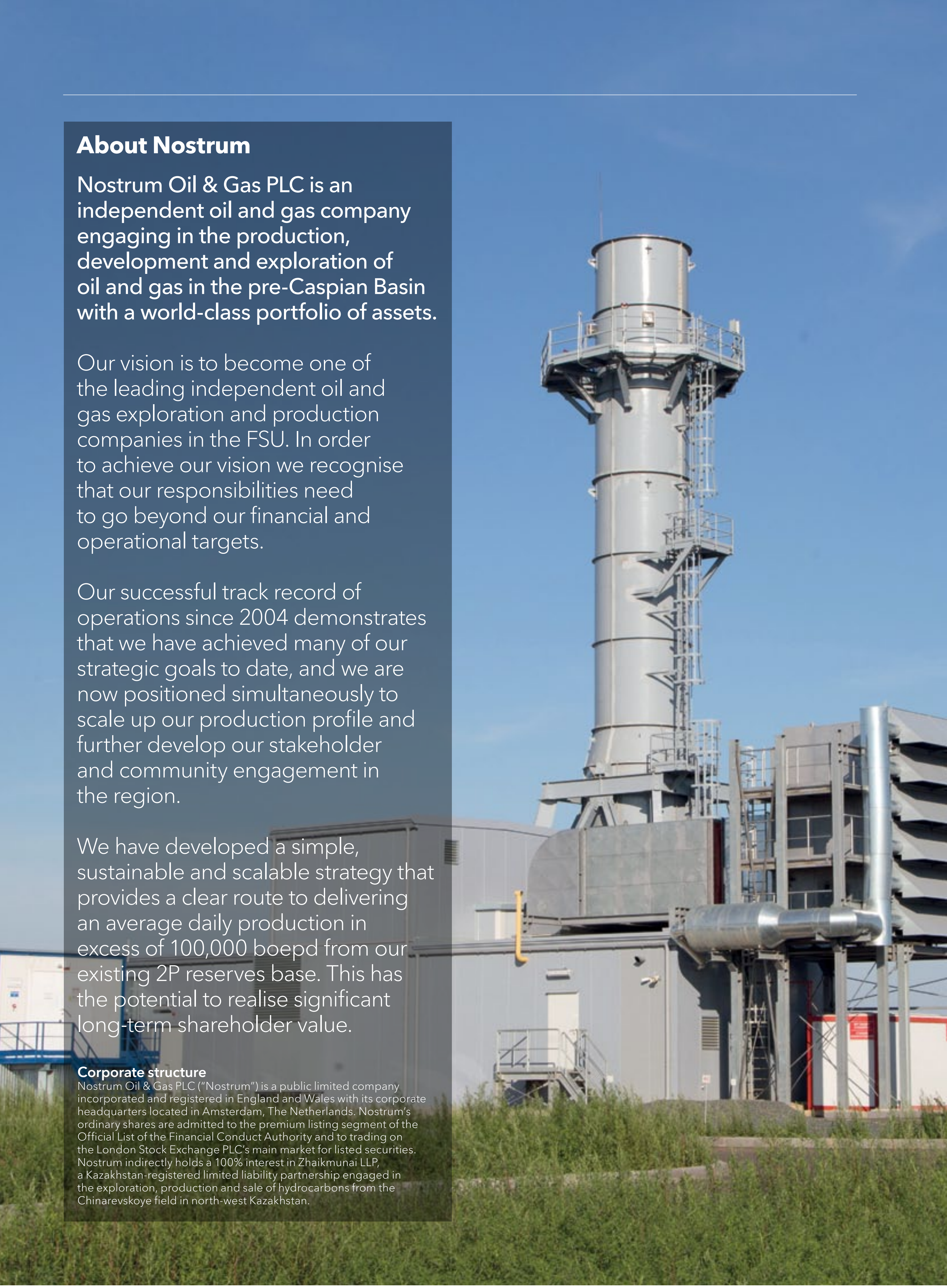
Simple
Sustainable
Successful

Nostrum Oil & Gas PLC Annual Report 2016



About Nostrum

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

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

Our successful track record of operations since 2004 demonstrates that we have achieved many of our strategic goals to date, and we are now positioned simultaneously to scale up our production profile and further develop our stakeholder and community engagement in the region.

We have developed a simple, sustainable and scalable strategy that provides a clear route to delivering an average daily production in excess of 100,000 boepd from our existing 2P reserves base. This has the potential to realise significant long-term shareholder value.

Corporate structure

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

Contents

See the report online: www.nostrumoilandgas.com/files/attachments/.2592/Nos_Annual_Report_2016_EN.pdf

Subsidiary companies

The corporate structure of the Group is continually reviewed and simplifications to the structure are made form time to time, if considered in the best interests of the Group. The structure of the Group as at 31 December 2016 and as at the date of this report can be found in the Additional disclosures on page 197.

Management report

Strategic report

Corporate governance

Financial report

Regulatory information

Additional disclosures

Chairman's statement

Realising our vision

"...the growth and success of our business revolves around the quality and commitment of our people..."

Our vision

Nostrum has not wavered during one of the most challenging years for the oil and gas industry in over a decade. We have navigated 2016 with caution and great care to ensure our vision remains intact. As a result, we can continue to target our aim of becoming one of the leading independent oil and gas companies in the FSU. While many in the industry have had to change course, we remain on track to deliver our main objectives. We are making good progress to complete our third Gas Treatment Unit (GTU3), which will double production capacity to over 100,000 boepd. Additionally, we continue to seek expansion of our reserve base through appraisal work at Chinarevskoye, our core producing asset, and our three neighbouring fields. We maintain our clearly defined strategy of balancing organic growth with carefully considered expansion through acquisitions. Our main priority remains to continue to deliver value to all stakeholders in a responsible and efficient manner.

Read more on pages 36-49

Operational performance

Over the course of 2016 we have successfully met our operational targets. The drilling programme was completed and average production was over 40,000 boepd. We have also begun appraisal work at Rostoshinskoye, where we are looking to establish an additional material amount of reserves to further add to the future cash flows of the Company. The operations were all achieved whilst reducing our opex below US$4 per barrel.

100,000 boepd
average daily
production target

Over
US$2 billion
invested since 2004

GTU3 and growth

We remain on track to complete the construction of GTU3 in 2017. This marks a significant milestone in the Company's growth and its progress towards achieving an average daily production in excess of 100,000 boepd. Once the Gas Treatment Unit is operational the focus of the Company will move towards ramping up the drilling programme in order to fill GTU3.

Underpinned by strong financial position

The key to Nostrum's sustainability is the Company's prudent management of its financial position. We finished the year with over US$100 million of cash on our balance sheet and our hedge remains in place until December 2017. The hedging strategy allows the Company to execute its strategy unencumbered by shocks in the oil price. During 2017 we look forward to building on this solid financial platform and working hard to refinance our debt maturing in 2019.

Governance and Board

The Board has been invaluable in helping the Company to navigate challenging operating conditions and has unanimously supported management's decisions on how to protect the Company whilst not also sacrificing future growth. We enter 2017 with two new Board members. After nine years of dedicated service to Nostrum, Jan-Ru Muller has stepped down as CFO to be replaced by Tom Richardson, our former Head of Corporate Finance. On behalf of the Board I want to use this opportunity to thank Jan-Ru for all the hard work and effort he has put into Nostrum. We also welcome Kaat Van Hecke as an Independent Non-Executive Director, replacing Eike von der Linden. Kaat joins with 20 years of experience in the petrochemical and upstream oil business and brings some greatly valued diversity to the Board. I would also like to thank Eike for his contribution over the years to Nostrum.

Corporate social responsibility

CSR has always been important to the Board and I am pleased to highlight how our corporate social responsibility programmes continue to grow and support the sustainability of our business. A key example is the annual evaluation for greenhouse gas emissions which allows us to plan for the subsequent introduction of energy and resource saving measures. With the ongoing construction of both GTU3 and our entry into the KTO connection pipeline, we have focused particularly on our health and safety processes within the Company and developed new campaigns to target the highest standards amongst Nostrum employees and contractors. We will continue to pay close attention to these as the Company enters its next growth phase and moves towards its 100,000+ boepd production target.

Our people

As ever, the growth and success of our business revolves around the quality and commitment of our people and I believe we have an excellent team at Nostrum. This is best demonstrated by the earlier reference to how the Company has remained on track to deliver all its objectives despite an extremely challenging oil price environment. Tough decisions have had to be made in relation to cost cutting but in all areas we have tried to ensure stability is maintained. We remain committed to developing local content and we continue to develop our employment practices and policies to ensure we can attract and retain the best talent.

CSR priorities for 2017

- Fostering diversity at every level within the Group
- Reducing health & safety incidents
- Continuing to finance local social infrastructure projects
- Targeting a reduction in our emissions intensity ratio

Read more on pages 36-49

The future

We look forward to an extremely exciting future at Nostrum. The next 24 months will see the completion of our Gas Treatment Unit and the start of the ramp-up in production towards 100,000 boepd. Alongside this we continue to look at opportunities to create value through acquisitions. We will also closely monitor how best to balance the reinvestment of our cash flows into the business and reducing our leverage against re-establishing dividends.

Frank Monstrey
Chairman

Our investment case

Positioned for growth

Stable financial platform with strong cash flow and flexibility

Nostrum is a highly cash flow generative company, recording US$206.5 million of operating cash flow in 2016 and ending the year with over US$100 million of cash on its balance sheet. We have implemented a successful cost cutting programme in response to the decline in oil price, resulting in a reduction in opex by 14% to below US$4/boe. Our hedging strategy has protected Group cash flows during a period of low oil prices, giving us the financial flexibility to actively manage the pursuit of our key operational goals throughout challenging oil price scenarios.

Over 450 million boe of 2P reserves

The Chinarevskoye field has been producing crude oil since 1997 and gas condensate since 2011. Despite the length of production, we have not even appraised and explored over a third of the potential of the field. We have approximately 118 mmboe and 622 billion cubic feet of sales gas of contingent resources, many from existing production reservoirs, and we believe there is excellent scope to further increase our 2P reserves in Chinarevskoye in the future. We are also very excited about the opportunity to start to better understand the full potential of the neighbouring licences. During 2016 we drilled one well in the Rostoshinskoye field and remain optimistic that we will be able to find additional reserves to fill our gas plant long into the future. With current reserves for our neighbouring three licences estimated at 87 mmboe 2P, we believe there is a good possibility to increase this.

Targeting near-term production growth

Nostrum successfully averaged daily production of over 40,000 boepd in 2016, in line with internal targets. We will target average daily production of over 44,000 boepd in 2017. We expect to reach an average of 100,000 boepd by 2020.

World-class assets

We have four licence areas, all located in the pre-Caspian Basin north of Uralsk, Kazakhstan. Nostrum's current producing asset is the Chinarevskoye field, with the three adjacent licences called Darjinskoye, Rostoshinskoye and Yuzhno-Gremyachenskoye. We believe there is the potential to grow reserves across all our licences in the future. We continue expanding our world-class asset base and expect to complete construction of our new Gas Treatment Unit at the Chinarevskoye field site later in 2017.

Our main priority remains, as always, to continue to deliver growth and shareholder value in a responsible and sustainable way.

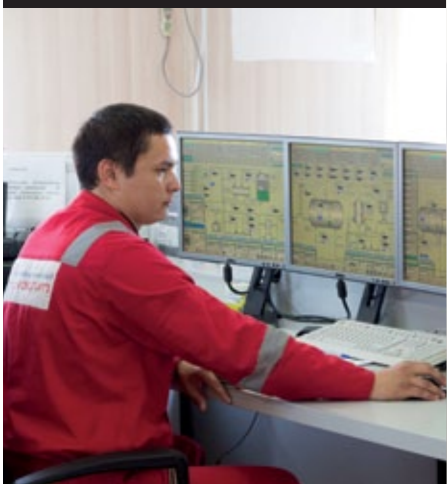
Strong governance and responsibility

We are committed to achieving best-in-class standards of corporate governance and social responsibility. Our goal is to create a positive and lasting contribution to the areas in which we operate, with a focus on delivering long-term shareholder value for a sustainable future.

Simple business case, successful model and sustainable strategy

We maintain our simple strategy of balancing organic growth with carefully considered expansion through acquisitions. Our main priority remains, as always, to continue to deliver growth and shareholder value in a responsible and sustainable way.

Read more on pages 14-17



Experienced management team

Nostrum has a world-class management team with each member holding significant experience both in country and in their specific field. The management team has demonstrated that it is not only able to deliver under high oil prices but is also able to deliver on its targets under challenging conditions both operationally and financially.

Key performance indicators

A solid performance

Main factors contributing to the variance between forecast and actual results
Falling oil prices resulted in lower revenue, however significant cost reductions led to a healthy EBITDA margin and strong operating cash flows.

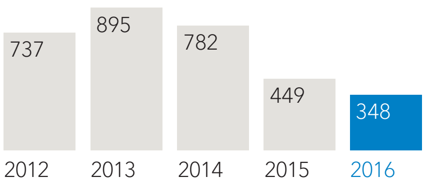
Financial KPIs

Nostrum continues to operate with high margins and positive cash flows in spite of a prolonged period of low oil prices.

As a low cost producer with substantial reserves, processing capacity and routes to export markets, Nostrum is extremely well positioned to execute its growth strategy and deliver shareholder returns following a substantial period of capital investment.

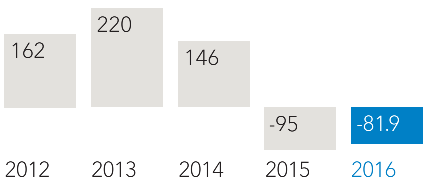
Revenue

US$348 million -22.5% from 2015



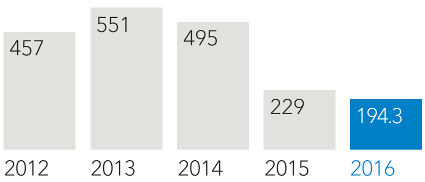
Net income

-US$81.9m +15% from 2015



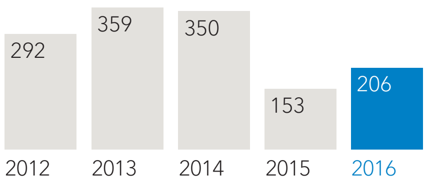
EBITDA

US$194.3 million -15.0% from 2015



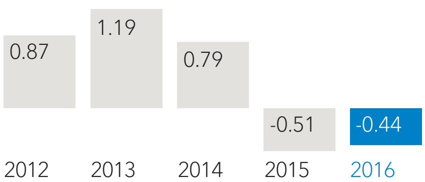
Operating cash flow

US$206 million +34.6% from 2015



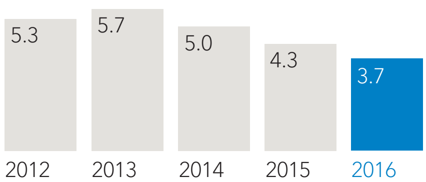
EPS

US$-0.44 +13.7% from 2015



Opex per barrel

US$3.7 -14.0% from 2015



Macroeconomic and microeconomic changes

Macroeconomic and microeconomic changes that occurred in the reporting period and their impact on results:

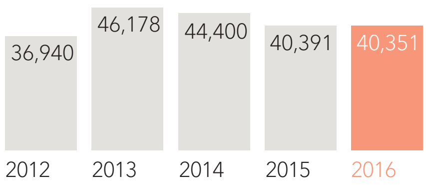
- With effect from 1 February 2016, Kazakhstan introduced floating rates of export duties for crude oil based on average market prices.
- The average price of Brent crude oil for the year ended 31 December 2016 fell to US$45.1 per barrel, 16% lower than the average price the previous year.
- The average Tenge exchange rate depreciated to 341.9 Tenge per USD in 2016, from an average of 223.2 Tenge per USD in 2015 (the Tenge was unpegged from the USD during 2015).
- The year-end exchange rate was 333.29 Tenge per USD versus 340.6.
- A large proportion of the Company's operating expenses in Kazakhstan are denominated in Tenge, whereas only a small proportion of the Company's revenues are received in Tenge. As such, the Tenge depreciation has brought about some cost savings in USD terms.
- Overall, the net cash impact of the Tenge depreciation was broadly neutral.

Non-financial KPIs

In order for Nostrum to achieve sustainability and success in the longer term, we remain conscious that our performance must be measured not only in financial terms, but also with regard to our operational and social output. We therefore target non-financial KPIs to ensure that we maintain our focus in these areas.

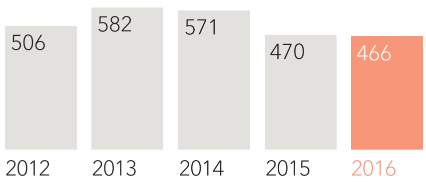
Production

40,351 boepd -0.1% from 2015



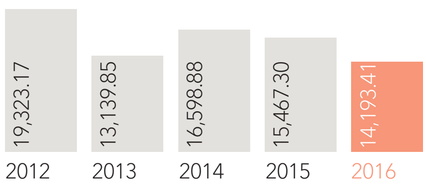
2P reserves

466 mmboe



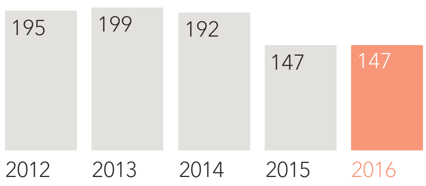
GHG emissions intensity ratio

14,193.41 tCO_2e/mmboe
-8.4% from 2015



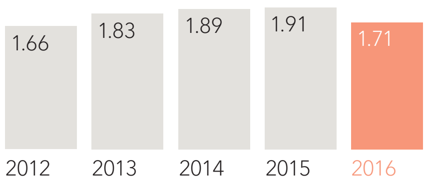
1P reserves

147 mmboe



Number of man hours without loss of working hours

1.71m man hours -10% from 2015



Where we operate

Strategic location of assets

Our main operational facilities are located at the 274 square kilometre Chinarevskoye field in north-west 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 our existing infrastructure and experienced operating and development teams to drive growth.

Transportation of our products

Crude
Transported through our own liquids pipeline directly from the field site. 85% of production is sold to export markets and the remainder is sold domestically.

Condensate
Transported through our own oil pipeline from the field site and then 100% is exported by rail to the Russian Black Sea port of Taman.

