possible. The assets are unique to North-western Kazakhstan, which is an area rich in wet gas, and we will ensure that they realise maximum value over the coming years.



Kai-Uwe Kessel
Chief Executive Officer

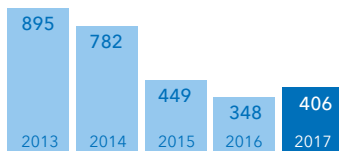
 For more information on how Nostrum performed against 2017 strategic objectives please see page 18

A solid performance

Financial KPIs

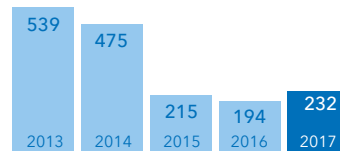
Notstrum has a clear path to executing its growth strategy after the completion of GTU3 supported by highly attractive assets, steady levels of production and material upside potential. The Company is uniquely positioned to realise the value of surrounding resources and prudent financial management has resulted in sustained cash flow generation.

Revenue (US\$m)



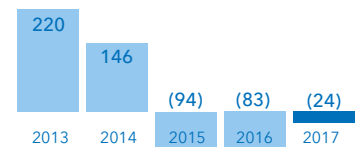
US\$406m
+16.5%

EBITDA (US\$m)



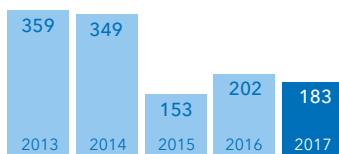
US\$232m
+19.4%

Net income (US\$m)



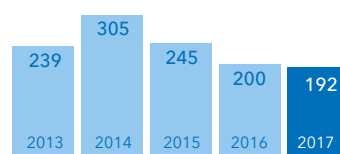
US\$(24)m

Operating cash flow (US\$m)



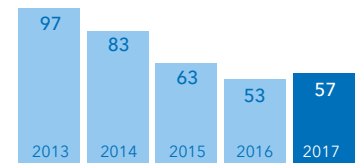
US\$183m
(9.6%)

Investing cash flow (US\$m)



US\$192m
(4.0%)

Operating costs (US\$m)



US\$57m
7.2%

2017 milestones

During 2017 Nostrum successfully achieved key strategic, financial and operational targets in line with our strategy for progression.

For further information see Board activities and achievements on page 60

Strategic



GTU3

Notwithstanding delays to the completion of GTU3, the Company made significant progress with the project during 2017 with the commissioning of the facility expected to take place during 2018.

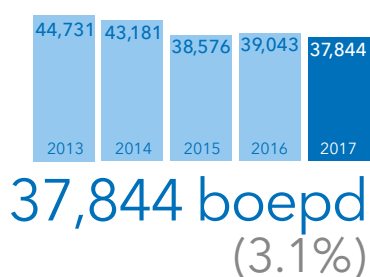
KazTransOil pipeline connection

During 2017 Nostrum successfully completed the construction and commissioning of a secondary crude oil pipeline to enable export sales via the Atyrau-Samara international export pipeline. The KTO pipeline has substantially reduced Nostrum's crude oil transportation costs and will ensure the Company can manage its crude oil netbacks more efficiently through the commodity cycle.

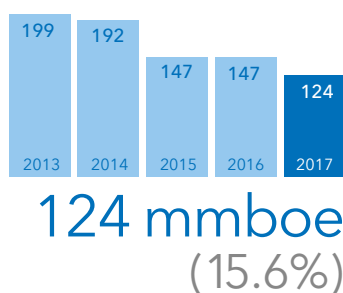
Non-financial KPIs

We recognise that the sustainability and success of our business is dependent not only on our financial performance, but also our operational excellence and social output. We are committed to these areas and believe that targeting non-financial KPIs is the best way to monitor our achievements in relation to them.

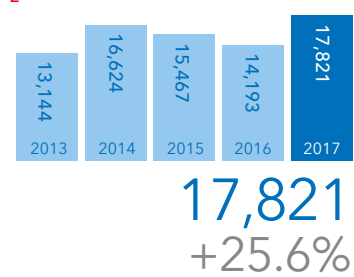
Sales volumes (boepd)



1P reserves (mmboe)



GHG emissions intensity ratio (mtCO₂e/mmboe)



Financial

Stability and maturity of financing

In July 2017 Nostrum successfully issued a new US\$725 million bond with a five year maturity and a fixed coupon of 8.000% in order to refinance the majority of its outstanding debt due in 2019. In February 2018, Nostrum successfully issued a new US\$400 million bond with a seven year maturity and a fixed coupon of 7.000% in order to refinance the remainder of its outstanding debt due in 2019. Following the transactions, Nostrum has no debt maturities until 2022.

Operational



Successful GTU1 & 2 maintenance

The redacted shutdown maintenance schedule for 2017 was successfully completed within the expected timeframe without the need for a total shutdown of the treatment facilities. The Company expects to have an extended shutdown of the plant during 2018 which will coincide with the tie-in of GTU3.

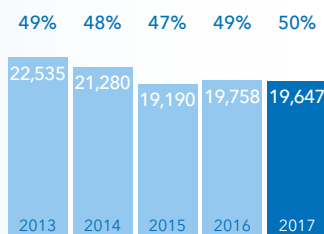
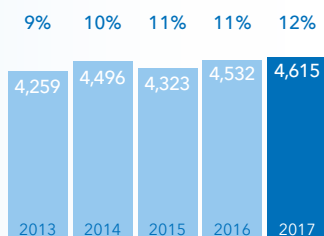
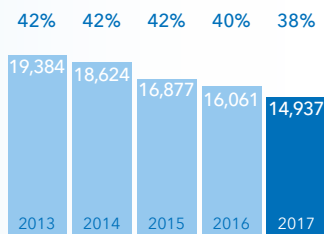
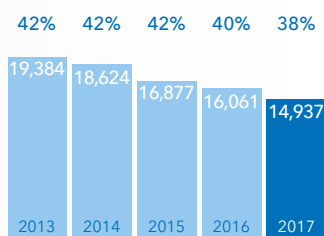
Growing the reserve base

Nostrum's substantial reserve base was reaffirmed in this year's Independent Reserve report with 2P reserves of 488 million barrels of oil equivalent.

Our products and processes

	Quality	Sales	Pricing	Transportation
Crude oil	<p>Density - 0.815g/cm³</p> <p>API - 42-43 degrees</p> <p>Average sulphur - 0.4%</p> <p>Superior in quality to other primary benchmark crude oils produced in Kazakhstan</p>	<p>85% exported in accordance with the PSA</p> <p>15% sold domestically</p> <p>From Q2 2017 all exported crude oil volumes were sold through the KTO pipeline</p> <p>During 2017 Nostrum exported approximately 50% of its crude oil production. The Company expects to resume exporting volumes in accordance with its PSA entitlement of 85% during 2018</p>	<p>Brent-based pricing for railcar exports</p> <p>Urals-based pricing for pipeline exports</p> <p>Domestic sales at c.50% discount</p>	<p>Sent through our own 120km pipeline from the field site to our own rail loading terminal in Uralsk</p> <p>From here it is loaded onto railcars and sent to off-takers at various destinations</p> <p>From Q2 2017 all exported crude oil volumes have been delivered into the KTO pipeline through an extension to our existing 120km pipeline</p>
Stabilised condensate	<p>Density - 0.750-0.790 g/cm³</p> <p>API - 56 degrees API</p> <p>Average sulphur - <0.2%</p>	<p>100% exported</p>	<p>Brent-based pricing</p>	<p>Sent through our own 120km pipeline from the field site to our own rail loading terminal in Uralsk</p> <p>From here it is loaded onto railcars and sent to various destinations</p>
LPG	<p>Field grade quality</p> <p>No olefins and low sulphur content</p>	<p>80% exported</p>	<p>International Mediterranean LPG price Sonatrach for Black Sea deliveries</p> <p>Brest quotation for Eastern European deliveries</p> <p>Domestic sales at c.50% discount</p>	<p>Loaded onto LPG trucks from the field site to our rail loading terminal in Uralsk</p> <p>From here it is loaded onto railcars and sold to third parties</p>
Dry gas		<p>100% sold domestically</p>	<p>Price agreed annually</p>	<p>Sent through our own 17km pipeline from the field site to the connection point with the Intergas Central Asia gas pipeline</p> <p>Sold at the connection point</p>

Production (boepd/%)



Oil treatment unit

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

Raw gas processing infrastructure

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

GTU1 & 2

The GTF currently includes two gas treatment units, each with the capacity to treat approximately 850 million cubic metres of raw gas per annum. The GTF is currently operating close to nameplate capacity.

GTU3

The third treatment unit of the GTF will add 2.5 billion cubic metres of additional raw gas processing capacity, bringing the combined capacity to 4.2 billion cubic metres per annum – more than doubling existing production capacity. GTU3 is in the final stages of construction and is due to be completed in 2018.

Power generation plant

The gas-fired power generation plant is linked to the gas treatment facility with an output of 15 megawatts. The generation capacity from the plant is sufficient to meet the existing and anticipated energy needs of the field site and associated operations as the Company grows production towards the 100,000 boepd target.

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.

Liquids pipeline

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

Rail loading terminal

Nostrum commissioned its own automated rail loading terminal in the city of Uralsk in 2008. The rail loading terminal currently receives all domestic crude oil and export condensate produced by Zhaikmunai and has a capacity of approximately four million tonnes of crude oil and condensate per annum.

Storage facilities

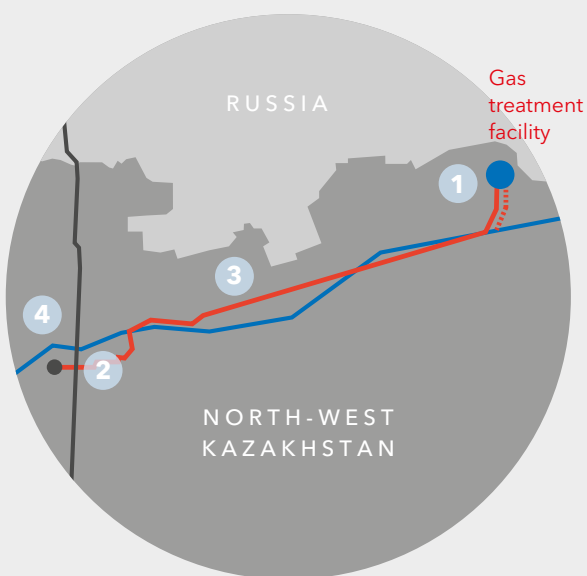
Nostrum has over 30,000 cubic metres of storage capacity for liquids at its field site and rail loading terminal.

KTO pipeline connection

During 2017 Nostrum completed the construction of a secondary crude oil pipeline to enable export sales via the Atyrau-Samara international export pipeline operated by KazTransOil. The KTO pipeline substantially reduced Nostrum’s crude oil transportation costs by more than 50% and has enhanced the Company’s ability to manage crude oil netbacks through the commodity cycle. The total completion cost of the KTO pipeline was under US\$7 million and the project was completed on time and under the projected budget of US\$10 million.

Highly attractive assets

Nostrum has four licence areas all located in the Pre-Caspian Basin in North-western Kazakhstan.



1 Chinarevskoye

Nostrum has consistently demonstrated it can monetise the significant hydrocarbon potential of the Chinarevskoye field. This world-class asset is located in an advantageous geographical position which encourages flexible transportation links for the off-takers of our products.

2 Rostoshinskoye

3 Darjinskoye

4 Yuzhno-Gremyachinskoye

Nostrum has applied for extensions to its licences for the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye oil and gas fields in the north-west of Kazakhstan. Decades of successful exploration activities have shown the three fields contain hydrocarbons suitable for commercial production.

- Oil pipeline
- Nostrum oil pipeline
- Gas pipeline
- Nostrum gas pipeline

Our main asset The Chinarevskoye field

Nostrum's current producing asset is the Chinarevskoye field - a 274km² licence located to the north of Uralsk, near to the Russian border. The Chinarevskoye licence is comprised of a 185km² production and 89km² exploration licence.

16
reservoirs

22
crude oil
production wells*

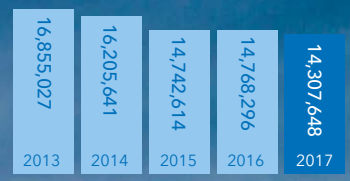
21
gas condensate
production wells*

* producing as at 31 December 2017

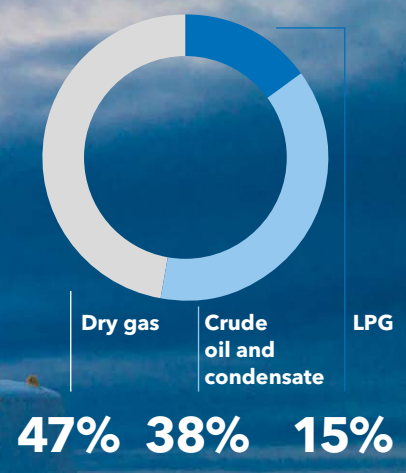




Total production volumes (boepd)



2P reserve breakdown for the Chinarevskoye field (%)



The Chinarevskoye field / continued

Stable business environment

Exploration and production licence

Nostrum was first granted an exploration and production licence for the Chinarevskoye field in May 1997. The current production licence granted in 2008 covers 185 square kilometres, with validity to 2031 for the north-eastern Tournaisian reservoir, and until 2033 for all other oil and gas bearing reservoirs and horizons.

Production Sharing Agreement (PSA)

A grandfathered PSA exists between Nostrum and the Government of Kazakhstan, which specifies the exploration and development boundaries of the Chinarevskoye field. The PSA also addresses the respective royalties, profit share and tax liabilities payable to the government.

Outlook

The licence and PSA are currently valid until 2031 (with respect to the north-eastern Tournaisian reservoir) and 2033 (for the rest of the Chinarevskoye field), and Nostrum must comply with the terms of the exploration permit, the production permit and the development plans during this period. To date, the Company 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 16 reservoirs and 52 compartments spread over three areas. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian, Mullinski, Ardatovski, and Biyski-Afoninski reservoirs.

Reserves

Based on the Ryder Scott report dated 1 January 2018, the proved and probable reserves for the Chinarevskoye field amount to 358 mmboe (2016: 379 mmboe). Proven reserves amount to 124 mmboe (2016: 147 mmboe) and probable reserves to 234 mmboe (2016: 232 mmboe). Oil and condensate amount to 135 mmbbl of proven and probable reserves (2016: 144 mmbbl), LPG to 54 mmbbl (2016: 56 mmbbl) and gas to 168 mmboe (2016: 179 mmboe).

Drilling

Initial hydrocarbon discoveries at the Chinarevskoye field were made during drilling exploration conducted during the Soviet era. Subsequent to this discovery, there have been 95 wells and side-tracks drilled under the PSA between 2004-2017.

Our 2017 drilling programme was successfully completed with 22 oil wells and 21 gas condensate production wells in operation at the Chinarevskoye field as at 31 December 2017. Three new production wells were brought online in 2017.

The Company plans to prioritise the drilling of four new production wells at Chinarevskoye as part of our 2018 drilling programme. When the results of these wells are known the Company will be able to decide how best to proceed with the programme for the remainder of the year.

On-site facilities

Location

Our facilities are located in advantageous geographical positions which encourages flexible transportation links for the off-takers of our products. The proximity to major international railway lines and oil and gas pipelines allows for convenient transport to markets in Central Asia and Eastern Europe. In 2017 the Company completed a short pipeline to provide access to the KazTransOil ("KTO") pipeline for its exported crude oil transportation. This pipeline was completed under budget at a total cost of US\$7 million and has reduced crude oil transportation costs by 50%.

Oil and stabilised condensate pipeline and railway loading terminal

Since its completion in 2008 and commissioning in 2009, our 120 kilometre liquids pipeline and railway loading terminal located at Rostoshi near Uralsk has been used for the transportation of our crude oil and stabilised condensate. It travels through the pipeline from the Chinarevskoye field site to the railway loading terminal, where it is first stored and then transported by railcar to final off-takers. The separation between our stabilised liquid condensate and crude oil occurs during transportation through the same pipeline using a "PIG" system. This ensures quality is not compromised as it would be in a multi-purpose pipeline and allows for higher export prices. The maximum throughput of our oil pipeline is 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.

Additional infrastructure in use also includes crude oil storage tanks on site and at the rail terminal, condensate tanks on site and at the terminal, and a railcar loading facility at the railway terminal. This terminal allows for 32 railcars to be loaded simultaneously. The first vapour recovery unit in Kazakhstan's history can also be found at the facility. Forecasted increases in throughput, in line with our strategy to double production, will be accommodated by our existing infrastructure.

95 wells
and side-tracks
drilled under the
PSA since 2004

Advancing our growth prospects

Rostoshinskoye, Darjinskoye & Yuzhno-Gremyachinskoye 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.

Subsoil rights acquisition completed

Nostrum has rights to 100% of the subsoil use related to three oil and gas fields in the pre-Caspian Basin to the north-west of Uralsk, acquired under an asset purchase agreement in 2013. The Ministry of Oil & Gas signed supplementary agreements relating to those rights, which became effective from 1 March 2013.

Geology

Decades of successful exploration activities have shown that the three fields contain hydrocarbons suitable for commercial production. The bulk of the hydrocarbons are located in the Bashkirian stage of the Carboniferous, with reservoirs of Permo-Carboniferous age. Prior to development there will be significant appraisal required to explore existing accumulations and deeper intervals.

Appraisal programme

During 2016, we drilled an appraisal well at Rostoshinskoye. The results of this appraisal well which were received in 2017 changed the geological model of the Rostoshinskoye field and also increased the reserves potential of the Bashkirian section of the adjacent Darjinskoye field.

Total combined reserves

Nostrum has an outstanding track record of converting reserves. An independent reserve report by Ryder Scott dated 1 January 2018 has shown Nostrum has 488 mmbob of proved and probable reserves, 131 mmbob of which are contained in the Trident fields. In line with our strategy, we will continue to look to increase our reserve base and secure production growth.

Contingent resources

In addition to the estimated 2P reserves, contingent resources have been identified in the Chinarevskoye, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye licence areas. The 1C+2C contingent resources estimated as of 1 January 2018 for the Chinarevskoye area amount to 105.4 million barrels of liquids and 419.5 billion cubic feet of sales gas. For the three additional licences the contingent resources amount to 12.7 million barrels of liquids and 202.5 billion cubic feet of sales gas.

60-120km
from Chinarevskoye
licence area

Making a positive impact

At the core of Nostrum’s approach to Corporate Social Responsibility is a desire to make a positive long-term impact on all of our stakeholders through our business activities.

Since first beginning operations over 20 years ago, Nostrum has sought to be a responsible and transparent company which places the public interest at the core of all decision-making processes. We have a deep understanding of and respect for the social, environmental and economic needs of the communities in which we operate.

Our Board and Senior Management Team are committed to creating a benefit for both Kazakhstan and our shareholders by upholding the strongest principles of good governance.

The success and sustainability of our business is therefore rooted in the active and ethical management of our people, our communities and our environment.

QHSE policy and priorities

QHSE at Nostrum focuses on improving the management and mitigation of risks relating to quality, health, safety and the environment, 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.

Leadership & Commitment

Management will provide visible and active leadership in developing and maintaining QHSE culture



Organisation

The organisation and responsibilities for the management of QHSE issues are defined and documented



People, Competency & Behaviour

All people will be selected, trained and developed to carry out their duties competently and under safe working conditions



Hazards & Effects

Hazards are identified, the risks are assessed and appropriate controls are implemented



Engineering

Facilities are being engineered to meet codes of practice and specifications, operational requirements and statutory regulations, safe practices and environmental protection



Operations

All operations involving exploration, development, production and transportation of hydrocarbons will have safe systems of work defined



Contractor Management

A control system for suppliers and contractors is developed and implemented to ensure their compliance with RoK legal requirements and company QHSE standards



Planning & Performance Monitoring

Objectives are planned in accordance with the established key performance indicators to measure the implementation of QHSE activities



Emergency & Crisis Control

Four main priorities in emergency management are: People, Environment, Asset and Reputation. Organisational arrangements, facilities and training are being provided to effectively respond to an emergency or crisis



Stakeholder Dialogue & Documentation

An active dialogue is established with stakeholders and communities to ensure confidence in the integrity of our activities



Audit & Review

An independent audit and review system is implemented to assess the effectiveness of QHSE management and to identify areas for improvement





Our People

We are proud of the diversity of our workforce and we believe this contributes to the success and sustainability of our business.

Diversity

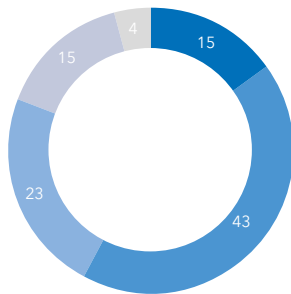
Nostrum is proud to engage a diverse workforce spanning many ages, nationalities and genders. All employees and contractors are protected by the Nostrum Code of Conduct, which states they should never be subjected to illegal discrimination on the basis of race, religion, national origin, age, gender, disability, sexual orientation or political opinion.

At the helm of the business is a dedicated and experienced Senior Management Team, which brings diversity through age and nationality. It includes:

- Kai-Uwe Kessel, Chief Executive Officer
- Thomas Richardson, Chief Financial Officer
- Thomas Hartnett, General Counsel and Company Secretary
- Arkadi Epifanov, Chief Commercial Officer
- Sergey Khafizov, Chief Business Development Officer
- Heinz Wendel, Chief Operations Officer

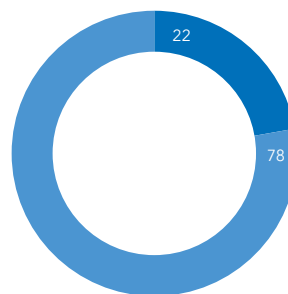
We are encouraged by the gender diversity on our Board and in the newly created team of 20 functional heads who account for each of the distinct divisions within Nostrum's business and who report to the Senior Management Team. We hope that this will support ambitions for greater gender diversity within the Senior Management Team which at this time is all male.

Nostrum Group age diversity 2017 (%)



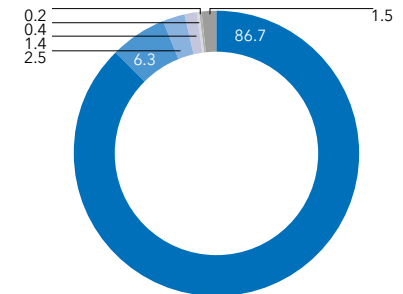
- <30
- 30 < 39
- 40 < 49
- 50 < 59
- 60+

Nostrum Group - gender diversity 2017 (%)



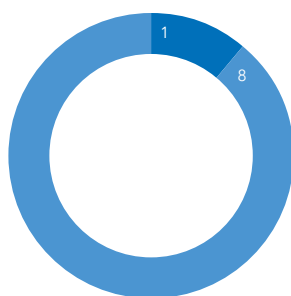
- Female
- Male

Nostrum Group nationality diversity 2017 (%)



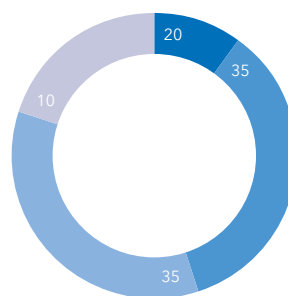
- Kazakh
- Russian
- German
- British
- Belgian
- Azerbaijani
- Other

Nostrum Board gender diversity



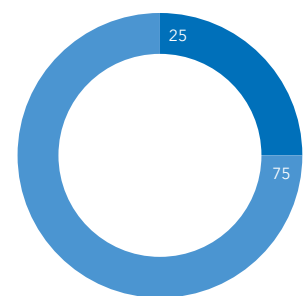
- Female
- Male

Age diversity functional heads 2017 (%)



- 30-39
- 40-49
- 50-59
- 60 or more

Gender diversity functional heads 2017 (%)



- Female
- Male

Our People continued

Employee relations and social guarantees

We are one of the largest employers in Western Kazakhstan with 947 out of 989 Group employees based in Kazakhstan. We also engage staff in five countries and in addition to our assets and representative offices in Kazakhstan, we have offices in Amsterdam, London, St Petersburg and Brussels.

Remuneration and growth rate in salary

Nostrum is an integral community partner and offers competitive remuneration packages to all staff, including our locally-engaged employees, in compliance with all regulatory bodies, guidelines and requirements. In 2017 the average monthly salary of locally-engaged employees decreased 2% as a result of staff turnover and the departure of high earning staff.

In addition to remuneration, Nostrum also offers personnel benefits in relation to:

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



Education and training

We are focused on building skills within the local community. Under the terms of our PSA, we are required to adhere to an accrual of 1% per annum of the field development cost relative to the Chinarevskoye field. We also adhere to training obligations under subsoil use agreements for the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields. In 2017, Nostrum supported 721 employees to benefit from education and training programmes.

Our employees and their children are eligible for educational grants and financial support to assist with university and college expenses. Higher educational assistance is available on a preferential basis to students who have demonstrated academic success and those who have successfully gained entry into educational institutions. Educational fellowships may also be awarded on a discretionary basis.



Wellbeing case study

Nostrum places great importance on building an integrated and secure community for our workforce. Our employee camp at the field site provides more than 460 beds and modern facilities, including a canteen, recreational areas and a health clinic. This ensures comfortable indoor living conditions throughout the year for our field site employees.

Our medical facility at the field site supports the health and wellbeing of our employees. The facility is equipped to perform minor medical procedures and ensures employees can access healthcare without having to travel.



Total training costs in 2017

US\$2,502,761

Total number of training days in 2017

12,956

Number of employees benefiting from education and training programmes in 2017

721

Nostrum Code of Conduct and Human Rights

Nostrum is committed to maintaining a Group-wide culture that recognises international standards of human rights. Meeting our responsibility to respect human rights is critical to the growth and sustainability of our Company. The Nostrum Code of Conduct sets out certain principles that guide business conduct and provide a non-exhaustive outline of what Nostrum considers permissible conduct by its employees. These principles include provisions relating to human rights and diversity in the workplace. Violations of this Code of Conduct may result in disciplinary action, including dismissal from employment, or criminal prosecution.

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

Modern Slavery Act

Following the coming into force of the Modern Slavery Act 2015, we conducted a review of the terms of our operational supply contracts entered into by the Group's operating subsidiary, Zhaikmunai LLP, and updated them to include a provision requiring all suppliers to comply with the Code. All such suppliers are provided with a copy of the Code when entering into any supply agreement with the Group. The updated terms of supply also oblige any supplier to the Group to ensure that any person associated with them who is performing services or providing goods in connection with their contract with the Group to do so only on the basis of a written contract which imposes on and secures from such person terms equivalent to those imposed in the Group's standard supply contracts. The aim of this provision is to mitigate the risks of slavery and human trafficking occurring further down the supply chain. Additionally, the updated terms of supply also oblige suppliers to annually certify, in writing, their compliance with the Code and to provide any supporting evidence of compliance that the Group may request.

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

Whistleblowing Policy

We have a Whistleblowing Policy which takes into account the Whistle-blowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work and which applies to all individuals working for the Group at all levels and grades. The Whistleblowing Policy sets out details of three compliance liaison officers who speak a variety of languages for the purposes of reporting any concerns. The Whistleblowing Policy is also mentioned in the Code and a person who reports any matter in good faith will be protected against any sanctions. A copy of the Whistleblowing Policy is available on the Group's intranet in both Russian and English and on the Company's website: www.nostrumoilandgas.com/en/corporate-governance.

At the time of writing we have received no reports under our whistle-blowing policy of forced/involuntary labour or human trafficking in relation to our business or supply chains.

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

Payment to governments

Nostrum is committed to transparency in its business activities and payments to governments. In 2016 a total of US\$12,337,323 was paid to governments by Nostrum and its subsidiary undertakings. We will report on 2017 payments to governments in the first half of 2018. For more detail please see our website: www.nostrumoilandgas.com/en/transparency.

Anti-corruption and bribery policy

For more information on the Group's Anti-corruption and bribery policy please see page 57.



Health and Safety

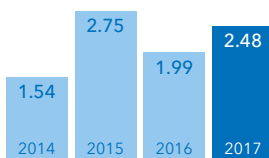
The safety and wellbeing of our personnel is of utmost importance to Nostrum. QHSE management is a priority and is key to the sustainability and success of our business. Nostrum continually strives to improve quality, safety and environmental performance.

Our QHSE programmes are focused on minimising accidents and injuries as a result of our operations and are subject to constant monitoring to ensure their relevancy and efficacy.

Nostrum's management play a leading role in promoting QHSE best practice and employees and contractors are equipped with the appropriate knowledge and application of health and safety requirements. All personnel share the responsibility for a safe working environment and are strongly and openly encouraged to intervene and report unsafe acts or conditions.

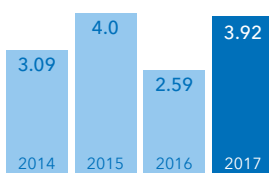
Health and safety

Lost Time Injury Frequency (hours)¹



Health and safety

Total Recordable Injury Frequency²



QHSE Reporting

In 2017 Nostrum developed a simple system for employees to report hazards and unsafe behaviour to management. Healthy, Safety and Environment ("HSE") reporting cards are available to all employees in Kazakh, Russian and English and are designed to encourage the timely reporting of safety incidents and suggestions on improvements to HSE practices. This system allows for data to be collected centrally and for follow-up action to be coordinated efficiently. Appropriate action can then be taken by management to prevent injury to personnel, or damage to assets or the environment. Employees and contractors are required to report all safety incidents, which are then recorded, investigated and classified by an Incident Investigation Team managed by the QHSE Department.

In 2017 our Total Recordable Injury Frequency (TRIF)¹ was 3.92 and Lost Time Injury Frequency (LTIF)² was 2.48. In 2018 we will target an LTIF of 2.00 and actively analyse the reasons for the frequency increases and how we can ensure the continuing safety of all employees and contractors. The 2017 increase was primarily due to contractor incidents during GTU3 construction, as well as contractor road traffic incidents. The total 2017 LTIF for our Operations Function excluding GTU3 contractors was 1.44, below our 2.00 target. This demonstrates a need to implement further safety procedures amongst all contractors, with a particular focus upon the transportation companies we engage, to ensure that our safety standards are met. This is part of an overall push to improve contractor management practices within the Company in 2018.

The 2018 HSE Competency Programme will be split into both theoretical and practical components involving training, roll-outs, workshops and on-site audits. Contract owners will partner with the QHSE Department to co-ordinate HSE initiatives and participate in joint inspections of contractor sites. External providers will deliver HSE leadership training in the form of a 'Train the Trainer' system which seeks to ensure every supervisor receives training that will allow them to inform colleagues and contracting personnel of relevant HSE requirements. Competency KPI targets will be set for all operational managers and supervisors and these will be monitored and reported regularly. The 2018 HSE Competency Programme is a component of the Company's ISO 14001 Environmental MS and ISO 45001 Occupational Health & Safety certifications.

Risk Management

Nostrum's risk management system is designed to manage, monitor and report risks which may impact the achievement of the Company's strategic objectives or interfere with regulatory requirements. Thorough risk assessments are undertaken without exception prior to the start of all projects in order to identify hazards, associated risks and control measures. Work activities will not commence on site until all risk reduction measures are fully implemented.

Contractor HSE Management

A control system has been developed and implemented to ensure suppliers and contractors comply with RoK legal requirements and Company HSE standards. Contractor audits and inspections help to ensure contractor performance without injury, lost working time or environmental impact. In addition to routine worksite HSE Inspections we conducted seven Contractor HSE Management System Audits in 2017. Following the audit results areas for HSE improvement have been identified and corrective action plans have been developed to improve the Company's health and safety performance.

1. Lost Time Injury Frequency (LTIF) is the number of lost time injuries (fatalities and lost injury time) for the last 12 months per 1 million man-hours worked.
2. Total Recordable Injury Frequency (TRIF) is the number of total recordable injuries (fatalities, lost injury time, medical treatment cases, restricted workday cases) per million man-hours worked.



Community and Social Review

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

Nostrum supports additional social infrastructure and charitable projects for the benefit of local communities and under the terms of our PSA. Key initiatives in 2017 included:

- The funding of local schools and educational projects in the West Kazakhstan region.
- Sponsorship of the WestKazInvest investment forum in Western Kazakhstan. The main theme of WKI 2017 was oil and gas sector development and the forum was attended by manufacturers, representatives of the oil and gas sector, government agencies, students, and public and ecological associations.
- Sponsorship of sporting events, including the West Kazakhstan Volleyball Federation, providing up to 75 players with sporting equipment and uniforms. The Federation also held ten sporting championships in 2017 and Nostrum's sponsorship allowed players, including those with a disability, to compete at a regional and national level.
- Financing the costs of events honouring city day by the "Zhas Kanat" Youth Public Association.
- Financing of festive events and social contributions during the year in Yanvartsevo, Beles and Sulukol Akimats.

Liquidation fund contribution

Under the terms of the PSA and the subsoil use agreements for Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye, Nostrum is building up a liquidation fund of US\$23 million to provide funds for the removal of oil and property at the end of the PSA. US\$6.66 million is held on restricted cash accounts as a liquidation fund deposit (2016: US\$5.98 million).

Our Environment

We recognise the importance of minimising our impact in the areas in which we operate to prevent harm to the natural environment. 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 are structured in accordance with Kazakh regulations. We manage our environmental footprint through a site monitoring programme, which has thorough controls in relation to:

- Air pollution;
- 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, exploration development and other works.

In addition to its monitoring capacity, our site monitoring programme identifies 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 action 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

Nostrum engages an independent auditor to measure and evaluate our environmental impact. AMEC first undertook a "Health, Safety and Environmental Compliance Audit" for Nostrum in 2007, and since 2011 they have continued to produce a comprehensive document detailing the content, methodology and results of the environmental efforts at Nostrum annually. Our 2017 AMEC report showed all environmental monitoring programme activities were carried out according to the established scope and ensures reliable control of process requirements.

AMEC's main conclusions based on the 2017 audit were as follows:

- Despite emerging negative trends in the global oil market, Nostrum continues to invest in programmes to ensure sustainable production and product treatment.
- Nostrum complies with all required procedures needed for the substantiation of atmospheric emissions, and measures are being taken to minimise impacts on atmospheric air. Monitoring results for the past eight years show evidence of a pollutant concentration decrease in atmospheric air.
- Nostrum complies with all necessary procedures related to substantiation generation, removal, utilisation and disposal of production and consumption waste.
- The status of Nostrum's land and water resources is stable due to company environmental protection initiatives. These findings are supported by long-term monitoring of environmental conditions.

As part of the Company's environmental control programme accurate monitoring of air, soil surface and sub-surface waters is conducted on a regular basis. The Company is fully committed to continuing this work in order to ensure compliance with sanitary and epidemiological requirements, as well as specific environmental protection requirements of the Republic of Kazakhstan and to prevent environmental incidents.

Air

The impact of Nostrum's operational activities are defined by volume of emissions (chemical pollution) and by physical factors (noise, vibration, radiation and ambient temperature), all of which are monitored. Emissions were identified as a significant risk area and emission monitoring is used to check compliance with defined emission limits using instrumentation and calculation methodologies.

A number of activities were undertaken to reduce emissions, including:

- Selecting equipment to reduce emissions during the design of oil storage tanks at the oil treatment unit loading terminal, reducing pollutant emissions by 71.5%;
- Replacing diesel fuel used for preheaters with gas, reducing pollutant emissions by 64%;
- Electrification of drilling works through use of power received at the new gas turbine power station, reducing pollutant emissions by 28%;
- Dust-catching to reduce dust discharge on field roads, reducing pollutant emissions by 30%.

No violations were identified in 2017 and a radiation survey confirmed that 2017 radiation exposure did not exceed allowable levels.

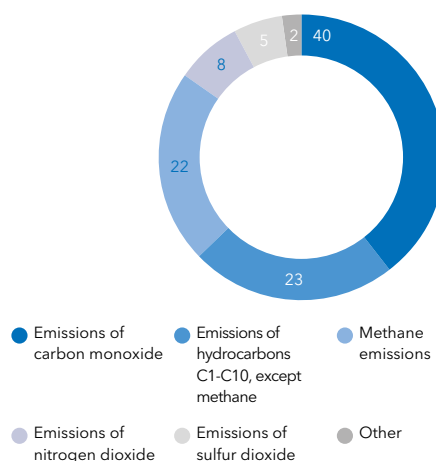
Water management

Measures to prevent surface water contamination are taken due to Nostrum's field facility area being located proximate to the Embulatovka River. This area is the subject of strict environmental impact monitoring. In 2017 a sanitary and ecological campaign was undertaken at the river to prevent auto washing and illegal water discharge as part of water impact minimisation activities. Surface water quality control sample testing and monitoring revealed no non-compliance with maximum permissible concentration levels of pollutants.

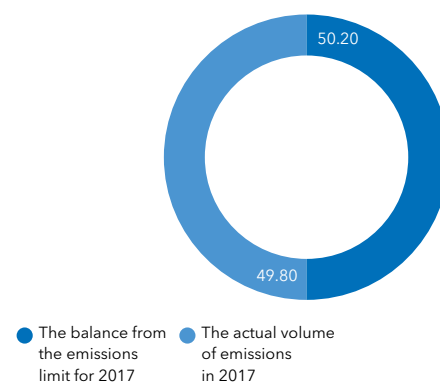
Soil

Nostrum complies with all current RoK legislation with regard to industrial waste management and contaminated soil reclamation. Soil surveys are performed to identify any exceedance of maximum permissible concentration of oil and metal, in addition to annual impact assessments of drilling works on land resources conducted by the Field research team.

Emissions of pollutants into the atmosphere (%)



Observance of the established norms of emissions into the atmosphere (%)



Waste neutralisation methods and no-pit drilling techniques have been implemented in order to minimise the environmental impact of drilling activities. Main drilling waste is transferred to a specialised organisation for further treatment, after which time it is processed into mineral construction material and used in civil works at the field site.

77% of drilling waste was recycled in 2017, with the remaining 26% stored for further specialised treatment. 2017 soil survey results found no evidence of non-compliance with any soil regulation.

Our greenhouse gas (GHG) reporting

Since 2011 Nostrum has been monitoring and reporting on its GHG emissions in accordance with Kazakh regulatory requirements. From 2013 UK company law requirements regarding GHG reporting have also been followed. GHG data is reported from all emission sources, as required under the Companies Act 2006 (Strategic Report and Directors' Report) - Regulations 2013. The Company's GHG reporting period is aligned with the period in respect of which the Directors' Report is prepared. No responsibility is taken for any emission sources which are not included in the consolidated financial statements. The results of the GHG emissions inventory are presented in the format recommended by the GHG Protocol.

Direct GHG emissions (Scope 1)

The baseline in the GHG emissions allocation plan was set as the mean value of the total emissions for the years 2013-2014 (in carbon dioxide emissions equivalent). According to the established limit, GHG emissions for 2017 should not exceed the baseline.

The following direct GHG emissions (Scope 1) sources have been identified: flares, heaters, incinerators, boilers, gas turbine plants, electric power stations, compressors and fugitive emissions.

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

Table 1: Scope 1 GHG emissions subdivided by gas types (tCO₂e)

	2013	2014	2015	2016	2017
Carbon dioxide	188,604.0	236,556.0	208,466.2	195,453.3	242,275.6
Methane	28,693.6	27,424.8	13,919.8	10,817.0	10,723.4
Nitrous oxide	165.7	124.3	126.2	1,045.7	1,305.4
Hydrofluorocarbons	16.1	16.1	34.0	33.6	27.6
Total	217,479.4	264,121.2	222,546.2	207,349.6	254,332.0

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

Table 2: Scope 1 GHG emissions subdivided by source types (tCO₂e)

	2013	2014	2015	2016	2017
Stationary combustion	212,612.3	260,124.4	205,701.9	195,576.1	243,001.1
Mobile combustion	2,876.3	2,135.2	1,498.2	757.9	434.9
Fugitive sources	1,990.8	1,861.6	15,346.1	11,015.6	10,896.0
Total	217,479.4	264,121.2	222,546.2	207,349.6	254,332.0

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

Indirect GHG emissions (Scope 2)

Nostrum does not use purchased steam, heating or cooling. Electrical power is the only such purchased power related to indirect GHG emissions, and it is supplied to Nostrum facilities via the Zelenovskaya distribution network (ZapKazREK JSC), through its subsidiary Batys Energoresursy LLC. The regional emission factor (0.27086 tCO₂/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 (tCO₂e)

	2013	2014	2015	2016	2017
Direct energy (Scope 1)	217,479.4	264,121.2	222,546.2	207,349.6	254,332.0
Indirect energy (Scope 2)	4,058.4	5,278.6	5,482.3	2,262.9	640.3
Total	221,538	269,400	228,029	209,613	254,972.3

Emissions intensity ratio

Tonnes of CO₂ 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 CO₂e (mtCO₂e) per tonne of oil equivalent (mmboe).

Table 4 shows intensity ratios for total (Scope 1 and Scope 2) emissions in the period 2013-2017.

Table 4: Emissions intensity ratios for total GHG emissions

	2013	2014	2015	2016	2017
Production, toe	2,460,833.9	2,366,023.6	2,152,421.6	2,156,171.2	2,088,917.0
tCO ₂ /toe	0.090	0.114	0.106	0.097	0.122
Production, mmboe	16.9	16.2	14.7	14.8	14.3
tCO ₂ /mmboe	13,143.7	16,623.8	15,467.3	14,193.4	17,820.7

GHG emission levels up to 250,000 tCO₂e

2018 GHG Emission Reduction Target

Planting of 200 trees

2018 GHG Emission Reduction Target

As per National Plans for GHG Quotas Distribution for 2016–2020 (pursuant to RoK Government Resolution No. 1138 dated 30 December 2015) the established base year level is equal to 212,580 tonnes CO₂ (2013–2014 average of reported emissions). The total quota for 2016–2020 is 1,062,900 tonnes CO₂. It should be noted that due to changes in the Environmental Code of the RoK related to suspension of positions related to quotas utilisation the excessive quotas for GHG emissions cannot be utilised until 1 January 2018. Reportedly, the Ministry of Energy of the RoK is, in cooperation with the World Bank, developing an electronic GHG reporting platform. The electronic reporting will be used in the deployment of a national GHG quota trading system in the future.

Developing a GHG reduction capacity

Nostrum recognises that hydrocarbon exploration and production is a major contributor to GHG emissions and consequently we have a responsibility to work to address climate change. One of our key CSR goals in 2018 is to better understand and respond to this challenge.

Nostrum and its subsidiaries comply with all applicable environmental legislation and regulations and Nostrum has been reporting on GHG emissions since 2011. We actively target a reduction in our emissions intensity ratio and this continues to be a key commitment in our approach to environmental protection.

Nostrum management are committed and ready to minimise their environmental footprint through a yearly GHG emissions reduction strategy which allows us to plan for the subsequent introduction of energy and resource saving measures. To meet these ambitious targets, we have secured the commitments of our managers and contractors to provide effective assistance in improving energy efficiency and reducing GHG emissions. Initiatives include the development of a waste heat recovery system for GTU3 which will utilise waste heat recovered from sales gas compression units, refrigeration compression units and stabiliser compressor units for process and building heating, resulting in total recovered energy of up to 274.8 Mwh/day. The transfer of well heating furnaces from diesel fuel to gas has resulted in an average GHG reduction of 59%. Additionally, the commissioning of a 26 MW gas turbine power station has further reduced the environmental burden by electrifying the drilling process and, accordingly, reduced GHG emissions by 39%.

Our 2018 reduction targets include:

- Maintain total GHG emission levels up to 250,000 tCO₂e
- Conversion of three further heating ovens from diesel to gas
- Planting of 200 trees

We do acknowledge that climate change has the potential to affect our business, including through:

- Physical disruption to operations due to changing weather conditions
- The impact of legislative and policy responses to address climate change
- Technology to help reduce emissions
- Changing energy market demands into the future

However, we must also balance our climate change responsibilities with our commitments to our shareholders and other stakeholders. We believe in the sustainability of our business and see a continuing demand for the company's products into the foreseeable future. We do not believe that a fundamental change in business strategy would be in the best interest of the Company or our stakeholders, particularly given the economic importance of our activities in the communities in which we operate.

Throughout 2018 we will continue to actively consider our approach to climate change to ensure we maintain the highest standards of practice in relation to our environmental and risk management.

Risk management

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

Risk management framework

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

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

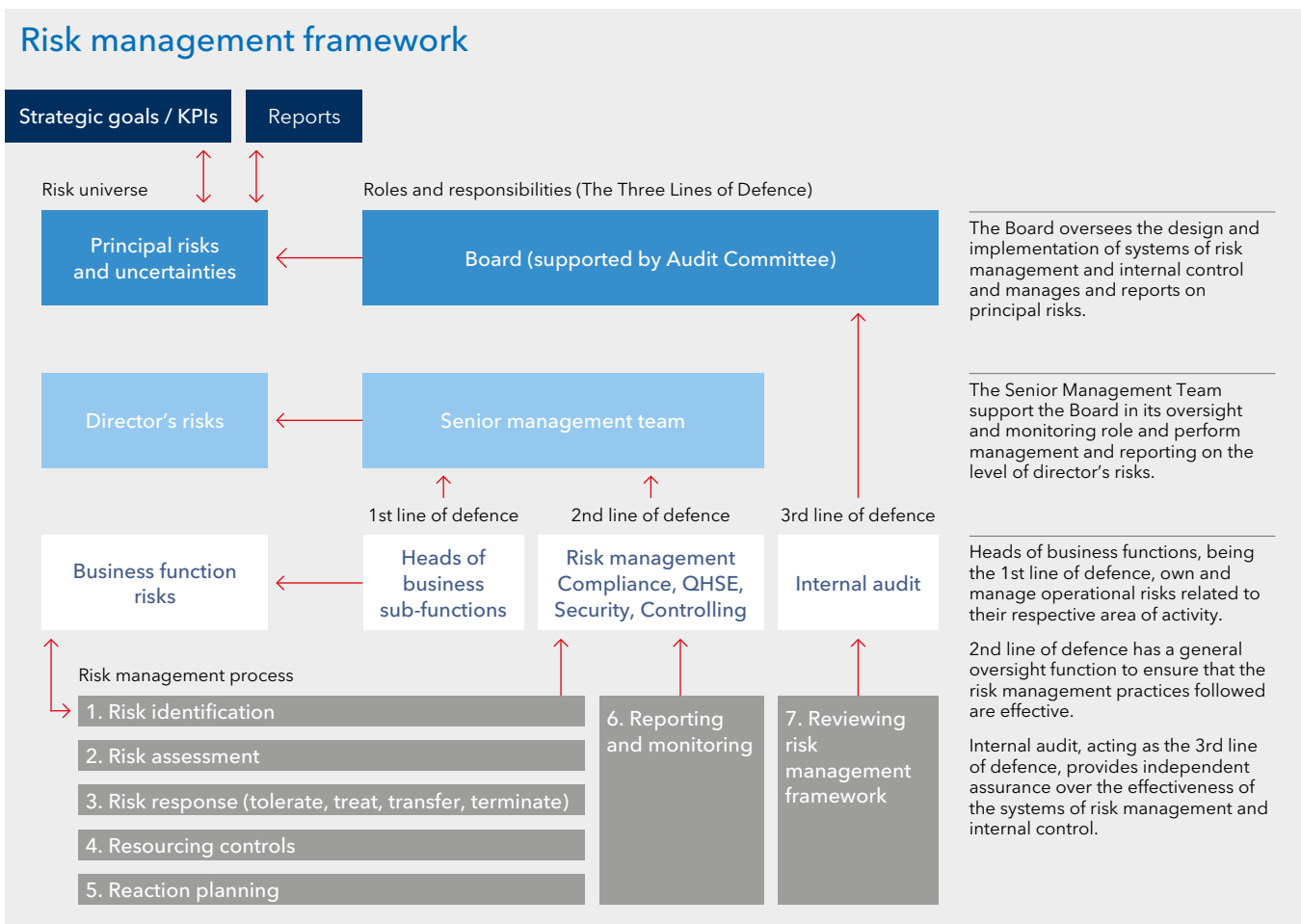
The Group is in the process of formalising risk management roles and duties according to “The Three Lines of Defence” model as further described in the diagram below, whereby the Board and senior management are the primary stakeholders served by the three lines of defence as follows:

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

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

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

Based on these risk registers, related analysis and discussions senior management and the Board periodically review previously identified significant risks, update their likelihood of occurrence and potential impact and identify potential new significant risks emerging as a result of the changing environment. These significant risks are discussed in more detail in the section “Principal risks and uncertainties” starting on page 38.



In 2017, the processes related to risk management and internal control systems were consistent with the UK Corporate Governance Code and FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in April 2016.

Environmental, social and governance (ESG) matters

ESG matters form an integral part of the areas covered by the Group's systems of risk management and internal controls, and the Board recognises their significance and importance which are assessed consistently in accordance with regulatory requirements and established rules. Identified ESG risks and related responses can be seen within operational and other risks in the "Principal risks and uncertainties" disclosure on page 38.

The Board received appropriate information for managing such risks and ensures that systems of risk management and internal controls are in place to effectively manage and monitor them. More elaborate disclosure on the established policies and procedures in these areas can be found in the corporate social responsibility section on page 26.

Changes from prior year risk assessment

In 2017, the principal risks and uncertainties managed and monitored by the Board and senior management remained the same as in 2016 and the related risk assessments did not change significantly.

Principal risks and uncertainties

Description of risk

Risk management

STRATEGIC RISKS

Business and market environment

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

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

Given that the Group's sales prices of crude oil and condensate are based on market prices, the Group's future earnings are exposed to adverse impact by changes in the market price of crude oil. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. The Group could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve.

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

The Group uses financial instruments to manage commodity price risks and liquidity risks. See note 29 Derivative Financial Instruments in the Consolidated financial statements for details of the nature and extent of such position(s), and for qualitative and quantitative disclosures of these instruments.

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

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

Also, senior management constantly monitors the Group's exposure to foreign currency exchange rate changes and plans for necessary measures.

Strategic development initiatives

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

The Group's strategic initiatives towards diversification of its activity areas including M&A activities and further development projects such as the GTU3 construction project and the well drilling programme are subject to customary risks related to delay, non-completion and cost overruns which could impact future production and the Group's performance.

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

The Group has a team of dedicated specialists who assess possible acquisitions of oil and gas fields and assets. In 2013, the Group acquired subsoil use rights for three oil and gas fields near the Chinarevskoye field.

For the purpose of GTU3 construction, the Group has formed a dedicated experienced project management team and engaged JSC "OGCC KazStroyService" for construction services and expects to benefit from their technical expertise and significant experience gained during the construction of GTU1 and GTU2. The Group has concluded the majority of the construction process in relation to GTU3 and monitors logistics, engineering, expedition of materials and equipment on an ongoing basis.

Senior management and the Board continuously monitor the timing, scope and performance of the drilling programme and takes into account the status of the GTU3 project and current oil prices. A detailed drilling programme is approved by senior management for each well which forms the basis against which the progress of works and costs are reported.

Description of risk	Risk management
OPERATIONAL RISKS	
Oil and gas reserves and operations	
<p>Oil and gas reserves estimation, exploration, development and production are accompanied by typical risks inherent to activities in this industry, which may adversely affect the Group's financial performance and achievement of strategic objectives.</p> <p>Estimation of oil and gas reserves requires exercise of judgement due to the inherent uncertainty in any oil and gas field. There are also uncertainties and risks related to a field's geological structure and choice of development methods to maximise the reservoir performance. Hence, there are a number of risks which may lead to a deviation of production volumes from estimated and projected volumes.</p> <p>Well drilling and workover activities as well as construction, operation and maintenance of surface facilities are also subject to various risks including the availability of adequate services, technologies, expertise, etc., which may adversely affect the fulfilment of the Group's strategic objectives.</p>	<p>The Group has a department of highly skilled geologists who perform periodic assessments of the oil and gas reserves in accordance with international standards on reserve estimations and prepare production forecasting using advanced exploration risk and resource assessment systems. The results of the assessments are reviewed by the Group's independent reserve consultant, Ryder Scott.</p> <p>For well drilling and workover activities the Group engages highly skilled personnel, leading service suppliers as well as operations and cost monitoring systems, based on which the management oversees the work progress.</p> <p>Maintenance of the wells and surface facilities is scheduled in advance in accordance with technical requirements and all necessary preparations are performed in a timely manner and within budget ensuring high quality. In addition, the Group has emergency response and disaster recovery plans in place and periodically conducts necessary training and testing procedures.</p>
Health, safety and environment	
<p>Linking corporate social responsibility (CSR) to growth is one of the strategic priorities of the Group. Relevant health, safety and environmental risks are also considered to be one of the key areas of focus in terms of risk management. The Group faces typical health, safety and environmental risks in the oil and gas industry, including risks related to gas flaring, waste management, environmental pollution, fires and explosions at facilities, and transportation accidents.</p> <p>These risks may have a broad range of results including, but not limited to, injury of employees or local residents, pollution of the local environment and respective regulatory actions, legal liabilities, business interruption and any consequential impact on financial performance. It should also be noted that the legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times.</p>	<p>The Group has a QHSE department of highly skilled and competent specialists. The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Periodic training on the requirements of policies and regulations are held for employees. In addition, at the supplier selection and contracting stage the Group places a high degree of importance on a supplier's resources and ability to comply with the Group's QHSE requirements and, subsequently, the Group's dedicated team in this area conducts supplier audits. Key indicators such as GHG emissions, lost time injuries, waste management, water and soil pollution rates, etc., as well as progress of work are reported to senior management on a monthly basis.</p> <p>The Group is working towards full compliance with ISO 14001 Environmental Management Systems, OHSAS 18001 Occupational Health & Safety Management System and ISO 50001 Energy Management Systems. The Group also regularly engages an independent auditor to conduct HSE audits to monitor its compliance and best practice in this area and takes all necessary measures on the basis of the audit recommendations.</p>

Principal risks and uncertainties continued

Description of risk

Risk management

COMPLIANCE RISKS

Subsoil use agreements

As the Group performs exploration, development and production activities in accordance with related licences for the oil and gas fields, there are related risks that the Group might not be able to obtain extensions when necessary, risks of non-compliance with the licence requirements due to ambiguities, risks of alteration of the licence terms by the authorities and others. These risks may result in the Group's inability to fulfil scheduled activities; fines, penalties, suspension or termination of licences by authorities; and, respectively, significant and adverse impact on the Group's business, financial performance and prospects.

The Group has procedures and processes in place for the timely application for extension of licence periods when it is considered appropriate (and such extension applications were filed prior to the expiry of the three Trident field licences), however uncertainty remains in relation to timing and results of decisions of authorities (including the extension decisions for the Trident fields). The Group believes that it is in full compliance with the terms of its PSA for the Chinarevskoye field and maintains an open dialogue with Kazakh governmental authorities regarding all of its subsoil use agreements. In the event of non-compliance with a provision of any such agreement the Group endeavours to have such terms modified and pays any penalties and fines that may apply.

Compliance with laws and regulations

The Group carries out its activities in a number of jurisdictions and therefore must comply with a range of laws and regulations, which exposes the Group to the respective risks of non-compliance. In addition, the Group must comply with the Listing Rules, the Disclosure Guidance and Transparency Rules, FRC guidance and requirements, as well as KASE and bond indenture requirements, in light of its publicly traded shares and notes. Hence, there are non-compliance risks to which the Group is exposed.

The impact of these risks may vary in magnitude and include regulatory actions, fines and penalties by authorities, diversion of management time, and may have an overall adverse effect on the Group's performance and activities towards achieving its strategic objectives.

For the purpose of compliance with laws, regulations and rules the Group has adopted a number of policies including a code of conduct, inside information and disclosure policy, related party transactions policy, code for dealing in securities, anti-corruption and bribery policy and a whistle-blowing policy. The Group also performs periodic updates based on the changes in regulatory requirements, and carries out related communications and training for employees.

Necessary communication lines are established with authorities to ensure timely and adequate inbound and outbound flow of information. Management and the Board monitor significant matters related to legal and compliance matters in order to act promptly in response to any actions.

The Group continuously monitors its compliance with its policies on the level of authorisations for transactions. In addition, the management maintains an open dialogue with its sponsors in relation to any matter related to non-compliance with Listing Rules and other regulatory requirements.

Description of risk	Risk management
FINANCIAL RISKS	
Tax risks and uncertainties	
<p>The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create risks related to additional tax liabilities from assessments or risks related to recoverability of tax assets. Tax risks and uncertainties may adversely affect the Group's profitability, liquidity and planned growth.</p>	<p>The Group has policies and procedures related to various tax assessments and positions, as well as other control activities to ensure the timely assessment and filing of tax returns, payment of tax obligations and recovery of tax assets.</p> <p>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.</p>
Liquidity risks	
<p>Forecasting and maintaining an adequate liquidity position is subject to the risk that inaccurate information or assumptions are used for the forecasts, risks of counterparty delay or failure to meet their contractual obligations due to severe market conditions, etc.</p>	<p>Management and the Board constantly monitor the Group's liquidity position, forecasts and key financial ratios to ensure that sufficient funds are available to meet any commitments as they arise. In addition, the treasury policy provides that the Group should maintain a minimum level of cash of US\$50 million.</p>
Financing Risks	
<p>The Group's ability to access and source debt or equity capital is also exposed to volatility and uncertainties in global financial markets, which may adversely impact the Group's ability to meet its commitments associated with its financial liabilities, increase the cost of financing and affect the plans towards realisation of its strategic initiatives.</p>	<p>The Group performs financial reviews, establishes credit limits and engages with reliable financial counterparties.</p> <p>The Group's corporate finance function continuously monitors debt and equity markets and maintains an open dialogue with investors to be able to react quickly to any need for financing.</p>
OTHER RISKS	
Other significant risks	
<p>Other risks are those which are not specifically identified within any of the principal risks and uncertainties but may be related to several such areas or be organisation-wide. These include risks related to:</p> <ul style="list-style-type: none"> • fraudulent activities; • cyber security; • the Group's supply chains; • accounting and reporting management systems; and • the availability of human resources. <p>and may also significantly impact the Group's financial performance, reputation and achievement of its strategic objectives.</p>	<p>The Group has an anti-bribery and corruption policy and provisions relating to the same are included in the Group's Code of Conduct. Related training and updates are periodically provided for employees in relation to their obligations in this area.</p> <p>The Group has a wide range of internal controls over its supply chains and accounting and reporting processes, including policies, procedures, segregation of duties for authorisation of matters, periodic training for employees, etc.</p> <p>Senior management and the Board stay alert to emerging challenges related to various management systems and related governance matters and when necessary initiate change initiatives to ensure enhancement and integration of certain management systems.</p>

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

Viability statement

Consistent with prior years, the Group adhered to its established procedures and practice on corporate planning, including:

- The long-term projections and analysis based on a financial model (extending through 2032, i.e. the licence term of the Chinarevskoye field), based on which the senior management and the Board perform their activities described on pages 55-58, including annual strategic planning and decision-making;
- Medium-term development planning (described on pages 16-17) based on five-year financial projections, which is also used for monitoring the Group's performance in terms of strategic objectives, related KPIs and risks;
- Annual budgeting and forecasting process incorporating preparation of an annual budget for the following year, which is reviewed and approved by the Board, and followed up by quarterly forecasts, which are monitored by the senior management and the Board.

As part of the medium-term planning process, a review of the Group's prospects over a five-year period ending December 2022 has been carried out taking into account the Group's current position and related principal risks and uncertainties, including those that could threaten its business model and future performance. This review, also known as viability assessment, is in line with the requirements of provision C.2.2 of the 2016 Code.

Given the successful refinancing of the Group's debt in 2017 and continuing volatility in the oil markets, the Board has once again reassessed the period over which viability assessment shall be conducted and came to the conclusion that a five-year period remains the most appropriate time-frame, since it:

- Ensures an optimal balance between a reasonable degree of confidence and an appropriate longer-term outlook;
- Is aligned with medium-term development planning mentioned above;
- Is consistent with other current and/or recent communications (e.g. production forecasts, etc.);
- Is appropriate for the current stage of development of the Group and gives an opportunity to reasonably assess sensitivity of the Group's performance to principal risks during and after realisation of major strategic objectives (described on pages 16-17), including production ramp-up; and
- Enables an assessment of the Group's ability to meet its liabilities, including Notes due in 2022.

For the purpose of our viability assessment a five-year financial model was used as a base-case scenario. The assumptions used in this scenario are consistent with those used in the impairment testing process (as described in the financial statements on page 115), except for the five-year period of assessment. Considering the shorter assessment period as compared to the impairment testing model, it was expected that, the base-case scenario is more sensitive to the following assumptions:

- Implementation of the drilling programme, which is based on the most recent Ryder Scott reserve report. The drilling programme is based on the required programme to produce all 2P reserves and does not cover any of the contingent resource base; and
- GTU3 completion (as described on page [11]): it is assumed to be completed the end of the first half of 2018 for viability purposes and no commercial gas is assumed to be produced until the second half of 2018];

For the purpose of sensitivity testing, several principal risks and uncertainties were selected (from those described on pages 38-41), which were deemed to have the highest potential financial impact on the Group's future performance, taking into account prior period assessments. The effect of those principal risks and uncertainties or their combination on the base-case scenario were analysed within following scenarios:

- Deterioration in the business and market environment: taking into account that the oil price assumptions applied in the base case scenario were based on the most conservative projections by institutional analysts, this scenario was aimed at analysing the sensitivity to further 5% reduction in the oil prices over the period of assessment;
- Development of proved reserves: this scenario reflected results based on the assumption that only proved reserves are developed over the five-year period and respectively reduced production volumes over this period;
- Severe but plausible scenario: a combination of 5% reduction in the oil prices, 5% reduction in production volumes together with impact of the risks related to health, safety and environment, subsoil use agreements, compliance and tax matters to the extent such assessments were practicable.

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

The directors remained mindful of the risks associated with the Group's development projects, commodity price risks as well as risks associated with oil & gas reserves and operations (described on pages 38-39), which may impact the Group's ability to meet its liabilities, including the repayment of its Notes due in 2022.

Based on these assessments and other matters considered by the Board during the year, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022.

This strategic report is approved by the Board.



Kai-Uwe Kessel
Chief Executive Officer
26 March 2018



Tom Richardson
Chief Financial Officer
26 March 2018

Financial review

Results of operations for the years ended 31 December 2017 and 2016

The table below sets forth the line items of the Group's consolidated statement of comprehensive income for the years ended 31 December 2017 and 2016 in US Dollars and as a percentage of revenue.

In thousands of US dollars	For the year ended 31 December			
	2017	% of revenue	2016	% of revenue
Revenue	405,533	100.0%	347,983	100.0%
Cost of sales	(177,246)	43.7%	(182,180)	52.4%
Gross profit	228,287	56.3%	165,803	47.6%
General and administrative expenses	(33,303)	8.2%	(34,758)	10.0%
Selling and transportation expenses	(66,441)	16.4%	(75,681)	21.7%
Taxes other than income tax	(19,967)	4.9%	(20,175)	5.8%
Finance costs	(59,752)	14.7%	(41,709)	12.0%
Employee share options - fair value adjustment	2,099	0.5%	99	0.0%
Foreign exchange loss, net	(688)	0.2%	(390)	0.1%
Loss on derivative financial instruments	(6,658)	1.6%	(63,244)	18.2%
Interest income	374	0.1%	461	0.1%
Other income	4,071	1.0%	2,191	0.6%
Other expenses	(22,055)	5.4%	1,864	0.5%
Profit/(loss) before income tax	25,967	6.4%	(65,539)	18.8%
Income tax expense	(49,849)	12.3%	(17,481)	5.0%
Loss for the year	(23,882)	5.9%	(83,020)	23.9%
Other comprehensive income/(loss)	825	0.2%	(70)	0.0%
Total comprehensive loss for the year	(23,057)	5.7%	(83,090)	23.9%

General note

For the year ended 31 December 2017 (the "reporting period") total comprehensive loss decreased by US\$60.0 million to US\$23.1 million (FY 2016: US\$83.1 million). The loss is mainly driven by higher income tax as well as transaction costs on refinancing and one-off items in other expenses, as explained in more detail below.

Revenue

The Group's revenue increased by 16.5% to US\$405.5 million for the reporting period (FY 2016: US\$348.0 million). This is mainly explained by the increase in the average Brent crude oil price from 45.1 US\$/bbl during 2016 to 54.2 US\$/bbl during the reporting period. The pricing for all the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil.

Revenues from sales to the Group's largest three customers amounted to US\$200.4 million, US\$102.8 million and US\$30.8 million respectively (FY 2016: US\$109.5 million, US\$92.9 million and US\$38.1 million).

The Group's revenue breakdown by products and sales volumes for the reporting period and FY 2016 is presented below:

In thousands of US dollars	For the year ended 31 December			
	2017	2016	Variance	Variance, %
Oil and gas condensate	261,069	226,357	34,712	15.3%
Gas and LPG	144,464	121,626	22,838	18.8%
Total revenue	405,533	347,983	57,550	16.5%
Sales volumes (boe)	13,813,060	14,250,695	(437,635)	(3.1)%
Average Brent crude oil price (US\$/bbl)	54.7	45.1		

Financial review continued

The following table shows the Group's revenue breakdown by export/domestic sales for the reporting period and FY 2016:

In thousands of US dollars	For the year ended 31 December			
	2017	2016	Variance	Variance, %
Revenue from export sales	262,767	244,586	18,181	7.4%
Revenue from domestic sales	142,766	103,397	39,369	38.1%
Total	405,533	347,983	57,550	16.5%

Cost of sales

In thousands of US dollars	For the year ended 31 December			
	2017	2016	Variance	Variance, %
Depreciation, depletion and amortisation	120,692	129,425	(8,733)	(6.7)%
Repair, maintenance and other services	18,960	18,932	28	0.1%
Payroll and related taxes	17,652	13,290	4,362	32.8%
Other transportation services	8,335	6,843	1,492	21.8%
Materials and supplies	6,333	4,649	1,684	36.2%
Well workover costs	4,159	3,928	231	5.9%
Environmental levies	375	1,071	(696)	(65.0)%
Change in stock	297	2,047	(1,750)	(85.5)%
Other	443	1,995	(1,552)	(77.8)%
Total	177,246	182,180	(4,934)	(2.7)%

Cost of sales decreased by 2.7% to US\$177.2 million for the reporting period (FY 2016: US\$182.2 million). The decrease is primarily explained by the decrease in depreciation referred to below, partially offset by increases in payroll and related taxes, other transportation services and materials and supplies. On a boe basis, cost of sales did not change materially and amounted to US\$12.83 for the reporting period (FY 2016: US\$12.78) and cost of sales net of depreciation per boe increased marginally by US\$0.39, or 10.5%, to US\$4.09 (FY 2016: US\$3.70).

Depreciation, depletion and amortisation decreased marginally by 6.7% to US\$120.7 million for the reporting period (FY 2016: US\$129.4 million). Depreciation is calculated applying units of production method. Decrease of depreciation in 2017 in comparison with prior period is a consequence of the ratio change between the volumes produced and the proven developed reserves as well as addition to O&G assets in the amount of US\$219.7 million during reporting period.

Payroll and related taxes increased by 32.8% to 17.7million for the reporting period (FY 2016: US\$13.3 million). This mainly resulted from increase in the headcount across operations.

Other transportation services increased by 21.8% to US\$8.3 million for the reporting period (FY 2016: US\$6.8 million). Such an increase is explained by the fact that in 2017 the Group completed next stage of transfer of services previously provided within the Group to outsourcing and the service costs now include, for example, vehicle rental fare.

Materials and supplies increased by 36.2% to US\$6.3 million for the reporting period (FY 2016: US\$4.6 million). These expenses include spare parts and other materials for repairs and maintenance of the facilities, specifically for the gas treatment facility and wells. These costs fluctuate depending on the timing of the periodic scheduled maintenance works.

Taxes other than income tax

In thousands of US dollars	For the year ended 31 December			
	2017	2016	Variance	Variance, %
Royalties	15,724	11,910	3,814	32.0%
Export customs duty	3,864	5,533	(1,669)	(30.2)%
Government profit share	248	2,582	(2,334)	(90.4)%
Other taxes	131	150	(19)	(12.7)%
Total	19,967	20,175	(208)	(1.0)%

Royalties, which are calculated based on production and market prices for the different products, increased by 32.0% to US\$15.8 million for the reporting period (FY 2016: US\$11.9 million), which is largely due to the increase in the hydrocarbon prices.

Export customs duty on crude oil decreased by 30.2% to US\$3.8 million for the reporting period (FY 2016: US\$5.5 million), mainly due to the decrease of export sales and the increase of domestic sales which are not subject to export duties.

Government profit share decreased by 90.4% to US\$0.2 million for the reporting period (FY 2016: US\$2.6 million).

General and administrative expenses

In thousands of US dollars	For the year ended 31 December			
	2017	2016	Variance	Variance, %
Payroll and related taxes	13,578	13,313	265	2.0%
Professional services	11,095	11,868	(773)	(6.5)%
Depreciation and amortisation	2,294	2,160	134	6.2%
Business travel	1,487	3,695	(2,208)	(59.8)%
Insurance fees	1,640	1,129	511	45.3%
Lease payments	797	694	103	14.8%
Communication	411	484	(73)	(15.1)%
Materials and supplies	363	353	10	2.8%
Bank charges	221	346	(125)	(36.1)%
Transportation services	242	153	89	58.2%
Other	1,175	563	612	108.7%
Total	33,303	34,758	(1,455)	(4.2)%

General and administrative expenses decreased by 4.2% to US\$33.3 million for the reporting period (FY 2016: US\$34.8 million). This was mainly driven by US\$2.2 million or 59.8% decrease in business travel expenses from US\$3.7 million in 2016 to US\$1.5 million in 2017.

Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December			
	2017	2016	Variance	Variance, %
Loading and storage costs	26,940	33,219	(6,279)	(18.9)%
Transportation costs	20,160	24,861	(4,701)	(18.9)%
Marketing services	14,363	14,138	225	1.6%
Payroll and related taxes	2,033	1,234	799	64.7%
Other	2,945	2,229	716	32.1%
Total	66,441	75,681	(9,240)	(12.2)%

Selling and transportation expenses decreased by 12.2% to US\$66.4 million for the reporting period (FY 2016: US\$75.7 million), due primarily to decrease in oil transportation costs resulting from successful connection to the KTO pipeline.

Financial review continued

Finance costs

In thousands of US dollars	For the year ended 31 December			
	2017	2016	Variance	Variance, %
Interest expense on borrowings	42,756	39,446	3,310	8.4%
Transaction costs	15,709	-	15,709	-
Unwinding of discount on amounts due to Government of Kazakhstan	866	885	(19)	(2.1)%
Unwinding of discount on abandonment and site restoration provision	225	327	(102)	(31.2)%
Unwinding of discount on social obligations liability	40	850	(810)	(95.3)%
Finance charges under finance leases	156	201	(45)	(22.4)%
Total	59,752	41,709	18,043	43.3%

Finance costs decreased by 22.4% to US\$59.8 million for the reporting period (FY 2016: US\$41.7 million) mainly due to transactions costs on bonds refinancing.

Other

Loss on derivative financial instruments amounted to US\$6.7 million in the reporting period and relates to fair value of the hedging contract covering oil sales. Based on the contract the Group has bought a put, which protects it against any fall in the price of oil below US\$49.16/bbl. Movement in fair value of financial derivative instruments is disclosed in Note 29 of the Consolidated financial statements included in this report.