LPG
Transported on trucks from the field site to our rail terminal where it is loaded onto special trains and then transported to various off-takers. The LPG is sold to various destinations across central Asia and eastern Europe.

Gas
Transported from the Chinarevskoye field through the Company's own pipeline, which connects to the Intergas Central Asia pipeline. All gas is sold at the connection point to Intergas Central Asia.

Imminent growth

With the preparatory work to double production capacity approaching, all of the related infrastructure to accommodate increased levels of production is in place. This will further improve our efficiencies and effective use of existing infrastructure.

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

With the preparatory work to double production capacity approaching, all of the related infrastructure to accommodate increased levels of production is in place.

100%
of condensate and 85% of crude oil is exported

Chief Executive's review

Laying the foundations for future growth

Nostrum maintained a stable financial footing at all times during 2016. This allowed us to successfully deliver our development programme. We drilled three wells on time and on budget, GTU3 continued to progress with approximately 2/3 of the budget spent, and we reduced our opex to below US$4 per barrel. We remain protected against volatile oil prices whilst still generating significant operating cash flow to maintain a healthy cash position during this significant investment phase. I look forward to driving the business forward in 2017.

How we performed in 2016
Despite 2016 being a challenging year for the oil and gas sector Nostrum has enjoyed a very steady year both operationally and financially. Consistent progress was maintained on the construction of the GTU3 and three production wells were successfully brought online resulting in us achieving our production targets for the year.

Operational costs were reduced to below US$4/boe, our lowest on record. Our cash position remained above US$100 million during the year as we continued to generate strong operating cash flows and received cash from our hedge during Q1 and Q2.

Our performance against the four key objectives for the Company in 2016 was as follows:

1. Ensure that the financial position of the Company remains stable: The financial position of the Company remained stable despite the challenging oil price environment and we have ended the year with over US$100 million of cash on our balance sheet. Despite the severity of the oil price fall in Q1 our strategy to hedge 15,000 boepd for 2016 and 2017 meant that we received cash under our hedge in both Q1 and Q2. We also enjoyed all the upside from the recovery in the oil price in the second half of the year. We will continue to endeavour to deliver Nostrum's growth programme in all oil price environments.

2. Ensure construction of the new Gas Treatment Unit remains on track for 2017: Significant steps have been made in the construction of our next GTU, which will allow us to double our production capacity during 2017. We have spent approximately US$380 million to date on the project. Due to the falling oil price environment we decided in December 2015 to phase the remaining GTU3 payments across 2016 and 2017. This means the scheduled project completion date is in 2017 which will allow us to preserve the liquidity position of the Company and match the hedging payment profile we have put in place. The phasing of payments on GTU3 in this way will allow the Company to remain fully financed to ensure all payments on GTU3 can be made.

Nostrum has enjoyed a very steady year both operationally and financially.

40,351 boepd
2016 production

97%
1P reserve replacement ratio

3. Optimise the drilling programme to ensure that we can fill the GTU3 as quickly as possible whilst not jeopardising the Company's financial position: During 2016 we have focused on preserving cash and therefore targeted a drilling programme that would deliver the highest production against the lowest costs. We added three production wells which enabled us to hit our production targets and enter 2017 with GTU1 & 2 at full capacity. We delivered these wells on budget at approximately US$11 million per well. This gives me great confidence that when we start to ramp up our drilling programme we have both the geological reserves in place to fill it and also a team capable of delivering the drilling programme on time and on budget.

4. Implement a cost reduction programme: In 2016 we adopted a significant cost reduction programme. Whilst this meant some difficult decisions had to be made, it was crucial that the Company could demonstrate its ability to manage the cost base during a period of low oil prices. I am delighted with the outcome and want to give credit to all the departments who shared in the burden of cost cutting. One such example was the decision to not pay any bonus to any employee during 2016 in relation to 2015 which I believe was quite rare across not just the oil and gas industry but any industry which is going through challenging operating conditions.

Steady production levels
The Chinarevskoye field is now in stable production phase with all facilities running smoothly. Nostrum expects a minimum daily total production average of at least 44,000 boepd for 2017. Our products – crude oil, stabilised condensate, LPG and dry gas – are sold at the best possible prices on the world markets, and our operations are running at stable levels.

Future drilling programme at Chinarevskoye
In 2016 we completed three wells, in line with the number we set out to complete at the start of the year. Our drilling programme has always been designed to be scalable and the falling oil prices resulted in us scaling down the proposed drilling schedule for 2016. During 2017 we plan to drill seven wells and balance adding production with moving some probable reserves into the proven category. This balance will allow us to ramp-up production as quickly as possible once the GTU3 is complete. As we have always stated, our drilling programme is balanced against the oil price and should we see a material increase, then there is always scope to increase drilling and ramp-up more quickly.

Construction of GTU3
During 2016 we have made significant steps towards the construction of GTU3. The rationale behind building the Plant is that it will allow faster monetisation of reserves by increasing treatment capacity by an additional 2.5 bcm of raw gas per year, bringing total capacity to 4.2 bcm of raw gas per annum. Over US$380 million has already been invested into the facility. We are currently on track to deliver the project on time and remain within the Board-approved budget of US$500 million.

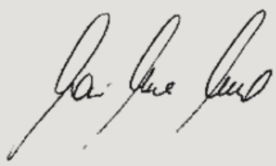
Building up further reserves
A key long-term strategic target is to establish a material reserve base around our infrastructure. We have excellent opportunities both for organic growth within Chinarevskoye and the additional licences, as well as through potential acquisitions.

Key priority tasks for 2017
Our three key objectives for the Company in order to continue to deliver on our strategy are as follows:

1. Ensure that the financial position of the Company remains stable and part of the 2019 debt is refinanced to a longer dated maturity.
2. Ensure completion of the construction of the next Gas Treatment Unit remains on track for 2017.
3. Start to grow the potential reserve base to allow for a prolonged production plateau of over 100,000 boepd.

We have today approximately 118 mmboe and 622 billion cubic feet of sales gas of contingent resources and an additional 87m 2P reserves in the three additional licences. We will continue to build this reserve base over the coming years.

I believe that these objectives, if successfully achieved, will provide the platform to enhance shareholder value in the future. We have demonstrated in the past that we can deliver on all these objectives and I am therefore confident as we enter 2017 that we are well placed to achieve our goals.



Kai-Uwe Kessel
Chief Executive Officer

Chief Executive's review continued

Our growth potential

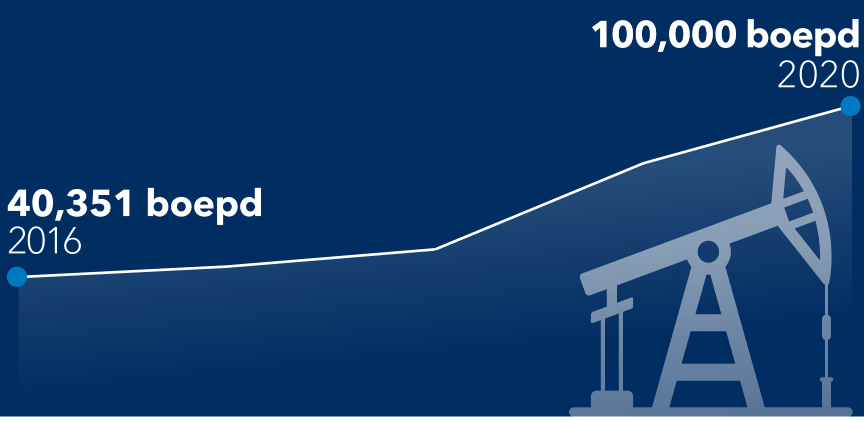
Production

A clear path to doubling production capacity

Completion of our third Gas Treatment Unit ("GTU3") remains scheduled for 2017 and progress continues to be made toward completion on time and on budget. When the GTU3 project is finalised it will more than double our raw gas processing capacity to 4.2 billion cubic metres per annum allowing the Company to produce in excess of 100,000 boepd at full capacity.

The production ramp-up process will begin by transferring all existing production wells to GTU3 to take advantage of its enhanced LPG technology. Additional production volumes coming from new well feedstock will then be used to fill remaining plant capacity over the coming months to reach our target average daily production of 100,000 boepd by 2020.

Nostrum has invested over US$2 billion over more than 10 years to create a world-class infrastructure hub in north-west Kazakhstan to unlock the value of the region's substantial resources. In addition to its advantageous geographical position, Nostrum has extensive storage and transportation infrastructure to accommodate the forthcoming material increase in the Company's production volumes.



Nostrum has invested over US$2 billion over more than 10 years to create a world class infrastructure hub in North-western Kazakhstan to unlock the value of the region's substantial resources.

40,351 boepd
2016 production

97%
1P reserve replacement ratio

Reserves

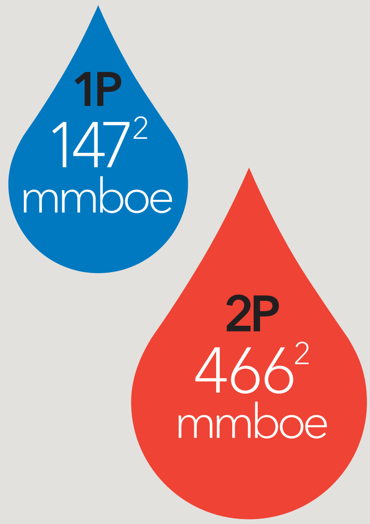
Underpinning our strong growth potential

Nostrum has a substantial asset base in north-west Kazakhstan with an independently audited 2P reserve base of 466 million barrels of oil equivalent (Ryder Scott 2017). During 2016 the Chinarevskoye asset continued to operate in line with expectations with average daily production of 40,351 boepd and a 1P reserve replacement ratio of 97%. With a 1P reserve base of 147 million barrels of oil equivalent, the core asset base at Chinarevskoye will be sufficient to reach the Company's average daily production target of over 100,000 boepd by 2020.

Having appraised, developed and produced both crude oil and gas condensate in North-western Kazakhstan for over a decade, Nostrum has accumulated a considerable amount of knowledge of both the Chinarevskoye asset and also the surrounding regional geology. The Company seeks to leverage this competitive advantage to pursue value accretive transactions which enhance our commercial reserve base and prolong the Company's average daily production plateau above 100,000 boepd until the end of the Chinarevskoye licence period (2031-2033).[1]

During 2013, Nostrum acquired 98 million barrels of 2P reserves adjacent to the Chinarevskoye licence area (the Trident fields) for a consideration of US$16 million.

Reserve growth[2]



1 See page 20 on Chinarevskoye field.
2 Ryder Scott – 1 January 2017.

Financials

Resilient financial and operational performance

Nostrum is a low cost producer with steady production volumes, substantial storage and transportation infrastructure and access to multiple export markets. The Company's sizeable historical investment programmes have created a business that has demonstrated its durability and ability to generate cash flow during one of the most challenging commodity market environments in recent memory.

A continuation of Nostrum's cost cutting programme during 2016 has protected the Company's margins in spite of low oil prices. The completion of a short connection to the KazTransOil international pipeline during H1 2017 will enable us to significantly reduce our crude oil transportation costs and realise further savings. Continued investment throughout the commodity cycle has enhanced Nostrum's financial operating leverage and positions the Company extremely well for the next phase of production growth.

Existing cash reserves, operating cash flow and the protection afforded by 15,000 bopd of hedged production ensures that the completion of GTU3 is fully funded under any oil price scenario. The Company continues to operate with a conservative financial policy and maintains adequate liquidity on its balance sheet to run the business at all times.

Our business model

Driving value creation and sustainable shareholder returns

Capitals

Financial
We seek to efficiently deploy capital obtained through financing or generated from operations to create value for our stakeholders.

Manufactured
We have invested over US$2 billion over more than 10 years to establish a world-class hydrocarbon processing and transportation infrastructure hub to realise the value of the material resources in north-west Kazakhstan.

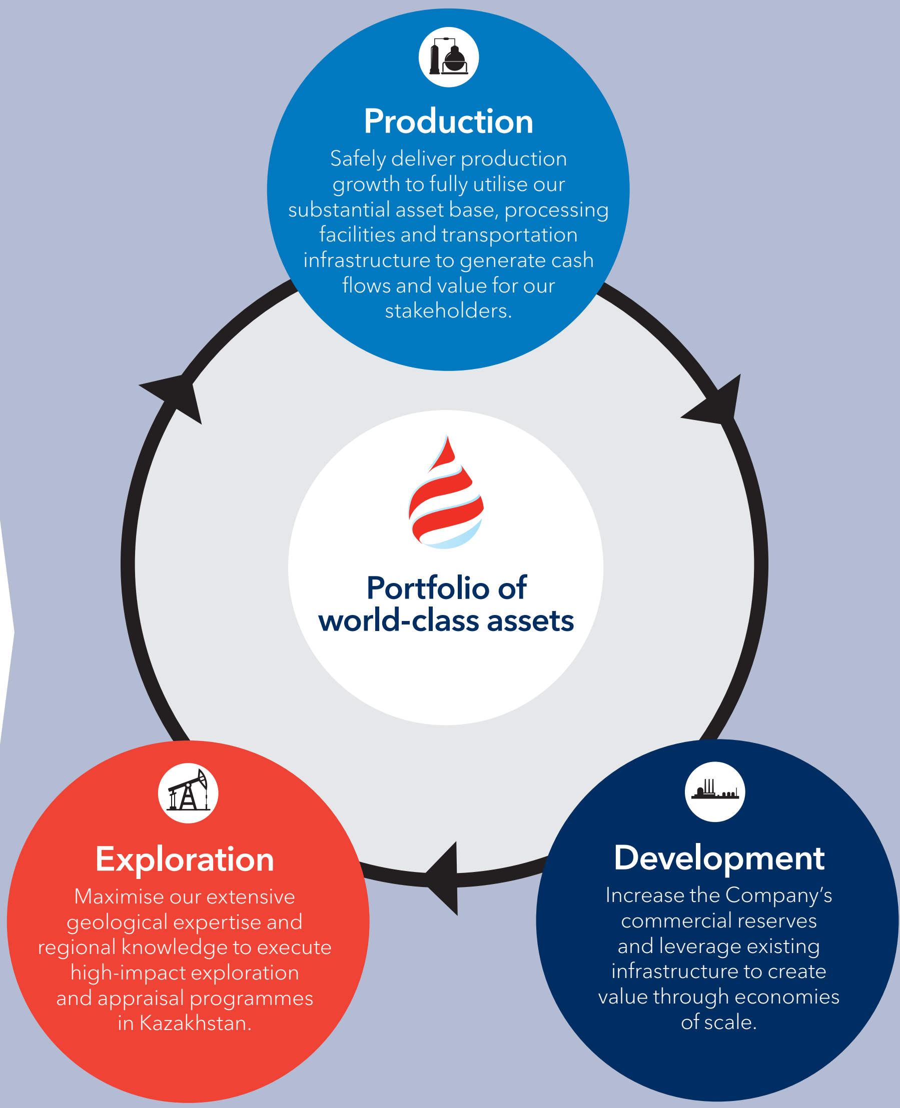
Intellectual
Our senior management team has over 152 years of combined experience in exploring, appraising and developing hydrocarbon assets in Kazakhstan with a unique understanding of the regional geology and what is required to realise its potential.

Natural
We have a substantial asset base with over 466 million barrels of Proven and Probable reserves.

Human
We have over 900 employees in five countries and pride ourselves on investing to develop their competencies, abilities and talent.

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.

Business activities



Underpinned by exemplary corporate governance and social responsibility across all of our business activities

Outputs and revenue drivers

Crude oil
- Brent-based pricing for railcar exports
- Urals-based pricing for pipeline exports

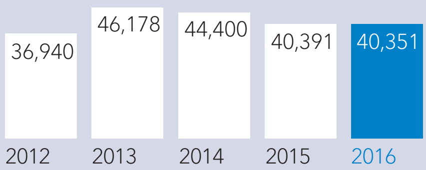
Stabilised condensate
- Brent-based pricing

LPG
- International Mediterranean LPG price Sonatrach for Black Sea deliveries
- Brest quotation for Eastern European deliveries

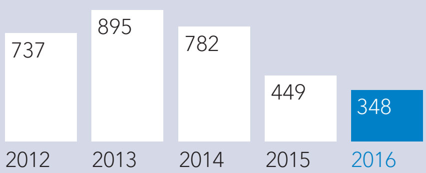
Dry gas
- Price agreed annually

KPIs

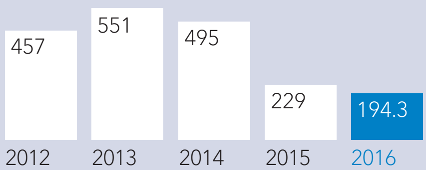
Production – boepd



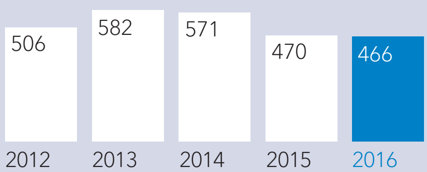
Revenue – US$m



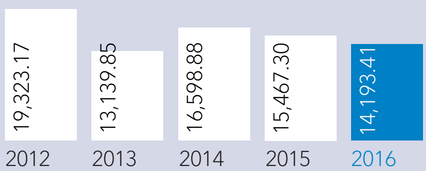
EBITDA – US$m



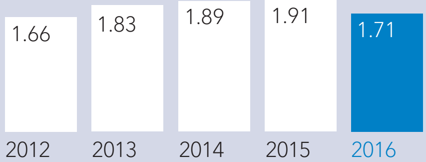
2P Reserves – mmboe



GHG emissions intensity ratio – (tCO_2e/mmboe)



Number of man hours worked with loss of working hours – (million)



Outcomes

Creating value
Value creation for stakeholders and the Republic of Kazakhstan.

Resources
A reliable stream of valuable energy resources for regional communities and export markets.

Communities
Employment, social investment and opportunities for local communities.