Other expenses increased to US\$22.1 million for the reporting period (FY 2016: US\$1.9 million). Such a significant increase in other expenses is explained by non-recurring business development expenses incurred in 2017 in relation to potential acquisitions of oil and gas exploration and appraisal assets in Kazakhstan, as well as reversal in 2016 of the accruals under subsoil use agreements based on the changes in the supplements to the subsoil use agreements and the adjusted work programs.

Income tax expense increased by US\$32.3 million to US\$49.8 million for the reporting period (FY 2016: US\$17.5 million). The increase in income tax expense was primarily driven by higher deferred tax expenses in the current period, because of accelerated tax depreciation of oil & gas assets for tax purposes.

Liquidity and capital resources

During the period under review, Nostrum's principal sources of funds were cash from operations and amounts raised under the 2017 Notes. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2012 Notes, 2014 Notes and the 2017 Notes) and to funding capital expenditures and working capital requirements.

Cash Flows

The following table sets forth the Group's consolidated cash flow statement data for the reporting period and FY 2016:

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Cash and cash equivalents at the beginning of the year	101,134	165,560
Net cash flows from operating activities	182,788	202,106
Net cash used in investing activities	(192,391)	(200,336)
Net cash from/(used in) financing activities	34,589	(66,323)
Effects of exchange rate changes on cash and cash equivalents	831	127
Cash and cash equivalents at the end of the year	126,951	101,134

Net cash flows from operating activities

Net cash flow from operating activities was US\$182.8 million for the reporting period (FY 2016: US\$202.1 million) and was primarily attributable to:

- profit before income tax for the reporting period of US\$26.0 million (FY 2016: loss before income tax of US\$65.5 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US\$123.0 million (FY 2016: US\$131.6 million), finance costs of US\$59.8 million (FY 2016: US\$40.9 million), and loss on derivatives of US\$6.7 million (FY 2016: US\$63.2million).
- a US\$18.8 million decrease in working capital (FY 2016: US\$15.8 million increase) primarily attributable to an increase in prepayments and other current assets of US\$5.7 million (FY 2016: a decrease of US\$22.2 million), a decrease in trade payables of US\$4.6 (FY 2016: an increase of US\$2.0 million) and a decrease in other current liabilities of US\$1.6 million (FY 2016: a decrease of US\$12.3 million).
- income tax paid of US\$15.9 million (FY 2016: US\$9.5 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\$192.4 million (FY 2016: US\$200.3 million) due primarily to costs associated with the drilling of new wells of US\$57.5 million for the reporting period (FY 2016: US\$47.9 million), costs associated with the third gas treatment unit of US\$157.5 million (FY 2016: US\$123.3 million), and costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US\$3.6 million (FY 2016: US\$5 million).

Net cash from/(used) in financing activities

Net cash from financing activities during the reporting period made up US\$34.6 million, and was mainly represented by proceeds from issue of 2017 Notes in the amount of US\$725 million, offset by the early redemption of 2012 Notes and 2014 Notes totalling US\$606.8 million, the fees and premium paid for the arrangement of these transactions in the amount of US\$27.0 million, and the payment of US\$57.0 million of the finance costs on the Group's 2012 Notes and 2014 Notes. Net cash used in financing activities during FY 2016 made up US\$66.3 million, which was primarily attributable to the US\$65.4 million of the finance costs paid on the Group's 2012 Notes and 2014 Notes.

Commitments

Liquidity risk is the risk that the Group will encounter difficulty raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management seeks to ensure that sufficient funds are available to meet any commitments as they arise. The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2017 based on contractual undiscounted payments:

As at 31 December 2017	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	-	20,482	61,445	1,297,688	1,900	1,381,515
Trade payables	43,593	-	13,262	-	-	56,855
Other current liabilities	17,274	-	-	-	-	17,274
Due to Government of Kazakhstan	-	258	773	4,124	8,505	13,660
	60,867	20,740	75,480	1,301,812	10,405	1,469,304

Capital commitments

During the reporting period, Nostrum's cash used in capital expenditures for purchase of property, plant and equipment (excluding VAT) was approximately US\$188.1 million (FY 2016: US\$192.8 million). This mainly reflects costs associated with the construction of the third gas treatment unit, drilling costs and other field infrastructure development projects.

Gas Treatment Facility

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, the Group is constructing a third unit for it. The construction of GTU3 is important for implementing the Group's strategy to increase operating capacity and as a result increase production and processing of liquid hydrocarbons. Management estimates, based on the production profile of both proved and probable reserves reported in the 2017 Ryder Scott Report and assuming the successful completion of the second phase of the gas treatment facility in 2018, that the Company's annual production will gradually increase from 2017 onwards. The remaining costs for the completion of GTU3 are estimated at US\$64 million.

Drilling

Drilling expenditures amounted to US\$57.5 million for the reporting period (FY 2016 US\$47.9 million). After the completion of GTU3, is expected that the drilling expenditure will become the primary driver of the Company's investing activities.

Dividend Policy

The Group currently pays no dividend. This will be reviewed annually by the Board.

Effect of realised loss on the structure of assets, capital, liquidity and liability

The loss realised is appropriated to equity. The loss does not impair the Group's ability to finance its ongoing investment in oil and gas assets. The Group at all times maintains an adequate level of liquidity and net debt is kept at defined levels. Reference is made to KPIs on pages 18-19.

Five-year summary

In millions of US\$ (unless mentioned otherwise)	2017	2016	2015	2014	2013
EBITDA Reconciliation					
Profit/(loss) before income tax	26.0	(65.5)	72.3	311.7	362.0
Add Back:					
Finance costs	59.8	41.7	46.0	61.9	43.6
Finance costs - reorganisation ¹	–	–	1.1	29.6	–
Employee share options - fair value adjustment	(2.1)	(0.1)	(2.2)	(3.1)	4.4
Foreign exchange loss, net	0.7	0.4	21.2	4.2	0.6
Loss on derivative financial instruments	6.7	63.2	(37.1)	(60.3)	–
Interest income	(0.4)	(0.5)	(0.5)	(1.0)	(0.8)
Other expenses	22.1	(1.9)	30.6	49.8	25.6
Export customs duty ²	–	–	(14.7)	(19.7)	(12.3)
Other income	(4.1)	(2.2)	(11.3)	(10.1)	(4.4)
Depreciation, depletion and amortisation	123.0	131.6	109.4	111.9	120.4
Proceeds from derivative financial instruments ³	–	27.2	92.3	–	–
Purchase of derivative financial instruments ³	–	–	(92.0)	–	–
EBITDA	231.6	194.0	215.0	475.0	539.2
Operating costs reconciliation					
Cost of sales	177.2	182.2	186.6	221.9	286.2
Less:					
Depreciation, depletion and amortisation ⁴	(120.7)	(129.4)	(107.7)	(110.5)	(119.0)
Royalties ⁵	–	–	(14.4)	(24.3)	(39.4)
Government profit share ⁵	–	–	(1.9)	(4.6)	(30.7)
Operating costs	56.6	52.8	62.6	82.5	97.2
Net Debt Reconciliation					
Long-term borrowings	1,056.5	943.5	936.5	930.1	621.2
Current portion of long-term borrowings	31.3	15.5	15.0	15.0	7.3
Less:					
Non-current investments	–	–	–	–	30.0
Current investments	–	–	–	25.0	25.0
Cash and cash equivalents	127.0	101.1	165.6	375.4	184.9
Net Debt	960.9	857.9	785.9	544.7	389.1
Net cash flows from operating activities ⁶	182.8	202.1	153.3	349.1	358.6
Net cash used in investing activities	(192.2)	(200.3)	(245.3)	(304.5)	(239.0)
Net cash from/(used in) financing activities	34.6	(66.3)	(115.9)	147.5	(132.4)
EBITDA margin %	57.1%	55.7%	47.9%	60.7%	60.2%
Equity/assets ratio %	29.6%	32.8%	35.4%	41.6%	47.3%
Share price at end of period (US\$) ⁷	4.41	4.75	5.97	6.56	13.00
Shares outstanding ('000s)	188,183	188,183	188,183	188,183	188,183
Options outstanding ('000s)	2,199	2,536	2,611	2,611	2,912
Dividend per share (US\$)	–	–	0.27	0.35	0.34

1. The reorganisation costs are represented by the costs associated with the introduction of Nostrum as the new holding company of the Group and the respective reorganisation that took place in June 2014.

2. In 2016 and 2017, Export customs duty is included within Profit / (loss) before income tax (presented within 'taxes other than income tax'). In 2013, 2014 and 2015, Export customs duty is included within 'other expenses', therefore an adjustment is made to re-include Export customs duty within respective EBITDA.

3. Cash received from hedge contract represents the cash proceeds from the long-term hedging contract which in accordance with IAS7 Statement of Cash Flows is included within operating cash flows. While this item is not required to be presented in the Consolidated Income Statement, we have included this in our definition of EBIT and EBITDA in order to better align these non-GAAP measures with our operating cash flows.

4. Depreciation as it applies to operating assets only.

5. Prior to 2016, royalties and government profit share were reported within the cost of sales line.

6. IFRS term based on indirect cash flow methodology

7. Prior to 20 June 2014 the equity of the Group was represented by GDRs, the share price as at 31 December 2017 was 3.26 GBP/share x 1,3513 US\$/GBP = 4.41 US\$/share

Alternative performance measures

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

EBITDA

EBITDA is defined as the results of operating activities before depreciation and amortisation, share-based compensation, fair value gains and losses on derivative instruments, foreign exchange losses, finance costs, finance income, non-core income or expenses and taxes, and includes any cash proceeds received or paid out from hedging activity.

This metric is relevant as it allows management to assess the operating performance of the Group in absence of exceptional and non-cash items.

Operating costs

Operating costs are the cost of sales less depreciation, royalties and government profit share⁵.

This metric is relevant as it allows management to see the cost base of the company on a cash basis.

Chairman's overview



Dear shareholder,

This has been an important year of change for the composition of your Board and we have spent much of 2017 trying to ensure the stability and continuity of the Board while endeavouring to follow best practice corporate governance rules and guidance in relation to the new Board appointments made during the year.

Board changes

On 25 April 2017, and following the resignation of the long standing Executive Chairman, Frank Monstrey, the Board unanimously supported my appointment as Chairman. For a two-week period immediately following Frank's resignation, we executed our succession plan by appointing the Senior Independent Director, Mark Martin, as Chairman on a temporary basis until the Board had had sufficient time to consider a permanent replacement. On the same date, we appointed Michael Calvey as a non-independent non-executive director. Following Michael's appointment, we recognised that the composition of the Board did not comply with Provision B.1.2 of the UK Corporate Governance Code (the "Code") and so the Nomination and Governance Committee set about searching for an additional independent non-executive director and on 16 November 2017, Martin Cocker joined the Board as an independent non-executive director and as a member of the Audit Committee. More information regarding the search that led to the appointment of Martin as a director can be found on page 67. On the same date, Pankaj Jain resigned as a non-executive director and was succeeded by Simon Byrne. Pankaj was appointed as Simon's alternate. Lastly, on 19 May 2017, Piet Everaert's appointment

as a non-executive director expired and was not renewed. We are very pleased to welcome Michael, Simon and Martin to the Board and feel that the balance of skills and experience on the Board is now appropriate to support the Group's ongoing strategic objectives as detailed on pages 16-17.

Consequential changes were also made to the Board committees during the year. This included the appointment of Sir Christopher Codrington, Bt. as Chair of the Audit Committee. Mark Martin and myself also joined the Nomination and Governance Committee, Martin Cocker became a member of the Audit Committee and Michael Calvey became a member of the Remuneration Committee. Details of the activities of each committee during the year can be found in their respective reports.

Key priority tasks in 2017

The Board also spent a lot of time during the latter half of the year focusing on the refinancing of the Group's bond indentures. As a Board, we were very pleased with the results of the tender offer which allowed us to refinance a total of US\$606,808,000 of debt, more information on which can be found on page 19. Additionally, in February 2018, Nostrum successfully issued a new US\$400 million bond at 7.000% in order to refinance the remainder of its outstanding debt due in 2019. These transactions were a huge success for the Group and result in Nostrum having no debt maturities until 2022.

As disclosed on 18 October 2017, due to a delay in the delivery of certain equipment required for the tie-in of GTU3 with GTU1 and 2 it became impossible to bring gas into GTU3 during 2017. Further details can be found on page 13.

Risk continues to be an important focus for the Board and is discussed regularly as part of the Board's wider discussion of our strategy and business model. Further information is set out on page 36 where we aim to demonstrate how decisions taken by the Board are underpinned by a robust risk management framework.

Board evaluation

Despite the significant changes to the composition of the Board, we felt it would still be useful and appropriate for the Board to review progress against the areas for improvement highlighted by the Board's 2016 externally facilitated self-evaluation to monitor progress and set targets for the year ahead. In addition, and given the changes to the Board's composition, it was felt that it was inappropriate to conduct a formal internal Board evaluation in 2017 as the Board had not had sufficient time to work together and identify areas for improvement. Instead, in addition to time being set aside to discuss ongoing work in relation to the results of the 2016 self-evaluation, the Board was asked to send any areas of concern to the Company Secretary and these were discussed by the Board in a round table setting. More details can be found on page 59.

Remuneration policy

Our new remuneration policy will be presented to shareholders for their vote at our upcoming Annual General Meeting. The Remuneration Committee led the process in reviewing the policy and identifying areas of change based on feedback received from shareholders and governance bodies over the last three years.

Compliance with the Code

The UK Corporate Governance Code 2016 is the standard against which we measured ourselves in 2017. A copy of the Code is available from the Financial Reporting Council's website. Nostrum complied with all provisions of the Code except for those provisions set out in our Corporate Governance Statement, available at: <http://www.nostrumoilandgas.com/en/corporate-governance>. In addition, until 16 November 2017, the Company did not comply with Provision B.1.2 of the Code as less than half of the Board, excluding myself as Chairman, consisted of independent non-executive directors.

Governance summary


Leadership

Your Board rigorously challenges strategy, performance, responsibility and accountability to ensure that every decision we make is of the highest quality.

 [Learn more on pages 56.](#)


Effectiveness

Your Board continuously evaluates the balance of skills, experience, knowledge and independence of the directors.

 [We scrutinise the effectiveness of our performance in an annual Board evaluation, more details of which can be found on page 59.](#)

Accountability

All of our decisions are discussed within the context of the risks involved. Effective risk management is central to achieving our strategic objectives.

 [Discover more about how we remain accountable as a Board on page 56.](#)


Remuneration

Our remuneration policy and practices aim to attract, retain and motivate by linking reward to performance.

 [A copy of our remuneration policy can be found on pages 79-87.](#)

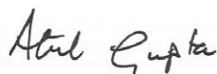
Relations with shareholders

The Board seeks to engage with shareholders regularly.

 [Further information regarding shareholder engagement can be found on page 59.](#)

As a Board, we recognise the importance of shareholder engagement, particularly during times of change. During the year, a combination of myself and individual non-executive and executive directors have participated in several meetings with shareholders as set out in more detail on page 59.

We will continue to review and develop our corporate governance practices in 2018 to ensure full compliance with regulatory requirements and to ensure they remain appropriate for the future success and development of our business as a whole.



Atul Gupta
Chairman

Board of directors



Atul Gupta

Chairman

DOB:

15 December 1959

Nationality:

British

Date of appointment:

19 May 2014

Other significant current appointments:

The Chairman has no other significant commitments.

Other positions:

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



Kai-Uwe Kessel

Chief Executive Officer

DOB:

17 December 1961

Nationality:

German

Director of Nostrum's predecessor entities since 2004

Date of appointment:

3 October 2013

Other current appointments:

- None

Other positions:

- 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.



Tom Richardson

Chief Financial Officer

DOB:

17 March 1981

Nationality:

British

Date of appointment:

1 September 2016

Other current appointments:

- Sokoni Medical Limited – Director
- Sokoni Ventures Limited – Director
- TDR Enterprises Holdings Limited – Director
- Nostrum Oil & Gas UK Limited – Director
- TDR Enterprises Ltd – Director
- TDR Investments Ltd – Director

Other positions:

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



Mark Martin

Senior Independent Director

DOB:

17 February 1969

Nationality:

British

Date of appointment:

19 May 2014

Other current appointments:

- None

Other positions:

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



Sir Christopher Codrington, Bt.

Independent non-executive director

DOB:

20 February 1960

Nationality:

British

Date of appointment:

19 May 2014

Other current appointments:

- Navarino Services Limited – Director
- Capital Marketing Investments Ltd – Director.

Other positions:

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

Board committees

A Audit Committee

N Nomination and Governance

R Remuneration

● Chairman



Kaat Van Hecke

Independent non-executive director

DOB:

7 December 1971

Nationality:

Belgian

Date of appointment

31 December 2016

Other current appointments:

- None

Other positions:

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



Michael Calvey

Non-executive director

DOB:

3 October 1967

Nationality:

American

Date of appointment:

25 April 2017

Other current appointments:

- Public Joint Stock Company "Orient Express Bank" - Director
- BPEP International - Director
- Kaspi Bank - Member of Advisory Council
- Volga Gas PLC - Director
- Atlantic Council of United States - Director
- Etalon Group Limited - Director
- Baring Vostok Capital Partners - Director and Senior Partner
- Baring Vostok Holding Limited - Director
- Baring Vostok Capital Partners Limited (Cyprus) - Director
- Baring Vostok Capital Partners Group Limited - Director

Other positions:

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



Simon Byrne

Non-executive director

DOB:

8 September 1967

Nationality:

British

Date of appointment:

16 November 2017

Other current appointments:

Chief Executive Officer of Steppe Capital Pte Ltd, director of Mayfair Investments B.V., Kazstroyservice Global B.V. and various other entities within the Steppe Capital group.

Other positions:

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



Martin Cocker

Independent Non-Executive Director

DOB:

19 September 1959

Nationality:

British

Date of appointment:

16 November 2017

Other current appointments:

- Etalon Group PLC - Non-Executive Director
- Tinkoff Credit Systems Group Holdings - Non-Executive Director
- Northumberland, Tyne and Wear NHS Foundation Trust - Non-Executive Director
- Beverley Building Society - Non-Executive Director
- Zeminik Trading Limited - Director

Other positions:

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

Senior management team

(See biographies of executive directors Kai-Uwe Kessel and Tom Richardson on page 52).



Sergey Khafizov

Role:

Chief Business Development Officer

DOB:

14 February 1965

Nationality:

Russian

Skills and experience:

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



Arkadi Epifanov

Role:

Chief Commercial Officer

DOB:

27 October 1957

Nationality:

Russian

Skills and experience:

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



Thomas Hartnett

Role:

Chief Legal Officer and Company Secretary

DOB:

4 July 1964

Nationality:

US/Belgian

Skills and experience:

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



Heinz Wendel

Role:

Chief Operating Officer

DOB:

22 August 1953

Nationality:

German

Skills and experience:

- Appointed as Chief Operating Officer of the Group in November 2016.
- 2013-2016 held position as General Director of Zhaikmunai LLP.
- 2012-2013 held position as Operations Director of Zhaikmunai LLP.
- Near to 40 years' experience and oil and 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, among others, GDF Suez E&P Deutschland and East German Erdöl-Erdgas Gommern (EEG).
- Graduate of the Oil & Gas Institute of Baku, Azerbaijan.

Our governance framework

The Board

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

Chairman

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

Chief Executive Officer

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

Non-executive directors

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

Senior Independent Director

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

Audit Committee

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

Chairman:

Sir Christopher Codrington, Bt.

See page 61 for Committee Report.

Nomination and Governance Committee

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

Chairman:

Sir Christopher Codrington, Bt.

See page 67 for Committee Report.

Remuneration Committee

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

Chairman: Mark Martin

See page 69 for Committee Report.

Company Secretary

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

Company Secretary:
Thomas Hartnett

Senior management team

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

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

Finance

Responsible for supporting the Group and the Board in matters relating to: (i) corporate finance (ii) investor relations (iii) economic analysis (iv) tax (v) budget and control (vi) insurance (vii) risk management and (viii) ICT.

Head: Tom Richardson

Business Development

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

Head: Sergey Khafizov

Operations

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

Head: Heinz Wendel

Sales and Marketing

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

Head: Arkadi Epifanov

Legal

Responsible for supporting the Group and the Board in matters relating to: (i) all legal matters (ii) compliance (iii) corporate governance (iv) company administration and (v) internal communications.

Head: Thomas Hartnett

Please visit our website www.nostrumoilandgas.com for more information about our governance framework and the roles and responsibilities of the Board, its committees and the senior management team.

Our governance framework continued

Board policies and governance arrangements

Corporate governance is very important to Nostrum and the Board promotes high standards of corporate governance as a key component of its activities. Clearly defined roles and responsibilities, non-executive independence, boardroom diversity, an open and transparent culture and the work of our committees are all vital ingredients to get this right for our stakeholders.

In order to retain control of key decisions and ensure there is a clear division of responsibilities at the head of the Company between the running of the Board and the running of the Company's business, the Board has identified certain 'reserved matters' that only it can approve. Other matters, responsibilities and authorities have been delegated to its committees and the senior management team, as set out in the governance framework on page 55. The schedule of matters reserved for the Board is reviewed annually and is available on our website.

Division of responsibilities

The roles of Chairman and Chief Executive are separate, with each having distinct and clearly defined responsibilities, as summarised in the Board structure diagram.

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

Independence

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

The Board considers all of its non-executive directors, other than Michael Calvey and Simon Byrne, to be independent within the meaning of such term as defined in the Code. Michael Calvey and Simon Byrne are not deemed to be independent as a result of having been nominated by Baring Vostok Capital Partners and Mayfair Investments B.V. respectively, who are two of the largest shareholders in the Company. The Board has also taken this view on independence notwithstanding the participation of the independent directors in the 2017 LTIP.

The independence of the Board remained the Nomination Committee's priority when making the decision to recommend the appointment of Martin Cocker to the Board in November 2017, which is discussed in more detail on page 67.

Equality and diversity

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

Following the appointment of Kaat Van Hecke in December 2016, the Company has 11% female representation on its Board. The Nomination Committee remains satisfied that the Board has the right mix of skills and experience to operate effectively but remains committed to monitoring diversity closely as part of future succession planning.

In response to the new requirements under DTR 7.2.8A, the Company conducted a review of its equality and diversity policies and practices across the Group and determined that there were a number of equality and diversity provisions present in numerous internal policies that should be combined into a new Equality and Diversity Policy which was approved by the Board in November 2017.

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

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

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

The following are the steps that have or will be taken in 2018 to implement this policy:

- a copy of the policy is displayed on the Group Intranet and a copy has been distributed to all employees, including directors and members of senior management. The policy has also been made available in Russian;
- line managers have been made responsible for implementing the policy within their areas of responsibility and ensuring that any problems are dealt with promptly. Any failure to do so will be regarded as a failure to carry out their managerial duties;
- disciplinary action, potentially including dismissal, will be taken against any employee who is found to be in breach of this policy. Serious breaches will be treated as gross misconduct, as will bullying, sexual or racial harassment; and
- our supply chain will also be made aware of the policy and our expectations around equality and diversity. A copy of our Equality and Diversity Policy is available to any interested party upon request to cossec@nog.co.uk.

Conflicts of interest

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

Formal procedures are in place to ensure that the Board's powers of authorisation of conflicts or potential conflicts of interest of directors are operated effectively. The Board is satisfied that during 2017 these procedures were enforced and adhered to appropriately.

Appointment and tenure

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

Each non-executive director appointment is for an initial term of three years, subject to being re-elected at each subsequent Annual General Meeting. With the exception of Piet Everaert, the Company entered into new letters of appointment with all those non-executive directors whose appointments commenced on 19 May 2014 and whose three-year terms therefore expired on 19 May 2017.

Bribery, corruption and whistle-blowing

Bribery and corruption are significant risks in the oil and gas industry and as such the Company operates a Group-wide anti-corruption and bribery policy, which applies to all Group employees and contractor staff. The policy requires annual bribery and corruption risk assessments; risk-based due diligence on all parties with whom the Company does business; appropriate anti-bribery and corruption clauses in contracts; and the training of personnel in anti-bribery and corruption measures. In addition, the Company's code of conduct requires that employees or others working on behalf of the Company do not engage in bribery or corruption in any form.

The Company has also adopted a whistle-blowing policy that takes account of the Whistleblowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work. No matters were raised under the policy in 2017. Further information can be found on page 29.

Both policies were reviewed by the Audit Committee in 2017 and minor updates recommended to the Board.

Board activities and achievements

Board activities during 2017

During the financial year, the Board held 10 meetings. During these meetings, the Board spent a lot of time discussing and approving matters relating to the strategy of the Group, the issuance of the Group's new US\$725 million 8.00% senior notes due in 2022 and the implementation of the Company's new long-term incentive plan. A significant amount of time was also spent, including outside scheduled meetings, considering the numerous changes to the composition of the Board that occurred throughout the year.

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

The table below gives the highlights of how the Board and its committees spent their time during the 2017 financial year but should not be regarded as an exhaustive list. More information regarding the Group's strategic objectives and focus during the year can be found in the Strategic Report on pages 16–17 and the more detailed activities of each committee are located in their relevant report.

Strategy and business focus	<ul style="list-style-type: none"> • CEO and CFO regular updates on drilling, production, the business and operations. • Year end review of the oil and gas industry outlook and consideration of the 2018 budget and drilling programme. • Discussions around the delay of the construction of GTU3.
Risk	<ul style="list-style-type: none"> • Review of all interim financial results announcements and the 2016 Annual Report and Accounts. • Consideration of the Group's viability statement and risk appetite for the coming year. • Review of Group tax matters including the Group's tax residency and approach to tax risk. • Review of all insurance contracts across the Group to assess risk exposure.
Governance	<ul style="list-style-type: none"> • Approved the appointment of the new Chairman and three new non-executive directors. • Received reports from Board committees. • Consideration of the UK Corporate Governance Code and other regulatory requirements for the Annual Report. • Review of the Notice of AGM. • Assessed progress against the outcomes of the Board's 2016 externally facilitated Board evaluation and conducted a round table internal Board evaluation for 2017. • Reviewed and considered whether or not any updates were required to key Group policies. • Consideration of director conflicts of interest.
People and culture	<ul style="list-style-type: none"> • Discussed and approved a new Equality and Diversity Policy and reviewed the equality and diversity provisions contained in other Group policies. • Implemented a new long-term incentive plan.

Board evaluation

As explained in the Nomination and Governance Committee report on page 67, due to the numerous changes to the composition of the Board during 2017 it was felt that it was appropriate to inform the new directors of the outcomes from the Board's 2016 externally facilitated Board evaluation to assess progress in relation to any action items and to conduct a roundtable discussion of any issues directors wished to raise and discuss. Directors were also given the opportunity to email any issues to the Company Secretary following the discussion if they wanted to raise something outside the open forum.

Following the 2016 externally facilitated Board evaluation, the Board focused on the following in 2017:

- the composition of the Board including the mix of skills and experience. The Nomination and Governance Committee conducted an extensive amount of work in this area during the year which is demonstrated by the number of changes made to the composition of the Board. While these changes were not planned at the beginning of the year they did give the Board the opportunity to refresh its membership and focus on the mix of skills and experience required on the Board to pursue the Group's longer-term strategic goals. The Nomination and Governance Committee considered the diversity of the Board when determining which candidates to propose for new Board positions. More information can be found in the report of the Nomination and Governance Committee on page 67;
- the timing, duration and effectiveness of Board and committee meetings and, in particular, the distribution of materials. Overall, the timing of the distribution of Board materials improved during the year. However, the Board recognises that there is still room for further improvement and this will remain an area of focus for 2018; and
- any improvements that should be made to the means by which directors obtain feedback from shareholders from a general governance perspective. This is discussed in more detail on page 59 and the Chief Financial Officer provides regular feedback to the Board on shareholder views following investor meetings. In addition, the Company Secretary provides the Board with the proxy service provider reports which critically analyse the Group's annual reporting so that the Board is fully appraised of any corporate governance points raised.

In addition, by taking Board papers as read, the Board made an effort to spend more time discussing and debating issues at Board meetings. Lastly, in our 2016 Annual Report we noted that the Board and the Nomination and Governance Committee would focus on increasing succession planning for executive and non-executive directors in 2017. Due to the numerous Board changes that occurred in 2017 there was insufficient time to complete this exercise, however this goal will be taken forward into 2018.

The Company intends to conduct an internal Board self-evaluation during 2018.

Director induction and training

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

During 2017 various directors suggested potential training topics and a geology workshop was held for directors.

Shareholder engagement

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

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

Nostrum attends investor conferences and industry forums throughout the year and we publish a list of these in advance on the investor relations section of our website. We are available for ad hoc shareholder meetings with management and welcome enquiries. Over the past year, the Investor Relations team and management met with over 250 investors through face-to-face meetings, roadshows, conferences and other corporate events. The Chairman, Chief Executive Officer and Chief Financial Officer, in particular, regularly meet with major investors and analysts and provide feedback on any shareholder concerns or views to the Board.

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

Board activities and achievements continued

Attendance at meetings of the Board and its committees in the 2017 financial year

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

	Board		Audit Committee		Remuneration Committee		Nomination and Governance Committee	
	A	B	A	B	A	B	A	B
EXECUTIVE DIRECTORS								
Kai-Uwe Kessel	10	10						
Tom Richardson ¹	10	9	-	-	-	-	-	-
NON-EXECUTIVE DIRECTORS								
Atul Gupta	10	10	1	1	0	0	3 ²	3
Mark Martin ³	10	10	7	7	5	5	3 ⁴	3
Sir Christopher Codrington, Bt. ⁵	10	10	7	7	5	4	4	4
Kaat Van Hecke	10	10	5	5	5	5	4	4
Michael Calvey	8	8	-	-	4 ⁶	4	-	-
Simon Byrne ⁷	1	1	-	-	-	-	-	-
Martin Cocker ⁸	1	1	-	-	-	-	-	-

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

B = Total number of meetings the director did attend.

1. Mr Richardson was absent from one Board meeting during 2017 to attend the birth of his child
2. Mr Gupta joined the Nomination and Governance Committee on 8 May 2017
3. Chairman of the Remuneration Committee
4. Mr Martin joined the Nomination and Governance Committee on 8 May 2017
5. Chairman of the Audit Committee and the Nomination and Governance Committee
6. Mr Calvey joined the Board on 25 April 2017 and the Remuneration Committee on 8 May 2017
7. Mr Byrne joined the Board on 16 November 2017
8. Mr Cocker joined the Board on 16 November 2017

Audit Committee Report

Letter from the Chairman



Dear shareholder,

I am pleased to report on the activities of the Audit Committee in relation to the financial year ended 31 December 2017.

As communicated earlier, following the Board meeting held on 8 May 2017, I was appointed as Chairman of the Audit Committee effective from that date, replacing Atul Gupta, who continues to lead us as Chairman of the Board. During 2017, there were several changes to committee membership, which I believe further improved the robust balance of relevant skills and experience within the committee.

On 8 May 2017, Kaat van Hecke joined the Audit Committee. Kaat, who has been working with me as a member of the Remuneration Committee since she joined the Group in December 2016, and who was at the same time a member of the Nomination and Governance Committee, brings valuable expertise in oil and gas upstream and downstream business, which is an important matrix for the committee.

Later in November 2017, Martin Cocker joined the Board and became a member of the Audit Committee. I would like to welcome Martin to the committee. Having extensive experience and being a chartered accountant and Chairman of the audit committees at two other listed companies, Martin brings a wealth of audit, financial and industry experience to the committee.

Throughout 2017 and early 2018, we held committee meetings twice every quarter as scheduled: these comprised both the pre-meetings and the formal meetings. At those meetings we focused on the financial, risk, audit and compliance matters according to the agendas as well as other critical issues as and when they arose. The external auditor and internal auditor were invited to our meetings for discussion of relevant matters. These meetings helped the committee members to be prepared to provide valuable input on the topics addressed at Board meetings.

In addition to the above-mentioned scheduled meetings, we have been in continuous communication with executive management discussing a wide range of non-routine topics relating to the two bond re-financings, GTU3 construction, oil and gas production rates and the liquidity of the Group. When deemed necessary we have invited the external auditor to join these discussions. We have sought to strike the right balance of engagement across management, committee and auditors and I believe the Company has benefited from this approach.

I am confident that the committee complements and supports the executive management team well as we look forward to the Company developing its principal asset, commissioning the GTU3 and engaging with other opportunities within our region.

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

A handwritten signature in black ink, appearing to read 'Chris Codrington', written in a cursive style.

Sir Christopher Codrington, Bt.

Chairman, Audit Committee

Independent non-executive director

Audit Committee Report continued

Role and responsibilities of the Audit Committee

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

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

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

Membership

Atul Gupta	Member since 19 May 2014, Chairman from 31 December 2016 to 24 April 2017
Sir Christopher Codrington, Bt.	Member since 19 May 2014 Chairman since 8 May 2017
Mark Martin	Member since 31 December 2016
Kaat van Hecke	Member since 8 May 2017
Martin Cocker	Member since 16 November 2017

All members of the Audit Committee are independent non-executive directors. The qualifications presented in the biographies of the members of the committee on pages 52–53 show that the committee as a whole has competence in oil & gas upstream and downstream operations, and that it also has the necessary levels of competence in accounting and auditing as well as recent and relevant financial experience.

Meetings

In addition to its scheduled quarterly meetings, the committee also meets when it is necessary. The Chief Financial Officer, the Chief Legal Officer and Company Secretary, the internal audit manager and the external auditor are invited to the meetings. The committee held seven meetings during 2017 and the attendance of each committee member at meetings of the committee is shown on page 60.

The committee also receives monthly management updates covering key issues including financial and operational performance and the status of key initiatives.

Interaction with the Financial Reporting Council ("FRC")

As part of the communication by the FRC to audit committee chairs, the committee chairman received a letter from the FRC describing the FRC's perspective on aspects of annual reports that companies should aim to improve and highlighting changes to UK reporting requirements covering areas like new accounting standards, non-financial reporting, performance reporting, risk reporting and viability statements, UK referendum results, various aspects of financial statement disclosures, and audit quality and effectiveness.

Respectively, the Audit Committee considered the applicability of those recommendations to the Group and took following steps to ensure adherence to recommendations and expectations as much as possible:

- reviewed the disclosures related to IFRS 9 'Financial Instruments', IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases' and discussed with management the plans on adopting these standards in 2018 and 2019;
- when reviewing the disclosures related to anti-bribery and corruption policies and diversity policies, as well as policies related to environmental, social and employee related matters, the committee focused its attention on the description of the policies, a due diligence processes implemented and the outcome of implementation of these policies, and assessment of the principle relevant risks in these non-financial areas;
- where information was not provided on a specified non-financial matter, the committee requested for a reasoned explanation of why it was not provided;
- the committee also reviewed the Non-Financial Information Statement, which provides a picture of the Company's performance and impact;
- when reviewing the Annual Report, the committee also paid attention to the definitions, explanations, reconciliations, prominence and consistency of alternative performance measurements like EBITDA, etc.;
- in the process of the review of the viability assessment and statement, the committee challenged the factors considered when determining the period covered as well as significant assumptions and qualifications used;
- the committee also gave due consideration to the Brexit impact, even though there has previously been an assessment and it was concluded to have an insignificant influence on the Group; and
- finally, the committee members critically reviewed the accounting policies, critical judgements and estimates and statement of cashflows within the consolidated financial statements.

Self-assessment

The committee undertakes a periodic evaluation of its performance and effectiveness. In June 2016, there was an evaluation of the Board's performance conducted with the support of an external independent consulting company. Among other areas, the survey examined the committee's role in external reporting, external audit, internal audit, risk strategy and framework, risk exposures, overall engagement externally and internally, as well as roles and responsibilities.