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

Our business strategy

A strategy for progression

Strategic priorities	Our progress in 2016	KPIs aligned to our strategic objectives
Delivering near-term production growth	• GTU3 construction has continued in line with guidance to complete construction in 2017. As of year-end 2016 it remains within our Board approved budget with approximately US$380 million spent • Production for the full year was over 40,000 boepd, in line with our guidance. This included production from three new wells which came online in Q4 of 2016. We plan to drill seven wells in 2017	Production growth in 2018 and beyond (boe) Production growth and reserve growth
Appraising and developing near-term projects	• Continued to grow proven reserve base through appraisal of Chinarevskoye and three new fields • Three wells successfully drilled during 2016 in order to maintain production	1P Reserves (boe)
Exploration upside through M&A	• Continuously monitored M&A opportunities in and around the Chinarevskoye field, as well as in other strategic areas of Kazakhstan	2P Reserves (boe)
Linking corporate responsibility to the growth of the Company	• Increased presence in local communities, and reported on well-being of employees and working environment	Number of man hours without loss of working hours (million)
Focus on delivering shareholder value	• Implemented cost cutting programme, scaled back drilling, ensured hedging programme was in place	Opex per boe below US$4, only 3 production wells drilled, US$30m received from hedging programme

Risks associated with our strategy	Forecasts, objectives and prospects for 2017-2019
• GTU3 development project is subject to risks related to delay, non-completion and cost overruns • Drilling can be subject to cost overruns and technical issues preventing successful outcome of the wells	• GTU3 scheduled for completion in 2017 • Production target of a minimum of 44,000 boepd in 2017 and 55,000-80,000 boepd in 2018
• Inaccurate assessments or unsuccessful exploration of the new fields could result in the overstatement of the Group's oil and gas reserves • Failure to drill the production wells would have resulted in missed production guidance	• Completion of the Chinarevskoye drilling programme and testing of Rostoshinskoye appraisal well during 2017 • Dynamic drilling programme in order to maintain production and ramp up in line with oil price movements
• Future earnings may be adversely impacted by changes in the market	• Opportunities for acquisitive growth will be evaluated on an ongoing and opportunistic basis
• Legal framework for environmental protection and operational safety still being developed in Kazakhstan	• Focus on expanding QHSE policy to include initiatives that go beyond day-to-day activities, such as contractor HSE management and environmental reporting
• The Group's activities in the Chinarevskoye field are currently the Group's sole source of revenue	• The Group aims to strike a balance between reinvesting in future growth and returning cash to our shareholders

Strategic objective

To become one of the leading independent oil and gas companies in the FSU

Strategic report
Corporate governance
Financial report
Regulatory information
Additional disclosures

Market overview

The oil and gas market in Kazakhstan[1]

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.

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

Some of the market and competitive position data has been obtained from US government publications and other third-party sources, including publicly available data from the World Bank, the Economist Intelligence Unit, the annual BP Statistical Review of World Energy for 2016, as well as from Kazakh press reports and publications, and edicts and resolutions of the Kazakh government. In the case of statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

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

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

Since 2000, Kazakhstan has experienced significant economic growth driven by economic reform and foreign investment. Concurrently, exports of crude oil have grown significantly with a majority of the oil produced being delivered to international markets via pipelines which run through Russia to shipping points on the Black Sea.

Major projects in Kazakhstan include the world-class Tengiz, Karachaganak and Kashagan fields. There are three major oil and gas refineries in Kazakhstan supplying the north, west and southern regions, in Pavlodar, Atyrau and Shymkent respectively. All three are either under the control or joint control of KazMunayGas JSC ("NC KMG").

Oil supply and demand

According to BP's Statistical Review of World Energy 2016, as at 31 December 2015 Kazakhstan ranked twelfth in the world by oil reserves and fifteenth in the world by gas reserves. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet Republics and has the Caspian region's largest recoverable oil reserves. Kazakhstan's proved oil and gas reserves were 3.0 billion tonnes and 0.9 trillion cubic metres respectively as at 31 December 2015.

The Kazakh government has stated that it expects oil and gas production in 2016 to amount to 77 million tons, increasing to 92 million tons in 2020. Most of this growth is expected to come from the Tengiz, Karachaganak and Kashagan fields.

Oil price outlook

Nostrum has managed its capital expenditure prudently during the period of continued oil price uncertainty and volatility and as such, is well positioned to withstand a continuation in low oil prices over the short to medium term and to deliver growth at a US$50.0/bbl long-term oil price.

Overview – the larger Caspian Region

Kazakhstan and Azerbaijan are the two significant crude oil producing countries in the Caspian region, producing 1.7m bopd and 0.8m bopd in 2015 respectively. It is expected that these countries will continue to lead the region in crude oil production. Turkmenistan and Uzbekistan are the predominant gas producers in the region. Russia plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea, although this part of Russia is not a substantial source of crude.

3.0 billion MT
Kazakhstan's oil reserves

0.9 trillion m³
Kazakhstan's gas reserves

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

Performance review

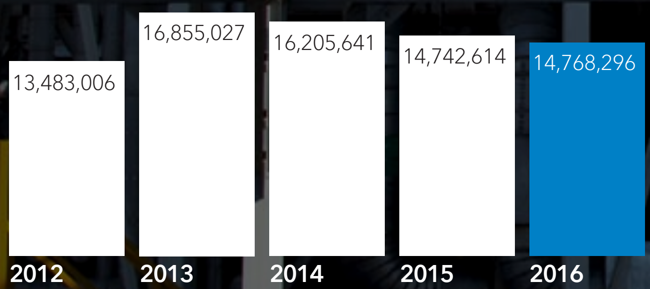
Maximising the potential of our assets

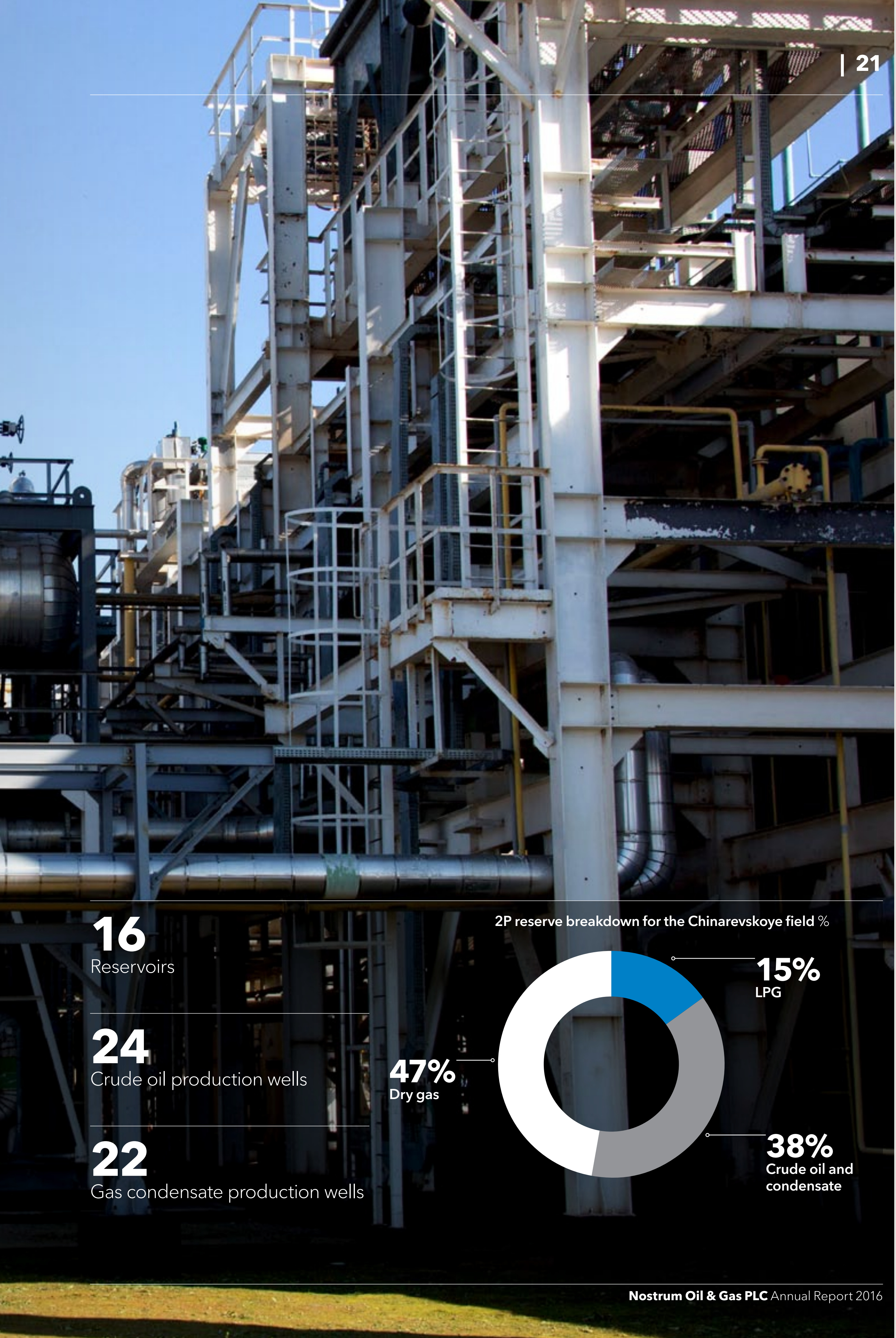
The Chinarevskoye field

World-class assets

We have four licence areas all located in the Pre-Caspian Basin, north of Uralsk. Nostrum's current producing asset is the Chinarevskoye field – a 274 square kilometre licence located in the Batys province of north-west Kazakhstan, near to the Russian border.

Annual boe production 2016





16
Reservoirs

24
Crude oil production wells

22
Gas condensate production wells

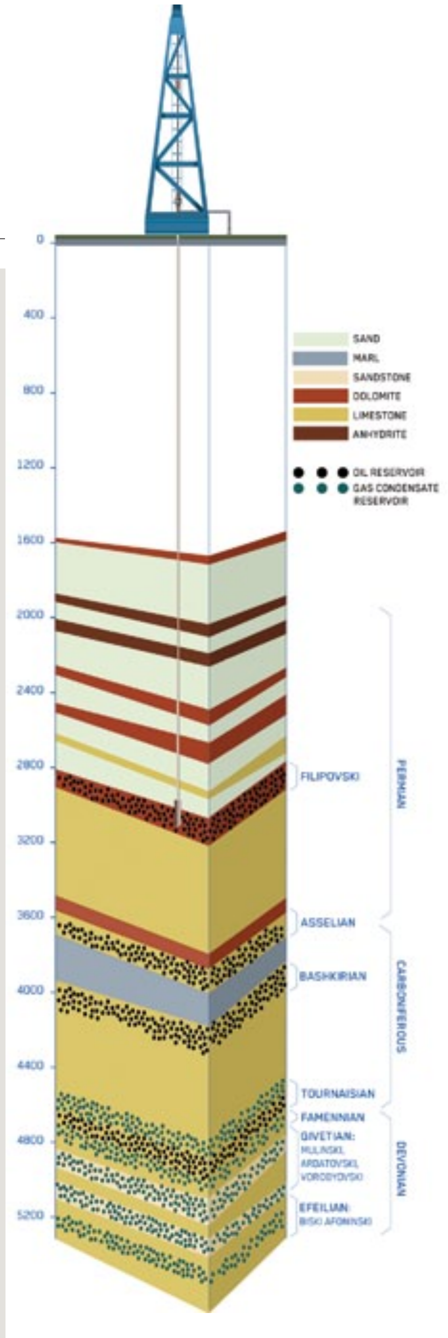
2P reserve breakdown for the Chinarevskoye field %

15%
LPG
47%
Dry gas
38%
Crude oil and condensate

Performance review continued

Maximising the potential of our assets

Chinarevskoye field



Stable business environment

Exploration and production licence
We were 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 we must comply with the terms of the exploration permit, the production permit and the development plans during this period. To date, Nostrum has met all of its capital investment obligations under the PSA.

Geology, reserves and drilling

Geology
The Chinarevskoye field is a multi-layer structure with 16 reservoirs and 52 compartments spread over five areas. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian, Mulinski, Ardatovski, and Biski-Afoninski reservoirs.

Reserves
Based on the Ryder Scott report dated 1 January 2017, the proved and probable reserves for the Chinarevskoye field amount to 379 mmboe (2015: 383 mmboe). Proven reserves amount to 147 mmboe (2015: 147 mmboe) and probable reserves to 232 mmboe (2015: 236 mmboe). Oil and condensate amount to 144 mmbbl of proven and probable reserves (2015: 148 mmbbl), LPG to 56 mmbbl (2015: 51 mmbbl) and gas to 179 mmboe (2015: 184 mmboe).

The production of 14,768,296 mmboe in 2016 was compensated by approximately 75% additional reserves, based on better well performance.

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 76 wells and side-tracks drilled under the PSA from 2004-2016.

Our 2016 drilling programme was successfully completed with 29 oil wells and 16 gas condensate production wells in operation at the Chinarevskoye field. Three production wells were brought online in Q4 2016 after being successfully completed in Q3.

We plan to drill four new production wells, two side-tracks and one appraisal well at Chinarevskoye as part of our 2017 drilling programme. Our 2017 drilling programme should allow us to reach our production guidance of a minimum of 44,000 boepd.

24
Oil wells

22
Gas condensate wells

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.

The Company is building a short pipeline to provide access to the KTO pipeline for its exported crude oil transportation. This pipeline will be completed at a total cost of under US$10 million and is expected to be operational by Q2 2017.

Crude oil infrastructure
Our crude oil infrastructure is developing to reflect an increase in our processing capability. Our oil treatment and gathering facility (OTF) is capable of processing 400,000 tonnes of crude oil per year and it is transported through our oil gathering and transportation lines. These include a 120 kilometre liquids pipeline, an oil-loading facility at the rail terminal and oil storage facilities for up to 30,000 cubic metres of oil.

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.

Performance review continued

Advancing our growth prospects

Rostoshinskoye, Darjinskoye & Yuzhno-Gremyachenskoye fields

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

60-120km
from Chinarevskoye licence area

2P
reserves as of 1 January 2017 of 87 mmboe

Exploration well on Rostoshinskoye reached target depth in 2016.

Topside was completed for testing to take place in 2017.

Performance review continued

Advancing our growth prospects

Rostoshinskoye, Darjinskoye & Yuzhno-Gremyachenskoye fields

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. This appraisal well changed the geological model of the Rostoshinskoye field and also increased the reserves potential of the Bashkirian section also of the adjacent Darjinskoye field. The test of this well will be completed in 2017 and the reserves will be re-estimated in the 2017 reserves report. Preparations for re-entering an existing well on the Darjinskoye field are also currently underway.

Nostrum's total combined reserves and resources

118.1 million barrels of liquids and 622 billion cubic feet of sales gas.

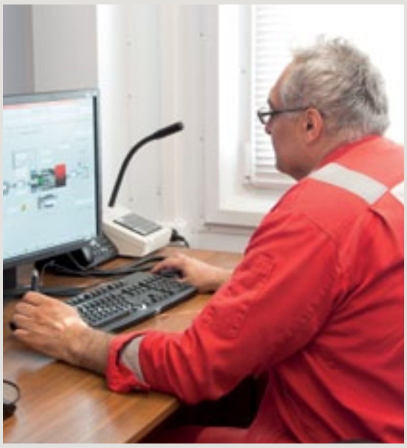
466 mmboe
2P reserves

US$80-100m
Appraisal programme

Total combined reserves
At Nostrum, we have an outstanding track record of converting reserves. An updated reserve report by Ryder Scott, as at 1 January 2017, has shown 466 mmboe of proved and probable reserves for the Chinarevskoye and adjacent Trident fields.

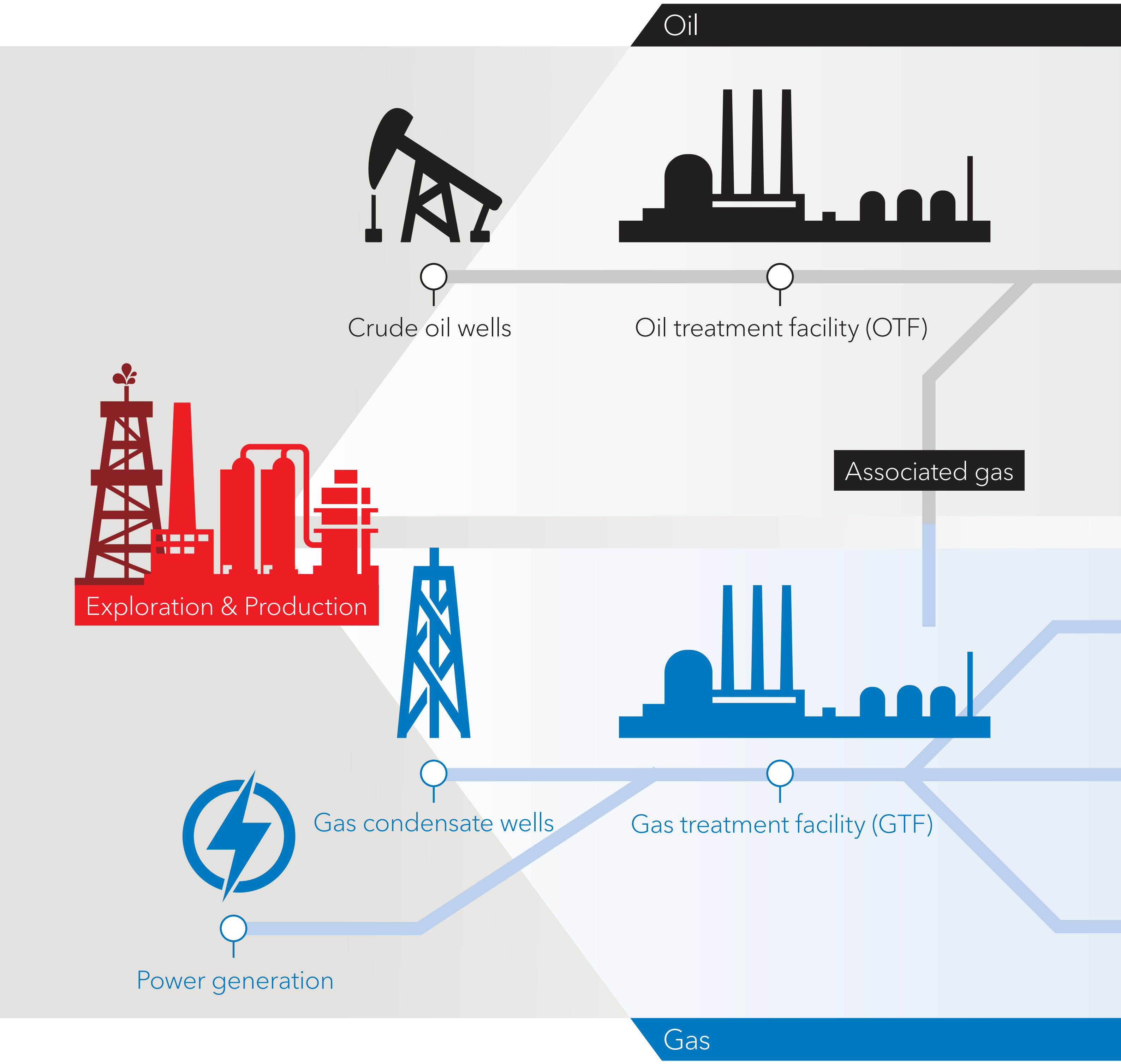
In line with our strategy, we will continue to look to increase our reserve base and secure production growth.