In March 2018, the Board performed an update based on that evaluation to re-assess whether developments have been made since the last evaluation and if any further actions need to be taken.

Based on the updated evaluation, the committee concluded that its focus should be kept on risk management and internal audit. Aside from this observation, the committee concluded that its mandate and oversight performance were appropriate.

Activities during the year

In 2017 the committee continued to use the annual planner, which summarises various topics requiring the committee’s attention, and which were accumulated based on the requirements of the UK Corporate Governance Code 2016 (“2016 Code”), the FRC’s Guidance on Audit Committees dated April 2016, the committee’s terms of reference and other relevant sources.

In accordance with its responsibilities outlined above, the committee’s activities are summarised into the following four main areas:

- Financial reporting
- Risk management and internal controls
- Compliance
- External audit

Each of these four categories is dealt with in more detail in Sections 1 to 4 below.

1. Financial reporting

In reviewing the quarterly and annual financial statements as well as the Annual Report, the committee focused on challenging:

- compliance of the applied accounting policies and disclosures with financial reporting standards and relevant corporate governance requirements;
- significant judgements and estimates applied by management; and
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Group’s performance, business model and strategy.

Any questions and comments from the committee or the external auditor were discussed with management. Subsequently, based on its overall assessment the committee recommended that the Board approve the financial statements and the Annual Report.

The committee continuously provides feedback to management on ways to improve the effectiveness and clarity of the Group’s corporate reporting and works closely with management to ensure that any new regulatory requirements, for example the reporting of payments to governments, are fully complied with.

Significant judgements and estimates

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

Significant judgements and estimates	Committee actions
<p>Oil and gas reserves estimation and accounting</p> <p>Oil and gas reserves are estimated by the Group’s reserve engineers and reviewed independent reserve engineers. These are used to calculate the depletion of oil and gas assets and as input data for impairment testing models.</p>	<p>The committee reviewed assumptions and judgements made in the reserve estimation report and examined developments in relevant regulations.</p>
<p>Recoverability of non-current assets’ carrying values</p> <p>The Group performs impairment testing of goodwill on an annual basis as required by IFRS. The impairment testing is subject to application of management judgement and various assumptions underlying the calculation of the value-in-use of the Company’s single cash generating unit. The applied judgements and estimates rely on geological, technical and economic assumptions.</p>	<p>The committee reviewed the detailed reports on impairment testing prepared by management and challenged the appropriateness of the assumptions. Areas of particular focus were the assumed oil prices and discount rates particularly in light of recent oil price developments and related volatility risk. Special consideration was also given to the sensitivity analysis in relation to these assumptions.</p>
<p>Other significant judgements and estimates</p> <p>The decommissioning of oil and gas assets at the end of their economic lives, the provisioning for contingent and other liabilities, current and deferred income tax and fair value of financial instruments are all areas that require the management to use judgement and estimates.</p>	<p>The committee examined each of these issues and sought clarifications as and when necessary.</p>

Audit Committee Report continued

Significant matters communicated by the external auditors

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

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

2. Risk management and internal controls

The committee continuously monitored risk management system, further information on which can be found in the Risk Management section on page 36 of the Annual Report.

In accordance with requirements of the 2016 Code relating to the viability statement, the committee reviewed the impact and sensitivity analysis of such risks on the Group's long-term viability. The principal areas of risk management assessed by the committee are described in the table below.

Key areas of the committee's focus in relation to principal risks

GTU3 construction and well drilling	Construction of GTU3 and the drilling programme continued to be a key focus for the committee, particularly in light of low oil prices. The committee reviewed progress reports and met regularly with management to discuss potential problems and to provide recommendations on future steps to be taken by management.
Oil and gas production rates	Oil and gas production volumes, being one of the strategic indicators of the Group's performance, are subject to risks and uncertainties of a geological and technological nature. The committee has been constantly monitoring forecast production rates in comparison to actual rates. Any material variances were discussed and explanations sought either during committee meetings or dedicated presentations given by management.
Health, safety and environment	As part of the monthly management reports the committee reviewed the Group's activities to ensure an appropriate level of protection for health, safety and the environment. The committee has also reviewed the Annual Report prepared by the independent environmental auditor outlining the Group's compliance and related recommendations for improvement.
Cyber security	The committee examined cyber security matters and discussed with management past and planned actions directed at addressing the recommendations from external consultants. Also, the chairman of the committee received timely updates on the risks and responses in the context of the Cyber Governance Health Check carried out by the UK authorities.
Financial reporting	The committee seeks to ensure the accurate maintenance of accounting records and related transactions. In light of the volatility of oil prices, the committee focused on the review of impairment testing, going concern and the viability statement.

Internal control system

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

- corporate governance: segregation of authorities and duties at various levels;
- policies and procedures covering directors' remuneration, compliance, accounting and reporting, health, safety and environment as described in the relevant sections of the Annual Report;
- training and internal communications;
- continuous monitoring by senior management and the Board of short-term, medium-term and long-term planning and decision-making processes; and
- internal audit work and any remedial action taken by management in response to findings.

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

Internal audit

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

- building strong and effective risk awareness within the Group;
- continuously improving risk management and control processes so that they operate effectively and efficiently and reflect leading practice; and
- sharing best practice with regard to risk management and assurance across the Group.

The committee reviewed findings and recommended actions from the Group's internal audit manager. Based on its assessment of the internal audit's competence, resourcing, delivery, findings and reporting, the committee was satisfied that the quality, experience and expertise of the function is appropriate for the business.

3. Compliance with laws and regulations

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

UK Corporate Governance Code

In relation to the work of the committee, as of 31 December 2017, Nostrum had complied with all the principles and provisions of the UK Corporate Governance Code 2016.

Whistle-blowing arrangements

Nostrum has a Group Whistle-blowing Policy and to ensure that all Group employees have access to someone who can provide them with support and guidance. The Group has two compliance liaison officers; one Russian-speaking officer based in Kazakhstan and another Dutch and English-speaking officer based in Brussels. The Audit Committee maintained close contact with the compliance liaison officers. In the beginning of 2017 the committee was aware of one whistle-blowing case, which was investigated and nothing was revealed that would substantiate the allegations.

Corporate Bonds Covenants

At its quarterly meetings, the committee is updated by management on the Group's compliance with covenants contained in the 2012, 2014, 2017 and 2018 Corporate Bonds.

4. External audit

Appointment of external auditor

Since 2007, Ernst & Young LLP (Kazakhstan) has been the auditor of the predecessor group of companies and continued auditing Zhaikmunai LLP during 2016. On the recommendation of the committee and subsequent approval by the Company's shareholders, Ernst & Young LLP (UK) was first appointed as an auditor of the Group on 19 May 2014.

In accordance with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the "CMA Order 2014") companies should put their external audit contract out to tender at least once every ten years. The committee carried out a tender for the external audit arrangements in 2015 to ensure that the Group was receiving the highest possible quality audit services commensurate with the best available price. As a result of the tender it was concluded that it would be in the best interests of the stakeholders to continue engaging Ernst & Young LLP (UK) as the Group's external auditor.

Following a recommendation to that effect from the Board, the shareholders approved the re appointment of Ernst & Young LLP (UK) at the Annual General Meeting held on 26 June 2017.

Mr Richard Addison was appointed as lead audit engagement partner on 19 May 2014 and has to-date continued in this role.

Throughout 2017 the Group was in compliance with the provisions of the CMA Order 2014.

2017 audit

During Q4 2017 the Audit Committee reviewed and discussed the detailed audit plan prepared by Ernst & Young LLP (UK) which identified the audit scope and its assessment of significant risks. The key risks monitored by the committee corresponded with those identified and assessed by management and the external auditor. All members of the committee supported the application of professional scepticism by the Group's external auditor.

During 2017, the members of the committee held private meetings with the external auditor, which provided a mutual opportunity for open dialogue and feedback without management being present. Topics covered at such meetings included: the external auditor's assessment of significant risks and related management actions, confirmation that there had been no restriction in the scope placed on it by management, the adequacy of the audit fees, the independence of its audit and how the auditor had exercised professional scepticism.

The committee reviewed the 2017 H1 interim and 2017 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 representations in respect of both the interim review and the annual audit, which were subsequently signed by management.

The committee evaluated the effectiveness of the external audit process by completing a questionnaire, which addressed areas such as processes, audit team, audit scope, communications, technical expertise, audit governance and independence and audit fees. On the basis of such evaluation the committee concluded that the performance of the external auditor remains at an appropriately high level.

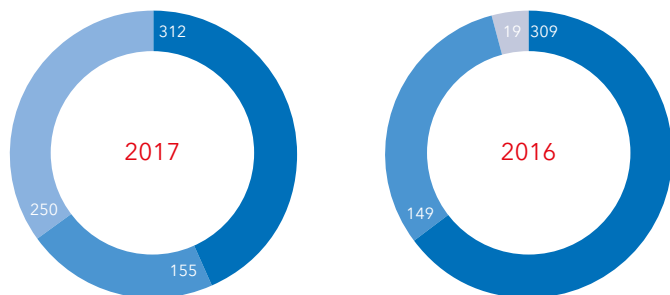
Non-audit services

In 2016, the Group's "Policy on the provision of non-audit services by the external auditor" was revised based on the requirements of the FRC Revised Ethical Standards dated June 2016 and the FRC's Guidance on Audit Committees dated April 2016. There were no significant changes made to the policy during 2017.

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

Audit Committee Report continued

Audit and non-audit fees (US\$ thousands)



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

The detailed breakdown of audit and non-audit fees can be found in the Note 31 to the consolidated financial statements of the Group on page 138. The ratio of audit fees to non-audit fees in 2017 was 0.77 (2016: 1.84). A significant proportion of non-audit fees was attributable to quarterly reviews of interim financial statements and assurance services related to the bond refinancing project. Considering the assurance nature of these services, the committee concluded that it was in the best interest of the Group that such services were provided by the external auditor.

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

On behalf of the Board

Sir Christopher Codrington, Bt.
 Chairman, Audit Committee
 Independent non-executive director
 26 March 2018

Letter from the Chairman of the Nomination and Governance Committee



This has been a very busy year for the Nomination and Governance Committee. The committee has played a key role in managing the various changes to the composition of the Board that occurred throughout the year, which started with the unexpected departure of Frank Monstrey as Executive Chairman in April 2017. Following Mr Monstrey's resignation, the Board executed its succession plan and appointed the Senior Independent Director, Mark Martin, as temporary chairman while discussions were held regarding who should succeed Mr Monstrey. Following a review by the committee of the mix of skills and experience on the Board, the committee made a recommendation to the Board that Atul Gupta be appointed as Chairman and Mr Martin resume his prior position as Senior Independent Director, which was approved by the Board on 25 April 2017. In addition, following the activities that led to Mr Monstrey's departure the committee also recommended that Mr Calvey, the Founder and Senior Partner of Baring Vostok Capital Partners (a major shareholder of the Company), be appointed as a non-independent director and that Piet Everaert's letter of appointment not be renewed, and so Piet left the Board as of 19 May 2017. Mr Monstrey was not involved in the selection or appointment of Mr Gupta as Chairman.

Following the above mentioned changes the committee and the Board as a whole recognised that: (i) less than half of the Board, excluding the Chairman, were regarded as independent for the purposes of Provision B.2.1 of the Code (ii) the Chairman also chaired the Audit Committee in contravention of Provision C.3.1 of the Code and (iii) the committee only had two members and therefore an additional member needed to be appointed to join the committee. To address two of these points, on 8 May 2017, the committee recommended to the Board and the Board unanimously approved: (i) the appointment of Mr Martin and Mr Gupta as members of the committee (ii) the appointment of Sir Christopher Codrington, Bt. as Chairman ad interim and Ms Van Hecke as a member of the Audit Committee and (iii) the appointment of Mr Calvey as a member of, and Mr Martin as Chairman of, the Remuneration Committee. When recommending Mr Calvey's appointment to the Remuneration Committee, the committee recognised that it was doing so in contravention of Provision D.2.1 of the Code but felt that, notwithstanding this provision, Mr Calvey, as a non-independent director representing a significant shareholder, could bring a valuable additional perspective to discussions regarding the remuneration and incentivisation of directors and senior management in the long-term interest of the Company. On behalf of the committee, I extend a warm welcome to Atul and Mark as members of the committee.

Committee members

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

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

Key responsibilities

- lead the process for Board appointments and make recommendations to the Board regarding candidates for appointment or reappointment as directors;
- monitor and make recommendations to the Board on Board governance and corporate governance issues, to enable the Board to operate effectively and efficiently;
- regularly review the structure, size and composition (including skills, knowledge and experience) 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.

In order to address the Company's non-compliance with Provision B.2.1 of the Code, the Committee engaged Egon Zehnder, specialists in the recruitment of high-calibre directors. Egon Zehnder has no other connection with the Group. A search was initiated for a new independent non-executive director against an agreed profile and regular reports were provided to the committee as the process progressed. This yielded a pool of candidates which the committee met and which was reduced to a shortlist of potential candidates. Shortlisted candidates met separately with both non-executive and executive directors. Following further discussions between the committee and other Board members, I am very pleased that the committee considered that Martin Cocker was the right candidate to join the Board as an independent non-executive director. The committee recommended Martin's appointment to the Board and, following unanimous approval, it was announced on 17 November 2017. On the same date, the Company announced that Pankaj Jain had stepped down from the Board effective 16 November 2017 and was replaced by Simon Byrne as the Board representative of Mayfair Investments B.V., the Company's largest shareholder. Pankaj was also appointed as an alternate director to act for Simon in his absence.

We believe that the current composition of the Board and its committees remains appropriate for the time being but this will be kept under review during 2018.

Letter from the Chairman of the Nomination and Governance Committee continued

Committee meetings

The Nomination and Governance Committee met formally four times during 2017. The attendance of each committee member at committee meetings held during 2017 is shown on page 60. I report to the Board, as a separate agenda item, on the activities of the committee at each quarterly Board meeting.

Only members of the committee have the right to attend committee meetings. However, 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.

Board self-evaluation

The committee continued to analyse the results of the externally facilitated Board evaluation conducted during 2016. In addition, and given the numerous changes to Board membership that occurred during the year, the committee and the Board felt it was inappropriate to conduct a detailed internal Board evaluation in 2017 as the Board has not been working together for long enough to determine appropriate areas for improvement. Instead, a broader, high level evaluation was conducted, a full description of which is set out on page 59.

Policies

In response to the requirements of DTR 7.2.8A, the committee reviewed the Group's policies in relation to diversity and equality and determined that provisions regarding Group diversity and equality were scattered across several different policies and so a decision was made to develop a new formal Group-wide equality and diversity policy. A copy of the policy is available to download on our website. More information in relation to Board diversity can be found on page 27.

In addition, the committee conducted a review of the Group anti-corruption and bribery policy and the whistle-blowing policy and made a few minor changes which will be tabled to the Board for their approval in March 2018.

In 2018, the committee intends to focus on developing a more detailed succession plan that reflects and supports the wider strategy of the Group and to continue to keep the composition of the Board and its committees under review.

With the exception of Michael Calvey, Simon Byrne and Martin Cocker whose appointments are being ratified for the first time, all directors will stand for re-election at the 2018 Annual General Meeting with the full support of the Board.



Sir Christopher Codrington, Bt.

Chairman, Nomination and Governance Committee

26 March 2018

Letter from the Chairman of the Remuneration Committee



Dear shareholder

I am pleased to introduce the Directors' Remuneration Report which has been approved by both the Remuneration Committee and the Board for the year ended 31 December 2017.

As you are aware, 2017 was a year of significant Board level change at Nostrum. One significant change occurred in April when Frank Monstrey resigned as Executive Chairman and was succeeded by Atul Gupta. In addition, Michael Calvey, Simon Byrne and Martin Cocker have all joined the Board as non-executive directors, and Piet Everaert and Pankaj Jain resigned from the Board. Also, on 8 May 2017 Michael Calvey became a member of the committee and I would like to welcome him and thank him for his valuable contributions to the committee so far.

2018 remuneration policy

In setting the 2018 remuneration policy (the "Policy"), the committee focused on comments received from shareholders and their advisers in relation to its 2015 remuneration policy that was approved by shareholders at the Company's 2015 Annual General Meeting and is therefore recommending, amongst others, the following key changes to the Policy:

- removing the flexibility for the committee to recommend a bonus larger than the maximum bonus opportunity of 40% based on specific medium-term objectives that have been agreed by the committee in advance;
- including the new long-term incentive plan within the scope of the Policy;
- prohibiting the payment of cash sign on bonuses and limiting any such bonuses to the award of LTIP options;
- applying malus and clawback provisions to the award of annual bonuses as described in more detail in the remuneration policy table on page 80;
- requiring any executive director awarded shares in the Company to hold 50% of such shares for a three-year period; and
- for completeness, specifying that executive directors may be paid amounts in lieu of pension and benefit arrangements which are provided to them in their capacity as Group executives and not as directors.

The Policy, if approved by shareholders, will become binding on the Company from the 2018 Annual General Meeting and it is the committee's intention to operate the Policy for a three-year period following its approval. The Policy is set out on pages 79-87.

Long-term incentive plan

The Committee spent a significant amount of time during the first half of 2017 discussing and structuring the Group's new long-term incentive plan. As was noted in our 2016 Annual Report, New Bridge Street (part of Aon plc) was engaged to assist with the set-up of the new plan and further details on this can be found on page 71.

Initial awards were granted on 10 October 2017 to the executive directors. In addition, awards were granted to each independent non-executive director as the Board and the committee felt that it was important to also align their interests with those of the Group as a whole. It is envisaged that additional awards will be made in 2018 as foreseen in the plan.

Remuneration for 2017

2017 remained a challenging year for the Group commercially despite oil prices remaining stable but low for most of the year. However, the senior executives continued to deliver and the committee took account of the following performance by senior executives against 2017 KPIs when determining annual bonus entitlements for 2017 performance:

- stable sales volumes averaged 37,844 boepd in 2017, which equates to an achievement of 86% in comparison to the targeted sales volumes of 44,000 boepd;
- despite significant progress being made on GTU3 construction mechanical completion was not reached by the end of 2017;
- the Group successfully refinanced US\$607 million of its US\$960 million debt in 2017;
- the Group maintained operational and transport costs at current levels on a boe basis throughout 2017;
- significant progress has been made in negotiations with the Kazakh state to restore the balance of interests under the Group's production sharing agreement for the Chinarevskoye Field and the Group has now entered into direct negotiations with the Kazakh Ministry of Finance;
- 2p reserves were increased from 466 to 488 mmboc while 1p reserves decreased and therefore the committee has determined that achievement against this KPI is at a level of 50%; and
- actual LTIs per million man hours for 2017 was 2.48 and so the KPI target to reduce LTIs below 2 was not met.

Further details of executive director performance against 2017 KPIs can be found on page 73. On the basis of the above, the committee has decided to award the executive directors with annual bonus payments of 12.5% of base salary being 31.25% of the maximum bonus opportunity of 40% of base salary. In addition, the committee awarded Tom Richardson an additional bonus of £100,000 for his outstanding performance in connection with the refinancing of the Group's debt. The 2018 key performance indicators for the executive directors are set out on page 78.

Throughout 2017, the committee continued to consider updates to corporate governance guidelines in its decision-making and will continue to monitor best practice guidelines and take account of these and the views of shareholders in the decision-making process. The committee has the freedom to consider any issues it regards as of importance when setting executive directors' remuneration, including environmental, social or governance issues.

The committee and the Board reviewed non-executive director fees in May 2017 and concluded that Mr Gupta's fee should be increased from US\$100,000 to US\$250,000 per annum to reflect the increase in his responsibilities since becoming non-executive chairman of the Company. No other changes were made to the fees of the other non-executive directors.

This report has been prepared in accordance with the UK's regulations on remuneration reporting.

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

Mark Martin
Chairman, Remuneration Committee
26 March 2018

2017 annual report on remuneration

In this section we give details of the composition of the Remuneration Committee and activities undertaken in the 2017 financial year. We will seek an advisory vote on the remuneration report at the 2018 Annual General Meeting.

Remuneration Committee

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

In accordance with the terms of reference, members of the committee shall be appointed by the Board on the recommendation of the Nomination and Governance Committee in consultation with Mr Martin as chairman of the committee. The committee must always include at least three independent non-executive directors who comprise a majority of the committee. The members of the committee during 2017 were:

Name	Membership start date
Mark Martin (Chairman)	19 May 2014
Sir Christopher Codrington, Bt.	19 May 2014
Kaat Van Hecke	31 December 2016
Michael Calvey	8 May 2017

None of the committee members have day-to-day involvement with the business. Their biographies are given on pages 52-53. 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.

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

The committee held five meetings in 2017 and the attendance of each committee member at such meetings is shown on page 60. The principal agenda items at the formal meetings were as follows:

Meeting	Agenda item
March 2017	<ul style="list-style-type: none"> • Review and approval of key performance indicators. • Approval of senior management compensation and bonuses. • Review and approve the 2016 remuneration report. • Discuss the proposed structure of the new long-term incentive plan.
The Committee held two meetings in May 2017	<ul style="list-style-type: none"> • Discuss and approve the proposed structure of the new long-term incentive plan. • Discuss matters relating to Frank Monstrey's resignation. • Discuss remuneration of Atul Gupta in his position as Chairman.
August 2017	<ul style="list-style-type: none"> • Discussion of non-executive director inclusion in long-term incentive plan. • Review of senior executive management compensation. • Review of senior management employment contracts.
November 2017	<ul style="list-style-type: none"> • Discuss implementation of the long-term incentive plan. • Discuss 2017/18 key performance indicators. • Discuss 2018 Remuneration Policy.

With the exception of the Chairman of the Board and the Chief Executive, no other directors participated in meetings of the committee during 2017.

During the year the committee received advice internally from Atul Gupta (Chairman), 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 the remuneration of senior members of the executive management team below Board level.

In March 2016, the Remuneration Committee appointed New Bridge Street (part of Aon plc) to provide the Remuneration Committee and the Company with advice and guidance in connection with the development of a new long-term incentive plan and New Bridge Street continued their work during 2017. The Remuneration Committee is of the view that New Bridge Street provides independent remuneration advice and does not have any connection with the Company that may impair its independence. New Bridge Street did not attend any meetings of the Remuneration Committee during the year. Total fees for the provision of remuneration services in 2017 were £62,700 (excluding VAT). New Bridge Street is a signatory to the Remuneration Consultants Group Code of Conduct.

The Remuneration Committee will keep the external adviser relationship under review to ensure it remains comfortable that the advice it is receiving is objective and independent.

Voting on remuneration matters

Section 439A of the Companies Act 2006 (the "Act") requires the remuneration policy to be submitted to shareholders for a binding vote every three years or where there is a change in the remuneration policy. The remuneration policy was last approved by shareholders at the 2015 Annual General Meeting by way of a binding vote and the results of the votes received are shown in the table below. As there were no changes proposed to the remuneration policy for 2017, it was not submitted to shareholders for approval at the 2017 Annual General Meeting. The resolution put to shareholders at the 2017 Annual General Meeting relating to directors' remuneration was a resolution to approve the directors' annual report on remuneration and, in accordance with the Act, the resolution was subject to an advisory vote. The votes received are also set out in the table below.

Resolution	Votes FOR and % of votes cast		Votes AGAINST and % of votes cast		Votes WITHHELD
Approval of directors' remuneration policy	86,069,341	83.68%	16,785,416	16.32%	1,827,934
Approval of directors' annual report on remuneration	143,348,299	96.15%	5,740,659	3.85%	42,828

At the 2018 Annual General Meeting the directors' remuneration report will be put to shareholders for approval by way of an advisory vote. In accordance with the Act, a resolution to approve the Company's revised remuneration policy will also be submitted to shareholders for a binding vote.

Single total figure of remuneration for executive directors

The table below shows the single total figure of remuneration for the year ended 31 December 2017 for each executive director that served as an executive director at any time during the year. The information contained in the table is as prescribed by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and contains a single total figure of remuneration for each executive director. The executive directors are remunerated in either euros or GBP and, to avoid any anomalies in the figures reported due to fluctuations in the EUR/USD, GBP/USD exchange rate, the Company has decided not to convert amounts paid to executive directors into USD, the Group's functional currency, but instead to report all figures in relation to executive director remuneration in euros throughout this report.

Director ¹	Period	Salary and fees	Benefits in kind	Annual bonus ³	Phantom Share Option Plan	LTIP ⁹	Pension	Total (audited)
Frank Monstrey (Chairman) ⁴	2017	234,107	-	0	-	N/A	-	234,107
	2016	698,828	-	209,648	-	N/A	-	908,476
Kai-Uwe Kessel (Chief Executive Officer)	2017	773,567 ¹⁰	18,188 ²	96,696	-	-	-	888,451
	2016	697,870	8,434	209,596	-	N/A	-	915,900
Tom Richardson (Chief Financial Officer) ⁵	2017	359,700	17,465 ⁶	159,093 ⁸	-	-	17,985 ⁷	554,243
	2016	119,856	-	35,957	-	N/A	-	155,813

- Mr Monstrey was and Mr Kessel is remunerated entirely as Group executives under separate service agreements with Nostrum Services NV.
- Kai-Uwe Kessel is provided with a company car and payments in lieu of the provision of life insurance under his employment contract for his role as Chief Executive and not under his service contract as an executive director but, for completeness, the amount received has been included in this table.
- 2017 bonuses become payable in April 2018.
- Mr Monstrey resigned from his position as Chairman of the Company on 17 April 2017 and so the information shown in this table is for the period 1 January 2017 to 17 April 2017.
- Mr Richardson is remunerated in GBP but for the purposes of this table his 2017 salary has been converted into EUR using the average exchange rate for 2017 (1.1413). Mr Richardson's 2016 salary has been converted into EUR using the average exchange rate between September and December 2016 (1.1599).
- This amount is paid to Tom Richardson in lieu of the provision of medical insurance under his employment contract for his role as Chief Financial Officer and not under his service contract as an executive director but, for completeness, the amount received has been included in this table.
- The Company does not operate a pension scheme for executive directors. This amount is paid to Tom Richardson in lieu of the provision of a pension scheme under his employment contract for his role as Chief Financial Officer and not under his service contract as an executive director but, for completeness, the amount received has been included in this table.
- Tom Richardson was awarded an annual bonus amount of 12.5% of base salary based on the executive directors' performance against 2017 KPIs. In addition, the committee awarded him an additional bonus of £100,000 for his outstanding performance in connection with the refinancing of the Group's outstanding debt.
- Awards made under the LTIP in 2017 have not vested yet and so no amounts have been received/are receivable by the executive directors in respect of such awards.
- Kai-Uwe Kessel is remunerated on a net guarantee basis and his gross remuneration is adjusted to achieve the relevant agreed level of net remuneration. The salary and fees figure shown in the table represents the total cost to the Company in connection with his employment.

2017 annual report on remuneration continued

Single total figure of remuneration for non-executive directors

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

Director	Period	Fees	LTIP ⁹	Total (audited)
Atul Gupta ¹	2017	205,509	-	205,509
	2016	100,027	N/A	100,027
Piet Everaert ²	2017	38,265	N/A	38,265
	2016	100,000	N/A	100,000
Sir Christopher Codrington, Bt. ³	2017	116,667	-	116,667
	2016	110,000	N/A	110,000
Mark Martin ⁴	2017	130,000	-	130,000
	2016	110,055	N/A	110,055
Pankaj Jain ⁵	2017	87,443	N/A	87,443
	2016	100,000	N/A	100,000
Kaat Van Hecke	2017	100,000	-	100,000
	2016	274	N/A	274
Martin Cocker ⁶	2017	12,443	-	12,443
	2016	-	N/A	-
Simon Byrne ⁷	2017	12,443	N/A	12,443
	2016	-	N/A	-
Michael Calvey ⁸	2017	68,311	N/A	68,311
	2016	-	N/A	-

1. Mr Gupta became Chairman on 25 April 2017 and his salary increased to US\$250,000 to reflect his additional responsibilities. In addition, Mr Gupta served as chairman of the Audit Committee until 8 May 2017 and received an additional fee in respect of that role as well.

2. Mr Everaert's letter of appointment expired on 19 May 2017 and was not renewed by the Company.

3. Sir Christopher Codrington receives an additional fee for being the chairman of both the Nomination and Governance Committee and the Audit Committee.

4. Mr Martin receives an additional fee for being Senior Independent Director and the chairman of the Remuneration Committee.

5. Mr Jain resigned as a director of the Company on 16 November 2017.

6. Mr Cocker joined the Board on 16 November 2017.

7. Mr Byrne joined the Board on 16 November 2017.

8. Mr Calvey joined the Board on 25 April 2017.

9. Awards made under the LTIP in 2017 have not vested yet and so no amounts have been received/are receivable by the non-executive directors in respect of such awards.

Notes on the single total figure remuneration table

Base salaries

The committee reviewed salaries in March 2017 and it was decided that the executive directors would be awarded a 2% salary increase for 2017 effective as of 1 March 2017.

When reviewing salaries, the committee also considered the provisions of the remuneration policy.

Annual bonus

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

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

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

For the bonus year, which ran from 1 January 2017 to 31 December 2017, the key performance indicators for annual cash bonuses for executive directors were as follows:

2017 Bonus performance measures	Weight	Actual	% of base salary
Operational and Financial	50%	17.5%	7%
• Increase production above an average of 44,000 boe/day	15%	0%	0%
• Progress GTU3 construction for completion by the end of 2017	10%	0%	0%
• Refinance part of the existing debt of US\$960m by the end of 2017	15%	15%	6%
• Maintain operational costs and transport costs at current levels on a boe basis	10%	2.50%	1%
Strategic Objectives	20%	10%	4%
• Make progress with renegotiation with the Kazakh state to optimise the balance of interest between Nostrum and the Kazakh state	10%	5%	2%
• Increase proven and probable reserve base	10%	5%	2%
HSE, social and governance	5%	0%	0%
Reduce LTIs per 1 million man hours below 2	5%	0%	0%
Sub-total: Corporate KPIs	75%	27.5%	11%
Personal Objectives	25%	3.75%	1.5%
Kai-Uwe Kessel - deliver 2017 Company objectives	25%	3.75%	1.5%
Tom Richardson - deliver the 2017 Company financial objectives	25%	3.75%	1.5%
Total (Kai-Uwe Kessel)	100%	31.25%	12.5%
Total (Tom Richardson)	100%	31.25%	12.5%

2017 annual report on remuneration continued

Based on an assessment of Company and individual performance of the executive directors during 2017 the committee awarded bonuses of 12.5% of base salary to the executive directors. The committee also used its discretion to award Tom Richardson an additional bonus of £100,000 for his outstanding performance in connection with the refinancing of the Group's debt. The committee made this determination for the following reasons:

- the Group averaged 37,844 boepd sales volumes during 2017 and therefore the executive directors did not meet their full average sales volume target of 44,000 boepd;
- despite steady progress being made on GTU3 during 2017 and whilst mechanical completion is scheduled to be achieved in 2018, mechanical completion did not occur by the end of May 2017;
- the Group succeeded in refinancing US\$607 million of its US\$960 million outstanding debt in 2017. The remaining US\$353 million was refinanced in February 2018 such that the Group has no debt maturities until 2022;
- the Group succeeded in maintaining operational and transport costs at current levels on a boe basis in 2017;
- the Group continued with its negotiations with the Kazakh government to allow for full cost recoverability under its production sharing agreement and to restore the balance of economic interest and made progress in 2017 by entering into direct negotiations with the Kazakh Ministry of Finance;
- 2p reserves increased from 466 to 488 mboe while 1p reserves decreased and so the committee determined that achievement against this KPI is at a level of 50%; and
- the Group ended 2017 with 2.48 lost time injuries per 1 million hours worked and therefore the target of reducing lost time injuries per 1 million hours below 2 was not met.

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

Long-term incentive awards

In 2017, the Company implemented its new performance based long-term incentive plan and granted initial awards on 10 October 2017.

The LTIP awards granted on 10 October 2017 and 11 December 2017 are based on performance over one calendar year which is followed by an additional two-year holding period such that no awards may vest before the third anniversary of the date of grant.

The performance conditions attaching to the awards made under the LTIP in 2017 together with the levels of achievements against such performance measures are as follows:

50% of an award is based on true production boepd measurements calculated as follows:

boepd for the year ended 31 December 2017	% of the first 50% of the award that may vest	Actual % achievement	% of LTIP award opportunity (maximum 50%)
44,500 or greater	100%		
40,000	0%		
	On a straight line basis between 40,000 and 44,500		
Actual achievement	43,265	72.56%	36.28%

The remaining 50% of an award is based on a reserves measurement calculated as follows:

2P barrels of oil per share	% of the second 50% of the award that may vest	% of LTIP award opportunity (maximum 50%)	% of LTIP award opportunity (maximum 50%)
3.0 or greater	100%		
2.5	0%		
	On a straight line basis between 2.5 and 3.0		
Actual achievement	2.59	18%	9%

Based on the above levels of performance, the committee has determined that 45.28% of LTIP awards granted in 2017 will be capable of vesting at the end of the two-year holding period.

Pension entitlements

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

Payments to past directors

No payments were made to past directors of the Company during the year ended 31 December 2017.

Payments for loss of office

No payments were made in respect of loss of office during the year ended 31 December 2017.

Non-executive director fees

The Committee and the Board reviewed non-executive director fees in May 2017 and concluded that Mr Gupta's fee should be increased from US\$100,000 to US\$250,000 per annum to reflect the increase in his responsibilities since becoming non-executive chairman of the Company. No other changes were made to the fees of the other non-executive directors.

Directors' shareholdings

The beneficial interests of the directors in the share capital of the Company as at 31 December 2017 were as follows:

Director	Total (audited)
Atul Gupta	178,357
Kai-Uwe Kessel	10,000
Tom Richardson	-
Sir Christopher Codrington, Bt.	3,312
Mark Martin	10,000
Kaat Van Hecke	-
Simon Byrne	5,000
Martin Cocker	-
Michael Calvey	-

Please refer to the text in the remuneration policy table on page 83 in relation to shareholding guidelines applicable to directors.

Phantom share option plan

The Company currently operates one non-performance related phantom share option plan (the "Plan"). As at 31 December 2017, the executive directors each held the following options over ordinary shares of the Company, generally vesting over a five-year period, exercisable at either US\$4.00 or US\$10.00 per ordinary share and expiring 10 years from the date of grant, pursuant to the Plan:

(Audited) Director	Date of grant	Options held at 31 December 2017	Face value at date of grant (in USD)	Options exercised during the financial year 2017	Options lapsed during the financial year 2017	Options held at 31 December 2017	Option exercise price (US\$ per option)	Expiry date
Kai-Uwe Kessel	10-06-09	700,974	35,049 ¹	-	-	700,974	4.0	09-06-19
	26-03-13	200,000	18,000 ²	-	-	200,000	10.0	25-03-23
Tom Richardson	26-03-13	110,000	9,900 ²	-	-	110,000	10.0	25-03-23

1. Calculated by multiplying the market value of the options at 10 June 2009 (US\$4.05) less \$4.00 by the number of options granted.

2. Calculated by multiplying the market value of the options at 26 March 2013 (US\$10.09) less \$10.00 by the number of options granted.

There have been no changes in the interests in the Plan between the end of the financial year 2017 and the date of this Annual Report.

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

It is intended that the Company's new long-term incentive plan will replace the Plan going forward and so it is not currently envisaged to make any further awards under the Plan in 2018.

Long-term incentive plan

On 24 August 2017, the Board approved the making of certain initial grants under the Company's new long-term incentive plan ("LTIP") and on 10 October 2017 these initial grants were made to the executive directors, the Chairman and the independent non-executive directors. As the LTIP wasn't included within the scope of the Company's directors' remuneration policy, at the 2018 Annual General Meeting shareholders were asked to approve the making of grants under the LTIP to directors outside the remuneration policy in 2017 only.

The following table provides details of the LTIP awards made to directors in the reported year:

Director	Date of grant	Options held at 31 December 2017	Face value (in GBP) ²	Options exercised during the financial year 2017 ¹	Options lapsed during the financial year 2017	Expiry date
Atul Gupta	10-10-17	46,544	179,613.30	N/A	-	09-10-27
Kai-Uwe Kessel	10-10-17	332,706	1,283,912.45	N/A	-	09-10-27
Tom Richardson	10-10-17	122,495	472,708.21	N/A	-	09-10-27
Mark Martin	10-10-17	19,095	73,687.61	N/A	-	09-10-27
Kaat Van Hecke	10-10-17	19,095	73,687.61	N/A	-	09-10-27
Sir Christopher Codrington, Bt.	10-10-17	19,095	73,687.61	N/A	-	09-10-27
Martin Cocker	11-12-17	2,045	6,693.29 ³	N/A	-	10-12-27

1. None of the options granted are currently exercisable.

2. The face value has been calculated by multiplying the market value of the options at 24 August 2017 (£3.859) by the number of options granted. A nominal amount of 0.01p per option will be payable by all non-executive directors upon exercise. The Company has the option to waive the nominal cost for executive directors.

3. The face value has been calculated by multiplying the market value of the options on 11 December 2017 (£3.273) by the number of options granted.

Further information regarding how the LTIP operates and the performance conditions applicable to grants made in 2017 can be found on page 74 respectively.

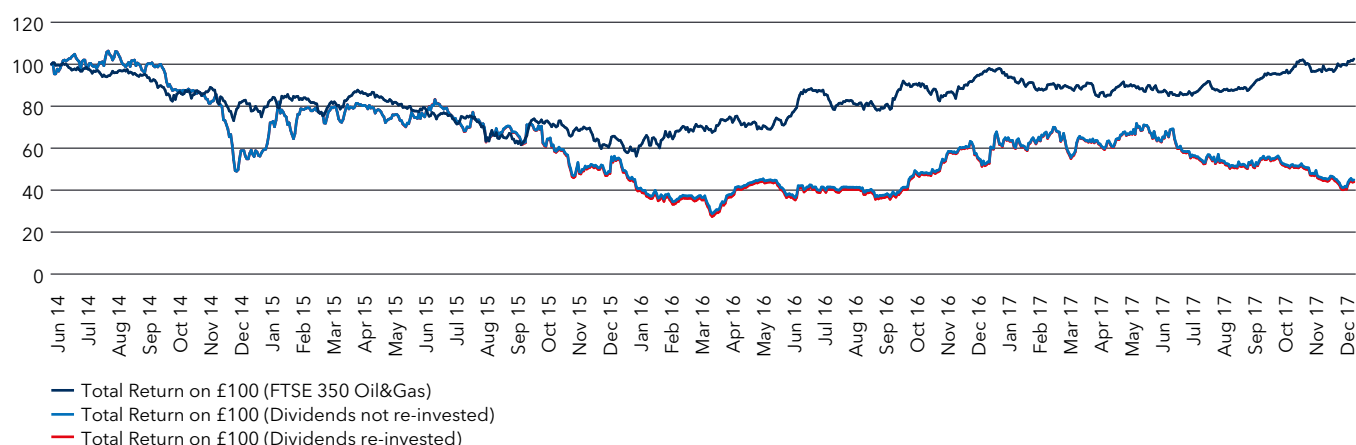
2017 annual report on remuneration continued

Remuneration statistics and comparisons

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

Total share return

Share price (GBP)



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 (EUR)	Annual bonus as % of maximum opportunity
2013	889,217	100%
2014	2,050,323 ¹	100%
2015	971,224	80% ²
2016	915,900	75%
2017	888,451	31.25%

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's 2017 salary, annual bonus and benefits compared to a comparative group comprised of 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.

(EUR ³)	Chief Executive			Comparator group
	2017	2016	% change	% change
Salaries ⁴	773,567	697,870	10.85%	2%
Benefits	18,188	8,434	115.65% ⁶	0.70%
Annual bonus	96,696⁵	209,596	-53.87%	-50%

1. Total CEO remuneration for 2014 includes remuneration from the exercise of share options.

2. These figures include a bonus amount of EUR 236,262 paid in 2015 in respect of 2014 performance. No bonuses were paid for 2015 performance.

3. Mr Kessel is remunerated in euros and to avoid any anomalies in the figures reported due to fluctuations in the EUR/USD exchange rate the amounts shown in the table have not been converted into USD, the Group's functional currency.

4. Salary increases are determined and awarded during the course of the calendar year.

5. Kai-Uwe Kessel's bonus is determined based on his net guaranteed remuneration and so this figure is an estimate.

6. The percentage change in relation to benefits is higher for 2017 because we have chosen to include payments made to Kai-Uwe Kessel in lieu of the provision of life insurance under his employment contract for his role as Chief Executive and not under his service contract as an executive director which were not included in his benefits figures for previous years.

Relative importance of spend on pay

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

Key expenditure areas In thousands of US dollars	2017	2016	% change
Remuneration paid to all employees¹	39,802	32,241	23.00%
Dividends to shareholders (total)	0	0	
• Dividends	0	0	0%
• Share buy-back	0	0	0%

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

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

Service contracts

Details of the executive directors' service contracts and the non-executive directors' letters of appointment can be found in the Company's remuneration policy on pages 85 and 86 respectively of this Annual Report. All directors are subject to annual re-appointment and accordingly all executive and non-executive directors will stand for election or re-election (as appropriate) at the Annual General Meeting.

Statement of 2018 remuneration policy implementation

The Company's remuneration policy was put to a shareholder vote at the 2015 Annual General Meeting and was approved by 83.68% of shareholders. As the remuneration policy is three years old we are putting a revised directors' remuneration policy to a shareholder vote at our 2018 Annual General Meeting. A copy of the revised policy can be found on pages 79-87 and an explanation of the key changes can be found on page 69.

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

Remuneration in 2018 will be consistent with the policy described on pages 79-87.

Salaries and service fees

The committee is currently reviewing the structure of the executive directors contractual arrangements as employees of the Group and will determine any salary increases later in the year.

2017 annual report on remuneration continued

Annual bonus

In accordance with the remuneration policy applicable in 2018, the executive director annual bonus opportunity is up to 40 % of base compensation. Annual performance will be assessed against a performance scorecard of which 60% is based on financial and operational measures, 20% on strategic measures, 7% on HSE, social and governance and 13% on personal objectives.

The committee has compiled a list of suitable key performance indicators against which the performance of the executive directors will be measured at the end of 2018 to determine the annual bonus amounts payable to executive directors in 2019. Details of any non-commercially sensitive KPIs are set out below. 2018 performance will be measured against these key performance indicators and the committee will consider such performance together with the Company's financial position, in deciding whether and at what level to award bonuses for that year.

2018 Bonus performance measures	Weight
Operational and Financial	60%
• Achieve annual average sales (boepd) from 32,000 boepd (0%) to 36,000 boepd (100%) (sliding scale)	40%
• Complete and commission GTU3 construction project on budget	5%
• Reduce operational and G&A cash costs from US\$85.7m (0%) to US\$68.56m (100%) (sliding scale)	15%
Strategic Objectives	20%
• A commercially sensitive strategic target that will be disclosed in the Company's 2018 Annual Report	15%
• A commercially sensitive strategic target that will be disclosed in the Company's 2018 Annual Report	5%
HSE, social and governance	7%
• Reduce lost time injuries per 1 million man hours worked below 2	7%
Sub-total: Corporate KPIs	87%
Personal Objectives	13%
• Kai-Uwe Kessel deliver 2018 Company objectives	13%
• Tom Richardson deliver the 2018 Company financial objectives	13%
Total	100%

Phantom share option plan

The committee does not envisage the award of any additional phantom share options to executive directors in 2018.

Long-term incentive plan

The committee does envisage granting additional awards under the Company's long-term incentive plan in 2018.

Non-executive directors

Non-executive director fees were reviewed in March 2018 and it was decided that no change was warranted. The next review of non-executive director fees will be conducted in 2019.

Approval of the directors' remuneration report

The directors' remuneration report was approved by the Board on 23 March 2018.

On behalf of the Board



Kai-Uwe Kessel
Chief Executive Officer
26 March 2018



Tom Richardson
Chief Financial Officer
26 March 2018

Directors' remuneration policy

Future directors' remuneration policy

This part of the directors' remuneration report sets out the remuneration policy for the Company and has been prepared in accordance with the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority. Our directors' remuneration policy was approved by shareholders at our AGM on 26 May 2015 and became effective from that date. Our new policy will be put to a binding vote of shareholders at the Company's 2018 Annual General Meeting and will apply for a maximum of three years from the date of shareholder approval.

Policy coverage

This policy applies to all payments to directors of the Company from the date of the Company's 2018 AGM.

Policy objectives

This policy is designed to:

1. Provide a structure and level of pay that attracts and retains high calibre directors capable of delivering the Company's strategic objectives.
2. 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.
3. Align the remuneration of executives with the interests of the Company's shareholders, and ensure that rewards are justified by performance.
4. Ensure that the pay of the executive directors takes into account: (i) pay and conditions throughout the Company; and (ii) corporate governance best practice including health & 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 71 sets out the key components of the reward package for executive directors.

Directors' remuneration policy continued

Executive directors' remuneration policy table

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

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
NOSTRUM OIL & GAS PLC 2017 LONG-TERM INCENTIVE PLAN ("LTIP")	<p>To incentivise executive directors and employees over a longer time frame and to increase their interest in the Company's long-term business goals and performance through share ownership.</p> <p>To help retain executives and other key employees and align their interests with shareholders through building a shareholding in the Company.</p>	200% of base salary in any financial year.	<p>Awards of nominal-cost options are made at the sole discretion of the committee.</p> <p>It is anticipated that awards will be granted annually for calendar years 2017-2019, subject to annual performance conditions. Generally, awards have a one-year performance period attached to them and will not vest for an additional two years following the date on which the committee determines whether or not a performance condition has been wholly or partly satisfied such that no award may vest before the third anniversary of the date of grant.</p> <p>The committee has the discretion to decide, on or before the grant of an award, that a participant shall be entitled to receive dividend equivalents arising over the period between the grant date and the vesting date with such amounts being payable in cash or shares in respect of shares which vest.</p> <p>Malus and clawback provisions apply to the LTIP such that participants are liable to repay/forfeit some or all of their shares if there is a material misstatement of results, or error in calculation, or if there is serious misconduct. The discovery period is three years commencing on the date on which the award vests, which can be extended by the committee for an additional two years if an event occurs which the committee determines could result in the operation of recovery or withholding.</p>	<p>Performance measures are generally measured over one year though the committee have the discretion to apply a longer performance period to awards.</p> <p>The committee has the discretion to set any performance condition attaching to awards granted under the LTIP.</p> <p>Vesting of awards would ordinarily be based:</p> <ul style="list-style-type: none"> • 50% on Barrels of Oil Equivalent per day measured on the basis of true annual production; and • 50% on Reserves measurement on the basis of 2P barrels of oil per share.

Directors' remuneration policy continued

Executive directors' remuneration policy table continued

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
PHANTOM SHARE OPTION PLAN (THE "PLAN")	The Board places great importance on minimising dilution of existing shareholders. Share awards will therefore only be made to senior management who are able to make a material contribution to shareholder value that substantially exceeds the value of any share awards made. The Plan has effectively been replaced by the LTIP and no awards are expected to be made under the Plan in 2018.	Share awards will only be made on the basis of achieving concrete long-term objectives defined in advance by the committee. Share awards will vest over several years. In accordance with the Plan rules, the total number of shares that may be granted pursuant to the Plan is five million.	<ul style="list-style-type: none"> • Intertrust Employee Benefit Trustee Limited administers the Plan and is responsible for granting rights under the Plan. • Each right entitles holders to receive, on exercise, a cash amount equal to the excess of the market value on the exercise date of the ordinary shares of the Company to which it relates over a base value set at the date of grant. • All executive directors of the Company are eligible to participate in the Plan at the discretion of the Board. • Awards vest on the basis described in the notes on the following page. • Long-term objectives are to be reviewed at every committee meeting to ensure that they are appropriate, relevant and rigorous. • Share awards made in future may be reduced at any time prior to vesting, at the discretion of the committee, following events such as (but not restricted to) a material misstatement of results, failure of risk management, breach of health and safety regulations or serious reputational damage to the Company. 	None

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
PENSIONS	To remain competitive in the marketplace and provide income in retirement.	0%	There are no pension contributions or provisions for directors, although there may be pension arrangements made for executive directors in connection with their service as executives of Group companies.	None
SHAREHOLDING GUIDELINE	Aligns interests of executive directors with those of shareholders.	Executive directors are encouraged to maintain a holding in the Company to align their interests with shareholders.	If the Company grants shares to directors outside the LTIP by way of bonus or otherwise they will be required to hold 50% of such shares for a three year period. The committee monitors the holdings of all directors.	None
NON-EXECUTIVE DIRECTORS AND CHAIRMAN	Attract and retain high performing individuals.	No prescribed maximum annual increase in fees. Any awards made to non-executive directors under the LTIP are subject to a limit of 200% of the director's fees in any financial year.	Any fee increases are usually considered at the end of each year and the Board and, where applicable, the committee considers pay data at comparable companies of a similar scale. The Senior Independent Director and the chairmen of the committees receive additional fees. No eligibility for participation in bonuses but limited benefits may be delivered (provision of iPad and travel-related expenses). Non-executive directors and the Chairman are eligible to participate in the LTIP.	The same performance measures mentioned above apply in respect of awards made to non-executive directors and the Chairman under the LTIP.

Directors' remuneration policy continued

Phantom share option plan

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

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

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

Treatment of existing arrangements

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

Remuneration scenarios for executive directors

The bar charts below provide estimates of the potential remuneration of the executive directors for 2018. Three scenarios are presented for each executive director which are based on the following assumptions:

- The "minimum" columns are intended to show the fixed level of remuneration to which executive directors are entitled in 2018 irrespective of performance levels, namely base salary, benefits using the details set out in the single-figure table provided on page 71 (which includes any payments made in lieu of benefits made under the executive directors employment contracts for their roles as executives of the Group and not under their service contracts as executive directors) and any payments made in lieu of the provision of a pension scheme (which are paid under the executive directors employment contracts for their roles as executives of the Group and not under their service contracts as executive directors). The structure of Kai-Uwe Kessel's contractual arrangements as an employee of the Group is currently being reviewed by the committee and so his 2017 base salary shown in the single figure table has been used for the purposes of his bar chart. Tom Richardson's base salary is taken from his revised employment contract as a Group executive effective 1 January 2018. No bonus payments or vesting of shares are assumed for minimum performance.
- The "on target" scenario seeks to illustrate the remuneration the executive directors would receive if performance was in line with expectation. In addition to the fixed elements summarised above, it assumes a specified level of payout/vesting under the annual bonus scheme and awards made in 2018 under the LTIP though no LTIP awards made in 2018 would be eligible for vesting until two years after the date on which the committee determine whether or not the applicable performance measures have been met. Given that neither of these incentive arrangements explicitly stipulate an 'on target'

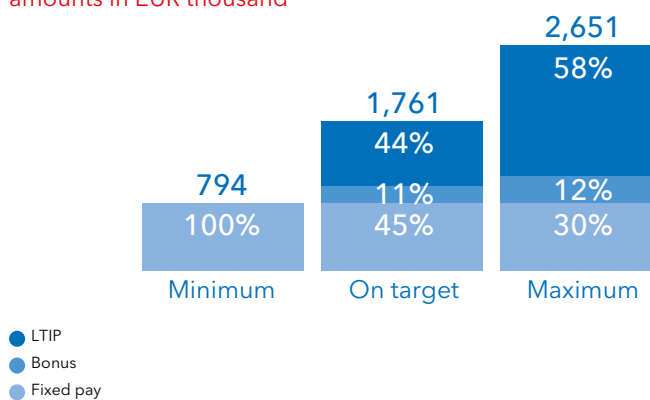
amount and grant levels under the LTIP for 2018 have not been determined yet, the assumed levels for the scenario are:

- for the LTIP, the illustration is based on 50% vesting in relation to the percentage of base salary over which the relevant LTIP grant was made (up to a maximum of 200% of base salary as stated under the LTIP rules). We have used the grant levels made to each of the executive directors under the LTIP in 2017 to determine the on target and maximum percentage of base salary over which share options could be awarded in 2018 (being an LTIP award equivalent to 200% of base salary for Kai-Uwe Kessel and 150% of base salary for Tom Richardson); and
- in case of the annual bonus, a bonus of 25% of base salary.
- The "maximum" columns illustrate total remuneration levels in circumstances where the variable elements pay out in full, namely an annual bonus payment of 40% of base salary and 100% vesting of LTIP awards to be granted in 2018.

The bar charts below do not include any amounts in relation to the phantom share option plan because, as at the time of this Annual Report, the Board does not intend to grant any further awards under the phantom share option plan in 2018.

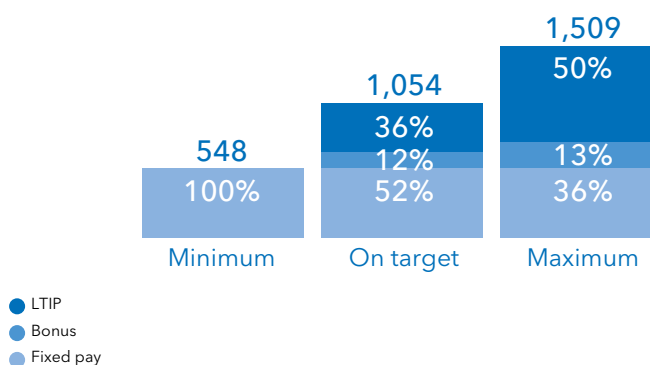
Kai-Uwe Kessel, Chief Executive Officer

amounts in EUR thousand



Tom Richardson, Chief Financial Officer

amounts in EUR thousand



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 73.
- Where an individual would be forfeiting valuable remuneration in order to join the Company, the need to retain flexibility should be considered in order for the committee to be able to set base salaries at a level necessary to facilitate the hiring of the highest calibre candidates including awards or payments to compensate for remuneration arrangements forfeited on leaving a previous employer. The committee would require reasonable evidence of the nature and value of any forfeited compensation and would, to the extent practicable, ensure any compensation awarded was no more valuable than the forfeited award.
- Judgement will be exercised to determine the appropriate measure of compensation for any forfeited award by taking account of relevant factors such as the value of any lost award, performance conditions and the time over which they would have vested or been paid.
- Where an existing employee of the Company is promoted to the Board, the Company will honour any commitment to remuneration made in respect of a prior role including any outstanding awards of options under the Plan.
- The need, in order to recruit the best candidates, for the Company to offer sign-on remuneration the necessity and level of which will depend on circumstances.
- Where an individual is relocating in order to take up a role, the Company may provide certain one-off benefits including, but not limited to, reasonable relocation expenses, accommodation, housing allowance and assistance with visa applications.

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

Service agreements

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

	Service agreement date	Salary as at 1 January 2018 (EUR)
Kai-Uwe Kessel	19 May 2014 Originally dated 1 September 2016 and most recently amended and restated on 23 March 2018 (effective as of 1 January 2018)	773,567 ¹
Tom Richardson	1 January 2018)	547,000 ²

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

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

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

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

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

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

1. Kai-Uwe Kessel's employment contract as a Group executive is currently under review and any change to his base salary as at 1 January 2018 would be made after the publication of this Annual Report. Therefore, his base salary for 2017 has been used for the purposes of this table.
2. As Tom Richardson is remunerated in GBP, his base salary has been converted to EUR using the GBP/EUR exchange rate on 1 January 2018 (1.124)

Directors' remuneration policy continued

Payments for departing executive directors

Provision	Policy
Notice period and compensation for loss of office in service contracts	<ul style="list-style-type: none"> • 12 months' notice from the Company to the executive director. • Up to 12 months' base salary (in line with notice period). Notice period payments will either be made as normal (if the executive director continues to work during the notice period or is on gardening leave) or they will be made as monthly payments in lieu of notice (subject to mitigation if alternative employment is found).
Treatment of annual bonus on termination	No entitlement.
Treatment of unvested share option awards under the Plan	An executive director's award will generally lapse to the extent they have not vested on the date of voluntary cessation of employment and any portion that remains outstanding but unexercised after 12 months following such cessation will lapse.
Treatment of unvested awards under the LTIP	For a director considered to be a 'good leaver' before the original vesting date (including leaving the Company on retirement, redundancy, ill health, as a result of death in service or in other circumstances determined by the committee), outstanding awards will be pro-rated for time and vest subject to performance on the original vesting date. For a director who is considered a 'good leaver' after the original vesting date, any awards will remain exercisable for a period of 12 months commencing on the date of cessation. For a director whose employment is terminated for any other reason, the award will lapse in full.

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

Change of control

In accordance with the LTIP rules and the Plan rules, if there is a takeover of the Company or a sale of the Company's business in circumstances where such sale has been approved by a majority of shareholders all awards capable of vesting will vest in full on the date of such event if they have not already vested and all awards will remain exercisable for one month from such date. To the extent that any option is not exercised in such period, it shall lapse at the end of that period.

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

Non-executive directors

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

Non-executive director appointment letters

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

Name	Position	Date of letter of appointment	Expiry of current term
Atul Gupta	Chairman	25 April 2017	25 April 2020
Sir Christopher Codrington, Bt.	Independent non-executive director	19 May 2017	19 May 2020
Kaat Van Hecke	Independent non-executive director	20 December 2016	31 December 2019
Mark Martin	Senior Independent Director	19 May 2017	19 May 2020
Michael Calvey	Non-executive director	25 April 2017	25 April 2020
Martin Cocker	Independent non-executive director	16 November 2017	16 November 2020
Simon Byrne	Non-executive director	16 November 2017	16 November 2020

The Company intends to comply with provision B.7.1 of the UK Corporate Governance Code and accordingly all directors will stand for re-election by shareholders at future Annual General Meetings until the Board determines otherwise.

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

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

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

Statement of consideration of employment conditions elsewhere in the Company

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

Statement of consideration of shareholder views

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

Directors' Report

The directors submit their report and the consolidated audited financial statements of the Group and the audited parent financial statements of the Company for the year ended 31 December 2017.

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

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

- the Strategic Report on pages 2-43;
- the Board and Governance report (which includes the Board, the Corporate Governance Report and the Directors' Remuneration Report) on pages 50-88; and
- the energy and global greenhouse gas emissions disclosure on pages 33-35.

In addition, the following information is also incorporated into this Directors' Report by reference:

Subject matter	Page
Likely future developments within the Group	42
Related party transactions	137
Going concern statement	93
Financial position and performance of the Group	94-154
Greenhouse gas emissions	33
Directors' share interests	74
Corporate governance statement	50

Directors

Full biographical details of all current directors of the Company (all of whom held office at some point during the reported year) and the Board committees of which they are members are set out on pages 52-53 of this Annual Report.

Frank Monstrey stepped down as Executive Chairman of the Board on 17 April 2017. Mark Martin was appointed to that position as his immediate successor on a temporary basis until 25 April 2017 when Atul Gupta became Chairman of the Board and Mr Martin resumed his position as Senior Independent Director. In addition, on 25 April 2017 the Board appointed Michael Calvey as a non-independent director. Mr Calvey also joined the Remuneration Committee on 8 May 2017. On 19 May 2017, Piet Everaert's appointment as a non-executive director of the Company expired and he left the Board as of that date. On 17 November 2017, Simon Byrne was appointed as a non-executive director replacing Pankaj Jain as Mayfair Investment B.V's representative on the Board. In addition, on the same date, Martin Cocker was appointed as an independent non-executive director and Pankaj Jain was appointed as an alternate director for Simon Byrne.

Dividends

No dividends were paid during the year ended 31 December 2017.

No dividend is proposed to be paid in 2018 in respect of the year ended 31 December 2017.

Auditor

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

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

Directors' liabilities and indemnities

The Company maintains liability insurance for its directors. All directors are also in receipt of an indemnity from the Company under the Company's Articles in respect of (a) liability incurred by any director due to the negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, or any subsidiary undertaking or (b) any liability incurred by any director in connection with the activities of the Company, or any subsidiary undertaking, in its capacity as a trustee of an occupational pension scheme, in both instances to the extent permitted under the Companies Act 2006. Copies of the Company's Articles of Association (the "Articles") are available on the Company's website or at the Company's registered office during normal business hours and will be available for inspection at the AGM.

In May 2015, the Board approved a policy for the indemnification of directors, officers and other designated beneficiaries and the entry by the Company into an accompanying deed of indemnity.

The policy clarifies that the Company will seek to provide the maximum indemnification and protection to Group directors and officers permissible under applicable law, except in cases of fraud or wilful default, including but not limited to: (i) providing compensation for losses suffered in the course of acting as a director or officer in the interests of the Group (ii) providing directors and officers with quality external legal representation and external professional advisers (iii) assisting directors or officers with repatriation following a third party claim (iv) continuing to make payment of a director's or officer's remuneration and benefits while such director or officer is under suspension, investigation or detention by order of a third party (v) taking reasonable steps to place any such director or officer in a similar position working in another location or elsewhere in the Group which would allow his/her employment to continue and to compensate for any adverse financial consequences they incur as a result of their loss of office or (vi) maintaining customary directors' and officers' liability insurance policies.

The deed of indemnity is intended to cover any insufficiency in the protection granted to directors and officers under the Articles which could expose such persons to substantial liability to third parties, including governmental authorities, in particular in jurisdictions where significant uncertainty exists in relation to the interpretation and application of the law. The deed of indemnity allows directors, officers and other designated beneficiaries to enforce the protection provided for under the Articles without any further action by the Company being required.

Political donations

The Group has made no political donations during the year 2017.

Contributions to non-EU political parties

No contributions to non-EU political parties were made during the year 2017.

Research and development

The Group is not involved in any activities in the field of research and development.

Branches

The Company is registered in England and Wales but has its place of effective management and tax residence in the Netherlands. As the Group is a global business our interests and activities are held or operated through subsidiaries and branches and subject to the laws and regulations of many different jurisdictions.

Share capital

As of 31 December 2017, the Company's issued share capital was £1,881,829.58 divided into 188,182,958 ordinary shares each having a nominal value of £0.01, all of which are in free circulation. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Articles.

Subject to applicable law and the Company's Articles of Association the directors may exercise all powers of the Company, including the power to authorise the issue and/or market purchase of the Company's shares, subject to an appropriate authority being given to directors by shareholders in a General Meeting and any conditions attaching to such authority. The current authority, approved at the 2017 Annual General Meeting, for the allotment of relevant securities is for a nominal amount of up to: (i) £1,240,000 and (ii) equity securities up to a nominal amount of £620,000 less the nominal amount of any securities allotted under part (i) of the authority.

Furthermore, at the 2017 Annual General Meeting, shareholders authorised the directors to make market purchases up to a maximum of approximately 10 % of the Company's issued share capital (being £18,600,000 ordinary shares) excluding treasury shares. Any shares purchased under this authority may either be cancelled or may be held as treasury shares provided that the number of shares held does not exceed 10 % of issued share capital. No shares were bought back during the year.

Intertrust Employee Benefit Trustee Limited holds shares in the Company in trust (the "Trust") for the purposes of the Company's phantom share option plan, and the rights attaching to them are exercised by independent trustees. As at 31 December 2017 the Trust held 2,948,879 ordinary shares in the Company.

Share rights

Without prejudice to any rights attached to any existing shares, the Company may issue shares with rights or restrictions as determined by either the shareholders by ordinary resolution or, if the Company passes a resolution, the directors.

Voting rights

There are no restrictions on voting rights or transfers of shares in the Articles and at a general meeting every shareholder present in person or by proxy has one vote for every share held by him. No shareholder shall be entitled to vote either personally or by proxy or to exercise any other right in relation to general meetings if any sum due from him to the Company in respect of that share remains unpaid.

Transfer of shares

The Articles provide that transfers of certificated shares must be effected in writing duly signed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered on the Register of Members in respect of those shares. Transfers of uncertificated shares may be effected by means of the relevant electronic system unless the Uncertificated Securities Regulations 2001 provide otherwise.

The directors may refuse to register a transfer of shares in favour of more than four persons jointly.

Directors, articles and purchase of shares

The Articles were adopted on 19 May 2014 and may only be amended by special resolution at a general meeting of the shareholders.

The directors' powers are conferred on them by UK legislation and by the Articles. In accordance with the Articles the Board has the power at any time to elect any person to be a director. Any person so appointed by the directors will retire at the next Annual General Meeting in accordance with the UK Corporate Governance Code; retiring directors may be eligible for annual re-election.

The Company did not repurchase any shares during 2017. The Board has the power conferred on it by shareholders to purchase its own shares and will seek a renewal of that power at the forthcoming Annual General Meeting within the limits set out in the notice of the meeting.

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 27-29.

Directors' Report continued

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.¹

Employee communications and involvement

The Group has processes in place for communicating and consulting with all its employees so that their views can be taken into account in making decisions which are likely to affect their interests and so that employees are made aware of any financial and economic factors affecting the Company's performance. Employee communications include information about the performance of the Group, on major matters affecting their work, employment or workplace.

The Company also operates an employee phantom share option plan and in 2017 implemented a new employee long-term incentive plan, further details of which can be found in the directors' remuneration policy on page 74 and the notes to the consolidated audited financial statements for the year ended 31 December 2017.

Shareholders holding 3% or more of the Company's issued share capital

As of 31 December 2017, the following significant shareholdings of voting rights in the share capital of the Company had been disclosed to the Company under Disclosure Guidance and Transparency Rule (DTR) 5 or otherwise.

Name	Number of ordinary shares	% of Issued ordinary shares	Nature of holding
Mayfair Investments B.V.	48,333,300	25.7	Direct
Baring Vostok Capital Partners	32,170,044	17.1	Indirect
Aberforth Partners LLP	14,170,949	7.82	Indirect
Harding Loevner LP	13,981,111	7.43	Indirect
M&G Investment Management Limited	8,970,675	4.77	Indirect
Trafigura Ventures V B.V.	7,860,500	4.18	Indirect
JP Morgan Asset Management	6,353,673	3.38	Indirect

Details of all information provided to the Company pursuant to Financial Conduct Authority's (FCA) DTRs is publicly available to view via the regulatory information service on the Company's website. This publicly available information also covers the requirements of the Kazakh Stock Exchange to provide information about all major transactions with the listed company's shares in the reporting period and any changes in the structure of shareholders holding five and more per cent. of the outstanding shares over the reporting period.

Additionally, on 16 January 2018, Harding Loevner L.P. notified the Company that its shareholding in the Company had decreased to 4.78%.

Significant contractual arrangements

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

Pursuant to its terms, the KSS Global Relationship Agreement will continue until the earlier of (a) the ordinary shares ceasing to be admitted to the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange or (b) KSS Global (together with any of its affiliates) ceasing to be entitled to exercise, or to control the exercise of, 10% or more of the rights to vote at the Company's General Meetings.

1. These disclosures have been made on a voluntary basis as the Company does not have more than 250 employees employed under contracts of service working wholly or mainly in the UK each week as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

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:

1. In the event of a takeover of the Company all options under the Company's phantom share option plan shall be deemed to have vested and the Board shall direct Intertrust Employee Benefit Trustee Limited to allow each optionholder to exercise his or her options at any time from the date of the change of control up to the 10th anniversary of the date of grant. Any options that have not been exercised will lapse at the end of this period.
2. In the event of a takeover of the Company all options under the Company's employee long-term incentive plan shall be deemed to have vested and the Board shall direct Intertrust Employee Benefit Trustee Limited to allow each optionholder to exercise his or her options during the one-month period following the change of control event. Any options that have not been exercised will lapse at the end of this period.
3. The 2012 Bonds, the 2014 Bonds and the 2017 Bonds contain change of control provisions. If a change of control occurs the Company will be required to offer to repurchase the 2012 Bonds, the 2014 Bonds and the 2017 Bonds at 101% of their principal amount, plus accrued and unpaid interest to the date of the purchase.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment or otherwise that occurs specifically because of a takeover.

Corporate governance statement

Pursuant to Disclosure Guidance and Transparency Rule 7, certain parts of the corporate governance statement are required to be outlined in the Directors' Report. This information is laid out in the corporate governance section of this Annual Report. Information regarding the main features of the Company's internal control and risk management arrangements in relation to the financial reporting process can be found in the Strategic Report and the report of the Audit Committee.

Directors' Report continued

Requirements of the Listing Rules

The following table provides references to where the information required by Listing Rule 9.8.4R is disclosed.

Information required	Sub-section of Listing Rule 9.8.4R	Reference
Capitalised interest	(1)	Please refer to note 7 in the financial statements
Publication of unaudited financial information	(2)	Not applicable
Details of any long-term incentive schemes established to specifically recruit or retain a director.	(4)	Not applicable
Waiver of emoluments by a director	(5) (6)	No such waivers
Allotment of equity securities for cash	(7) (8)	No such share allotments
Participation in a placing of equity securities	(9)	Not applicable.
Contracts of significance	(10)	Please refer to the Directors' Report
Contracts for the provisions of services by a controlling shareholder	(11)	Not applicable
Dividend waiver	(12) (13)	Under the trust deed relating to the phantom share option plan and the LTIP, the trustee has agreed to waive any dividends on shares held under both plans.
Agreements with controlling shareholder	(14)	Not applicable as the Company does not have a "controlling shareholder" within the definition under Listing Rule 6.1.2A R, however, please see Directors' Report for details of relationship agreements the Company has entered into with certain shareholders.

Important events since the end of the financial year

Major events after 31 December 2017 are disclosed in note 35 to the consolidated audited financial statements.

In February 2018, the Group successfully issued a new US\$400 million bond with a seven-year maturity and a fixed coupon of 7.000% in order to refinance the remainder of its outstanding debt due in 2019.

This report was approved by the Board on 23 March 2018.

On behalf of the Board



Kai-Uwe Kessel
Chief Executive Officer
26 March 2018



Tom Richardson
Chief Financial Officer
26 March 2018

Responsibility statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The directors are required by the Companies Act 2006 to prepare accounts for each financial year and, with regards to Group accounts, in accordance with Article 4 of the IAS Regulation. The directors have prepared individual accounts in accordance with IFRS as adopted by the EU. The accounts are required by law and IFRS to present fairly the financial position of the Company and the Group and the performance for that period. The directors must not approve such accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the consolidated Group.