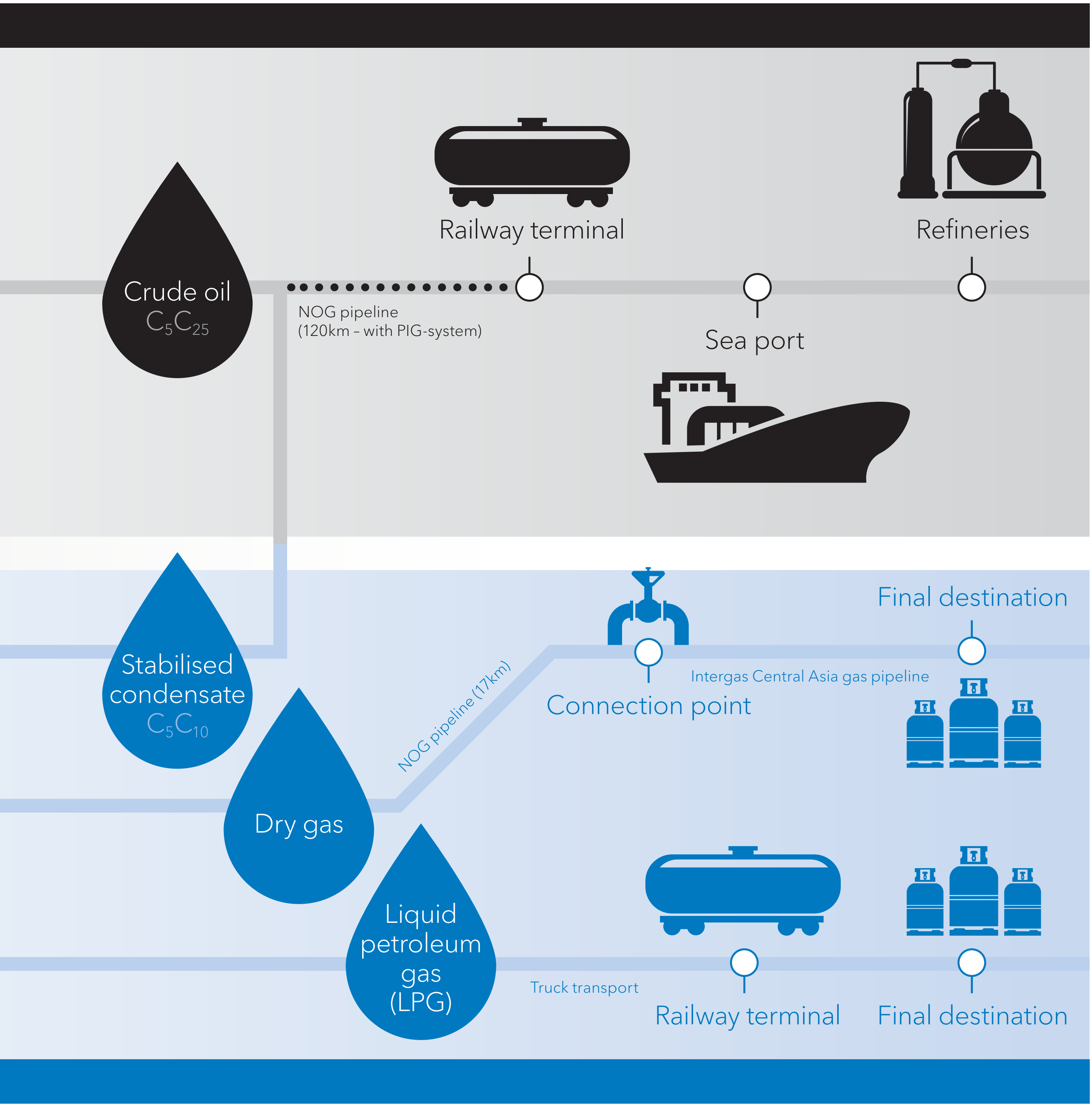
Contingent resources
In addition to the estimated 2P reserves, contingent resources have been identified in the Chinarevskoye, Rostoshinskoye, Darjinskoye and Yzhno-Gremyachenskoye licence areas. The 1C+2C contingent resources estimated as of 1 January 2017 for the Chinarevskoye area amount to 105.4 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.



Performance review continued
Products and processes

Leveraging our competitive advantage





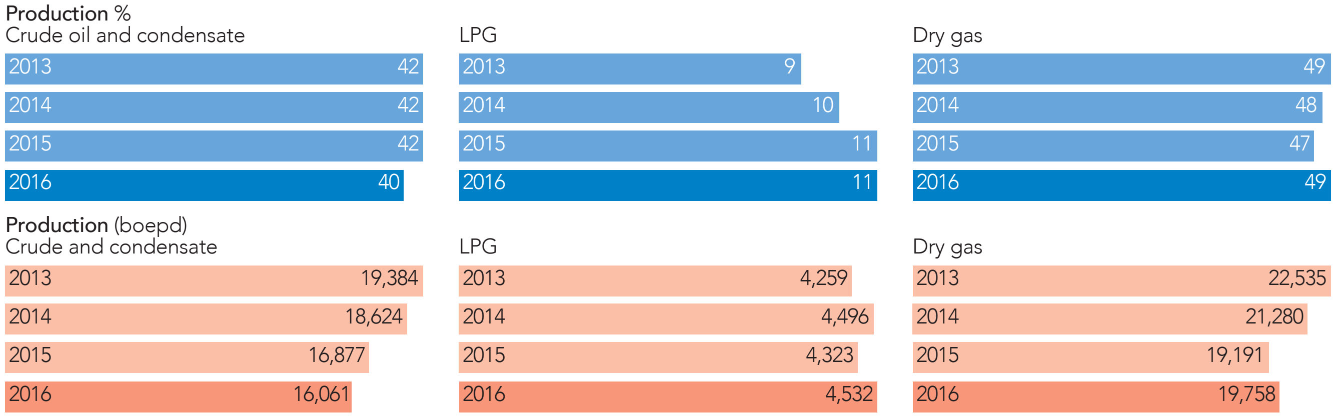
Crude oil
C_5C_{25}
NOG pipeline
(120km – with PIG-system)
Railway terminal
Sea port
Refineries
Stabilised condensate
C_5C_{10}
Dry gas
NOG pipeline (17km)
Connection point
Intergas Central Asia gas pipeline
Final destination
Liquid petroleum gas (LPG)
Truck transport
Railway terminal
Final destination

Performance review continued
Products and processes

Leveraging our competitive advantage

Products	Quality	Sales	Pricing	Transportation
Crude oil	• Density – 0.815g/cm^3 • API – 42-43 degrees • Average sulphur – 0.4% • Superior in quality to other primary benchmark crude oils produced in Kazakhstan	• 85% exported in accordance with the PSA • 15% sold domestically • Destinations include Neste's refinery in Finland and SOCAR in Azerbaijan • From Q2 2017 all exported crude oil volumes will be sold through the KTO pipeline	• Brent-based pricing for railcar exports • Urals-based pricing for pipeline exports • Domestic sales at c.50% discount	• Sent through our own 120km pipeline from the field site to our own rail loading terminal in Uralsk • From here it is loaded onto railcars and sent to off-takers at various destinations • From Q2 2017 all exported crude oil volumes will be delivered into the KTO pipeline through an extension to our existing 120km pipeline
Stabilised condensate	• Density – 0.750-0.790 g/cm^3 • API – 56 degrees • Average sulphur – <0.2%	• 100% exported • Destinations include the Russian Black Sea port of Taman	• Brent-based pricing	• Sent through our own 120km pipeline from the field site to our own rail loading terminal in Uralsk • From here it is loaded onto railcars and sent to various destinations
LPG	• Field grade quality • No olefins and low sulphur content	• 85%-100% exported • Destinations include the Russian Black Sea ports	• International Mediterranean LPG price Sonatrach for Black Sea deliveries • Brest quotation for Eastern European deliveries	• Loaded onto LPG trucks from the field site to our rail loading terminal in Uralsk • From here it is loaded onto railcars and sold to third parties
Dry gas		• 100% sold domestically	• Price agreed annually	• Sent through our own 17km pipeline from the field site to the connection point with the Intergas Central Asia gas pipeline • Sold at the connection point

Changes in production



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

Dry gas sales provide additional revenue as a by-product from the processing facilities. Dry gas production is also the feedstock for our power generation facilities which in turn provide electricity and power for the field site.

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

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 of crude oil 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 sales 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 17 kilometre 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 2017.

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 average daily production target of over 100,000 boepd.

Gas pipeline
Nostrum has its own 17 kilometre gas pipeline that 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 120 kilometre 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 3 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 crude oil and condensate produced by the Company and has a capacity of approximately 4 million tonnes of crude oil and condensate per annum.

Oil storage facilities
Nostrum has facilities for up to 30,000 cubic metres of oil and stabilised condensate storage at its field site and rail loading terminal.

KTO pipeline connection
During 2016 Nostrum concluded commercial negotiations and began 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 will substantially reduce Nostrum's crude oil transportation costs and enhance the Company's ability to manage crude oil netbacks through the commodity cycle. The total cost of the pipeline will not exceed US$10 million and export volumes are expected to begin in Q2 2017.

Operational structure
Nostrum has a simple and effective operating structure. It has a board of directors led by the chairman and a Senior Management Team led by the CEO. The Senior Management Team manages all major units involved in operations according to interaction charts and key management principles described on pages 74-89. The team has a breadth of expertise as well as deep sector experience, which has led to the successful oversight of Nostrum's operations throughout the challenging oil price environment seen over the last year.

Key historical developments

Successful development

First phase of development
2004-2013

2004 2006 2010 2011 2012 2013

2004
Zhaikmunai LLP is acquired

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

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

2008
Production of 5,095 bopd

2009
US$300m placing at $4 per GDR

2010
US$450m bond raised at 10.5%

2011
Gas Treatment Facility completed

2011
17km dry gas pipeline completed

2012
Approval of the payment of a first distribution

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

2013
Annual average production of 46,178 boepd

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

Second phase of development 2014-2018

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

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

2017
Appraisal of Trident fields and expansion of drilling at Chinarevskoye

2014 2015 2016 2017 2018

2014
Completion of 3D seismic on 3 additional licences

2016
Re-entry to FTSE250

2017
Expansion of processing capacity of GTU3 completed

2018
Ramp-up of production from GTU3

2014
Admission to the premium listing category of the London Stock Exchange and FTSE 250

2016 milestones

What we have achieved

Principal developments on the reporting period

Strategic

GTU3
Significant progress has been made during 2016 with construction and engineering work continuing to proceed in line with expectations. The project remains on track to be completed during 2017 for a total cost of US$500 million.

First appraisal well on Rostoshinskoye field
The first appraisal well on Rostoshinskoye was successfully drilled during 2016, reaching target depth of 5050 metres in H1. The well was completed during H2 and is being prepared for testing pending the extension of the licence. Rostoshinskoye is the largest of the three fields adjacent to Chinarevskoye. Together, the three fields contain an estimated 87 million 2P barrels.

KazTransOil pipeline connection ("KTO pipeline")
During 2016 Nostrum concluded commercial negotiations and began construction of a secondary crude oil pipeline to enable export sales via the Atyrau-Samara international export pipeline. The KTO pipeline will substantially reduce Nostrum's crude oil transportation costs and enhance the Company's ability to manage crude oil netbacks through the commodity cycle. The total cost of the pipeline will not exceed US$10 million and export volumes are expected to begin in Q2 2017.

Financial

Substantial reduction in cost base – Nostrum continued to reduce its cost base throughout the period with operating costs falling from US$4.3 per barrel in 2015 to US$3.7 per barrel in 2016. During a prolonged period of low oil prices the business has continued to generate good levels of operating cash flow and protect its margins.

Hedging – Nostrum received US$27 million from its hedge during 2016. The Company continues to have 15,000 barrels of oil per day hedged at strike price of US$49.16 per barrel. The put options are settled in cash on a quarterly basis and mature in December 2017. There is no cost to Nostrum if the oil price exceeds the strike price of US$49.16 per barrel.

Reduction in export customs duty – Nostrum currently pays export customs duty on its export crude oil volumes. From 1 January 2016 the Republic of Kazakhstan further reduced export customs duty during H1 from US$60 per tonne to US$40 per tonne. During H2 2016 a new oil price linked mechanism was introduced throughout the country to accommodate the increased volatility in oil prices.

Operational

Substantial asset base – Nostrum's substantial reserve base was reaffirmed in this year's Independent Reserve Audit with 2P reserves of 466 million barrels of oil equivalent.

Successful GTU1 & 2 maintenance – The semi-annual scheduled shutdowns for maintenance were completed within the expected timeframe budgeted for the year. Total shut down time for planned maintenance did not exceed 15 days over 2016.

Successful drilling campaign – In 2016 Nostrum executed a highly effective drilling campaign at Chinarevskoye to maintain existing production during a year of volatile commodity prices and increasing capital commitments on GTU3. Two new gas condensate producers and one new crude oil well were completed on budget and brought online in Q4. Nostrum plans to drill six production wells and one appraisal well at Chinarevskoye during 2017.

Steady production – The Chinarevskoye asset continues to perform in line with expectations with Q4 production of 44,708 boepd and average annual production for the year of 40,351 boepd. At year end, there were 29 oil wells and 16 gas condensate wells producing at Chinarevskoye.

3
new production
wells bought online

First appraisal well
drilled on Rostoshinskoye

Corporate social responsibility

A sustainable business

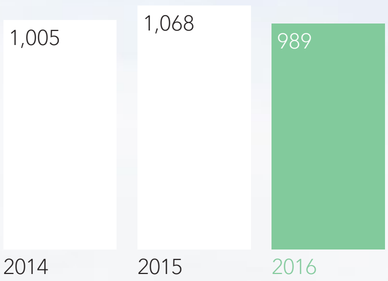
Our approach to corporate social responsibility (CSR) is based on our commitment to make a positive long-term impact on all our stakeholders through our business activities.

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

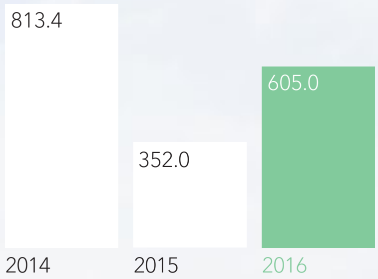
Our continuing development as a successful and sustainable E&P company has created economic growth and increased our presence in both the local and regional communities.

The sustainability of our business is made possible through the active and ethical management of our people, our community and the environment.

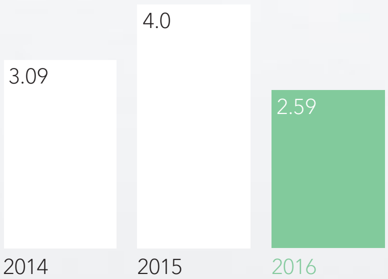
Our total workforce
(number of people)



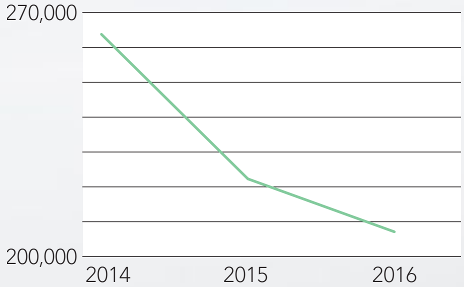
Our contribution to the liquidation fund
($'000)



Health and safety
(Total recordable injury frequency %)



Our environment
GHG emissions ($mtCO_2e$)



17,488 days
Total number of training days in 2016

US$605,000
Increase in liquidation fund deposit

1,712,000 hours
Number of man hours without loss of working hours

207,349.6
GHG emission intensity ratio ($mtCO_2e$)

Corporate social responsibility continued
QHSE

A principled approach

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

Leadership & Commitment
Management will provide visible and active leadership in developing and maintaining HSE culture

Organisation
The organisation and responsibilities for the management of HSE 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 HSE standards

Planning & Performance Monitoring
Objectives are planned in accordance with the established key performance indicators to measure the implementation of HSE 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 HSE management and to identify areas for improvement

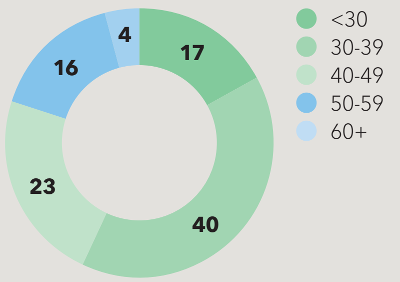
Our people

Our skilled workforce

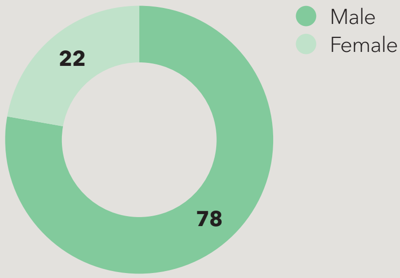
The number of employees working at Nostrum Oil & Gas PLC currently totals 989, with 944 of those based in Kazakhstan. This makes us one of the largest employers in the Batys province. In addition to our assets and representative offices in Kazakhstan, we have offices in Amsterdam, London, St. Petersburg and Brussels. We are proud to employ a diverse workforce and believe that this contributes to the success and sustainability of our business.