In preparing these financial statements the directors are required to:

- Select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes and Accounting Estimates and Errors' and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- State that the Group and the Company have complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements.
- Provide additional disclosures when compliance with specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and performance.
- Prepare the Group's and Company's financial statements on a going concern basis, unless it is inappropriate to do so.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, and having reviewed the Annual Report (including the Strategic Report), the directors consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable, providing the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The directors have responsibility for:

- ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the accounts comply with the Companies Act 2006;
- taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities; and
- the maintenance and integrity of the corporate and financial information on the Company's website.¹

Each of the directors whose names and functions are listed on page 52-53, confirm that to the best of their knowledge:

- a. the Company and Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- b. the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



Kai-Uwe Kessel
Chief Executive Officer
26 March 2018



Tom Richardson
Chief Financial Officer
26 March 2018

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

Consolidated financial statements

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Independent auditor's report to the members of Nostrum Oil & Gas PLC

Our opinion on the financial statements

In our opinion:

- Nostrum Oil & Gas PLC's Group financial statements and Parent company financial statements (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 2017 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

We have audited the financial statements of Nostrum Oil & Gas PLC which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2017	Statement of financial position as at 31 December 2017
Consolidated statement of Comprehensive Income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 15 to the financial statements
Related notes 1 to 34 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 38 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 91 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 110 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 42 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation and the decommissioning provision • Impairment of exploration licenses, goodwill and oil & gas development and production fixed assets • Revenue recognition • Completeness of related party transactions and related disclosures • Risk of management override
Audit scope	<ul style="list-style-type: none"> • We performed an audit of the complete financial information of 3 components across United Kingdom, Belgium and Kazakhstan and audit procedures on specific balances for a further 6 components across United Kingdom, Belgium, Kazakhstan, Russia and the Netherlands. • The components where we performed full or specific audit procedures accounted for 94% of Profit before tax and amounted to full coverage of EBITDA, Revenue and Total assets.
Materiality	<ul style="list-style-type: none"> • Overall Group materiality of US\$6.5m which represents 3% of EBITDA.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation ('DD&A') and the decommissioning provision</p> <p>Refer to the Audit Committee Report on page 61; the estimates and judgements on page 114 and the disclosures in note 7 of the Consolidated Financial Statements (page 122)</p> <p>This was considered to be a significant risk due to the subjective nature of reserves estimates and their pervasive impact on the financial statements through impairment, DD&A calculations and the decommissioning provision. Reserves are also considered a fundamental indicator of the future potential of the Group's performance and its ability to continue as a going concern.</p> <p>The estimation of oil and gas reserves is a significant area of judgement due to the technical uncertainty in assessing reserves quantities. Consistent with the previous year, management has engaged a third party specialist in connection with the estimation of reserves volumes.</p> <p>The risk has remained consistent with the prior year.</p>	<p>Our audit procedures have focused on management's estimation process, including whether bias exists in determination of reserves. We assessed management's assumptions including commercial assumptions to ensure that they are based on supportable evidence. We have:</p> <ul style="list-style-type: none"> • carried out procedures to walkthrough and understand the Group's internal process and key controls associated with the oil and gas reserves estimation process; • met with management's third party specialist during the planning and execution of the audit and assessed their competence and objectivity by enquiry of their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists, to satisfy ourselves that they are appropriately qualified to carry out the volumes estimation and prepare the input data used by the third party specialist. We checked the accuracy of the data transfer to the third party specialist; • corroborated management's commercial assumptions by checking they lie within an acceptable range compared to publicly available benchmarks where available. We compared management's internal assumptions to the latest plans and budgets for consistency; we have also challenged management's capabilities to execute on such plans by comparison to prior performance; • reviewed the final oil and gas reserves estimation report prepared by management's third party specialist in light of our understanding of the business and we confirmed with them that all significant changes in reserves were made in the appropriate period, and in compliance with relevant industry standards; and • validated that the updated reserves estimates were included appropriately in the Group's consideration of impairment, in accounting for DD&A and determination of decommissioning dates. 	<p>Based on audit procedures performed we consider that the reserves estimations are reasonable for use in impairment testing, management's going concern assessment, calculation of DD&A and the determination of decommissioning dates.</p>
	<p>We performed full scope audit procedures over this risk area in one location (Kazakhstan).</p>	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>The risk of impairment of exploration licenses, goodwill and oil & gas development and production fixed assets</p> <p>Refer to the Audit Committee Report on page 61; the estimates and judgements on page 115 and the disclosures in notes 5 to 7 of the Consolidated Financial Statements (pages 121-123).</p> <p>At 31 December 2017 the carrying value of goodwill was US\$32,425 thousand (2016: US\$32,425 thousand); exploration licenses: US\$47,828 thousand (2016: US\$44,271 thousand); oil & gas development and production assets, including non-current advances: US\$1,910,752 thousand (2016: US\$1,787,928 thousand).</p> <p>Owing to the continued oil price volatility there is a related risk of impairment. Accounting standards require management to test goodwill for impairment annually.</p> <p>We focused on this area due to the significance of the carrying value of the Cash Generating Unit ('CGU') containing goodwill, the current economic environment and the judgement involved in the assessment of the recoverable amount of the Group's CGU around the future prices of oil, natural gas and related products, both in the short and long-term, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes.</p> <p>The risk has remained consistent with the prior year.</p>	<p>For exploration licenses we have evaluated management's assessment of each impairment trigger per IFRS 6 'Exploration for and Evaluation of Mineral Resources'. We have:</p> <ul style="list-style-type: none"> • verified that the Group had the right to explore in the relevant exploration licence which included obtaining and reviewing supporting documentation such as license agreements and signed supplemental agreements and communication with relevant government agencies. In the event of non-compliance the Group can evidence that the terms are modified and any relevant penalties and fines accrued; • enquired that management had the intention to carry out exploration and evaluation activity in the relevant exploration area and corroborated these responses by reviewing management's cash-flow forecast models to verify they include further spend on the exploration activities. We discussed the intentions and strategy of the Group with senior management and Directors to confirm our understanding; • validated whether the Group has the ability to finance any planned future exploration and evaluation activity; • assessed the competency of management's experts, and (where applicable), the competency and objectivity of third party specialists engaged for the purposes of assessing the reserves and resources associated with those exploration and evaluation assets; and • compared the commercial viability of the exploration fields to the cash-flow forecast models. <p>In addressing the risk of impairment for Goodwill and oil & gas development and production fixed assets we utilised our valuation specialists and evaluated management's impairment assessment by testing the key assumptions. We have:</p> <ul style="list-style-type: none"> • walked through the controls designed by the Group relating to the assessment of the carrying value of goodwill and oil & gas development and production fixed assets; • tested the integrity of models with the assistance of our own specialists; • tested price and discount rate assumptions by comparing forecast oil price assumptions to the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the group; • focused our audit procedures on oil & gas reserves estimates, as described above in our report; • tested forecast cash flows by comparing the assumptions used within the impairment models to the approved budgets, business plans and other evidence of future intentions. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance; • compared the inflation and exchange rate assumptions to external market data; • evaluated management's sensitivity analysis of goodwill and oil & gas development and production fixed assets impairment testing in order to assess the potential impact of a range of reasonably possible outcomes. These sensitivities included adjustments to the discount rate, prices, future production volumes, opex and capex assumptions; and • evaluated the appropriateness of the financial statement disclosures. 	<p>We consider management's estimates to be reasonable with assumptions within an acceptable range. The Group's price assumptions are within the range of analyst expectations and other market data, including the range of what we understand other market participants are considering as long-term oil and gas prices. The pre-tax discount rate is within the range of our expectations.</p> <p>We concluded that the related disclosures provided in the Group's financial statements are appropriate.</p>
<p>We performed full scope audit procedures over this risk area at the Group level (goodwill). We also audited the impairment assessment prepared by management for exploration licenses and oil & gas development and production fixed assets in Kazakhstan. By performing these procedures we obtained full coverage of the risk amount.</p>		

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Revenue recognition</p> <p>Refer to the Audit Committee Report on page 61; The Summary of significant accounting policies in page 121 and the disclosures in note 20 of the Consolidated Financial Statements (page 130)</p> <p>Revenue for the year ended 31 December 2017 amounts to US\$405,533 thousand (2016: US\$347,983 thousand). Revenue sales include crude oil, gas condensate, dry gas and liquefied petroleum gas ('LPG').</p> <p>There exists a risk of management manipulation to overstate or understate revenue. This could be achieved by potentially recording sales in an incorrect period.</p> <p>The risk has remained consistent with the prior year.</p>	<p>Our component team in Kazakhstan performed procedures to walkthrough and understand the process and key controls associated with the revenue recognition and accounts receivable process.</p> <p>We made enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with their terms, we also performed procedures that are designed to address the risk of manipulation of accounting records and the ability to override controls. We have:</p> <ul style="list-style-type: none"> • tested a sample of third party evidence to verify revenue transactions are recorded appropriately, this included inspection of sales contracts with customers and delivery documents. We performed substantive audit procedures on cash accounts to verify cash collection from customers; • analysed the entire population of revenue transactions and identified revenue journals for which the corresponding entry was not posted against trade debtors and trade debtors not cleared through cash. From the outstanding debtor accounts identified, we confirmed the material debtors balances with the relevant counterparties as well as tested that debtors amounts were received subsequent to year-end; • tested the appropriateness of journal entries impacting revenue, using data extracted from the accounting system, as well as other adjustments made in the preparation of the financial statements; • carried out other analytical review procedures on each individual revenue stream using disaggregated volume by product, by customer and by month to assess the respective products' underlying performance and corroborate the appropriateness of the timing of revenue recognition; and • evaluated the financial statement disclosures for compliance with the requirements of accounting standards. 	<p>We consider that Revenue is recognised in accordance with sales agreements. We also consider the financial statements disclosures with respect to Revenue are reasonable and adequate.</p>
	<p>We performed full scope audit procedures over this risk area in one location (Kazakhstan). By performing these procedures we obtained full coverage of the risk account.</p>	
<p>Completeness of related party transactions ("RPT") and related disclosures</p> <p>Refer to the Audit Committee Report on page 61 and the disclosures of related party transactions in note 30 of the Group Financial Statements (page 137)</p> <p>Transactions with related parties mainly comprise transactions between the subsidiaries of the Company and entities controlled by the shareholders with significant influence over the Group. Given the significant monetary amounts involved we consider RPTs and related disclosures to be a significant risk.</p> <p>The risk has remained consistent with the prior year.</p>	<p>Our audit procedures have focused on obtaining evidence over the completeness of related party transactions and the related disclosures. We have:</p> <ul style="list-style-type: none"> • 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; • identified high value and unusual transactions, if any, and if necessary performed further procedures; • obtained an updated list of all related parties to the Group and reviewed the general ledger against this list to ensure completeness of 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. 	<p>Based on the procedures performed, we have not noted any undisclosed related party transactions.</p>
	<p>In addressing this risk, audit procedures were performed by the component teams in Kazakhstan and Belgium and the Group engagement team.</p>	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Risk of management override</p> <p>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 accounting records and earnings or financial ratios or to misappropriate assets. We also specifically considered any potential impact on impairment.</p> <p>The risk has remained consistent with the prior year.</p>	<p>We considered whether there was evidence of bias by the Directors and senior management in significant accounting estimates and judgements relevant to the financial statements. This included performing procedures with a particular focus on those key judgements and estimates which relate to the risks of estimation of oil and gas reserves, impairment of non-current assets, revenue recognition and related parties transactions as highlighted above.</p> <p>Using our analytics tools we tested manual and automated journal entries and included a selection of journals, with a focus on those journal entries that may impact the carrying value of the long term assets, related to other significant risks identified as part of our audit engagement.</p> <p>As part of our audit procedures to address this fraud risk, we assessed the overall control environment and interviewed senior management and the Group's internal audit function to understand whether there had been any reported actual or alleged instances of fraudulent activity during the year.</p>	<p>We have not identified any instances of management override or bias in significant estimates and judgements.</p>
	<p>In addressing this risk, audit procedures were performed by the component team in Kazakhstan and the Group engagement team. We tested manual and automated journal entries for six components where we performed full or specific scope audit.</p>	

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 11 reporting components of the Group, we selected 9 components covering entities within the Netherlands, Belgium, Russia, United Kingdom and Kazakhstan, which represent the principal business units within the Group. The Group engagement team performed the audit of the consolidation in the United Kingdom.

Of the 9 components selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics. For another four components ("specific scope components"), we performed audit procedures on specific accounts within the component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For the remaining two components ("specified procedures scope components") we performed procedures on the existence and valuation of cash balances and the completeness and measurement of payroll and general and administrative expenses. The audit scope for specified procedures are those where we perform procedures that address only specific account assertions rather than the account balance as a whole.

The three full scope components account for 100% of the Group's revenue and 107% of the Group's EBITDA. The EBITDA coverage of 107% represents one full scope component having a positive contribution of 116% offset by two full scope components having a negative contribution of 9%. The specific scope and specified procedures scope locations do not have income generating activities and we audited cash, payroll, finance costs, general and administrative expenses, the employee share option plan, long-term borrowings and other current liabilities.

Of the remaining two components having together a contribution of less than 2% of the Group's EBITDA, none are individually greater than 1% of the Group's EBITDA. For these components, we performed other procedures, including analytical review, inquiries and testing of consolidation journals and intercompany eliminations to address any residual risk of material misstatement to the Group financial statements.

An overview of the scope of our audit (continued)

Involvement with component teams

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 primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For the two full scope components in Kazakhstan and Belgium, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle we held a global audit team event led by the Senior Statutory Auditor, where the primary audit team and the component teams considered the audit risk and strategy. In the course of the year the Senior Statutory Auditor met and communicated at least quarterly with the engagement partner of the component team in Kazakhstan and discussed key audit matters. The primary audit team visited the component team in Kazakhstan to attend the component closing meeting with local management, visited the operating field and the GTU3 construction site and reviewed key working papers. The primary team was ultimately responsible for the scope and direction of the audit process. Video and telephone conference meetings were also held with the component teams in Kazakhstan and Belgium throughout the current year's audit cycle. The primary team interacted regularly with the component teams during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US\$6.5 million (2016: US\$3.2 million), which is 3% of EBITDA (2016: 3% of EBITDA). We have used an earnings based measure as our basis of materiality. For the current year audit it was considered inappropriate to calculate materiality using Group profit or loss before tax due to the recent volatility of this metric following significant decline in oil and gas prices. EBITDA is a key performance indicator for the Group and is also a key metric used by the Group in the assessment of the performance of management. We also noted that market and analyst commentary on the performance of the Group uses EBITDA as a key metric. We therefore, considered EBITDA to be the most appropriate performance metric on which to base our materiality calculation as we considered that to be the most relevant performance measure to the stakeholders of the Group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely US\$3.2m (2016: US\$1.6m). We have set performance materiality at this percentage due to our past experience of the audit that indicate a higher risk of misstatements, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US\$0.3m to US\$2.4m (2016: US\$0.2m to US\$1.2m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US\$0.3m (2016: US\$0.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 49 and 50 to 93 including the Strategic Report and Corporate Governance sections, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 93 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** set out on page 61 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee / the explanation as to why the annual report does not include a section describing the work of the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 50 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 93, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority requirements) and the relevant subsoil use and tax compliance regulations.
- We understood how Nostrum Oil & Gas PLC is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by utilising internal and external information to perform a fraud risk assessment for each of the countries of operation.
- We considered the risk of fraud through management override and, in response, we incorporated data analytics across manual journal entries into our audit approach. Our procedures included testing of transactions back to source information and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on the results of our risk assessment we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business; enquiries of legal counsel, group management and internal audit.
- If any instance of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures supplemented by audit procedures performed at the group level.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation of the Audit Committee we were re-appointed by the Company's Annual General Meeting (AGM) on 26 June 2017, as auditor of the Company to hold office until the conclusion of the next AGM of the Company, and signed an engagement letter on 31 July 2017. Our total uninterrupted period of engagement is four years covering periods from our appointment through to the period ended 31 December 2017. The non-audit services prohibited by the FRC's Ethical Standard were not provided to Nostrum Oil & Gas PLC or the Parent Company and we remain independent of Nostrum Oil & Gas PLC and the Parent Company in conducting the audit.

Our audit opinion is consistent with our additional report to the AC explaining the results of our audit.



Richard Addison

(Senior statutory auditor)

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

London, 26 March 2018.

Notes:

1. The maintenance and integrity of the Nostrum Oil & Gas PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

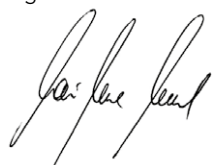
Consolidated statement of financial position

In thousands of US dollars	Notes	31 December 2017	31 December 2016 Restated*
NON-CURRENT ASSETS			
Exploration and evaluation assets	6	47,828	44,271
Goodwill	5	32,425	32,425
Property, plant and equipment	7	1,941,894	1,808,524
Restricted cash	12	6,663	5,981
Advances for non-current assets	8	14,598	28,676
Total Non-current assets		2,043,408	1,919,877
CURRENT ASSETS			
Inventories	9	29,746	28,326
Trade receivables	10	34,520	29,052
Prepayments and other current assets	11	27,103	21,171
Derivative financial instruments	29	-	6,658
Income tax prepayment		3,380	1,062
Cash and cash equivalents	12	126,951	101,134
Total Current assets		221,700	187,403
TOTAL ASSETS		2,265,108	2,107,280
SHARE CAPITAL AND RESERVES			
Share capital	13	3,203	3,203
Treasury capital		(1,660)	(1,846)
Retained earnings and reserves		668,010	690,455
Total Share capital and reserves		669,553	691,812
NON-CURRENT LIABILITIES			
Long-term borrowings	15	1,056,541	943,534
Abandonment and site restoration provision	16	23,590	19,635
Due to Government of Kazakhstan	17	5,466	5,631
Deferred tax liability	28	381,595	345,607
Total Non-current liabilities		1,467,192	1,314,407
CURRENT LIABILITIES			
Current portion of long-term borrowings	15	31,337	15,518
Employee share option plan liability	26	2,086	4,339
Trade payables	18	56,855	43,320
Advances received		1,279	1,810
Income tax payable		499	1,124
Current portion of due to Government of Kazakhstan	17	1,031	1,289
Other current liabilities	19	35,276	33,661
Total Current liabilities		128,363	101,061
TOTAL EQUITY AND LIABILITIES		2,265,108	2,107,280

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, please refer to Note 3 for more details.

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
Chief Executive Officer



Tom Richardson
Chief Financial Officer

The accounting policies and explanatory notes on pages 108-143 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

In thousands of US dollars	Notes	For the year ended 31 December	
		2017	2016 Restated*
Revenue			
Revenue from export sales		262,767	244,586
Revenue from domestic sales		142,766	103,397
	20	405,533	347,983
Cost of sales	21	(177,246)	(182,180)
Gross profit		228,287	165,803
General and administrative expenses	22	(33,303)	(34,758)
Selling and transportation expenses	23	(66,441)	(75,681)
Taxes other than income tax	24	(19,967)	(20,175)
Finance costs	25	(59,752)	(41,709)
Employee share options - fair value adjustment	26	2,099	99
Foreign exchange loss, net		(688)	(390)
Loss on derivative financial instruments	29	(6,658)	(63,244)
Interest income		374	461
Other income		4,071	2,191
Other expenses	27	(22,055)	1,864
Profit/(loss) before income tax		25,967	(65,539)
Current income tax expense		(13,883)	(20,502)
Deferred income tax (expense) / benefit		(35,966)	3,021
Income tax expense	28	(49,849)	(17,481)
Loss for the year		(23,882)	(83,020)
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		825	(70)
Other comprehensive income/(loss)		825	(70)
Total comprehensive loss for the year		(23,057)	(83,090)
Loss for the year attributable to the shareholders (in thousands of US dollars)		(23,882)	(83,020)
Weighted average number of shares		185,068,917	184,866,287
Basic and diluted earnings per share (in US dollars)		(0.13)	(0.45)

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, please refer to Note 3 for more details.

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

The accounting policies and explanatory notes on pages 108–143 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

In thousands of US dollars	Notes	For the year ended 31 December	
		2017	2016 Restated*
Cash flow from operating activities:			
Profit/(loss) before income tax		25,967	(65,539)
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	21,22	122,986	131,585
Finance costs	25	59,752	40,859
Employee share option plan fair value adjustment		(2,099)	(99)
Interest income		(374)	(461)
Net foreign exchange differences		(1,541)	(1,329)
Loss on disposal of property, plant and equipment		1,285	95
Proceeds from derivative financial instruments	29	-	27,198
Loss on derivative financial instruments	29	6,658	63,244
Provision for doubtful debts		1,756	-
Accrued expenses		3,046	243
Operating profit before working capital changes		217,436	195,796
<i>Changes in working capital:</i>			
Change in inventories		1,561	708
Change in trade receivables		(5,468)	2,285
Change in prepayments and other current assets		(5,733)	22,204
Change in trade payables		(4,555)	2,028
Change in advances received		(531)	1,566
Change in due to Government of Kazakhstan		(1,289)	(773)
Change in other current liabilities		(1,597)	(12,251)
Payments under Employee share option plan		(1,162)	-
Cash generated from operations		198,662	211,563
Income tax paid		(15,874)	(9,457)
Net cash flows from operating activities		182,788	202,106
Cash flow from investing activities:			
Interest received		374	461
Purchase of property, plant and equipment		(188,060)	(192,826)
Exploration and evaluation works	6	(3,482)	(7,475)
Loans granted		(1,223)	(496)
Net cash used in investing activities		(192,391)	(200,336)
Cash flow from financing activities:			
Finance costs paid		(57,013)	(65,400)
Issue of notes		725,000	-
Repayment of notes		(606,808)	-
Fees and premium paid for early repayment and on arrangement of notes		(27,084)	-
Treasury shares sold		1,853	352
Payment of finance lease liabilities		(676)	(669)
Transfer to restricted cash		(683)	(606)
Net cash from/(used in) financing activities		34,589	(66,323)
Effects of exchange rate changes on cash and cash equivalents		831	127
Net increase/(decrease) in cash and cash equivalents		25,817	(64,426)
Cash and cash equivalents at the beginning of the year	12	101,134	165,560
Cash and cash equivalents at the end of the year	12	126,951	101,134

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, please refer to Note 3 for more details.

The accounting policies and explanatory notes on pages 108-143 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

In thousands of US dollars	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
As at 1 January 2016 (restated*)		3,203	(1,888)	260,833	512,561	774,709
Loss for the year		-	-	-	(83,020)	(83,020)
Other comprehensive loss		-	-	(70)	-	(70)
Total comprehensive loss for the year		-	-	(70)	(83,020)	(83,090)
Sale of treasury capital		-	42	155	-	197
Transaction costs		-	-	-	(4)	(4)
As at 31 December 2016 (restated*)		3,203	(1,846)	260,918	429,537	691,812
Loss for the year		-	-	-	(23,882)	(23,882)
Other comprehensive income		-	-	825	-	825
Total comprehensive loss for the year		-	-	825	(23,882)	(23,057)
Sale of treasury capital		-	186	674	-	860
Transaction costs		-	-	-	(62)	(62)
As at 31 December 2017		3,203	(1,660)	262,417	405,593	669,553

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, please refer to Note 3 for more details.

The accounting policies and explanatory notes on pages 108–143 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General

Overview

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

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

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

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

1. Merged with Nostrum Services CIS BVBA during 2016

Grandstil LLC was liquidated as of 6 December 2017.

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

As at 31 December 2017, the Group employed 989 employees (FY 2016: 989).

Subsoil use rights terms

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

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

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. On 1 November 2017 the fourteenth supplementary agreement to the Contract was signed, which contains updates and adjustments to work programme.

The contract for exploration and production of hydrocarbons from the Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. Subsequently, the exploration period was extended until 8 February 2017. Zhaikmunai LLP's application for further extension of the exploration period is under approval by the MOE.

The contract for exploration and production of hydrocarbons from the Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2017. The Group's application for further extension of the exploration period is under approval by the MOE.

The contract for exploration and production of hydrocarbons from the Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2017. The Group's application for further extension of the exploration period is under approval by the MOE.

Royalty payments

Zhaikmunai LLP is required to make monthly royalty payments throughout the entire production period, at the rates specified in the Contract.

Royalty rates depend on hydrocarbons recovery levels and the phase of production and can vary from 3% to 7% of produced crude oil and from 4% to 9% of produced natural gas. Royalty is accounted on a gross basis.

Government "profit share"

Zhaikmunai LLP makes payments to the Government of its "profit share" as determined in the Contract. The "profit share" depends on hydrocarbon production levels and varies from 10% to 40% of production after deducting royalties and reimbursable expenditures. Reimbursable expenditures include operating expenses, costs of additional exploration and development costs. Government "profit share" is expensed as incurred and paid in cash. Government profit share is accounted on a gross basis.

2. Basis of preparation and consolidation

Basis of preparation

These consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union and the requirements of the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to annual financial statements.

The consolidated financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (Note 4). The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from management to exercise its 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 2017. 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.

Notes to the consolidated financial statements continued

2. Basis of preparation and consolidation / continued

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- 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.

Group reorganisation

The Group has been formed through a reorganisation that took place in June 2014 in which Nostrum Oil & Gas PLC became a new parent entity of the Group (Note 13). 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 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard or amendment which is applicable to the consolidated financial statements of the Group is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 15.

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 that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: 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. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2017, the Group performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in 2018 when the Group will adopt the standard. Overall, the Group expects no significant impact of IFRS 9 on its balance sheet and equity.

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It will continue measuring derivative financial instruments at fair value.

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity due to the average short collection period of trade receivables as well as anticipation of low trade impairment losses on trade receivables based on the historical data, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 (amended in April 2016) and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard 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 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using modified retrospective application. During the year ended 31 December 2017, the Group performed an assessment of the impact of IFRS 15 on the financial statements of the Group.

(a) Sale of goods

The Group is in the business of production and sale of oil and gas products. All goods are sold in separate identified contracts with customers. For such contracts with customers in which the sale of goods is the only performance obligation, adoption of IFRS 15 will not have any significant impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, which stays the same as under the current IFRS. Therefore, there is no change in timing recognition of revenue under IFRS 15.

(b) Variable consideration

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

The Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Currently the Group recognises revenue only when it is highly probable that there will not be a subsequent significant reversal in the amount of revenue recognised at the point at which uncertainty over the amount of variable consideration is resolved. Historically, the goods sold by the Group were not returned by customers, neither were there material volume rebates in contracts. Therefore, the Group does not expect that application of IFRS 15 will result in a different amount of revenue being recognised than under current IFRS.

(c) Advances received from customers

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group will not account for a financing component even if it is significant.

The Group receives only short-term advances from its customers. However, the Group may receive from customers long-term advances in the future. Therefore, close monitoring of the advances from customers will be made to reveal any significant financing component because of the length of time.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor').

All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations.

The Group has started an initial assessment of the potential impact on its financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of cars, railway tanks, vehicles and pumping stations.

Notes to the consolidated financial statements

continued

3. Changes in accounting policies and disclosures / continued

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

Correction of an error and changes in presentation

In 2017, the Group carried out a detailed review of the expenditures on construction of its facilities and drilling of wells. As part of the review, it was discovered that there was an error in application of effective interest rate method for capitalisation of borrowing costs resulting in understatement of construction progress and respective overstatement of finance costs. On the other hand, the Group has been providing catering and accommodation services to its providers of construction, drilling and operational services on which income has been recognized, and at the same time respective expenditures of the suppliers were recharged to the Group and accordingly either capitalised as part of construction in progress or expensed as cost of sales or other expenses, leading to overstatement of these accounts.

For the purpose of the consolidated financial statements for the year ended 31 December 2017 and going forward, the Group presents "training", "sponsorship" and "social program" expenses within Other expenses in the Consolidated Statement Comprehensive Income. Previously, the Group presented these expenses within General and administrative expenses in the Consolidated Statement of Comprehensive Income.

For the purpose of the consolidated financial statements for the year ended 31 December 2017 and going forward, the Group also presents Taxes other than income tax, a new line item in the Consolidated Statement of Comprehensive Income which includes "royalties" and "government profit share" previously presented within Cost of Sales, "export customs duties" previously presented in Other expenses and "other taxes" previously presented within General and administrative expenses.

These corrections and changes in presentation have been reflected by restating each of the affected financial statement line items for the prior periods, as follows:

In thousands of US dollars	Reported	Interest capitalisation correction	Catering and accommodation correction	Reclassifications	As adjusted
As at 1 January 2016					
Retained earnings and reserves	772,441	3,393	(2,440)	-	773,394
For the year ended 31 December 2016					
Cost of sales	(199,455)	53	2,730	14,492	(182,180)
General and administrative expenses	(37,982)	-	-	3,224	(34,758)
Taxes other than income tax	-	-	-	(20,175)	(20,175)
Finance costs	(44,474)	2,765	-	-	(41,709)
Other income	9,841	-	(7,650)	-	2,191
Other expenses	(1,656)	-	1,061	2,459	1,864
Income tax expense	(17,407)	(845)	771	-	(17,481)
As at 31 December 2016					
Retained earnings and reserves	690,617	5,366	(5,528)	-	690,455
Property, plant and equipment	1,807,768	7,666	(6,910)	-	1,808,524
Deferred tax liability	344,689	2,300	(1,382)	-	345,607
Consolidated statement of cash flows for the year ended 31 December 2016					
Depreciation, depletion and amortisation	132,203	(53)	(565)	-	131,585
Finance costs	43,624	(2,765)	-	-	40,859
Purchase of property, plant and equipment	(197,250)	-	4,424	-	(192,826)

The Group has not included a third balance sheet as at 1 January 2016 because the adjustment to opening balances was not considered to be material.

4. Summary of significant accounting policies

Exploration expenditure

Costs directly associated with exploration wells are capitalised within exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration and materials and fuel used, rig costs, payments made to contractors and asset retirement obligation fees.

Significant estimates and assumptions: Exploration expenditure

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, which is subject to estimation uncertainties. When this is no longer the case, the costs are written off.

Subsoil use rights acquisition costs are initially capitalised in exploration and evaluation assets. Subsoil use rights acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the subsoil use rights have been relinquished or have expired, the carrying value of the subsoil use rights acquisition costs is written off through profit or loss.

The Group owns licences in the Western Kazakhstan region, including the Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye fields where the exploration periods will expire or have expired (respectively on 8 February 2018, 31 December 2017 and 31 December 2017). The Group's applications for extension of these exploration periods are under approval by the MOE. The Group remains committed to developing its exploration assets and based on the past history of the Group's ability to obtain extension, therefore, continues to carry the capitalised costs on its balance sheet. For more detailed information in relation to the subsoil use rights terms, please see Note 1.

Significant accounting judgement: Exploration expenditure

Judgement is also required when determining the appropriate grouping of the exploration assets into a CGU when assessing their recoverable amounts. The management has determined all three exploration fields as a single cash generating unit.

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

For more detailed information in relation to exploration and evaluation assets, please see Note 6.

Property, plant and equipment

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligations, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

All capitalised costs of oil and gas properties are depleted using the unit-of-production method based on estimated proved developed reserves of the field, except the Group depreciates its oil pipeline and oil loading terminal on a straight line basis over the life of the relevant subsoil use rights. In the case of assets that have a useful life shorter than the lifetime of the field the straight line method is applied.

Other properties

All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies / continued

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

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

For more detailed information in relation to property plant and equipment, please refer to Note 7.

Significant accounting judgment: oil and gas reserves

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortisation (the "DD&A"). These reserve quantities are used for calculating the unit of production depletion rate as it reflects the expected pattern of consumption of future economic benefits by the Group.

Significant estimates and assumptions: oil and gas reserves

The Group uses the internal estimates confirmed by independent reserve engineers on an annual basis to assess the oil and gas reserves of its oil and gas fields. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under the SPE methodology, the Group uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually.

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A, whereby changes in proved reserves are dealt with prospectively by amortising the remaining carrying value of the asset over the expected future production. Downward revision of the proved reserves estimates in the future could lead to relative increase in depreciation expense. Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group. Details on carrying values of oil and gas properties and related depreciation, depletion and amortization are shown in Note 7.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest ("NCI") in the acquiree. For each business combination, the Group elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised separately, but instead are subsumed in goodwill.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a Cash Generating Unit ("CGU") and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Impairment of property, plant and equipment, exploration and evaluation assets and goodwill

The Group assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the Group's business plans, significant decreases in the market commodity prices, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped into CGU for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. For more detailed information in relation to goodwill, please refer to Note 5.

The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information for the determination of value in use. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing 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 rate.

Significant accounting judgements: identification of cash-generating unit

Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. Management has determined a single cash-generating unit within the Group's non-current assets consisting of all Group's assets related to its Chinarevskoye and exploration fields and gas treatment facility.

Significant accounting estimates and assumptions: impairment of property, plant and equipment, exploration and evaluation assets and goodwill

Determination as to whether, and by how much, the CGU containing goodwill is impaired involves management's best estimates on highly uncertain matters such as future commodity prices, operating expenses and capital expenditures estimates, discount rate, future production volumes and fiscal regimes.

The recoverable amount is determined by calculation of the value-in-use based on the discounted cash flow model as no recent third party transactions exist on which a reliable market-based fair value can be established. The value-in-use calculation model takes into consideration cashflows, which are expected to arise until 2032, i.e. during the licence 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 recoverability of exploration assets is covered under Exploration expenditure above.

The key assumptions used in the Group's discounted cash flow model reflecting past experience and taking in account of external factors are subject to periodic review. These assumptions are:

- Oil prices (in real terms): US\$60/bbl for 2018-2032;
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;
- Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates and production profiles; and
- Pre-tax discount rate of 14.7% (2017: 14.1%);
- Completion of the third unit for the gas treatment facility in 2018 resulting in gradual increase in the annual production volumes.

These estimates may have a material impact on the value in use and, respective impairment, e.g. low oil prices for an extended period might lead to impairment charges. Even though the Group recognised a loss during the current year, mainly caused by the low oil prices, its operating cash flow remained strong. Short-term fluctuations in the oil prices are not considered to be indicative taking into account the long-lived nature of the Group's assets.

A 100 basis points increase in the pre-tax rate to 15% would result in no additional impairment charges. Even though reasonably possible changes in key assumptions may lead to material changes in recoverable amount of the cash generating unit, none of such changes causes the carrying amount of this cash generating unit as presented in these financial statements to exceed its recoverable amount. More detailed information related to carrying values of oil and gas properties and related depreciation, depletion and amortisation are shown in Note 7. For information related to goodwill, please refer to Note 5.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies / continued

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 countries 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.

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 utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

For more detailed information in current and deferred income tax disclosure as at 31 December 2017 and 2016, please see Note 28.

Significant accounting estimation uncertainty: 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. 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 2017.

The Group is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for taxes for which it is considered probable will be payable, based on professional advice and consideration of the nature of current discussions with the tax authority.

As at 31 December 2017 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. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see Note 28.

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The functional currency of the Company is the United States dollar (the "US dollar" or "US\$"). The functional currencies of the Group's subsidiaries are as follows:

Company	Functional currency
Nostrum Associated Investments LLP	Tenge
Nostrum E&P Services LLC	Russian rouble
Nostrum Oil & Gas Coöperatief U.A.	US dollar
Nostrum Oil & Gas BV	US dollar
Nostrum Oil & Gas Finance BV	US dollar
Nostrum Oil & Gas UK Ltd.	British Pound
Nostrum Services Central Asia LLP	Tenge
Nostrum Services N.V.	Euro
Zhaikmunai LLP	US dollar

Transactions in foreign currencies are initially recorded by the Group's subsidiaries at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

In the consolidated financial statements, the assets and liabilities of non-US dollar functional currency subsidiaries are translated into US dollars at the spot exchange rate on the balance sheet date. The results and cash flows of non-US dollar functional currency subsidiaries are translated into US dollars using average rates of exchange. In the consolidated financial statements, exchange adjustments arising when the opening net assets and the profits for the year retained by non-US dollar functional currency subsidiaries are translated into US dollars are reported in the statement of comprehensive income.

Advances for non-current assets

Advances paid for capital investments/acquisition of non-current assets are qualified as advances for non-current assets regardless of the period of supplies of relevant assets or the supply of work or services to close advances. Advances paid for the purchase of non-current assets are recognised by the Group as non-current assets and are not discounted.

For more detailed information in relation to advances for non-current assets, please refer to Note 8.

Borrowing costs

The Group capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalisation include all assets under construction that are not being depreciated, depleted, or amortised, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

For more detailed information in relation to capitalisation of borrowing costs, please refer to Note 7.

Inventories

Inventories are stated at the lower of cost or net realisable value ("NRV"). Cost of oil, gas condensate and liquefied petroleum gas ("LPG") is determined on the weighted-average method based on the production cost including the relevant expenses on depreciation, depletion and impairment and overhead costs based on production volume. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

For more information in relation to the breakdown of inventories as at 31 December 2017 and 2016, please see Note 9.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies / continued

Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed by the Group at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group classifies as contingent liabilities those possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise and the present obligations that arise from past events but are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Group does not recognise contingent liabilities but discloses contingent liabilities in Note 32, unless the possibility of an outflow of resources embodying economic benefits is remote.