Location	2012	2013	2014	2015	2016
Chinarevskoye Field	631	633	686	710	**612**
Uralsk	207	274	268	305	**322**
Other	46	56	51	53	**55**
Total	**884**	**963**	**1,005**	**1,068**	**989**

Nostrum Group age diversity 2016 %



Nostrum Group gender diversity 2016 %

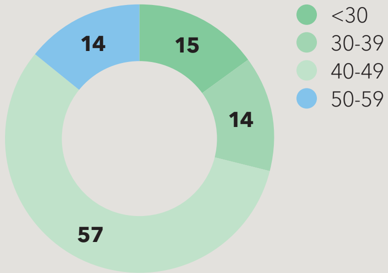


A strong management team

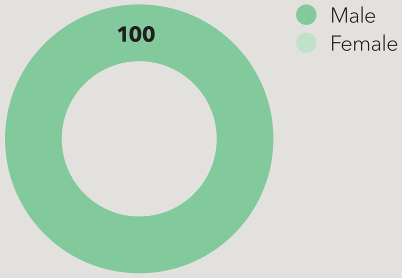
At the helm of the business is a dedicated and experienced Senior Management Team, who bring diversity through age and nationality. They include:

- Frank Monstrey, Executive Chairman
- Kai-Uwe Kessel, Chief Executive Officer
- Thomas Richardson, Chief Financial Officer
- Thomas Hartnett, Chief Legal Officer and Company Secretary
- Berik Brekeshev, Chief Commercial Officer[1]
- Sergey Khafizov, Chief Business Development Officer
- Heinz Wendel, Chief Operations Officer

Nostrum management age diversity 2016 %



Nostrum management gender diversity 2016 %



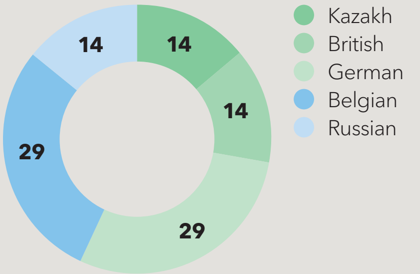
1 Mr Brekeshev resigned as Chief Commercial Officer on 13 January 2017. Mr Arkadi Epifanov has assumed Mr Brekeshev's responsibilities on a temporary basis until a suitable successor is appointed.

Corporate social responsibility continued

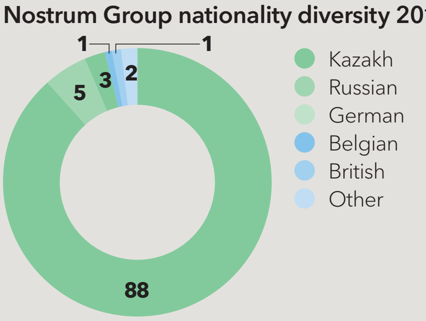
Our people

A principled approach

Nostrum management nationality diversity 2016 %



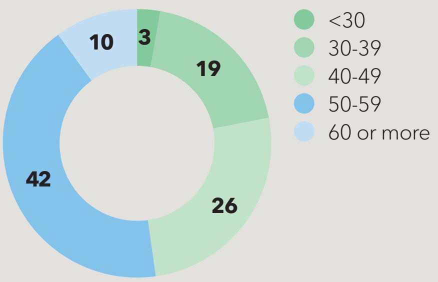
Nostrum Group nationality diversity 2016 %



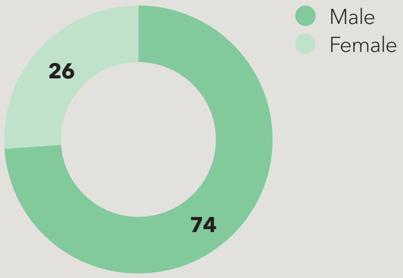
Functional heads

Nostrum's new organisational structure includes 31 functional heads, taking account of each of the distinct functions within Nostrum's business and reporting into the Senior Management Team.

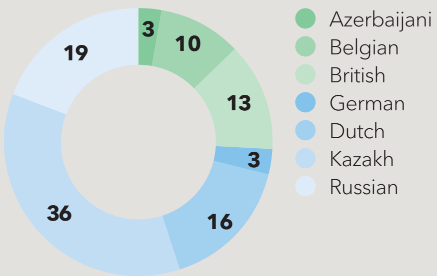
Age diversity functional heads 2016 %



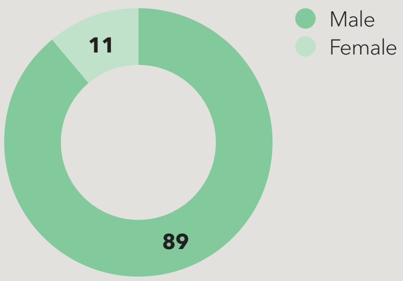
Gender diversity functional heads 2016 %



Nationality diversity functional heads 2016 %



Nostrum Board gender diversity 2016 %



Diversity

Nostrum is committed to promoting diversity in its workforce at all levels. It is our belief that diversity in age, nationality and gender is key to the Group's success and sustainability. We are encouraged by the gender diversity in the newly created team of divisional heads and hope that this will support ambitions for greater gender diversity within the senior management team which, following a restructuring earlier this year, is now all male.

Remuneration and growth rate in salary

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

	2012	2013	2014	2015	**2016**
Average number of full-time equivalent employees in Kazakhstan	838	907	961	1021	**938**
Change in average monthly salary of employees in Kazakhstan %	28%	6%	21%	12%	**26%**

Training

Under the terms of the PSA with the Government of Kazakhstan, we are required to adhere to an accrual of 1% per annum of the field development cost relative to the Chinarevskoye field. We also adhere to training obligations under the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye subsoil use contracts.

Case study – Scholarships

Nostrum provides educational grants and financial support to assist employees and their children to attend university and college. Higher educational assistance is available on a preferential basis to students who have received academic awards and those who have successfully passed their admission exams to educational institutions. The Company can also award educational fellowships on a discretionary basis.

Corporate social responsibility continued

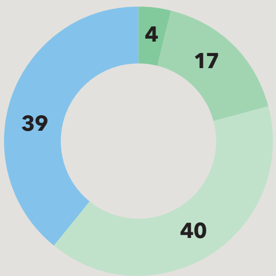
Our people

A principled approach

KPIs
- Total training cost in 2016: US$1,616,106
- Total number of training days in 2016: 17,488 days
- Number of employees benefitting from education and training programmes in 2016: 845 individuals

The following local personnel training programme has been achieved in 2016.

Categories of Nostrum personnel trained in 2016 %



Employee relations and social guarantees
Relations with our employees are a key priority for our business and we consider them to be strong. To date, we have not experienced any work stoppages, strikes or similar actions.

We offer effective social guarantees in the following areas:

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

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 UK 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, incorporating provisions relating to the Act. 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 a supplier to the Group to ensure that any associated person who is performing services or providing goods in connection with their contract with the Group does so 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 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.

Whistle-blowing
We have a whistle-blowing 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, whether they are senior managers, directors, employees, consultants or contractors. The whistle-blowing policy sets out details of three compliance liaison officers that speak a variety of languages for the purposes of reporting any concerns. The whistle-blowing 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 whistle-blowing policy is available on the Group's intranet in the 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

Health and safety

Introduction to health and safety

QHSE at Nostrum focuses on improving the management and mitigation of risks relating to health, safety and the environment, and preventing any injury or ill health to employees. QHSE management is a priority to Nostrum as it is key to the sustainability and success of our business and therefore we constantly seek to develop programmes to improve our QHSE standards. The new health and safety measures given below reflect our efforts to improve QHSE reporting standards.

Health and safety	2012	2013	2014	2015	**2016**
Number of man hours without loss of working hours in 2016 (millions)	1.66	1.83	1.89	1.91	**1.71**

Health and safety	2012	2013	2014	2015	**2016**
Total Recordable Injury Frequency	n/a	n/a	3.09	4.0	**2.59**

Nostrum's road safety programme

In 2015 a significant proportion of HSE incidents were classified as road traffic incidents. A programme was therefore developed and put in place in 2016 in order to minimise future road traffic incidents at Nostrum.

Dedicated awareness sessions were conducted with the major transport services contractors to communicate Nostrum's internal road safety rules. Hazardous areas were identified and speed bumps were built to help reduce average speed in these areas. Pedestrian crossings were also marked with better lighting. Inspections were carried out on all heavy equipment and buses of the major transport services contractors and LPG transportation service contractors to ensure compliance with internal QHSE standards.

QHSE reporting

Nostrum has developed a simple system for employees to report hazards and unsafe behaviour to management. Reporting forms are available to all employees, in Kazakh, Russian and English, and also encourage feedback on how Nostrum should continue to improve its QHSE practices. This is being launched in 2017 and will allow for data to be collected centrally and for follow-up action to be coordinated more efficiently.

2017 targets and campaigns

We constantly aim to minimise accidents and injuries as a result of Nostrum's operations and in 2017 will target lost time injury frequency of less than 0.18 and total recordable injuries of less than 2.00. We will also be developing a QHSE leadership programme, allowing senior executives to demonstrate their leadership, support and commitment to QHSE aspects. We aim to hold 20 QHSE leadership tours in 2017. These are inspections of the facilities made by groups of senior management, demonstrating their commitment to QHSE standards and aiming to establish a two-way communication between management and the workforce. In addition, we will seek to review contractor QHSE processes and procedures, with specific focus to be given to contract control, competence and performance monitoring. We aim to hold ten QHSE Contractors Audits over the course of the year.

Corporate social responsibility continued

Our community

A principled approach

Approach to our community

At Nostrum, we place 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, as well as a canteen, recreational areas and a health clinic. This ensures comfortable indoor living conditions throughout the year for our field site employees. In addition, our new corporate offices in Uralsk were finished last year and offer both modern and secure facilities for staff.

We also support the communities around us through financing social infrastructure projects under the terms of our PSA agreement and subsoil use contracts for the Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye fields. Such projects include improvement of infrastructure, repair of school facilities and charitable donations. Other initiatives carried out over the year include a children's matinee for families of our employees, giving gift sets out on International Women's Day and funding of local charities.

US$5.98 million
liquidation fund deposit

Liquidation fund contribution
Under the terms of the PSA and the subsoil use agreements for Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye, Nostrum is building up a liquidation fund of US$12 million to provide funds for the removal of oil and property at the end of the PSA. US$5.98m is held on restricted cash accounts as a liquidation fund deposit (2015: US$5.4m).

Payment to governments
Nostrum is committed to transparency in its business activities and payments to governments. In 2015 a total of US$66,454,012 was paid to governments by Nostrum and its subsidiary undertakings. We will report on 2016 payments to governments in the first half 2017. For more detail please see our website: www.nostrumoilandgas.com/en/transparency.

Case study – social investment
Nostrum supports local universities through the provision of internships to students, including those from the West Kazakhstan Agrarian Technical University. Practical training placements are open to all students who study a technical programme or subject and nearly 50 students were placed during 2016.

Corporate social responsibility continued
Our environment

A principled approach

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

- Air pollution controls;
- 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

Nostrum has developed a site monitoring programme to monitor our environmental activities, identify any potential operational environmental impact and enable us to take prompt corrective measures in case of any incident.

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

Programme methods and controls:
- Compulsory criteria to be followed in site monitoring;
- Time, duration and frequency of site monitoring activities and measurements;
- Detailed site monitoring methodologies;
- Sampling points and places of measurement;
- Methods and frequency of data accounting, analysis and reporting;
- Schedule of internal checks and procedures for rectifying violations of national environmental laws, including the internal response to any violations;
- Monitoring quality assurance procedures;
- Emergency 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
The "Health, Safety and Environmental Compliance Audit (2016)" submitted by AMEC, our independent environmental auditor, is a comprehensive document detailing the content, methodology and results of the environmental efforts at Nostrum. It shows that 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 2016 audit were as follows:

- Production activities of the Company generally comply with high standards of environmental, industrial and occupational safety;
- During 2016 the conversion to full self-sufficiency in electric energy supply has been continued with a new electric generation unit being put in operation. This greatly improves the economic, environmental and safety performance of the Company in accordance with sustainability principles;
- Recommendations of the previous Assessment by AMEC have been largely fulfilled, including improvement of the environmental, health and safety management system.

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

Water management
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 the sanitary and epidemiological, as well as specific environmental protection requirements of the Republic of Kazakhstan and to prevent environmental incidents.

Measures to prevent soil and surface water contamination include: hard pavement at production sites and drainage of runoffs from sites to production and storm water receivers.

Corporate social responsibility continued

Our environment

A principled approach

Our greenhouse gas (GHG) reporting

Since 2011 Nostrum has been monitoring and reporting on its GHG emissions in accordance with RoK 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 2011-2012 (in carbon dioxide emissions equivalent). The quota allocated for 2016 is calculated based on commitments to reduce carbon dioxide emissions by 1.5% from this 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.

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

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

Table 1: Scope 1 GHG emissions subdivided by gas types ($mtCO_2e$)

	2012	2013	2014	2015	**2016**
Carbon dioxide	256,050.4	188,604.0	236,556.0	208,466.2	**195,453.3**
Methane	805.2	28,693.6	27,424.8	13,919.8	**10,817.0**
Nitrous oxide	283.1	165.7	124.3	126.2	**1,045.7**
Hydrofluoro-carbons	16.1	16.1	16.1	34.0	**33.6**
Total	257,154.8	217,479.4	264,121.2	222,546.2	**207,349.6**

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 ($mtCO_2e$)

	2012	2013	2014	2015	**2016**
Stationary combustion	252,138.9	212,612.3	260,124.4	205,701.9	**195,576.1**
Mobile combustion	2,312.1	2,876.3	2,135.2	1,498.2	**757.9**
Fugitive sources	2,703.8	1,990.8	1,861.6	15,346.1	**11,015.6**
Total	257,154.8	217,479.4	264,121.2	222,546.2	**207,349.6**

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

Indirect GHG emissions (Scope 2)

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

GHG emissions
intensity ratio reduced by -8.4% from 2015 to 2016

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

Table 3: Scope 2 GHG emissions from purchased electricity

Scope 2	2012	2013	2014	2015	**2016**
Purchased electricity (MWh)	15,116.8	14,983.5	19,488.2	20,240.4	**8,354.6**
Indirect emissions (tCO_2e)	4,094.5	4,058.4z	5,278.6	5,482.3	**2,262.9**

The composition of GHG emissions predominately consisted of carbon dioxide and methane and stationary combustion sources formed the major portion of emitted GHGs. There was a decrease of more than 50% in GHG emissions from mobile combustion, and this resulted from the majority of vehicles being transferred to a transport services company in 2016.

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

Table 4 shows intensity ratios for total (Scope 1 and Scope 2) emissions in the period 2010-2016. The intensity ratio was at its highest in 2011 and considerably decreased in 2012 when the GTF became operational.

Table 4: Emissions intensity ratios for total GHG emissions

Production – intensity ratio	2012	2013	2014	2015	**2016**
Production, toe	1,973,965	2,460,830	2,369,823	2,152,423	**2,156,171**
tCO_2e/toe	0.13	0.090	0.114	0.106	**0.097**
Production, mmboe	13.52	16.86	16.23	14.74	**14.77**
tCO_2e/mmboe	19,323.17	13,139.85	16,598.88	15,467.30	**14,193.41**

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 CO_2 (2013-2014 average of reported emissions). The total quota for 2016-2020 is 1,062,900 tonnes CO_2. 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
According to its GHG emissions reduction strategy, Nostrum evaluates the potential for GHG emissions yearly to plan for the subsequent introduction of energy and resource saving measures. To meet these ambitious targets, we have developed the commitments of our managers and contractors to provide effective assistance in improving energy efficiency and reducing GHG emissions.

Risk management

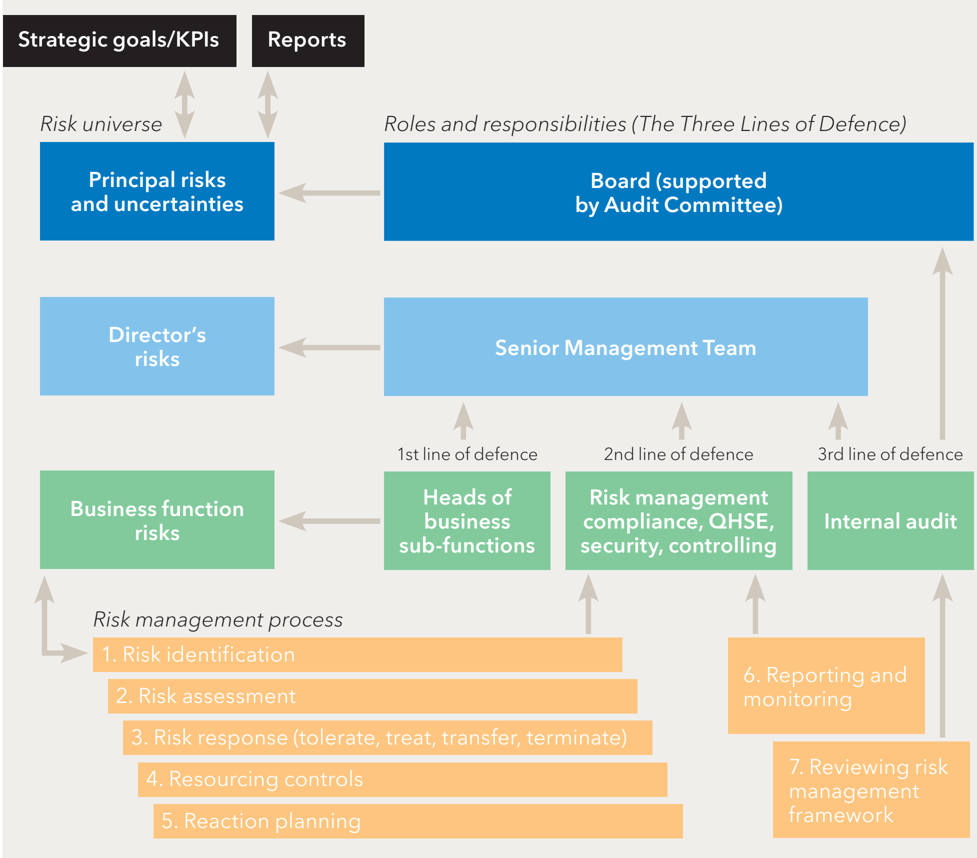
The Group continuously develops its risk management system in order to ensure it remains in line with best practice in achieving the primary purpose of managing, monitoring and reporting on the risks that may impact achievement of the Group's strategic objectives, whilst maintaining compliance with respective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

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

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

The Group is in the process of formalising risk management roles and duties according to "The Three Lines of Defence" model as further described in the diagram below, whereby the Board and senior management are the primary stakeholders served by the three lines of defence as follows: 1) heads of business functions; 2) risk control and compliance oversight functions; and 3) the internal audit function.

Risk management framework



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

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

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

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

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

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 opposite.

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

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

In 2016, the processes related to risk management and internal control systems were consistent with the UK Corporate Governance Code and FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014.

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

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 pages 36-49.

Risk management continued

Changes from prior year risk assessment

In 2016, the principal risks and uncertainties managed and monitored by the Board and senior management remained the same as in 2015 and the related risk assessments did not change significantly. However, certain principal risks and uncertainties were reclassified and renamed to allow for better presentation and disclosure. A summary of these changes is shown in the diagram below:

Changes in principal risks and uncertainties from prior year

2015		2016		Explanations for changes
Strategic	Commodity price risk	Strategic	Business and market environment	This principal risk area was renamed to cover, in addition to commodity price volatility, the broader range of risks and external factors related to the business environment in which the Group operates.
Strategic	Development projects	Strategic	Strategic development initiatives	Due to their close nature "Development projects" and "Single revenue source" risks were combined into one principal risk area related to "Strategic initiatives". See more details in the respective principal risk description.
Operational	Single revenue source and business interruption			As mentioned above, this principal risk area was merged with "Development projects" and renamed "Strategic development initiatives".
Operational	Estimation of oil and gas reserves	Operational	Oil and gas reserves and operations	This principal risk area was renamed taking into account that it covers not only estimation risks but also risks related to oil and gas exploration, development and production.
Compliance	Environmental compliance	Operational	Health, safety and environment	This principal risk area was renamed to cover a broader area of risks including those related to health and safety. In addition, it was reclassified to an operational area, considering the fact that these risks are inherent to the Group's operations.
Compliance	Subsoil use agreements	Compliance	Subsoil use agreements	The description of the risk was updated to reflect a wider range of risks related to subsoil use agreements and their impact.
Compliance	Non-compliance with anti-bribery legislation	Compliance	Compliance with laws and regulations	This principal risk area was renamed to cover not only anti-bribery risks but also various other legal and compliance risks related to the legislative frameworks in which the Group operates.
Financial	Tax law uncertainty	Financial	Tax risks and uncertainties	This principal risk area was renamed to cover a wider range of risks related to tax positions including risks related to tax calculations, reporting, timely payments, etc.
Financial	Going concern and liquidity risk	Financial	Liquidity and financing risks	Since the assumption of the Group's going concern and liquidity are subject to assessment and are respectively affected by various risks and uncertainties, this principal risk area was renamed to give more specific definition of the risks in this area.
		Other	Other significant risks	This principal risk area was added to cover the directors' risks not specifically allocated to any of the above principal risks and uncertainties.

Principal risks and uncertainties

Strategic risks	Description of risk	Risk management
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 as well as risks related to foreign 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. However, related future changes in the business environment, regulations and political situation will be closely monitored to assess any potential impact on the Group's operations.	In order to mitigate the oil price risk, the Group has a hedge of 15,000 boepd with a strike price of US$49.16 per barrel which has 24 month tenor, maturing in December 2017 and with cash settlement on a quarterly basis. The primary purpose of the hedge is to secure funding for the construction of GTU3. In addition, in 2015 the Group started exporting the majority of its dry gas under a new contract and therefore benefits from export prices which are usually substantially higher than domestic prices. 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.

Principal risks and uncertainties continued

Strategic risks	Description of risk	Risk management
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 risk 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. In addition, Nostrum's approach made during 2015 to the board of Tethys Petroleum Ltd regarding a possible offer to acquire the company represents an example of the Group's further efforts towards diversification of the Group's portfolio of assets. This offer was subsequently withdrawn by Nostrum. 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 project management team periodically reports to senior management and the Board on the progress of engineering, procurement and construction. The Group has concluded the majority of the procurement process in relation to GTU3 and monitors logistics, engineering, expedition of materials and equipment on an ongoing basis. Senior management and the Board continuously monitor the timing, scope and performance of the drilling programme and tailor it taking 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. The Company has entered into certain relationship agreements to ensure that its transactions and relationships with certain shareholders are on arm's length and on normal commercial terms. In addition, the Group has established policies and procedures for the timely identification of related parties to ensure that all required pre-approvals are obtained before any contracts are entered into with a related party.

Operational risks	Description of risk	Risk management
Oil and gas reserves and operations	Oil and gas reserves estimation, exploration, development and production are accompanied by typical risks inherent to activities in this industry, which may adversely affect the Group's financial performance and achievement of strategic objectives. Estimation of oil and gas reserves requires exercise of judgement 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. Well drilling and workover activities as well as construction, operation and maintenance of surface facilities are also subject to various risks including the availability of adequate services, technologies, expertise, etc., which may adversely affect the fulfilment of the Group's strategic objectives.	The Group has a department of highly skilled geologists who perform periodic assessments of the oil and gas reserves in accordance with international standards on reserve estimations and prepare production forecasting using advanced exploration risk and resource assessment systems. The results of the assessments are reviewed by the Group's independent reserve consultant, Ryder Scott. For well drilling and workover activities the Group engages highly skilled personnel, leading service suppliers in the local market as well as operations and cost monitoring systems, based on which the management oversees the work progress. Maintenance of the wells and surface facilities is scheduled in advance in accordance with technical requirements and all necessary preparations are performed in a timely manner and within budget ensuring high quality. In addition, the Group has emergency response and disaster recovery plans in place and periodically conducts necessary training and testing procedures.

Principal risks and uncertainties continued

Operational risks	Description of risk	Risk management
Health, safety and environment	Linking corporate social responsibility (CSR) to growth is one of the strategic priorities of the Group. Relevant health, safety and environmental risks are also considered to be one of the key areas of focus in terms of risk management. The Group faces typical health, safety and environmental risks in the oil and gas industry, including risks related to gas flaring, waste management, environmental pollution, fires and explosions at facilities, and transportation accidents. These risks may have a broad range of results including, but not limited to, injury of employees or local residents, pollution of the local environment and respective regulatory actions, legal liabilities, business interruption and any consequential impact on financial performance. It should also be noted that the legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times.	The Group has a QHSE department of highly skilled and competent specialists. The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Periodic training on the requirements of policies and regulations are held for employees. In addition, at the supplier selection and contracting stage the Group places a high degree of importance on a supplier's resources and ability to comply with the Group's QHSE requirements and, subsequently, the Group's dedicated team in this area conducts supplier audits. Key indicators such as GHG emissions, lost time injuries, waste management, water and soil pollution rates, etc., as well as progress of work are reported to senior management on a monthly basis. The Group is working towards full compliance with ISO 14001 Environmental Management Systems 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.

Compliance risks	Description of risk	Risk management
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, however, uncertainty remains in relation to timing and results of decisions of authorities. The exploration period for the Rostoshinskoye field expires in early 2017, while for the Darjinskoye and Yuzhno-Gremyachinskoye fields it expires at the end of 2017. At present, these periods are considered acceptable, taking into account that active exploration works have been performed in the Rostoshinskoye field. However, applications for further extension are in process. 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, 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.

Principal risks and uncertainties continued

Financial risks	Description of risk	Risk management
Tax risks and uncertainties	The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create risks related to additional tax liabilities from assessments or risks related to recoverability of tax assets. Tax risks and uncertainties may adversely affect the Group's profitability, liquidity and planned growth.	The Group has policies and procedures related to various tax assessments and positions, as well as other control activities to ensure the timely assessment and filing of tax returns, payment of tax obligations and recovery of tax assets. The Group regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.
Liquidity and financing risks	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. 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.	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. The Group performs financial reviews, establishes credit limits and engages with reliable financial counterparties. In addition, the Group has processes in place to monitor overdue receivables and take timely measures when necessary. 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.

Other risks	Description of risk	Risk management
Other significant risks	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 fraudulent activities, cyber security, the Group's supply chains, accounting and reporting, management systems and the availability of human resources, and may also significantly impact the Group's financial performance, reputation and achievement of its strategic objectives.	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. In 2016, the Group participated in the Cyber Governance Health Check carried out by the UK authorities. The findings of this exercise as well as other recommendations from external consultants are constantly monitored to ensure the Group continually improves its response to risks related to cyber security. The Group has a wide range of internal controls over its supply chains and accounting and reporting processes, including policies, procedures, segregation of duties for authorisation of matters, periodic training for employees, etc. Senior management and the Board stay alert to emerging challenges related to various management systems and related governance matters and when necessary initiate change initiatives to ensure enhancement and integration of certain management systems. The Board and senior management ensure that risks associated with human resources are adequately addressed through a combination of policies, training, communication and other means of internal controls as described in the corporate social responsibility section on pages 36-49.

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

In accordance with provision C.2.2 of the 2014 revision of the Code, this is the second year that the Board has conducted a review of the principal risks and uncertainties facing the Group, including those that would threaten its business model and future performance, in the context of a viability assessment.

The Group's corporate planning process has not changed significantly during 2016 and includes medium- and long-term financial projections and analysis as well as annual budgeting and monthly forecasting, which are described in more detail below:

- The long-term financial model extends through 2032, i.e. the licence term of the Chinarevskoye field, and supports the Board's activities described on pages 75-76, including annual strategic planning and decision-making processes.
- For the purpose of monitoring the Group's performance in terms of strategic objectives, related KPIs and risks, as well as medium-term development plans (as described on pages 15-17) the Board assesses its five-year financial projections.
- Finally, the above-mentioned medium- and long-term planning processes are cascaded down to a budgeting and forecasting process, which incorporates preparation of the draft annual budget for next year in the fourth quarter of every calendar year, which is reviewed and approved by the Board and the preparation of quarterly forecasts during the year for the Board's review.

Consistent with the prior year approach, the Board has concluded that a five-year period to December 2021 is a reasonable time-frame over which it is possible to form a reasonable expectation as to the Group's longer-term viability, given the inherent uncertainty involved. This period, being aligned with the period used for the Group's mid-term business plans, has been selected because it provides the Board and therefore readers of the Annual Report with an optimal balance between a reasonable degree of confidence and an appropriate longer-term outlook.

Other than the period covered, the assumptions used for the purposes of the assessment of longer-term viability are consistent with the assumptions used in the impairment testing process and also include assumptions relating to:

- the ability of the Group to refinance debt as it falls due. The ability of the company to refinance its debt is based on the six year track record it has in the bond market. The first financing was done prior to the first gas treatment facility (GTU 1 and 2) being completed and since then Nostrum has been back to the market twice. Management therefore believes it is not unreasonable to assume Nostrum can repeat this.
- the results of the drilling programme are 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 material resource base; and
- the completion of GTU3, described on page 11, is assumed to be completed at the end of 2017 for viability purposes. No commercial gas is assumed to be produced until Q1 2018.

The corporate planning process is closely linked with the risk management process described on pages 50-51. For the purpose of the Group's viability assessment the five-year cash flow model was used with the following scenarios:

- base-case: using the above-mentioned assumptions;
- sensitivity testing: the effect of the principal risks and uncertainties listed on pages 53-59 to the extent such assessment is practicable;
- severe but plausible: scenarios representing a combination of several principal risks and uncertainties.

The scenarios take into account the availability and likely effectiveness of any mitigating actions that could be taken 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 are taken into account.

The directors remained mindful of the risks associated with the Group's development projects described on page 54 as well as commodity price risk, which may impact the Group's ability to meet its liabilities, including the repayment of its Notes due in 2019.

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 2021.

This strategic report is approved by the Board.

Kai-Uwe Kessel
Chief Executive Officer

27 March 2017

Tom Richardson
Chief Financial Officer

27 March 2017

Financial review

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 KPI's on page 6.

Results of operations for the years ended 31 December 2016 and 2015
The table below sets forth the line items of the Group's consolidated statement of comprehensive income for the years ended 31 December 2016 and 2015 in US Dollars and as a percentage of revenue.

In thousands of US dollars	2016	% of revenue	2015	% of revenue
Revenue	**347,983**	**100.0%**	448,902	100.0%
Cost of sales	**(199,455)**	**57.3%**	(186,567)	41.6%
Gross profit	**148,528**	**42.7%**	262,335	58.4%
General and administrative expenses	**(37,982)**	**10.9%**	(49,309)	11.0%
Selling and transportation expenses	**(75,681)**	**21.7%**	(92,970)	20.7%
Finance costs	**(44,474)**	**12.8%**	(45,998)	10.2%
Finance costs – reorganisation	**-**	**0.0%**	(1,053)	0.2%
Employee share option plan fair value adjustment	**99**	**0.0%**	2,165	0.5%
Foreign exchange loss, net	**(390)**	**0.1%**	(21,200)	4.7%
(Loss)/gain on derivative financial instrument	**(63,244)**	**18.2%**	37,055	8.3%
Interest income	**461**	**0.1%**	515	0.1%
Other income	**9,841**	**2.8%**	11,296	2.5%
Other expenses	**(1,656)**	**0.5%**	(30,560)	6.8%
(Loss)/profit before income tax	**(64,498)**	**18.5%**	72,276	16.1%
Income tax expense	**(17,407)**	**5.0%**	(166,641)	37.1%
Loss for the year	**(81,905)**	**23.5%**	(94,365)	21.0%
Other comprehensive loss	**(70)**	**0.0%**	(456)	0.1%
Total comprehensive loss for the year	**(81,975)**	**23.6%**	(94,821)	21.1%

General note
For the year ended 31 December 2016 (the "reporting period") total comprehensive loss decreased by US$12.8 million to US$82.0 million (FY 2015: US$94.8 million). The loss is mainly driven by low Brent crude oil prices.

Revenue
The Group's revenue decreased by 22.5% to US$348.0 million for the reporting period (FY 2015: US$448.9 million). This is mainly explained by the decrease in the average Brent crude oil price from US$53.6/bbl during 2015 to US$45.1/bbl during the reporting period. The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil.

Revenues from sales to the Group's largest three customers amounted to US$109.5 million, US$92.9 million and US$38.1 million respectively (FY 2015: US$141.4 million, US$105.0 million and US$86.0 million).

Financial review continued

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

In thousands of US dollars	2016	2015	Variance	Variance, %
Oil and gas condensate	**226,357**	297,777	*(71,420)*	*(24.0)%*
Gas and LPG	**121,626**	151,125	*(29,499)*	*(19.5)%*
Total revenue	**347,983**	448,902	*(100,919)*	*(22.5)%*
Sales volumes (boe)	**14,289,654**	14,080,339	*209,315*	*1.5%*
Average Brent crude oil price (US$/bbl)	**45.1**	53.6		

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

In thousands of US dollars	2016	2015	Variance	Variance, %
Revenue from export sales	**244,586**	426,764	*(182,178)*	*(42.7)%*
Revenue from domestic sales	**103,397**	22,138	*81,259*	*367.1%*
Total	**347,983**	448,902	*(100,919)*	*(22.5)%*

Cost of sales

In thousands of US dollars	2016	2015	Variance	Variance, %
Depreciation, depletion and amortisation	**130,043**	107,678	*22,365*	*20.8%*
Repair, maintenance and other services	**21,097**	26,557	*(5,460)*	*(20.6)%*
Payroll and related taxes	**13,290**	18,682	*(5,392)*	*(28.9)%*
Royalties	**11,910**	14,364	*(2,454)*	*(17.1)%*
Other transportation services	**6,843**	3,049	*3,794*	*124.4%*
Change in stock	**2,047**	(3,613)	*5,660*	*156.7%*
Materials and supplies	**4,649**	7,838	*(3,189)*	*(40.7)%*
Well workover costs	**3,928**	5,182	*(1,254)*	*(24.2)%*
Government profit share	**2,582**	1,880	*702*	*37.3%*
Environmental levies	**1,071**	1,391	*(320)*	*(23.0)%*
Other	**1,995**	3,559	*(1,564)*	*(43.9)%*
Total	**199,455**	186,567	*12,888*	*6.9%*

Cost of sales increased by 6.9% to US$199.5 million for the reporting period (FY 2015: US$186.6 million). The increase is primarily explained by the change in depreciation referred to below, partially offset by decreases in repair, maintenance and other services, materials and supplies and payroll and related costs. On a boe basis, cost of sales increased marginally by US$0.71 or 5.4% to US$13.96 for the reporting period (FY 2015: US$13.25) and cost of sales net of depreciation per boe decreased by US$0.74, or 13.2%, to US$4.86 (FY 2015: US$5.60).

Depreciation, depletion and amortisation increased marginally by 20.8% to US$130.0 million for the reporting period (FY 2015: US$107.7 million). Depreciation is calculated with the units of production method. Increase of depreciation in 2016 in comparison with prior period is a consequence of the ratio change between the volumes produced and the proven developed reserves, as well as an addition to O&G assets in the amount of US$316.9 million during the reporting period.

Repair, maintenance and other services decreased by 20.6% to US$21.1 million for the reporting period (FY 2015: US$26.6 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of the Group, and engineering and geophysical study expenses. These costs fluctuate depending on the planned works on certain objects. The decrease in the reporting period is mainly attributable to Tenge devaluation.

Payroll and related taxes decreased by 28.9% to 13.3 million for the reporting period (FY 2015: US$18.7 million). This mainly resulted from the Tenge devaluation over the reporting period as majority of payroll costs are denominated in Tenge.

Royalties, which are calculated on the basis of production and market prices for the different products, decreased by 17.1% to US$11.9 million for the reporting period (FY 2015: US$14.4 million). This decrease follows the decline of revenues for sold products.

Other transportation services increased by 124.4% to US$6.8 million for the reporting period (FY 2015: US$3.0 million). Such an evolution is explained by the fact that transportation services previously provided within the Group have been outsourced since Q4 2015 and these outsourced costs now include, for example, vehicle rental fare.