Decommissioning

Provision for decommissioning is recognised in full, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made.

The Group estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation at current year prices adjusted for expected long-term inflation rate and discounted at applicable rate.

The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas properties. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit-of-production basis.

The Group reviews site restoration provisions at each financial reporting date and adjusts them to reflect current best estimates in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

- are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognised immediately in the profit or loss; and
- if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Movements in the abandonment and site restoration provision are disclosed in Note 16.

Significant accounting judgements: provisions and contingencies

Provisions and liabilities are recognised in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgement to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

Significant management judgment is required to evaluate any claims and actions to determine whether a provision relating to a specific litigation should be recognised or revised, or a contingent liability is required to be disclosed, since the outcome of litigation is difficult to predict.

Significant accounting estimates and assumptions: provisions and contingencies

The Group holds provision for the future decommissioning of oil and gas properties and site restoration. The estimation of the future dismantlement and site restoration costs involves use of significant estimates and assumptions by management, specifically for determining the timing of the future cash outflows and discount rate.

Management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights. Therefore, the most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows. Management of the Group believes that the long-term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan provides the best estimates of applicable risk uncorrected discount rate. Any changes in the expected future costs are reflected in both the provision and the asset. Moreover, actual decommissioning costs can differ from estimates because of constantly changing decommissioning technologies as well as changes in environmental laws and regulations and public expectations. As a result, there could be significant adjustments to the provisions established which would affect future financial results. For more details on abandonment and site restoration provision please refer to Note 16.

Other current liabilities

The Group makes accruals for liabilities related to the underperformance and/or adjustments of work programmes under subsoil use agreements (SUA) on a regular basis. When evaluating the adequacy of an accrual, management bases its estimates on the latest work program included in the SUA, and relevant signed supplements and potential future changes in payment terms (including the currency in which these liabilities are to be settled). Future changes in the work programmes may require adjustments to the accrual recorded in the consolidated financial statements.

Financial assets

Initial recognition, measurement and derecognition

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.

Financial assets are de-recognised when the rights to receive cash flows from the asset have expired.

Loans and receivables are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

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 reorganisation 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.

For financial assets carried at amortised cost the Group assesses individually whether objective evidence of impairment exists. 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.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised 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.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies / continued

Financial liabilities

Initial recognition, measurement and derecognition

All financial liabilities are recorded initially at fair value. The Group's financial liabilities include trade and other payables and borrowings.

After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the EIR. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

A financial liability is derecognised when the obligation under the liability is discharged, 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, the difference in the respective carrying amounts is recognised in the profit or loss.

Significant accounting judgements: modification of liabilities

When an existing financial liability is replaced by another from the same lender judgement is required to determine whether the terms of the new financial liability are substantially different from the terms of the original liability. As part of its capital management strategy, the Group can repurchase issued Notes ("old Notes") and issue new Notes on different terms.

The holders of the old Notes are given an option to exchange the old Notes for the new Notes. If the terms are not substantially different, the exchange of Notes does not result in derecognition of the financial liability, and the Group recalculates the gross carrying amount of the new Notes taking in consideration the relative proportion of the arrangement fees associated with the Notes being exchanged. In relation to the portion of the Notes which are repurchased rather than exchanged for newly issued Notes, the Group derecognises those Notes along with the relative portion of the unamortised arrangement fees. For more information on the Group's borrowings please refer to Note 15.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedging

The Group uses hedging contracts for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

For more detailed information in relation to derivative financial instruments, please refer to Note 29.

Cash and short-term deposits

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the Group and therefore is not considered highly liquid - for example, cash set aside to cover decommissioning obligations.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

For more detailed information in relation to cash and cash equivalents as at 31 December 2017 and 2016, please see Note 12.

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 recognised when delivery has taken place and the risks and rewards of ownership have passed to the customer.

Revenue is recognised 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 cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The cost of equity-settled transactions are measured at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element, which is not remeasured subsequently until the settlement date.

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 26.

5. Goodwill

As at 31 December 2017 and 31 December 2016, goodwill comprised the following due to business combinations:

In thousands of US dollars	2017	2016
Balance as at 1 January	32,425	32,425
Goodwill addition	-	-
Balance as at 31 December	32,425	32,425

The goodwill arises from the purchase of Nostrum Services CIS BVBA and Nostrum Services Central Asia LLP and is annually tested for impairment.

For information in relation to goodwill impairment testing, please see Note 4.

6. Exploration and evaluation assets

In thousands of US dollars	31 December 2017	31 December 2016
Subsoil use rights	15,835	15,835
Expenditures on geological and geophysical studies	31,993	28,436
	47,828	44,271

During the year ended 31 December 2017 the Group had additions to exploration and evaluation assets of US\$3,557 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (FY 2016: US\$7,354 thousand). Interest was not capitalised on exploration and evaluation assets.

Notes to the consolidated financial statements

continued

7. Property, plant and equipment

As at 31 December 2017 and 31 December 2016 property, plant and equipment comprised the following:

In thousands of US dollars	31 December 2017	31 December 2016
Oil and gas properties	1,896,154	1,759,252
Other property, plant and equipment	45,740	49,272
	1,941,894	1,808,524

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 2017 and 2016 was as follows:

In thousands of US dollars	Working assets	Construction in progress	Total
Balance at 1 January 2016, net of accumulated depreciation and depletion	1,031,957	536,541	1,568,498
Additions	5,646	310,172	315,818
Transfers	219,674	(220,492)	(818)
Depreciation and depletion charge	(124,246)	-	(124,246)
Balance at 31 December 2016, net of accumulated depreciation and depletion	1,133,031	626,221	1,759,252
Additions	8,580	243,927	252,507
Transfers	104,664	(104,379)	285
Depreciation and depletion charge	(115,890)	-	(115,890)
Balance at 31 December 2017, net of accumulated depreciation and depletion	1,130,385	765,769	1,896,154

As at 31 December 2015

Cost	1,559,807	536,541	2,096,348
Accumulated depreciation and depletion	(527,849)	-	(527,849)
Balance, net of accumulated depreciation and depletion	1,031,958	536,541	1,568,499

As at 31 December 2016

Cost	1,785,127	626,221	2,411,348
Accumulated depreciation and depletion	(652,096)	-	(652,096)
Balance, net of accumulated depreciation and depletion	1,133,031	626,221	1,759,252

As at 31 December 2017

Cost	1,898,361	765,769	2,664,130
Accumulated depreciation and depletion	(767,976)	-	(767,976)
Balance, net of accumulated depreciation and depletion	1,130,385	765,769	1,896,154

The category "Construction in progress" is represented by employee remuneration, materials and fuel used, rig costs, payments made to contractors, and asset retirement obligation fees directly associated with development of wells until the drilling of the well is complete and results have been evaluated.

The depletion rate for oil and gas working assets was 10.89% and 11.95% in 2017 and 2016, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2017. Depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (Note 16) in the year ended 31 December 2017 resulted in the increase of the oil and gas properties by US\$ 1,391 thousand (31 December 2016: an increase of US\$ 2,399 thousand). The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2017 and 31 December 2016:

In thousands of US dollars	31 December 2017	31 December 2016
Borrowing costs including amortisation of arrangement fee	76,395	69,865
Capitalisation rate	6.98%	6.98%
Capitalised borrowing costs	33,599	29,569

Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2016, net of accumulated depreciation	21,926	5,924	977	9,907	319	39,053
Additions	14,593	318	387	2,035	112	17,445
Transfers	1,759	216	104	(875)	(386)	818
Disposals	(62)	(97)	(49)	(507)	-	(715)
Disposals depreciation	58	70	31	367	-	526
Depreciation	(3,746)	(2,176)	(239)	(1,724)	-	(7,885)
Translation difference	-	-	-	30	-	30
Balance at 31 December 2016, net of accumulated depreciation	34,528	4,255	1,211	9,233	45	49,272
Additions	1,039	2,530	21	1,308	-	4,898
Transfers	67	22	-	(374)	-	(285)
Disposals	(8)	(452)	(1,223)	(468)	-	(2,151)
Disposals depreciation	7	360	981	276	-	1,624
Depreciation	(4,070)	(1,550)	(194)	(1,830)	-	(7,644)
Translation difference	-	-	-	26	-	26
Balance at 31 December 2017, net of accumulated depreciation	31,563	5,165	796	8,171	45	45,740
As at 31 December 2015						
Cost	32,868	17,655	2,461	14,895	319	68,198
Accumulated depreciation	(10,942)	(11,731)	(1,484)	(4,988)	-	(29,145)
Balance, net of accumulated depreciation	21,926	5,924	977	9,907	319	39,053
As at 31 December 2016						
Cost	49,159	18,094	2,900	15,587	45	85,785
Accumulated depreciation	(14,631)	(13,839)	(1,689)	(6,354)	-	(36,513)
Balance, net of accumulated depreciation	34,528	4,255	1,211	9,233	45	49,272
As at 31 December 2017						
Cost	50,257	20,194	1,710	16,129	45	88,335
Accumulated depreciation	(18,694)	(15,029)	(914)	(7,958)	-	(42,595)
Balance, net of accumulated depreciation	31,563	5,165	796	8,171	45	45,740

Notes to the consolidated financial statements continued

8. Advances for non-current assets

Advances for non-current assets mainly comprised prepayments made to suppliers of services and equipment for construction of a third unit for the Group's gas treatment facility.

In thousands of US dollars	31 December 2017	31 December 2016
Advances for construction services	9,512	20,801
Advances for pipes and construction materials	5,086	7,875
	14,598	28,676

9. Inventories

As at 31 December 2017 and 31 December 2016 inventories comprised the following:

In thousands of US dollars	31 December 2017	31 December 2016
Spare parts and other inventories	23,506	21,789
Gas condensate	4,063	4,914
Crude oil	1,968	1,488
LPG	189	125
Gas	20	10
	29,746	28,326

As at 31 December 2017 and 31 December 2016 inventories are carried at cost.

10. Trade receivables

As at 31 December 2017 and 31 December 2016 trade receivables were not interest-bearing and were mainly denominated in US dollars. Their average collection period is 30 days.

As at 31 December 2017 and 31 December 2016 there were neither past due nor impaired trade receivables.

11. Prepayments and other current assets

As at 31 December 2017 and 31 December 2016 prepayments and other current assets comprised the following:

In thousands of US dollars	31 December 2017	31 December 2016
VAT receivable	14,960	10,564
Advances paid	6,826	6,487
Other taxes receivable	4,279	2,322
Other	1,038	1,798
	27,103	21,171

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2017, advances paid in the amount of US\$ 1,756 thousand were impaired and fully provided for. Below table provides the movements in the provision for impairment of advances paid:

In thousands of US dollars	Individually impaired
As at 1 January 2016	-
Charge for the year	-
As at 31 December 2016	-
Charge for the year	1,756
As at 31 December 2017	1,756

12. Cash and cash equivalents

In thousands of US dollars	31 December 2017	31 December 2016
Current accounts in US dollars	106,486	72,537
Current accounts in tenge	17,342	17,206
Current accounts in other currencies	3,111	6,375
Petty cash	12	16
Bank deposits with maturity less than three months	-	5,000
	126,951	101,134

Bank deposits as at 31 December 2016 were represented by an interest-bearing deposit placed on 19 October 2016 for a three-month period with an interest rate of 0.68% per annum.

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as a liquidation fund deposit for the amount of US\$ 752 thousand with Sberbank in Kazakhstan and US\$ 5,911 thousand with Halyk bank (31 December 2016: a total of US\$5,981 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

13. Share capital and reserves

As at 31 December 2017 the ownership interests in the Parent consists of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

Number of shares	In circulation	Treasury capital	Total
As at 1 January 2016	184,828,819	3,354,139	188,182,958
Share options exercised	74,935	(74,935)	-
As at 31 December 2016	184,903,754	3,279,204	188,182,958
Share options exercised	330,325	(330,325)	-
As at 31 December 2017	185,234,079	2,948,879	188,182,958

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and are held by Intertrust Employee Benefit Trustee Limited, which upon request from employees to exercise options, sells shares on the market and settles respective obligations under the ESOP. This trust constitutes a special purpose entity under IFRS and therefore, these shares are recorded as treasury capital of the Company.

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

Distributions

During the years ended 31 December 2017 and 2016 there were no distributions made.

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 31 December 2017 the book value per share amounted to US\$3.39 (31 December 2016: US\$3.50).

Notes to the consolidated financial statements

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14. Earnings per share

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period.

The basic and diluted EPS are the same as there are no instruments that have a dilutive effect on earnings.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

	For the year ended 31 December	
	2017	2016 Restated*
Loss for the year attributable to the shareholders (in thousands of US dollars)	(23,882)	(83,020)
Weighted average number of shares	185,068,917	184,866,287
Basic and diluted earnings per share (in US dollars)	(0.13)	(0.45)

15. Borrowings

Borrowings are comprised of the following as at 31 December 2017 and 31 December 2016:

In thousands of US dollars	31 December 2017	31 December 2016
Notes issued in 2012 and maturing in 2019	167,731	550,943
Notes issued in 2014 and maturing in 2019	187,863	406,931
Notes issued in 2017 and maturing in 2022	731,474	-
Finance lease liability	810	1,178
	1,087,878	959,052
Less amounts due within 12 months	(31,337)	(15,518)
Amounts due after 12 months	1,056,541	943,534

2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US\$ 560,000 thousand notes (the "2012 Notes").

On 24 April 2013 Zhaikmunai LLP (the "2012 Issuer") replaced the 2012 Initial Issuer of the 2012 Notes, whereupon it assumed all of the obligations of the 2012 Initial Issuer under the 2012 Notes.

The 2012 Notes bear interest at a rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013.

On and after 13 November 2016, the 2012 Issuer shall be entitled at its option to redeem all or a portion of the 2012 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2012 Note), plus accrued and unpaid interest on the 2012 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelvemonth period commencing on 13 November of the years set forth below:

Period	Redemption Price
2016	103.56250%
2017	101.78125%
2018 and thereafter	100.00%

The 2012 Notes are jointly and severally guaranteed (the "2012 Guarantees") on a senior basis by Nostrum Oil & Gas PLC and all of its subsidiaries other than the 2012 Issuer (the "2012 Guarantors"). The 2012 Notes are the 2012 Issuer's and the 2012 Guarantors' senior obligations and rank equally with all of the 2012 Issuer's and the 2012 Guarantors' other senior indebtedness. The 2012 Notes and the 2012 Guarantees are unsecured. Claims of secured creditors of the 2012 Issuer or the 2012 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2012 Notes.

2014 Notes

On 14 February 2014, Nostrum Oil & Gas Finance B.V. (the "2014 Initial Issuer") issued US\$ 400,000 thousand notes (the "2014 Notes").

On 6 May 2014, Zhaikmunai LLP (the "2014 Issuer") replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes, whereupon it assumed all of the obligations of the 2014 Initial Issuer under the 2014 Notes.

The 2014 Notes bear interest at a rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and 14 August of each year, beginning on 14 August 2014.

On and after 14 February 2017, the 2014 Issuer shall be entitled at its option to redeem all or a portion of the 2014 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2014 Note), plus accrued and unpaid interest on the 2014 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve month period commencing on 14 February of the years set forth below:

Period	Redemption Price
2017	103.1875%
2018 and thereafter	100.00%

The 2014 Notes are jointly and severally guaranteed (the "2014 Guarantees") on a senior basis by Nostrum Oil & Gas PLC and all of its subsidiaries other than the 2014 Issuer (the "2014 Guarantors"). The 2014 Notes are the 2014 Issuer's and the 2014 Guarantors' senior obligations and rank equally with all of the 2014 Issuer's and the 2014 Guarantors' other senior indebtedness. The 2014 Notes and the 2014 Guarantees are unsecured. Claims of secured creditors of the 2014 Issuer or the 2014 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2014 Notes.

2017 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2017 Issuer") issued US\$ 725,000 thousand notes (the "2017 Notes").

The 2017 Notes bear interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year.

The 2017 Notes may be redeemed, in whole or part, by the 2017 Issuer upon not less than 30 nor more than 60 days' notice, at 106.000% of the principal amount plus accrued interest in the 12 month period beginning on 25 July 2019, at 104.000% of the principal amount plus accrued interest in the 12 month period beginning on 25 July 2020, or at 100.000% of the principal plus accrued interest after 25 July 2021. The 2017 Issuer may also redeem the 2017 Notes in other circumstances as set out in the relevant indenture relating to the 2017 Notes.

The 2017 Notes are jointly and severally guaranteed (the "2017 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2017 Guarantors"). The 2017 Notes are the 2017 Issuer's and the 2017 Guarantors' senior obligations and rank equally with all of the 2017 Issuer's and the 2017 Guarantors' other senior indebtedness.

The issue of the 2017 Notes was used primarily to fund the Tender Offer and Consent Solicitation, as described below.

Tender Offer and Consent Solicitation for the 2012 Notes and the 2014 Notes

On 29 June 2017, Nostrum Oil & Gas Finance B.V., a subsidiary of Nostrum Oil & Gas PLC, announced a tender offer and consent solicitation in respect of the 2012 Notes and the 2014 Notes (the "Tender and Consent"). The Tender and Consent closed at 11:59 NY time on 27 July 2017, and was settled on 31 July 2017.

As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders US\$390,884 thousand in principal amount of the outstanding 2012 Notes and US\$ 215,924 thousand in principal amount of the outstanding 2014 Notes. Total tender consideration was US\$102.60 per US\$100 for the outstanding 2012 Notes and US\$100.60 per US\$ 100 for the outstanding 2014 Notes validly tendered during the Early Bird window. In addition, a consent payment of US\$40c per US\$ 100 was paid for all 2012 Notes and 2014 Notes validly tendered during the Early Bird window or if a Consent Only Instruction was received during the Early Bird window. Both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

Transaction costs

Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to US\$12,256 thousand.

For the purposes of the accounting treatment Nostrum considers part of the purchased 2012 Notes and 2014 Notes to be modified and the remainder is treated as extinguished. Unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed (Note 25). Fees and expenses directly attributable to the modified portion of the debt were capitalised under the long-term borrowings.

Notes to the consolidated financial statements continued

15. Borrowings / continued

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

Following the consent solicitation discussed above, the 2012 Notes, 2014 Notes and 2017 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions, the ability of the 2012 Guarantors, the 2014 Guarantors, the 2017 Guarantors, and certain other members of the Group to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses; and
- consolidate or merge with other entities.

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.

In thousands of US dollars	1 January 2017	Finance charges under finance leases	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Other	31 December 2017
Long-term borrowings	943,534	-	725,000	(633,892)	21,899	-	1,056,541
Current portion of long-term borrowings	15,518	156	-	(57,013)	71,585	1,091	31,337

Finance lease

On 12 April 2016 Zhaikmunai LLP entered into a finance lease agreement for the main administrative office in Uralsk for a period of 20 years for a fee of US\$66 thousand per month. As at 31 December 2017 the finance lease prepayment amounted to US\$11,891 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

In thousands of US dollars	31 December 2017		31 December 2016	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
No later than one year	143	131	525	496
Later than one year and no later than five years	558	345	561	349
Later than five years	1,900	334	2,039	333
Total minimum lease payments	2,601	810	3,125	1,178
Less amounts representing finance charges	(1,791)		(1,947)	
Present value of minimum lease payments	810	810	1,178	1,178

16. Abandonment and site restoration provision

The summary of changes in abandonment and site restoration provision during years ended 31 December 2017 and 2016 is as follows:

In thousands of US dollars	2017	2016
Abandonment and site restoration provision as at 1 January	19,635	15,928
Unwinding of discount	225	331
Additional provision	2,430	977
Provision used	(91)	-
Change in estimates	1,391	2,399
Abandonment and site restoration provision as at 31 December	23,590	19,635

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 2017 were 2.5% and 3.63%, respectively (31 December 2016: 2.50% and 4.28%).

The change in the long-term inflation rate and discount rate in the year ended 31 December 2017 resulted in the increase of the abandonment and site restoration provision by US\$780 thousand (31 December 2016: the increase by US\$2,399 thousand).

17. Due to government of Kazakhstan

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the Group to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US\$ 25,000 thousand.

Repayment of this liability commenced in 2008 with the first payment of US\$1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US\$258 thousand until 26 May 2031. The liability was discounted at 13%.

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2017 and 31 December 2016 is as follows:

In thousands of US dollars	2017	2016
Due to Government of Kazakhstan as at 1 January	6,920	6,808
Unwinding of discount	866	885
Paid during the year	(1,289)	(773)
	6,497	6,920
Less: current portion of due to Government of Kazakhstan	(1,031)	(1,289)
Due to Government of Kazakhstan as at 31 December	5,466	5,631

18. Trade payables

Trade payables comprise the following as at 31 December 2017 and 31 December 2016:

In thousands of US dollars	31 December 2017	31 December 2016
Tenge denominated trade payables	27,153	22,315
US dollar denominated trade payables	22,861	11,846
Euro denominated trade payables	5,395	7,470
Russian rouble denominated trade payables	1,098	1,347
Trade payables denominated in other currencies	348	342
	56,855	43,320

Notes to the consolidated financial statements continued

19. Other current liabilities

Other current liabilities comprise the following as at 31 December 2017 and 31 December 2016:

In thousands of US dollars	31 December 2017	31 December 2016
Training obligations accrual	11,592	12,018
Accruals under the subsoil use agreements	9,941	6,462
Taxes payable, other than corporate income tax	6,278	7,041
Due to employees	3,627	5,495
Other current liabilities	3,838	2,645
	35,276	33,661

Accruals under subsoil use agreements mainly include amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

20. Revenue

The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the year ended 31 December 2017 was US\$55.2 (FY 2016: US\$45.1)

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Oil and gas condensate	261,069	226,357
Gas and LPG	144,464	121,626
	405,533	347,983

During the year ended 31 December 2017 the revenue from sales to three major customers amounted to US\$200,438 thousand, US\$102,813 thousand and US\$30,052 thousand respectively (FY 2016: US\$109,499 thousand, US\$92,885 thousand and US\$38,053 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.

21. Cost of sales

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Depreciation, depletion and amortisation	120,692	129,425
Repair, maintenance and other services	18,960	18,932
Payroll and related taxes	17,652	13,290
Other transportation services	8,335	6,843
Materials and supplies	6,333	4,649
Well workover costs	4,159	3,928
Environmental levies	375	1,071
Change in stock	297	2,047
Other	443	1,995
	177,246	182,180

22. General and administrative expenses

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Payroll and related taxes	13,578	13,313
Professional services	11,095	11,868
Depreciation and amortisation	2,294	2,160
Insurance fees	1,640	1,129
Business travel	1,487	3,695
Lease payments	797	694
Communication	411	484
Materials and supplies	363	353
Bank charges	221	346
Transportation services	242	153
Other	1,175	563
	33,303	34,758

23. Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Loading and storage costs	26,940	33,219
Transportation costs	20,160	24,861
Marketing services	14,363	14,138
Payroll and related taxes	2,033	1,234
Other	2,945	2,229
	66,441	75,681

24. Taxes other than income tax

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Royalties	15,724	11,910
Export customs duty	3,864	5,533
Government profit share	248	2,582
Other taxes	131	150
	19,967	20,175

25. Finance costs

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Interest expense on borrowings	42,756	39,446
Transaction costs	15,709	-
Unwinding of discount on amounts due to Government of Kazakhstan	866	885
Unwinding of discount on abandonment and site restoration provision	225	327
Unwinding of discount on social obligations liability	40	850
Finance charges under finance leases	156	201
	59,752	41,709

For more information on the transaction costs please see Note 15.

Notes to the consolidated financial statements

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26. Employees' remuneration

The average monthly number of employees (including Executive Directors) employed was as follows:

	2017	2016
Management and administrative	246	294
Technical and operational	731	664
	977	958

Their aggregate remuneration comprised:

In thousands of US dollars	2017	2016
Wages and salaries	34,573	27,789
Social security costs	5,229	4,452
Share-based payments	1,008	-
	40,810	32,241

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\$34,927 thousand (FY 2016: US\$28,486 thousand).

Key management personnel remuneration

In thousands of US dollars	2017	2016
Short-term employee benefits	4,304	4,742
Share-based payments	1,008	-
	5,312	4,742

Directors' remuneration

In thousands of US dollars	2017	2016
Short-term employees benefits	2,594	3,234
	2,594	3,234

Employee share option plan

The Group's Phantom Option Plan was adopted by the board of directors of the Company on 20 June 2014 to allow for the continuation of the option plan previously maintained by Nostrum Oil & Gas LP. The rights and obligations in relation to this option plan were transferred to Nostrum Oil & Gas PLC from Nostrum Oil & Gas LP following the reorganisation (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 2008-2015, 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 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 gives 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 2,199,153 of SARs at 31 December 2017 is US\$2,086 thousand (31 December 2016: 2,536,478 SARs with carrying value of US\$4,339 thousand). During the year ended 31 December 2017 205,000 SARs were vested (FY 2016:252,000).

The following table illustrates the number ("No.") and exercise prices ("EP") of, and movements in, SARs during the year:

	2017		2016	
	No.	EP, US\$	No.	EP, US\$
Total outstanding at the beginning of the year (with EP of US\$ 4)	1,276,478	4	1,351,413	4
Total outstanding at the beginning of the year (with EP of US\$ 10)	1,260,000	10	1,260,000	10
Total outstanding at the beginning of the year	2,536,478		2,611,413	
Share options exercised	(330,325)	4	(74,935)	4
Share options lapsed	(7,000)	10	-	10
Total outstanding at the end of the year	2,199,153		2,536,478	
Total exercisable at the end of the year	2,169,153		2,294,478	

There were no SARs granted during the years ended 31 December 2017 and 2016. The weighted average price at the date of exercise for SARs exercised during the year ended 31 December 2016 amounted to US\$3.05 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 2017 and 2016:

	2017	2016
Price at the reporting date (US\$)	4.4	4.7
Distribution yield (%)	0%	0%
Expected volatility (%)	41.4%	45%
Risk-free interest rate (%)	0.7%	1.2%
Expected life (years)	10	10
Option turnover (%)	10%	10%
Price trigger	2.0	2.0

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

2017 Long-term incentive plan

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

Employees (including senior executives and executive directors) of members of the Group or their associates may receive an award, which is a "nominal cost option" over a specified number of ordinary shares in the capital of the Company. The option has an exercise price of 1p per share (but the Company has the discretion to waive this prior to exercise). In addition, under the Rules of the LTIP the Company has discretion to settle awards other than by transfer of shares such as by way of cash settlement. Generally, the awards are classified as equity-settled transactions. The share options are treated as equity-settled since there are no legal limitations expected on issue of shares for these upon vesting, the Group has a choice of settlement and the intention is to settle them in equity. However, in certain jurisdictions due to regulatory requirements the Company may not be able to settle the awards other than by transfer of cash, in which case the awards are classified as cash-settled transactions, and accounted for similar to SARs.

The award ordinarily vests and becomes exercisable as from later of the third anniversary of grant or two years after the date on which the Company determines whether the performance condition has been satisfied, subject to employee's continued service and to the extent to which the performance condition is satisfied, till the end of the contractual life. The contractual life of the share options is ten years.

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The cost of equity-settled transactions are measured at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element of "shares to be issued under LTIP", which is not remeasured subsequently until the settlement date.

Notes to the consolidated financial statements continued

26. Employees' remuneration / continued

The following table summarizes the movement in the number of share options during 2017:

	Equity-settled awards	Cash-settled awards	Total awards
Total outstanding at 31 December 2016	-	-	-
Share options awarded during the year	1,139,146	69,697	1,208,843
Share options forfeited	(5,721)	-	(5,721)
Share options lapsed	(11,838)	-	(11,838)
Total outstanding as at 31 December 2017	1,121,587	69,697	1,191,284

As at 31 December 2017 there were no share options vested in accordance with the management's best estimate.

The fair value of the equity-settled share options at the grant date of 10 October 2017 amounted to US\$ 4.8 per share option and at the grant date of 11 December 2017 amounted to US\$ 3.9 per share. The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for valuation of the share options at the grant date:

	10 October 2017	11 December 2017
Price at the reporting date (US\$)	5.3	4.4
Distribution yield (%)	0%	0%
Expected volatility (%)	40.8%	41.9%
Risk-free interest rate (%)	1.36%	1.20%
Expected life (years)	10	10
Option turnover (%)	10%	10%
Price trigger	2.0	2.0

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

27. Other expenses

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Business development	9,295	-
Other accruals	3,024	-
Training expenses	2,752	2,185
Sale and write-off of fixed assets	1,810	189
Accruals under subsoil use agreements	587	(9,808)
Sponsorship	256	574
Social program	316	315
Inventory write-offs and provisions	201	1,429
Compensation	-	571
Other	3,814	2,681
	22,055	(1,864)

Business Development expenses incurred in relation to potential acquisitions of oil and gas exploration and appraisal assets in Kazakhstan.

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.

Accruals under subsoil use agreements mainly include net amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields. The changes in the supplements to the subsoil use agreements and the adjusted work programs led to a reversal of the liability in amount of US\$ 10,698 thousand during the year ended 31 December 2016.

28. Income tax

The income tax expense comprised the following:

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Corporate income tax	12,992	21,348
Withholding tax	424	482
Deferred income tax (benefit) / expense	35,966	(3,021)
Adjustment in respect of the current income tax for the prior periods	467	(1,328)
Total income tax expense	49,849	17,481

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

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Profit/(loss) before income tax	25,966	(65,537)
Tax rate applicable to the suboil use rights	30%	30%
Expected tax provision	7,790	(19,661)
Effect of exchange rate on the tax base	(194)	(2,423)
Adjustments in respect of current income tax of previous years	467	(1,308)
Effect of loss / (income) taxed at different rate ¹	1,551	8,219
Non-deductible interest expense on borrowings	19,755	22,864
Deferred tax asset not recognised	9,498	3,537
Non-deductible business development costs	2,787	-
Non-deductible penalties	3,222	(1,343)
Non-deductible compensation for gas	-	36
Net foreign exchange loss	-	2,828
Non-deductible social expenditures	232	-
Non-deductible cost of technological loss	103	-
Non-deductible training expenditures	100	181
Other non-deductible expenses	4,538	4,551
Income tax expenses reported in the consolidated financial statements	49,849	17,481

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

The Group's effective tax rate for the year ended 31 December 2017 is negative 192.0% (2016: 26.7%). The Group's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2017 is 116.6% (2016: 8.8%).

In addition, the effective tax rate was impacted by the effect of losses and gains taxed at different rates mainly including loss and gain on derivative financial instruments taxed at the underlying tax rate of 20% which increased effective tax rate by 6.0% for the year ended 31 December 2017 (2016: decreased by 12.5%).

As at 31 December 2017 the Group has tax losses of US\$90,210 thousand (2016: US\$71,051 thousand) that are available to offset against future taxable profits in the companies in which the losses arose within 9 years after generation and will expire in the period 2023-2026. 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.

Notes to the consolidated financial statements continued

28. Income tax / continued

Deferred tax liability is calculated by applying the Kazakhstani statutory tax rate applicable to the Chinarevskoye subsoil use rights to the temporary differences between the tax amounts and the amounts reported in the consolidated financial statements and are comprised of the following:

In thousands of US dollars	31 December 2017	31 December 2016
Deferred tax asset		
Accounts payable and provisions	4,960	4,953
Deferred tax liability		
Property, plant and equipment	(386,555)	(349,228)
Derivative financial instruments	-	(1,332)
Net deferred tax liability	(381,595)	(345,607)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	2017	2016
Balance as at 1 January	345,607	347,769
Current period charge to statement of income	35,988	(2,162)
Balance as at 31 December	381,595	345,607

29. Derivative financial instruments

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

In thousands of US dollars	Derivative financial instruments	
As at 1 January 2016	current	54,095
	non-current	43,005
Proceeds from sale of hedging contract		(27,198)
Loss on derivative financial instruments		(63,244)
As at 31 December 2016	current	6,658
	non-current	-
Loss on derivative financial instruments		(6,658)
As at 31 December 2017	current	-
	non-current	-

On 3 March 2014, in accordance with its hedging policy, Zhaikmunai LLP entered, at nil upfront cost, into a long-term hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through to 29 February 2016, which was sold before expiration for US\$92,256 thousand on 14 December 2015.

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

Gains and losses on the derivative financial instruments, which do not qualify for hedge accounting, are taken directly to profit or loss.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 33.

30. Related party transactions

For the purpose of these consolidated financial statements transactions with related parties mainly comprise of transactions between subsidiaries of the Company and the shareholders and/or their subsidiaries or associated companies.

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2017 and 31 December 2016 consisted of the following:

In thousands of US dollars	31 December 2017	31 December 2016
Trade receivables and advances paid		
JSC OGCC KazStroyService	7,573	18,063

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2017 and 31 December 2016 consisted of the following:

In thousands of US dollars	31 December 2017	31 December 2016
Trade payables		
JSC OGCC KazStroyService	10,063	6,291

During the years ended 31 December 2017 and 2016 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Purchases		
JSC OGCC KazStroyService	50,350	40,746
Management fees and consulting services		
Cervus Business Services	948	1,341
VWEW Advocaten VOF	5	7

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2017 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

During the year ended 31 December 2017 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA and VWEW Advocaten VOF. Starting from April 2017 these entities ceased to be considered related parties in accordance with IAS 24 definitions.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$3,891 thousand for the year ended 31 December 2017 (FY 2016: US\$4,742 thousand). Payments to key management personnel under ESOP for the year ended 31 December 2017 amounted to US\$531 thousand (FY 2016: no payments under ESOP were made).

Notes to the consolidated financial statements

continued

31. Audit and non-audit fees

During the years ended 31 December 2017 and 2016 audit and non-audit fees comprise the following:

In thousands of US dollars	2017	2016
Audit of the financial statements	312	309
Total audit services	312	309
Audit-related assurance services	155	149
Services relating to corporate finance transactions	250	-
Other non-audit services	-	19
Total non-audit services	405	168
Total fees	717	477

The audit fees in the table above include the audit fees of US\$10 thousand in relation to the Parent.

32. 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 2017. As at 31 December 2017 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

However, depending on any unfavourable court decisions with respect to any claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Group's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at 31 December 2017 the Group had contractual capital commitments in the amount of US\$139,462 thousand (31 December 2016: US\$96,990 thousand) mainly in respect to the Group's oil field exploration and development activities.

Operating lease

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

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

In thousands of US dollars	31 December 2017	31 December 2016
No later than one year	7,019	9,589
Later than one year and no later than five years	14,057	28,795

Lease expenses of railway tank wagons for the year ended 31 December 2017 amounted to US\$7,394 thousand (FY 2016: US\$12,285 thousand).

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement No. 14), the Group is obliged to:

- spend US\$300 thousand per annum to finance social infrastructure;
- make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and
- adhere to a spending schedule on education which lasts until (and including) 2020.

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno Gremyachinskoye fields require fulfilment of several social and other obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 26 December 2016) require the subsurface user to:

- spend US\$1,000 thousand for funding of development of Astana city;
- reimburse historical costs of US\$383 thousand to the Government upon commencement of production stage;
- fund liquidation expenses equal to US\$ 96 thousand; and
- spend US\$1,250 thousand to finance social infrastructure.

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

- invest at least US\$19,413 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US\$ 112 thousand;

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

- invest at least US\$26,142 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US\$183 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.

33. Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations as well as exploration of the three new oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye. The Group's financial assets consist of trade and other receivables, non-current investments, current investments and cash and cash equivalents.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, credit risk and commodity price risk. The Group's management reviews and agrees policies for managing each of these risks, which are summarised below.