General and administrative expenses

In thousands of US dollars	2016	2015	Variance	Variance, %
Payroll and related taxes	**13,313**	16,636	*(3,323)*	*(20.0)%*
Professional services	**11,868**	13,997	*(2,129)*	*(15.2)%*
Business travel	**3,695**	6,091	*(2,396)*	*(39.3)%*
Training	**2,185**	3,110	*(925)*	*(29.7)%*
Depreciation and amortisation	**2,160**	1,673	*487*	*29.1%*
Insurance fees	**1,129**	1,715	*(586)*	*(34.2)%*
Sponsorship	**574**	1,314	*(740)*	*(56.3)%*
Lease payments	**694**	1,012	*(318)*	*(31.4)%*
Communication	**484**	766	*(282)*	*(36.8)%*
Bank charges	**346**	607	*(261)*	*(43.0)%*
Materials and supplies	**353**	635	*(282)*	*(44.4)%*
Other taxes	**150**	339	*(189)*	*(55.8)%*
Social program	**315**	302	*13*	*4.3%*
Other	**716**	1,112	*(396)*	*(35.6)%*
Total	**37,982**	49,309	*(11,327)*	*(23.0)%*

General and administrative expenses decreased by 23.0% to US$38.0 million for the reporting period (FY 2015: US$49.3 million). This was primarily due to a decrease of payroll and related costs, and professional services, namely legal, and business travel expenses. The payroll costs decrease was driven by Tenge devaluation and the Group's ongoing staff optimisation programme.

Selling and transportation expenses

In thousands of US dollars	2016	2015	Variance	Variance, %
Loading and storage costs	**33,219**	41,229	*(8,010)*	*(19.4)%*
Transportation costs	**24,861**	45,071	*(20,210)*	*(44.8)%*
Marketing services	**14,138**	159	*13,979*	*8791.8%*
Payroll and related taxes	**1,234**	1,901	*(667)*	*(35.1)%*
Other	**2,229**	4,610	*(2,381)*	*(51.6)%*
Total	**75,681**	92,970	*(17,289)*	*(18.6)%*

Selling and transportation expenses decreased by 18.6% to US$75.7 million for the reporting period (FY 2015: US$93.0 million), due primarily to decreases in rail tariffs and rail tank car (RTC) leasing costs.

Financial review continued

Finance costs

In thousands of US dollars	2016	2015	Variance	Variance, %
Gross interest expense on borrowings	**71,780**	71,782	*(2)*	*(0.0)%*
Capitalised interest expenses	**(29,569)**	(27,112)	*(2,457)*	*(9.1)%*
Interest expense on borrowings	**42,211**	44,670	*(2,459)*	*(5.5)%*
Unwinding of discount on amounts due to Government of Kazakhstan	**885**	902	*(17)*	*(1.9)%*
Unwinding of discount on abandonment and site restoration provision	**327**	426	*(99)*	*(23.2)%*
Unwinding of discount on social obligations liability	**850**	–	*850*	–
Finance charges under finance leases	**201**	–	*201*	–
Total	**44,474**	45,998	*(1,524)*	*(3.3)%*

Finance costs decreased by 3.3% to US$44.5 million for the reporting period (FY 2015: US$46.0 million) mainly due to higher interest capitalised.

Other
Foreign exchange losses amounted to US$0.4 million for the reporting period (FY 2015: US$21.2 million). Losses in FY 2015 are explained by the fact that on 20 August 2015 the Tenge was devalued against the US Dollar and other major currencies due to a decision of Kazakhstan to switch to free-float, triggering a 23% slide in the Tenge to a record 257.21 Tenge for 1 US Dollar. As per 31 December 2015 the exchange rate was 340.6 Tenge for 1 US Dollar. Since the Group had a net asset position of Tenge-denominated accounts around this date, the devaluation of the Tenge resulted in a significant foreign exchange loss recognised in FY 2015. As per 31 December 2016 the exchange rate was 333.29 Tenge for 1 US Dollar.

Loss on derivative financial instruments amounted to US$63.2 million in the reporting period and relates to fair value of the hedging contract covering oil sales. Based on the contract the Group has bought a put, which protects it against any fall in the price of oil below US$ 49.16/bbl. Movement in fair value of financial derivative instruments is disclosed in Note 28 of the Consolidated financial statements included in this report.

Other expenses decreased by 94.6% to US$1.7 million for the reporting period (FY 2015: US$30.6 million). Other expenses comprise export custom duties, expenses for social gas compensation, accrual under subsoil use agreements and other expenses. The variation is largely caused by a change in the estimate of amounts due under subsoil use agreements for the exploration and production of hydrocarbons from the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

Income tax expense decreased by 89.6% to US$17.4 million for the reporting period (FY 2015: US$166.6 million). The decrease in income tax expense was primarily driven by lower deferred tax expenses in the current period. In FY 2015 US$141.0 million of deferred tax expenses was recorded, mainly due to the Tenge devaluation having an impact on the tax base.

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

Cash flows

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

In thousands of US dollars	2016	2015
Cash and cash equivalents at the beginning of the year	**165,560**	375,443
Net cash flows from operating activities	**206,531**	153,257
Net cash used in investing activities	**(204,760)**	(245,317)
Net cash used in financing activities	**(66,323)**	(115,864)
Effects of exchange rate changes on cash and cash equivalents	**126**	(1,959)
Cash and cash equivalents at the end of the year	**101,134**	165,560

Net cash flows from operating activities

Net cash flow from operating activities was US$206.5 million for the reporting period (FY 2015: US$153.3 million) and was primarily attributable to:

- profit before income tax for the reporting period of US$64.5 million (FY 2015: US$72.3 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$132.2 million (FY 2015: US$109.4 million), finance costs of US$43.6 million (FY 2015: US$46.0 million), proceeds from derivative financial instruments of US$27.2 million (FY 2015: US$92.3 million), purchase of derivative financial instruments in prior year of US$92.0 million and loss on derivatives of US$63.2 million (FY 2015: US$37.1 million).
- a US$15.8 million change in working capital (FY 2015: US$9.3 million) primarily attributable to a decrease in prepayments and other current assets of US$22.2 million (FY 2015: a decrease of US$12.2 million), an increase in trade payables of US$2.0 million (FY 2015: an increase of US$7.3 million) and a decrease in other current liabilities of US$12.3 million (FY 2015: a decrease of US$2.1 million).
- income tax paid of US$9.5 million (FY 2015: US$41.2 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$204.8 million (FY 2015: US$245.3 million) due primarily to costs associated with the drilling of new wells of US$47.8 million for the reporting period (FY 2015: US$58.7 million), costs associated with the third gas treatment unit of US$123.3 million (FY 2015: US$112.4 million), and costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US$4.5 million (FY 2015: US$7.6 million). In FY 2015 cash flow from investing activities also included placement of US$17.0 million of bank deposits, partially offset by the redemption of US$42.0 million of cash deposits.

Net cash used in financing activities

Net cash used in financing activities during the reporting period totalled US$66.3 million, and was mainly represented by the payment of US$65.4 million of the finance costs on the Group's 2012 Notes and 2014 Notes. Net cash used in financing activities during FY 2015 totalled US$115.9 million, which was primarily attributable to the payment of US$49.1 million of distributions and US$65.4 million of the finance costs paid on the Group's 2012 Notes and 2014 Notes.

Financial review continued

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 2016 based on contractual undiscounted payments:

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**

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$197.3 million (FY 2015: US$256.1 million). This mainly reflects drilling costs, field infrastructure development projects and development costs for the oil treatment unit and the gas treatment facility.

Drilling
Drilling expenditures amounted to US$47.8 million for the reporting period (FY 2015: US$58.7 million).

Gas treatment facility
Following the successful completion of the first phase of the gas treatment facility, consisting of two units, the Group is constructing a third unit for it. The construction of GTU3 is important for implementing the Group's strategy to increase operating capacity and production of liquid hydrocarbons. Management estimates, based on the production profile of both proved and probable reserves reported in the 2016 Ryder Scott Report and assuming the successful completion of the second phase of the gas treatment facility in 2017, that the Company's annual production will more than double from the 2016 annual production (with an average of 40,351 boepd in 2016) by the end of 2018.

Total costs for the completion of GTU3 are estimated to be not more than US$500 million (US$378 million of which had already been incurred as at 31 December 2016).

Five year summary

In millions of US$ (unless mentioned otherwise)	2016	2015	2014	2013	2012
Revenue	348.0	448.9	781.9	895.0	737.0
Cost of sales	(199.5)	(186.6)	(221.9)	(286.2)	(238.2)
Gross profit	**148.5**	**262.3**	**560.0**	**608.8**	**498.8**
General and administrative expenses	(38.0)	(49.3)	(54.9)	(56.0)	(62.4)
Selling and transportation expenses	(75.7)	(93.0)	(122.3)	(121.7)	(103.6)
Finance costs	(44.5)	(46.0)	(61.9)	(43.6)	(46.8)
Finance costs – reorganisation	–	(1.1)	(29.6)	–	–
Employee share option plan fair value adjustment	0.1	2.2	3.1	(4.4)	(2.5)
Foreign exchange loss, net	(0.4)	(21.2)	(4.2)	(0.6)	0.8
(Loss)/gain on derivative financial instrument	(63.2)	37.1	60.3	–	–
Interest income	0.5	0.5	1.0	0.8	–
Other income	9.8	11.3	10.1	4.4	4.0
Other expenses	(1.7)	(30.6)	(49.8)	(25.6)	(6.6)
(Loss)/profit before income tax	**(64.5)**	**72.3**	**311.7**	**362.0**	**282.4**
Income tax expense	(17.4)	(166.4)	(165.3)	(142.5)	(120.4)
(Loss)/profit for the year	**(81.9)**	**(94.3)**	**146.4**	**219.5**	**162.0**
Other comprehensive loss	(0.1)	(0.5)	–	–	–
Total comprehensive (loss)/income for the year	**(82.0)**	**(94.8)**	**146.4**	**219.5**	**162.0**
Non-current assets	1,919.1	1,854.1	1,698.6	1,426.0	1,251.6
Current assets	187.4	334.3	509.6	334.8	351.1
Total assets	**2,106.5**	**2,188.4**	**2,208.2**	**1,760.8**	**1,602.7**
Equity	692.0	773.8	917.7	832.5	695.1
Non-current liabilities	1,313.5	1,305.9	1,163.7	793.6	781.9
Current liabilities	101.1	108.7	126.9	134.7	125.7
Total equity and liabilities	**2,106.5**	**2,188.4**	**2,208.2**	**1,760.8**	**1,602.7**
Net cash flows from operating activities	206.5	153.3	349.6	358.6	291.8
Net cash used in investing activities[1]	(204.8)	(245.3)	(305.1)	(239.0)	(269.7)
Net cash used in financing activities	(66.3)	(115.9)	147.5	(132.4)	50.4
Profit margin %	(23.5)%	(21.0)%	18.7%	24.5%	22.0%
Equity/assets ratio %	32.8%	35.4%	41.6%	47.3%	43.4%
Share price at end of period (US$)[2]	4.75	5.97	6.56	13.00	10.70
Shares outstanding ('000s)	188,183	188,183	188,183	188,183	188,183
Options outstanding ('000s)	2,536	2,611	2,611	2,912	2,132
Dividend per share (US$)	–	0.27	0.35	0.34	0.32

1 IFRS term based on indirect cash flow methodology.
2 Prior to 20 June 2014 the equity of the Group was represented by GDRs, 2016 end of period share price is calculated as 3.86 GBP/share x 1.2295 US$/GBP = 4.75 US$/share.

Corporate governance

Chairman's overview

Dear shareholder
2016 has been another challenging year commercially for Nostrum but your Board has remained committed to the highest standards of stewardship and governance.

This year has seen some significant changes in the composition of the Board. In September, Jan-Ru Muller stood down as Chief Financial Officer and having given due and careful consideration to the skills, knowledge and experience on the Board and the needs of the business as a whole, it was agreed that Jan-Ru's successor would be recruited from within our own internal pool of talent. Following this decision, Tom Richardson, who had previously served as Head of Corporate Finance for five years, was appointed as Chief Financial Officer and as a director. Tom brings with him a wealth of financial and sector knowledge and an overall understanding of Nostrum's business and strategy.

Furthermore, on 18 November 2016 we announced that as part of the Board's gender diversity focus for 2016, Eike von der Linden, the longest serving independent non-executive director, would stand down as a director effective 31 December 2016. Mark Martin was appointed senior independent director in Eike's stead and we are pleased to welcome Kaat Van Hecke to the Board as an independent non-executive director. Kaat has also joined the Remuneration and Nomination and Governance Committees. In addition, Atul Gupta has succeeded Eike as chairman of the Audit Committee and Mark Martin became a member of the Audit Committee.

These changes reflect the considerable amount of work that has been undertaken to assess the skills, knowledge and diversity of the Board and its committees. However, the Board recognises that further work is still needed to ensure that we have a robust plan for the future succession needs of the business and this will be a key focus of the Nomination and Governance Committee and the Board as a whole for 2017.

As set out in more detail on pages 80-85, we continue to comply with almost all of the UK Corporate Governance Code as we consider such compliance important to support our business. In March 2015, in response to feedback from shareholders and investor groups that only independent non-executive directors should be appointed as members of the Remuneration Committee, Piet Everaert stepped down as a member of the Remuneration Committee to allow us to fully comply with the common interpretation of Provision D.2.1. of the Code. In addition to complying with applicable corporate governance requirements in the UK, the Company also complies with the rules of the Kazakhstan Stock Exchange (KASE) because of its listing on that exchange. In 2016, the Company was awarded the KASE Drive for Transparency annual prize at the Invest Show 2016 in Almaty. The prize was awarded to Nostrum for its transparency record and commitment to its shareholders and I think it reflects our continued commitment to achieving excellence in corporate governance.

We have continued to monitor our performance as a Board and complied with Provision B.6.2 of the Code in 2016 by undertaking our first externally facilitated Board self-evaluation, using Independent Audit Limited's online assessment service Thinking Board®. This was a very useful and informative process for the Board and key results of the evaluation can be found on page 77. The Nomination and Governance Committee will be focusing on the key action items from the evaluation during 2017. During the coming year we intend to conduct an internal Board self-evaluation, the results of which will hopefully allow us to determine the impact the composition changes made in 2016 have had on the Board and the way directors perceive how the Board functions and its overall effectiveness.

We reported last year that we had created a new Executive Committee comprised of senior officers of the Group. In 2016, we continued with our internal reorganisation with the aim of moving from an administrative-driven organisation to a functional organisation. As part of this process, it was decided that the Executive Committee would be renamed the Senior Management Team and the composition would be changed somewhat. The Senior Management Team now comprises Kai-Uwe Kessel, Tom Richardson, Thomas Hartnett, Heinz Wendel, Sergey Khafizov and Berik Brekeshev[1]. The Senior Management Team has been formed with the same goals as the Executive Committee, namely to better align the goals and objectives of each business function and to simplify the way in which we manage our business. The biographies of each member of the Senior Management Team can be found on page 73 and further details regarding how the Senior Management Team works can be found on pages 74-75.

In 2017, we will continue to review and develop our corporate governance practices to ensure full compliance with regulatory requirements and to promote the success and sustainability of our ongoing efforts to achieve excellence in corporate governance during the year ahead.

Frank Monstrey
Chairman

1 Mr Brekeshev resigned as Chief Commercial Officer on 13 January 2017. Arkadi Epifanov has assumed Mr Brekeshev's responsibilities on a temporary basis until a suitable successor is appointed.

Board of Directors

Frank Monstrey
Executive Chairman

DOB: **22 April 1965**
Nationality: **Belgian**

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

Other significant current appointments
Claremont Holdings C.V, Lamifil N.V., Crest Capital Management N.V.

The Chairman has no other significant commitments.

Other positions[1]
- Previously served as chairman of the board of Nostrum's predecessor entities since 2004.
- From 1991-2014, Chief Executive Officer of Probel Capital Management N.V (now called Nostrum Services N.V.) a private equity and asset management firm based in Belgium specialising in long-term capital management in emerging markets.
- Holds a degree in Business Economics from the University of Leuven (KUL), Belgium.

Board Committees
- Nomination and Governance

Kai-Uwe Kessel
Chief Executive Officer

DOB: **17 December 1961**
Nationality: **German**

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

Other current appointments
None

Other positions[1]
- 2002-2005, director of Gaz de France's North African E&P division.
- 1992-2001, Managing Director of Erdas Erdöl GmbH, an oil and gas company owned by Gaz de France, and director and chairman of the board of KazGermanai.
- Graduate of the Gubkin Russian State University of Oil and Gas.

Board Committees
- None

Jan-Ru Muller[2]
Chief Financial Officer

DOB: **20 May 1964**
Nationality: **Dutch**

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

Other current appointments
Telco B.V. – Director

Other positions[1]
- Since 2000, served in various capacities at Nostrum Services N.V. overseeing Nostrum's adoption of IFRS and the implementation of SAP.
- 1990-2000, founder and Managing Director of Axio Systems, an information technology company.
- 1988-1990, Andersen Consulting.

Tom Richardson[3]
Chief Financial Officer

DOB: **17 March 1981**
Nationality: **British**

Appointed as Chief Financial Officer and as a director of Nostrum Oil & Gas PLC on 1 September 2016.

Other current appointments
Sokoni Medical Limited – Director, Sokoni Ventures Limited – Director, TDR Property Investments Limited – Director, TDR Enterprises Holdings Limited – Director, Nostrum Oil & Gas UK Limited – Director, TDR Enterprises Ltd – Director

Other positions[1]
- Since 2011, provided corporate finance services to the Nostrum group.
- Before providing services to Nostrum worked for a number of financial institutions including Rothschild, JP Morgan and ING.
- Eight years of experience in banking covering emerging markets. During his career in banking, Tom advised on capital raisings for over 40 emerging market companies, raising in excess of US$5 billion.
- Holds a Bachelor of Science degree from Bristol University.

Board Committees
- None

1 Chronological order.
2 Mr Muller resigned as a director and as CFO on 1 September 2016, but continues to hold a senior position in the Nostrum finance team.
3 Mr Richardson was appointed as a director on 1 September 2016.

Eike von der Linden[4]

Senior Independent Director

DOB: **7 July 1941**
Nationality: **German**

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

Other current appointments

Linden Advisory & Consulting Services – managing director, Schullermann und Partner AG – member of supervisory board

Other positions[1]

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

Board Committees

- Audit (Chairman)
- Remuneration
- Nomination and Governance

Mark Martin

Senior Independent Director

DOB: **17 February 1969**
Nationality: **British**

First appointed as a director of Nostrum Oil & Gas PLC on 19 May 2014 and as Senior Independent Director on 31 December 2016.