Commodity price risk

The Group is exposed to the effect of fluctuations in price of crude oil, which is quoted in US dollar on the international markets. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Interest rate risk

The Group is not exposed to interest rate risk in 2017 and 2016 as the Group had no financial instruments with floating rates as at years ended 31 December 2017 and 2016.

Foreign currency risk

As a significant portion of the Group's operation is tenge denominated, the Group's statement of financial position can be affected by movements in the US dollar/tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

Notes to the consolidated financial statements

continued

33. Financial risk management objectives and policies / continued

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax. 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
2017		
US dollar thousand	+ 20.00%	4,288
US dollar thousand	- 20.00%	(4,288)
2016		
US dollar thousand	+ 60.00%	1,523
US dollar thousand	- 20.00%	(508)

The Group's foreign currency denominated monetary assets and liabilities were as follows:

As at 31 December 2017	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	17,350	23	2,727	364	20,464
Trade receivables	9,228	-	-	-	9,228
Trade payables	(27,153)	(1,098)	(5,394)	(348)	(33,993)
Other current liabilities	(20,864)	(379)	(519)	(2,095)	(23,857)
	(21,439)	(1,454)	(3,186)	(2,079)	(28,158)

As at 31 December 2016	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	17,223	212	5,368	795	23,598
Trade receivables	11,540	-	1,668	-	13,208
Trade payables	(22,315)	(1,347)	(7,471)	(342)	(31,475)
Other current liabilities	(8,986)	(241)	(1,100)	(1,432)	(11,759)
	(2,538)	(1,376)	(1,535)	(979)	(6,428)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group monitors its risk to a shortage of funds using a liquidity planning tool. The tool allows selecting severe stress test scenarios. To ensure an adequate level of liquidity a minimum cash balance has been defined as a cushion of liquid assets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, loans, hedges, export financing and financial leases.

The Group's policy is that, while it has an investment programme ongoing: 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 three notes: US\$169 million issued in 2012 and maturing in 2019, US\$184 million issued in 2014 and maturing in 2019 and US\$725 million issued in 2017 and maturing in 2022. 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 2017 and 31 December 2016 based on contractual undiscounted payments:

As at 31 December 2017	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	-	20,482	61,445	1,297,688	1,900	1,381,515
Trade payables	43,593	-	13,262	-	-	56,855
Other current liabilities	17,274	-	-	-	-	17,274
Due to Government of Kazakhstan	-	258	773	4,124	8,505	13,660
	60,867	20,740	75,480	1,301,812	10,405	1,469,304

As at 31 December 2016	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	-	16,499	49,225	1,063,544	2,039	1,131,307
Trade payables	34,959	-	8,361	-	-	43,320
Other current liabilities	18,344	-	-	-	-	18,344
Due to Government of Kazakhstan	-	258	773	4,124	9,536	14,691
	53,303	16,757	58,359	1,067,668	11,575	1,207,662

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 (negative) from Moody's rating agency and ING with a credit rating of Aa3 (stable) from Moody's rating agency at 31 December 2017. The Group does not guarantee obligations of other parties.

The Group sells its products and makes advance payments only to recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low.

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 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:

In thousands of US dollars	Carrying amount		Fair value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets measured at fair value				
Derivative financial instruments	-	6,658	-	6,658
Financial liabilities measured at amortised cost				
Interest bearing borrowings	(1,087,068)	(957,874)	(1,141,803)	(955,924)
Finance lease liabilities	(810)	(1,178)	(1,267)	(1,799)
Total	(1,087,878)	(952,394)	(1,143,070)	(951,065)

Management assessed that cash and cash equivalents, current investments, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Notes to the consolidated financial statements

continued

33. Financial risk management objectives and policies / continued

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until December 2017.

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 2016:

	31 December 2016
Future price at the reporting date (US\$)	56.82-58.84
Expected volatility (%)	27.33
Risk-free interest rate (%)	0.84
Maturity (months)	1-11

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

Movement in the derivative financial instruments is disclosed in Note 29.

During the years ended 31 December 2017 and 2016 there were no transfers between the levels of fair value hierarchy of the Group's 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 dividend payment to shareholders, return capital to shareholders or increase share capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

In thousands of US dollars	For the year ended 31 December	
	2017	2016
Interest bearing borrowings	1,087,878	959,052
Less: cash and cash equivalents, restricted cash and current and non-current investments	(133,614)	(107,115)
Net debt	954,264	851,937
Equity	669,553	691,812
Total capital	669,553	691,812
Capital and net debt	1,623,817	1,543,749
Gearing ratio	59%	55%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

34. Events after the reporting period

Derivative financial instrument

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

Call of the 2012 Notes and the 2014 Notes

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

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

2018 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. (the "2018 Issuer") issued USD 400,000 thousand notes due 2025 (the "2018 Notes").

The 2018 Notes bear interest at the rate of 7.00% per year, payable on 16 February and 16 August of each year. The 2018 Notes may be redeemed by the 2018 Issuer in certain circumstances as set out in the relevant note indenture.

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

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

The covenants contained in the 2018 Notes match the covenants contained in the 2012 Notes, the 2014 Notes and the 2017 Notes.

Parent company financial statements

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The accounting policies and explanatory notes on pages 148 through 154 are an integral part of these financial statements.

Parent company statement of financial position

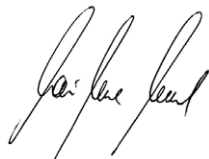
As at 31 December 2017

In thousands of US dollars	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Investments in subsidiaries	5	106,222	106,222
		106,222	106,222
Current assets			
Advances paid		23	23
Receivables from related parties	6	26,633	27,659
Cash and cash equivalents	7	88	761
		26,744	28,443
TOTAL ASSETS		132,966	134,665
EQUITY AND LIABILITIES			
Share capital and reserves			
Issued share capital	8	3,203	3,203
Retained earnings		105,262	105,266
		108,465	108,469
Current liabilities			
Trade payables		124	243
Payables to related parties	9	23,817	25,331
Accrued liabilities		560	622
		24,501	26,196
TOTAL EQUITY AND LIABILITIES		132,966	134,665

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented in the Company's financial statements.

The Company reported a loss of US\$ 4 thousand for the financial year ended 31 December 2017 (2016: profit of US\$1,456 thousand). During the reporting periods there were no transactions impacting the statement of other comprehensive income.

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



Kai-Uwe Kessel
Chief Executive Officer



Tom Richardson
Chief Financial Officer

The accounting policies and explanatory notes on pages 148 – 154 are an integral part of these financial statements.

Parent company statement of cash flows

For the year ended 31 December 2017

In thousands of US dollars	Notes	For the year ended 31 December	
		2017	2016
Cash flow from operating activities:			
Profit before income tax		11	1,456
<i>Adjustments for:</i>			
Foreign exchange (gain)/loss on investing and financing activities		(77)	39
Accrued expenses		(63)	(352)
Investment income		-	(1,400)
Operating profit before working capital changes		(129)	(257)
<i>Changes in working capital:</i>			
Change in receivables from related parties		(493)	(240)
Change in trade payables		(118)	73
Change in other current liabilities		5	(5)
Cash generated from operations		(735)	(429)
Income tax paid		(15)	-
Net cash used in operating activities		(750)	(429)
Cash flow from investing activities:			
Acquisition of subsidiaries		-	(222)
Dividend received		-	400
Net cash from investing activities		-	178
Cash flow from financing activities:			
Net cash used in financing activities		-	-
Effects of exchange rate changes on cash and cash equivalents		77	(39)
Net decrease in cash and cash equivalents		(673)	(290)
Cash and cash equivalents at the beginning of the year	7	761	1,052
Cash and cash equivalents at the end of the year	7	88	761

The accounting policies and explanatory notes on pages 148 through 154 are an integral part of these financial statements.

Parent company statement of changes in equity

As at 31 December 2017

In thousands of US dollars	Notes	Share capital	Retained earnings	Total
As at 1 January 2016		3,203	103,810	107,013
Profit for the year		-	1,456	1,456
Total comprehensive income for the year		-	1,456	1,456
As at 31 December 2016		3,203	105,266	108,469
Loss for the year		-	(4)	(4)
Total comprehensive loss for the year		-	(4)	(4)
As at 31 December 2017		3,203	105,262	108,465

The accounting policies and explanatory notes on pages 148 through 154 are an integral part of these financial statements.

Notes to the Parent company financial statements

1. General

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

The subsidiary undertakings of the Company as at 31 December 2017 and the percentage holding of their capital are set out below:

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

1. Merged with Nostrum Services CIS BVBA during 2016

Grandstil LLC was liquidated as of 6 December 2017.

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 2017 have been prepared on a going concern basis and in accordance with the Companies Act 2006 and International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") as adopted by the European Union.

The Company financial statements have been prepared based on a historical cost basis. The Company financial statements are presented in US dollars and all values are rounded to the nearest thousands, except when otherwise indicated.

Going concern

These Company financial statements have been prepared on a going concern basis. The 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.

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.

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. Overall, the Company expects no significant impact of IFRS 9 on its balance sheet and equity.

4. Summary of significant accounting policies

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The functional currency of the Company is the United States dollar (the US dollar or US \$).

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Non-monetary items that are measured at of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Investments

Investments in subsidiaries are recorded at cost. 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.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies / continued

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 an 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) 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.

Share-based payments

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The cost of equity-settled transactions are measured at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element, which is not remeasured subsequently until the settlement date.

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12.

5. Investments in subsidiaries

Investments of the Company as at 31 December 2017 comprised of:

In thousands of US dollars	31 December 2017	31 December 2016
Nostrum Oil & Gas Coöperatief U.A.	106,000,000	106,000,000
Nostrum Oil & Gas BV	222,271	222,271
	106,222,271	106,222,271

6. Receivables from related parties

As at 31 December 2017 receivables from related parties are represented by a receivable from the Nostrum employee benefit trust in amount of US\$ 23,812 thousand (2016: US\$ 25,331 thousand) and a receivable from Nostrum Oil & Gas Coöperatief U.A. in amount of US\$ 2,821 thousand (2016: US\$ 2,328 thousand).

7. Cash and Cash Equivalents

In thousands of US dollars	31 December 2017	31 December 2016
Current accounts in US Dollars	16	102
Current accounts in Euro	54	575
Current accounts in Pounds Sterling	18	84
	88	761

Notes to the consolidated financial statements continued

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.

Share capital of Nostrum Oil & Gas PLC

As at 31 December 2017 the ownership interests in the Company consist of ordinary shares, which are listed on the London Stock Exchange, these shares have been issued and fully paid. As at 1 January 2014 the Company had subscriber shares and redeemable preference shares, all of which were cancelled on 7 August 2014.

The subscriber and redeemable preference shares had a nominal value of GBP 1 and the ordinary shares have a nominal value of GBP 0.01.

9. Payables to related parties

As at 31 December 2017 amounts payable to related parties include US\$ 23,817 thousand represented by arrangements with the Company's subsidiary Nostrum Oil & Gas Coöperatief U.A. in respect of the Nostrum employee benefit trust (2016: US\$ 25,331 thousand).

10. Auditors' remuneration

The fees for the audit of the Company amount to US\$10 thousand (2016: US\$10 thousand).

11. Directors' remuneration

The directors of the Company are also directors of the Group. The aggregate amount of remuneration paid to or receivable by executive directors in respect of qualifying services for the financial year ended 31 December 2017 was US\$1,824 thousand (2016: US\$2,584 thousand) and was paid by other group companies. In addition, US\$771 thousand (2016: US\$650 thousand) was paid by the Company to the non-executive directors. The directors do not believe that it is practicable to apportion these amounts between their services as directors of the Company and their services as directors of the Group.

For the year ended 31 December 2017 the Company employed an average of 6 non-executive directors (FY 2016: 6 non-executive directors).

Full details of individual directors' remuneration are given in the directors' remuneration report on pages 79-87 of the annual report.

12. Long-term incentive plan

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

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

The award ordinarily vests and becomes exercisable as from later of the third anniversary of grant or two years after the date on which the Company determines whether the performance condition has been satisfied, subject to employee's continued service and to the extent to which the performance condition is satisfied, till the end of the contractual life. The contractual life of the share options is ten years.

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The cost of equity-settled transactions are measured at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element of "shares to be issued under LTIP", which is not remeasured subsequently until the settlement date.

The following table summarizes the movement in the number of share options during 2017:

	Equity-settled awards	Cash-settled awards	Total awards
Total outstanding as at 31 December 2016	-	-	-
Share options awarded during the year	1,139,146	69,697	1,208,843
Share options forfeited	(5,721)	-	(5,721)
Share options lapsed	(11,838)	-	(11,838)
Total outstanding as at 31 December 2017	1,121,587	69,697	1,191,284

The fair value of the equity-settled share options at the grant date of 10 October 2017 amounted to US\$ 4.8 per share option and at the grant date of 11 December 2017 amounted to US\$ 3.9 per share. The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for valuation of the share options at the grant date:

	10 October 2017	11 December 2017
Price at the date (US\$)	5.3	4.4
Distribution yield (%)	0%	0%
Expected volatility (%)	40.8%	41.9%
Risk-free interest rate (%)	1.36%	1.20%
Expected life (years)	10	10
Option turnover (%)	10%	10%
Price trigger	2.0	2.0

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

13. 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 2017 based on the service agreement between the Company and its directly owned subsidiary Nostrum Oil & Gas Coöperatief UA, Nostrum Oil & Gas PLC recorded an income of US\$2,786 thousand (2016: US\$2,624).

As at 31 December 2017 receivables from related parties include US\$23,812 thousand from Nostrum employee benefit trust (2016: US\$25,331 thousand), and US\$1,821 thousand from Nostrum Oil & Gas Coöperatief UA (2016: US\$1,327 thousand).

As at 31 December 2017 liabilities to related parties include US\$23,817 thousand payable to Nostrum Oil & Gas Coöperatief UA. (2016: US\$25,331 thousand)

Notes to the consolidated financial statements continued

14. 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 which has a credit rating of P1 (upper medium grade) from Moody's rating agency at 31 December 2017.

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.

15. Events after the reporting period

There were no significant events between the reporting date and the date of publication.

Investor information

Investor contacts

Investor relations
ir@nog.co.uk
Tel: +44 20 3740 7430

Corporate headquarters

Nostrum Oil & Gas PLC
Gustav Mahlerplein 23 B
1082 MS Amsterdam
The Netherlands

Tel: +31 20 737 2288
Fax: +31 20 737 2292

Registered office

Nostrum Oil & Gas PLC
9th Floor
20 Eastbourne Terrace
London W2 6LG
United Kingdom

Tel: +44 20 3740 7430

Registered number: 8717287
Place of registration: England and Wales

Zhaikmunai LLP registered office

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43/1 Alexander Karev str.
Uralsk, 090000
Kazakhstan

Tel: +7 7112 933900
Fax: +7 7112 933901

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Kazakhstan

Auditor

Ernst & Young LLP
London
United Kingdom

Registrar

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Tel: 0871 664 0300
Tel: +44 20 8639 3399

Website and electronic communications details

Nostrum's website provides information on the activities of the Company, both regulatory and other, as well as the opportunity to sign up to our mailing list to ensure stakeholders are kept up to date with the most recent information. Please see www.nog.co.uk for more information.

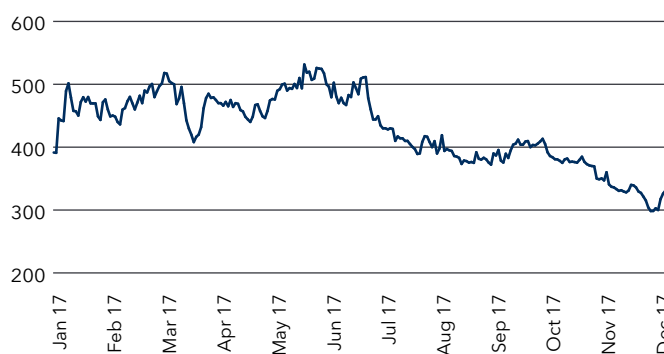
In addition, to reduce impact to the environment, we encourage all shareholders to opt for electronic shareholder communications, including annual reports and notices of meetings.

Share price information

Exchange	London Stock Exchange
Ticker	NOG.LN
Reuters code	NOGN.L
ISIN code	GB00BGP6Q951

Historic share price performance

Nostrum Oil & Gas share price (GB p)



NOG share price (post listing)

Capitalisation-weighted index of FTSE 350 E&P

Earnings per share: US\$(0.13) / share

Book value per share: US\$3.4 / share

Financial calendar 2018

Q1 2018	Operational Update	30 April 2018
Q1 2018	Financial Results	22 May 2018
H1 2018	Operational Update	31 July 2018
H1 2018	Financial Results	21 August 2018
Q3 2018	Operational Update	30 October 2018
Q3 2018	Financial Results	20 November 2018

Investor information continued

Equity financing

Equity raising	Timing	Amount	Lead manager
IPO	March 2008	US\$100m	ING Bank NB
Secondary equity issue	September 2009	US\$300m	ING Bank NV Mirabaud Securities Renaissance Securities

Debt financing

Current outstanding bond issues for Nostrum Oil & Gas PLC are provided in the following table:

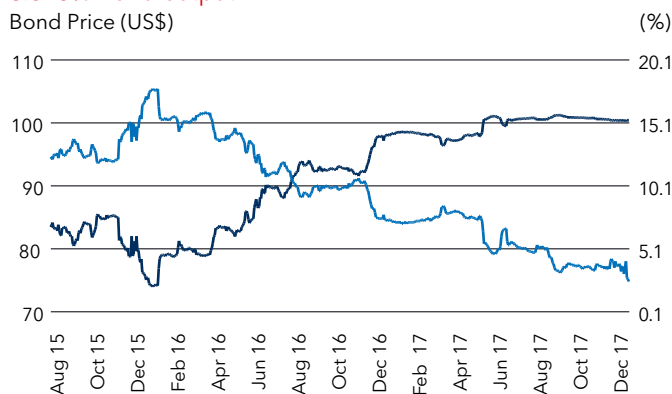
Settlement	Maturity	Currency	Amount (m)	Coupon	Listing	RegS	Rule 144A	
Feb 2014	Feb 2019	USD	400	6.375%	Dublin/ Almaty	CUSIP	N64884AA2	66978CAA0
						ISIN	USN64884AA29	US66978CAA09
						Common Code	103302323	103302307
Nov 2012	Nov 2019	USD	560	7.125%	Dublin/ Almaty	CUSIP	N97716AA7	98953VAA0
						ISIN	USN97716AA72	US98953VAA08
						Common Code	085313177	085259776
Jul 2017	Jul 2022	USD	725	8.000%	Dublin	CUSIP	N64884AB0	66978CAB8
						ISIN	USN64884AB02	US66978CAB81
						Common Code	16453439	164534073
Feb 2018	Feb 2025	USD	400	7.000%	Dublin	CUSIP	N64884AD6	66978CAC6
						ISIN	USN64884AD67	US66978CAC64
						Common Code	176959886	176959878

For a summary of certain covenants relating to the 2012, 2014, 2017 and 2018 Notes, please see the consolidated financial statements.

Bond yield information

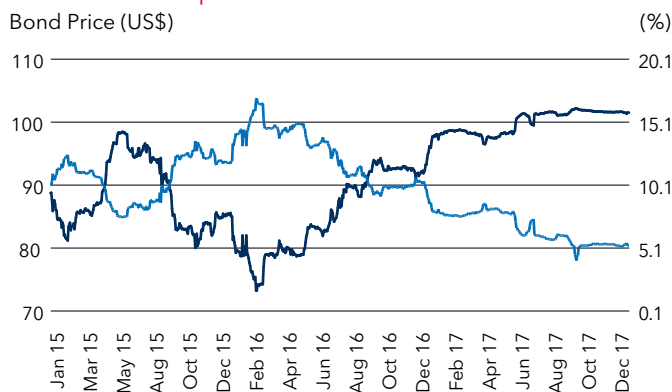
February 2019

6.375% Bond output



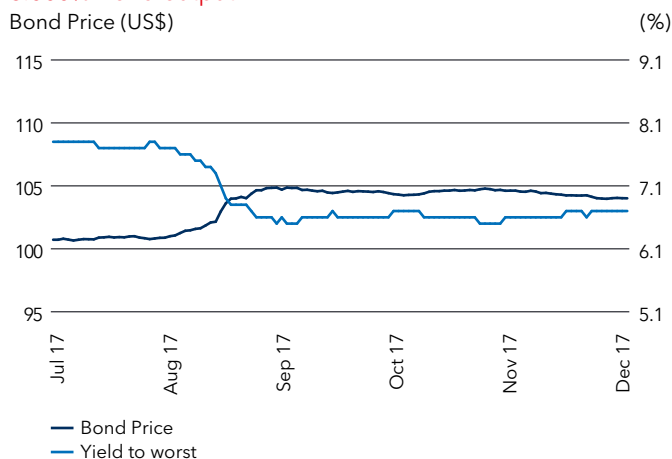
November 2019

7.125% Bond output



July 2022

8.000% Bond output



Credit ratings

Nostrum Oil & Gas PLC is currently being rated by two credit rating agencies: Standard and Poor's and Moody's Investor Services:

Agency	Rating	Outlook
Standard and Poor's	B	Negative
Moody's	B2	Negative

Zhaikmunai LLP is a wholly-owned indirect subsidiary of Nostrum and its equity is not listed, while Nostrum's equity is listed on the premium segment of the London Stock Exchange and on the Kazakhstan Stock Exchange.

The Group's Investor Relations programme aims to develop an open and transparent communication between the Group (including Zhaikmunai LLP) and its shareholders, providing information about the financial and operational performance of the Company. The Investor Relations department of the Group seeks to ensure all questions received from any of the Group's stakeholders are dealt with in a timely manner based on the underlying principle that the Group is approachable and responsive to any potential queries.

Glossary

2010 Notes	10.500% notes issued in 2010
2012 Notes	7.125% notes issued in 2012
2014 Notes	6.375% notes issued in 2014
2017 Notes	8.000% notes issued in 2017
2018 Notes	7.000% notes issued in 2018

A

API	American Petroleum Institute.
API gravity	The industry standard method of expressing specific density of crude oil or other liquid hydrocarbons as recommended by the American Petroleum Institute. Higher API gravities mean lower specific gravity and lighter oils. When the API gravity is greater than 10, the product is lighter and floats on water; if it is less than 10, it is heavier than water and sinks. Generally speaking, oil with an API gravity between 40 and 45 commands the highest prices.
Appraisal well	A well or wells drilled to follow up a discovery and evaluate its commercial potential.
Associated gas	Gas, which occurs in crude oil reservoirs in a gaseous state.

B

barrel/bbl	The standard unit of volume: 1 barrel = 159 litres or 42 US gallons.
Basin	A large area holding a thick accumulation of sedentary rock.
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.

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.
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.
CO₂	Carbon dioxide.
Competent Authority	The State's central executive agency, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of subsoil use contracts, except for contracts for exploration and production of commonly occurring minerals. This is the Ministry of Energy of the Republic of Kazakhstan (MOE) with respect to the oil and gas industry.
Condensate	Hydrocarbons which are gaseous in a reservoir, but which condense to form a liquid as they rise to the surface where the pressure is much less.

Contingent resources	Deposits that are estimated, on a given date, to be potentially recoverable from known accumulations but that are not currently considered commercially recoverable.
Cost oil	Cost oil denotes an amount of crude oil produced in respect of which the market value is equal to Nostrum's monthly expenses that may be deducted pursuant to the PSA (include all operating costs, exploration costs and development costs up to an annual maximum of 90% of the annual gross realised value of hydrocarbon production).
crude oil	A mixture of liquid hydrocarbons of different molecular weights.
D	
development	During development, engineering teams design the most efficient development options to build wells and associated infrastructure to produce hydrocarbons from a gas field within a proven productive reservoir (as defined by exploration and appraisal activities). The three phases of development are exploration and appraisal, development and production.
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 a refinery or fractionation plant.
dry gas	Dry gas is natural gas (methane and ethane) with no significant content of heavier hydrocarbons. It is gaseous at subsurface and surface conditions.
E	
E&P	Exploration and production.
EBITDA	Profit Before Tax non-recurring expenses + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation - Interest Income + Other Expenses / (Income).
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
Exploration Permit	The geological allotment (Annex to the Licence) issued by the Competent Authority to Zhaikmunai LLP.
exploration phase	The phase of operations which covers the search for oil or gas by carrying out detailed geological and geophysical surveys followed up where appropriate by exploratory drilling.
exploration well	Well drilled purely for exploratory (information gathering) purposes in a particular area.
F	
farm-in	Transfer of a percentage of an oil or gas permit held by the farmor in return for (partial or complete) delivery of the work programme by the farmee(s). Note that this work would normally have had to have been delivered and paid for by the farmor.
farm-out	A contractual agreement with the holder of an oil and gas permit to assign all (or a percentage of) that interest to another party in exchange for delivering the work programme required by the permit, or fulfilling other contractually specified conditions.
FCA	Financial Conduct Authority of the United Kingdom.
FCA Uralsk	Sales made under free carrier terms according to which Nostrum delivers to the terminal in Uralsk and transportation risk and risk of loss are transferred to the buyer after delivery to the carrier.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition.
FOB	Sales made under free on board terms.
FSU	Former Soviet Union.

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.
greenhouse gas	a gas that contributes to the greenhouse effect by absorbing infrared radiation, e.g. carbon dioxide
Group	Nostrum Oil & Gas PLC and, as the context requires, its direct and indirect consolidated subsidiaries.

H

HSE	Health, safety and environment.
hydrocarbons	Compounds formed from the elements hydrogen (H) and carbon (C), which may be in solid, liquid or gaseous form.
hydrocarbon reserves	Hydrocarbon reserves have been proved, and are referred to as 3P, 2P and 1P depending on the likelihood of commercial production from that field.

I

IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
INED	Independent Non-Executive Director.

J

joint venture	A joint venture is a set of trading entities who have agreed to act in concert to share the cost and rewards of exploring for and producing oil or gas from a permit.
joule	Unit of energy used for measuring gas volumes. <ul style="list-style-type: none"> • megajoules = 10^6 • gigajoules = 10^9 • terrajoules = 10^{12} • petajoules = 10^{15}

K													
Kazakhstan	The Republic of Kazakhstan.												
KASE	Kazakhstan Stock Exchange.												
KazMunayGas	State-owned oil and gas company of Kazakhstan.												
KazMunaiGas Exploration Production (KMG EP)	Onshore oil and gas exploration production subsidiary of KazMunayGas												
KazTransOil (KTO) pipeline	A tie-in to the KTO pipeline enables crude oil export sales via the Atyrau-Samara international export pipeline												
L													
Licence	Licence series MG No. 253-D (Oil) issued to Zhaikmunai LLP by the Government on 26 May 1997, including amendments.												
Licensing 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)												
m3	Cubic metres.												
m3/d	Cubic metres per day.												
Man -hours	an hour regarded in terms of the amount of work that can be done by one person within this period.												
mmbbls	Millions of barrels of oil.												
mboe	Thousands of barrels of oil equivalent.												
mmboe	Millions of barrels of oil equivalent.												
N													
NBK	National Bank of Kazakhstan.												
NED	Non-Executive Director												
Nostrum	Nostrum Oil & Gas PLC, the listed company of the Group.												
Nostrum Oil & Gas PLC	<table border="0"> <tr> <td>Registered Office:</td> <td>Corporate Headquarters:</td> </tr> <tr> <td>9th Floor</td> <td>Gustav Mahlerplein 23 B</td> </tr> <tr> <td>20 Eastbourne Terrace</td> <td>1082 MS Amsterdam</td> </tr> <tr> <td>London</td> <td>The Netherlands</td> </tr> <tr> <td>W2 6LG</td> <td></td> </tr> <tr> <td>UK</td> <td></td> </tr> </table>	Registered Office:	Corporate Headquarters:	9th Floor	Gustav Mahlerplein 23 B	20 Eastbourne Terrace	1082 MS Amsterdam	London	The Netherlands	W2 6LG		UK	
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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.												

Glossary continued

P

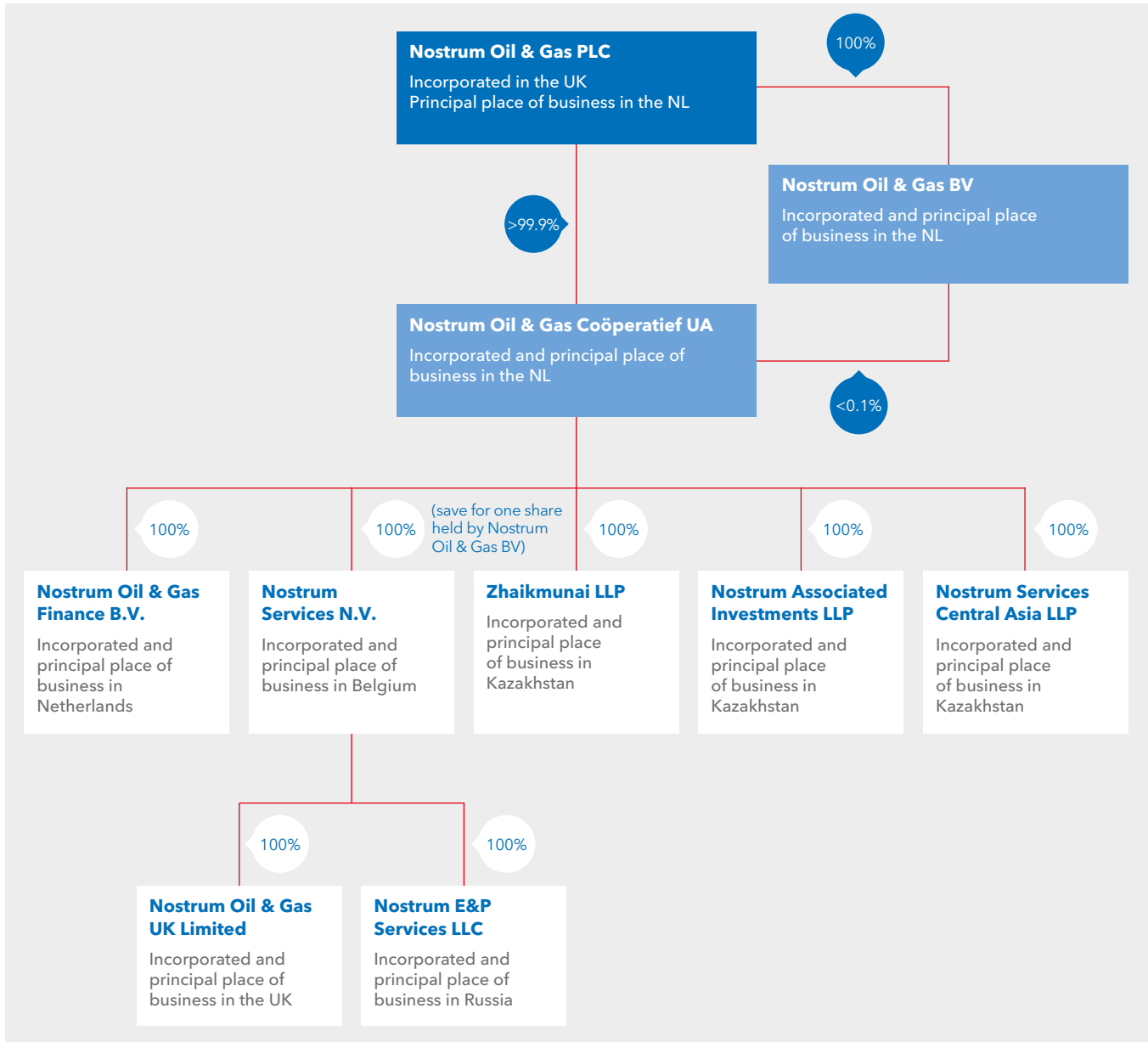
Partnership petroleum	Nostrum Oil & Gas LP, which was the holding company of the Group before the reorganisation Hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.
Possible Reserves (3P)	Possible reserves are those reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves. Proven, probable and possible reserves are referred to as 3P.
processing	processing of saleable product from hydrocarbons sourced from oil wells and gas wells
Probable Reserves (2P)	Probable reserves are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Probable Reserves. Proven plus probable reserves are referred to as 2P.
Production Permit	The mining allotment (Annex to the Licence), issued by the Competent Authority to Zhaikmunai LLP
production well	A well that has been drilled for producing oil or gas, or one that is capable of production once the producing structure and characteristics are determined.
profit oil	Profit oil is the difference between cost oil and the total amount of crude oil produced each month, which is shared between the State and Zhaikmunai LLP.
prospective resources	Quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.
Proven Reserves (1P)	Proven or proved reserves (1P) are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.
PRMS	2007 Petroleum Resources Management System, which are a set of definitions and guidelines designed to provide a common reference for the international petroleum industry, sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers.
PSA or Production Sharing Agreement	The contract for additional exploration, production and production sharing of crude oil hydrocarbons in the Chinarevskoye oil and gas condensate field in the West-Kazakhstan oblast No. 81, dated October 31, 1997, as amended, between Zhaikmunai LLP and the Competent Authority (currently MOE), representing the State.
PSA Law	Kazakhstan Law No. 68-III "On Production Sharing Agreements for Constructing Offshore Petroleum Operations", dated 8 July 2005.

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
RoK	Republic of Kazakhstan
Ryder Scott	Independent petroleum consultants Ryder Scott Company LP, headquartered at 621 Seventeenth Street, Suite 1550, Denver, Colorado, 80293, USA.

S	
sales gas	Natural gas that has been processed by gas plant facilities and meets the required specifications under gas sales agreements.
seismic	The use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures.
shut in	Cease production from a well
sidetrack well	A well or borehole that runs partly to one side of the original line of drilling.
social infrastructure:	assets that accommodate social services, i.e. hospitals, schools, community housing etc.
spud	The commencement of drilling operations
stakeholder	A person or entity who may affect, be affected by or perceive themselves to be affected by an entity's decisions or activities.
State	Republic of Kazakhstan.
State Share	The share of hydrocarbon production due (in cash or kind) to the Republic of Kazakhstan under the PSA.
suspended well	A suspended well is not currently used for assessment or production and has been shut in. It will either be returned to assessment or production or plugged and abandoned.
T	
Tenge or KZT	The lawful currency of the Republic of Kazakhstan.
tonne	Metric tonne.
trillion	10 to the power of 12
U	
UNGG	Uralsk Oil and Gas Explorations Expedition. The Government of the Kazakh Soviet Socialist Republic decided in March 1960 to create a consortium "Uralskneftegazrazvedka" for conducting oil and gas exploration in the Uralsk region. In the '60s, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed "Uralsk Enlarged Oil-Gas Exploration Expedition".
UK Corporate Governance Code	Set of principles of good corporate governance for listed companies promulgated by the UK Financial Reporting Council
W	
well	A hole drilled to test an unknown reservoir or to produce from a known reservoir.
wellhead	The wellhead includes the forged or cast steel fitting on top of a well (welded or bolted to the top of the surface casing), as well as casingheads, tubingheads, Christmas tree, stuffing box and pressure gauges.
work programme	A schedule of works agreed between parties (permit holders, farmees and government) contracted to be delivered in a defined time frame.
workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
WUP or Water Use Permit	The permit granted by the relevant Government authority with respect to water use pursuant to the Water Code.
Z	
Zhaikmunai LLP	Principal operating entity of the Group Corporate Office: 43/1 Karev str. Uralsk, 090000 Republic of Kazakhstan Representative Office: Mariam Zhagorkyzy st. 17 Yes District Astana Kazakhstan

Nostrum Group Structure Chart as at 31 December 2017



* Apart from the external debt held by Nostrum Oil & Gas Finance B.V, the contribution and results of Nostrum Oil & Gas PLC and all of its subsidiaries (apart from Zhaikmunai LLP) to the KPIs and results of the Group were insignificant.

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