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 2003-2011.
- 2011-2014 served as Chief Executive Officer of Exillon Energy PLC in Moscow.
- Graduate of Cambridge University with a degree in Social and Political Sciences.

Board committees

- Remuneration (Chairman)
- Audit Committee

Atul Gupta

Independent non-executive director

DOB: **15 December 1959**
Nationality: **British**

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

Other current appointments

Seven Energy International Limited – non-executive director, Vetra Holdings – non-executive director

Other positions[1]

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

Board Committees

- Audit (Chairman)

Piet Everaert

Non-executive director

DOB: **28 March 1961**
Nationality: **Belgian**

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

Other current appointments

BVBA Piet Everaert – director, VWEW Advocaten VOF – partner

Other positions[1]

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

Board committees

- None[5]

4 Mr von der Linden resigned as a director on 31 December 2016.
5 Mr Everaert resigned as a member of the Remuneration Committee on 22 March 2016.

Board of Directors continued

Pankaj Jain
Non-executive director

DOB: **14 June 1967**
Nationality: **Indian**

First appointed as a director of Nostrum Oil & Gas LP on 26 November 2013 and as a director of Nostrum Oil & Gas PLC on 19 May 2014.

Other current appointments
RMG Properties Private Limited (India) – director, RHA Holding Pte Ltd (Singapore)

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

Board Committees
- None

Kaat Van Hecke[6]
Independent non-executive director

DOB: **7 December 1971**
Nationality: **Belgian**

Appointed as a director of Nostrum Oil & Gas PLC on 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.

Board Committees
- Remuneration
- Nomination and Governance

6 Mrs Van Hecke was appointed as a director on 31 December 2016.

Sir Christopher Codrington, Bt.
Independent non-executive director

DOB: **20 February 1960**
Nationality: **British**

Appointed as a director of Nostrum Oil & Gas PLC on 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
- Nomination and Governance (Chairman)
- Remuneration
- Audit

Senior management team

(See biographies of executive directors Frank Monstrey, Kai-Uwe Kessel and Tom Richardson on page 70).

Thomas Hartnett
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
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.
- 30 years' experience in 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.

Berik Brekeshev[1]
Chief Commercial Officer

DOB: **1 April 1975**
Nationality: **Kazakh**

Skills and experience
- Appointed as Chief Commercial Officer in September 2016.
- 2010-2016 held position as Commercial Director of Zhaikmunai LLP.
- Almost 10 years' experience in the oil and gas industry in Kazakhstan and Russia.
- Previously held senior positions with Starleigh Ltd, Tallahassee Holdings Limited and JSC NNGRE and commercial roles at Nelson Resources, Kazakhoil Aktobe, Buzachi Operating, Atlas Global Investment and Western-Siberian Drilling Company.
- Holds an MBA (International Marketing) from the Maastricht School of Management.

1 Mr Brekeshev resigned as Chief Commercial Officer on 13 January 2017. Arkadi Epifanov has assumed Mr Brekeshev's responsibilities on a temporary basis until a suitable successor is appointed.

Sergey Khafizov
Chief Business Development Officer

DOB: **14 February 1965**
Nationality: **Russian**

Skills and experience
- Appointed as Chief Business Development Officer in September 2016.
- 2015-2016 held position as Project Director and Head of Exploration Department.
- Over 25 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).

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Corporate governance approach

Corporate governance is very important to Nostrum and the Board promotes high standards of corporate governance as a key component of its activities. During the year ended 31 December 2016, the Company was subject to the provisions of the September 2014 version of the UK Corporate Governance Code (the **"2014 Code"**). Since 1 January 2017, the Company has been subject to the provisions of the April 2016 version of the UK Corporate Governance Code (the **"2016 Code"** and together with the 2014 Code, the **"Code"**) and will report its compliance with the 2016 Code in its 2017 Annual Report. Both the 2014 Code and 2016 Code are publicly available on the website of the UK Financial Reporting Council (www.frc.co.uk).

Please refer to pages 81-85 for a detailed explanation of the ways in which the Company complied with each provision of the 2014 Code during 2016. The Company fully complied with all provisions of the 2014 Code with the exception of those matters set out on page 80, in respect of which the reasons for a divergence from the 2014 Code position is explained.

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

The Code recommends that the Board should appoint one of its independent non-executive directors to act in the capacity of senior independent director. Eike von der Linden served in such capacity until 31 December 2016 when he resigned from the Board and Mark Martin replaced him as senior independent director.

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

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

Changes in the operating structure: the Senior Management Team

In 2016 the Group began an internal reorganisation with the aim of moving from an administrative-driven organisation to a functional organisation. As part of this process, the Executive Committee was renamed the Senior Management Team and five functional teams were created, with the head of each function becoming a member of the Senior Management Team. The head of each function is responsible for leading their functional team across the entire Group. The Senior Management Team supports the chief executive in making important decisions regarding the overall management of the Group and in respect of all Group matters that are not reserved for the Board. Each member of the Senior Management Team reports directly to the chief executive and the CEO reports directly to the Board.

Subject to Kai-Uwe Kessel's overall responsibility in his capacity as Chief Executive for executive management (as well as human resources and QHSE matters), each member of the Senior Management Team has specific functional authority and responsibilities for the management of the Group as follows:

Senior Management Team Member	Functional area
Tom Richardson	Finance including: • Corporate Finance • Investor Relations • Economic Analysis • Public Relations • External Communications • Accounting and Reporting • Tax • Budget and Control • Insurance • Treasury and Cash Management • Liaise with Internal Audit • Risk Management • ICT
Sergey Khafizov	Business Development, including: • Preparation and implementation of E&P strategy • Asset portfolio management • Hydrocarbon reserves management • Geological exploration and analysis • Geophysical analysis • Transaction management • Peer analysis • Market intelligence

Senior Management Team Member	Functional area
Heinz Wendel	Operations, including: • General management of production site • Production engineering and reservoir management • Drilling and workover management • Production • Engineering and construction field operations • Relations with governmental authorities • Procurement • Research and development • Security • Administration Licensing
Berik Brekeshev[1]	Sales and Marketing, including: • Sales Oil & Gas Products • Marketing • Logistics and Transportation
Thomas Hartnett	Legal, including: • Legal Matters • Compliance • Corporate Governance • Company Administration • Internal communications

1 Mr Brekeshev resigned as Chief Commercial Officer on 13 January 2017. Arkadi Epifanov has assumed Mr Brekeshev's responsibilities on a temporary basis until a suitable successor is appointed.

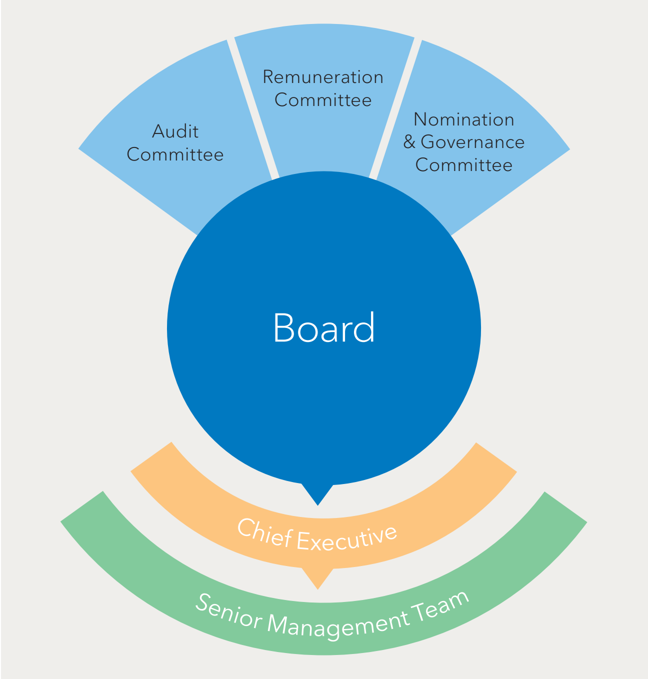
Each member of the Senior Management Team has functional management authority over the respective organisational units and areas within the Group listed next to their name in the above table. Their ongoing responsibilities include ensuring that goals and objectives are aligned with the Group's overall strategy and vision. Functional responsibilities of Senior Management Team members in their respective areas include but are not limited to:

- implementing decisions taken by the chief executive within their functional team;
- tracking business processes and managing tasks;
- allocating resources to achieve better efficiency within their functional area;
- identifying and addressing inefficiencies, establishing standards and best practices;
- providing direction to employees within their functional team;
- providing professional guidance, training and career development within their functional team;
- reviewing performance of functional team members and making recommendations to line managers regarding employee performance and remuneration; and
- working together with line managers and promoting cross-functional integration.

The Senior Management Team meets on a weekly basis.

The chairman of the Board is not a member of the Senior Management Team but has a standing invitation to attend meetings of the Senior Management Team and the chief executive may invite other members of management to attend such meetings as appropriate.

Governance framework



How the Board works

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

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

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

Corporate governance approach continued

The schedule of matters reserved for the Board is reviewed annually and is available on our website. Other specific responsibilities are delegated to Board committees and to the members of the Senior Management Team.

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

The key responsibilities of the Board include:

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

Board composition
The Board consists of nine directors. As at 31 December 2016, in addition to the Chairman, Frank Monstrey, there were two executive directors and six non-executive directors.

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

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

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

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

As mentioned in our 2015 Annual Report, the Nomination and Governance Committee, together with the chairman, dedicated a significant amount of time during 2015 and 2016 to identifying a suitable female Board candidate to replace one of the Company's non-executive directors in 2016 and on 17 November 2016, Kaat Van Hecke was appointed as an independent non-executive director with effect from 31 December 2016. On the same date, the Nomination and Governance Committee proposed that Eike von der Linden, as the longest serving independent non-executive director on the Board (when taking into account his service as a Director on the Board of Nostrum's predecessor entity since November 2007) step down from the Board effective 31 December 2016 in order to make room for Mrs Van Hecke and Mr von der Linden graciously agreed to do so.

Following the appointment of Mrs Van Hecke, the Company has 11% female representation on its Board and will continue to monitor its approach to gender diversity on a regular basis.

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.

The appointment of the majority of the non-executive directors commenced on 19 May 2014, except for Kaat Van Hecke whose appointment commenced on 31 December 2016. Each appointment is for an initial term of three years, subject to being re-elected as a director at each subsequent Annual General Meeting of the Company. The letters of appointment for non-executive directors do not set a fixed time commitment as it is anticipated that the time required of directors may fluctuate depending on the demands of the Company's business and other events. It is expected that directors will allocate sufficient time to the Company in order to discharge their duties effectively. The Company intends to enter into new letters of appointment with all those non-executive directors whose appointments commenced on 19 May 2014 and whose three-year terms will therefore expire on 19 May 2017, subject to their re-election at the Annual General Meeting.

Copies of the service agreements of the executive directors and the letters of appointment for the non-executive directors are available for inspection at the Company's registered office and will also be available for inspection at the Annual General Meeting.

Company Secretary

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

Conflicts of interest

A director has a duty to avoid a situation in which he or she has, or may have, a direct or indirect interest that conflicts or possibly 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 2016 these procedures were enforced and adhered to appropriately.

Board evaluation

In June 2016, the Board's review of its effectiveness was facilitated by Independent Board Review, a division of Independent Audit Limited, using their online assessment service Thinking Board®. Their facilitation helped ensure that the Company's review was rigorous and covered the important influences on the Board's effectiveness. As independent advisors, they discussed with the Board the focus and coverage of our Board and committee questionnaires, administered the questionnaires on a confidential basis, analysed the results independently from the Board and management and presented the findings and their suggestions in a paper which was discussed with the Company Secretary and provided to all directors. Independent Board Review also attended the August quarterly Board meeting to share their views on the issues raised through the self-assessment. The Company confirms that neither Independent Board Review nor Independent Audit Limited have any other connection with the Company.

The main aspects of the Board's work which we feel offer scope for further development include:

- Succession planning should be increased for executive and non-executive directors. This has been adopted as an action item for the Board, together with the Nomination and Governance Committee, during 2017.
- Improvements can be made in the format and timing of distribution of Board materials. This issue has been discussed between the company secretary, the chairman and the Board and it was noted that a procedure for the earlier dissemination of Board materials was implemented during 2016 and that the Group's new functional organisation should assist with ensuring that Board materials are delivered sufficiently in advance of Board meetings.
- More time should be spent discussing and debating key decisions at Board level and further efforts should be made to increase the involvement of the non-executive directors in decision making.
- There should be further definition around risk strategy and a better overview of the control and risk management framework. Senior management has adopted this as an action item for 2017 with the aim of providing the Board with more exposure to senior risk owners and with a clearer risk analysis to facilitate more informed decision-making.

The Company intends to conduct an internal Board self-evaluation during 2017.

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.

The Board was given training at the May quarterly Board meeting on the new requirements of the European Market Abuse Regulation[1] (MAR) and, in particular, the impact MAR has on dealings by directors in Company securities, the disclosure of inside information and market soundings.

1 Regulation 596/2014.

Corporate governance approach continued

A geology and reservoir workshop was also held for the Board in September 2016 in Belgium. The workshop lasted one day and covered topics such as certain regional field studies, production forecasts, and exploration and appraisal activities together with the results of the Group's 2016 Ryder Scott Competent Persons Report.

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.

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 100 investors through face-to-face meetings, roadshows, conferences and other corporate events. The chairman 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.

Policies
Following the coming into force of MAR in July 2016, the Company updated its share dealing code which applies to the directors, senior management and other relevant employees of the Group, and its inside information and disclosure policy which applies to all entities within the Group and all of their employees. The Company also implemented a new market sounding policy to take account of the new market sounding regime implemented by MAR. The market sounding policy applies to any employee that is authorised by the chairman to conduct market soundings on behalf of the Company.

In 2016, the Company also updated its code of conduct to include provisions regarding slavery and human trafficking for the purposes of the Modern Slavery Act 2015. Further information regarding the steps the Company has taken to ensure there is no slavery or human trafficking in its supply chains can be found in our statement on slavery and human trafficking which is available on our website www.nog.co.uk.

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.

To assist with compliance with the related party roles contained in Chapter 11 of the Listing Rules, the Group has implemented a related party transaction policy that applies whenever a Group entity is involved in a transaction with Group directors or substantial shareholders and/or their associates. The policy sets out the procedural steps that must be followed before the Group can enter into a related party transaction. The overall aim of the policy is to prevent such related parties from taking advantage of their position when involved in transactions with the Group.

The Company has also adopted a whistle-blowing policy that takes account of the Whistle-blowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work. An employee raised one matter under the Company's whistle-blowing policy in 2016 and, upon receipt of this request, the Company followed the review procedures contained in the whistle-blowing policy and a full report detailing the outcomes of the investigation was presented to the Audit Committee. The outcome of the investigation was that there was no evidence of workplace wrongdoing by the person named in the disclosure.

Board committees

The Board has established a nomination and governance committee, an audit committee and a remuneration committee. Further details on each of these committees can be found in their reports on pages 86-111. The terms of reference of each of these committees can be found on our website at www.nog.co.uk.

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

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

Attendance at meetings of the Board and its committees in the 2016 financial year

	Board		Audit Committee		Remuneration Committee		Nomination & Governance Committee	
	A	B	A	B	A	B	A	B
Executive directors								
Frank Monstrey	5	5					4	4
Kai-Uwe Kessel	5	5						
Jan-Ru Muller[1]	4	3						
Tom Richardson[2]	1	1						
Non-executive directors								
Eike von der Linden[3]	5	5	6	6	4	4	4	4
Piet Everaert	5	5						
Atul Gupta[4]	5	5	6	5				
Pankaj Jain[5]	5	3						
Mark Martin[6]	5	5	0[7]	–	4	4		
Sir Christopher Codrington, Bt.[8]	5	5	6	6	4	4	4	4
Kaat Van Hecke[9]	0	–			0	–	0	–

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

1 Mr Muller resigned as a director with effect from 1 September 2016.
2 Mr Richardson was appointed to the Board on 1 September 2016.
3 Mr von der Linden resigned as a director and as Chairman of the Audit Committee with effect from 31 December 2016.
4 Chairman of the Audit Committee with effect from 31 December 2016.
5 Mr Jain was unable to attend two Board meetings in 2016 due to other conflicting business engagements.
6 Chairman of the Remuneration Committee.
7 Appointed as a member of the Audit Committee on 31 December 2016.
8 Chairman of the Nomination and Governance Committee.
9 Mrs Van Hecke was appointed to the Board on 31 December 2016.

Corporate governance approach continued

Compliance with the 2014 version of the UK Corporate Governance Code
Nostrum fully complied throughout 2016 with the provisions of the 2014 version of the UK Corporate Governance Code (the **"Code"**) except in the following respects:

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

B.1.2 Given that the chairman fulfils an executive role and Piet Everaert and Pankaj Jain are not categorised as independent directors as a result of having been nominated by Claremont Holdings C.V. and Mayfair Investments B.V. (**"Mayfair"**), respectively, five of the nine directors on the Board are not considered independent for the purposes of the Code. Mayfair, whilst not considered independent for the purposes of the Code, is independent of the other shareholders in the Company. Mayfair has no alignment with any other major shareholder and hence Mayfair's nominee to the Board is considered to be independent in character and judgement with no relationships that directly affect his judgement and no single group is therefore able to exercise majority influence over the Board as a whole. In order to provide additional protections to the Company in respect of these areas of non-compliance with the Code, the Company has entered into relationship agreements with each of Claremont Holdings C.V. and KazStroyService Global B.V. (**"KSS Global"**). On 30 January 2015 Mayfair (an affiliate of KSS Global) acquired 48,333,300 ordinary shares in the Company from KSS Global and pursuant to a deed of adherence of the same date undertook to the Company to be bound by the terms of the relationship agreement previously signed between the Company and KSS Global and to observe and perform all of the provisions and obligations of such relationship agreement in so far as they fall to be observed or performed on or after the date of the transfer.

D.2.1 Until 22 March 2016, the Company's remuneration committee consisted of three independent non-executive directors (Mark Martin, Eike von der Linden and Sir Christopher Codrington, Bt.) and one non-independent non-executive director (Piet Everaert).

Provision D.2.1 of the Code provides that the Remuneration Committee must include at least three independent non-executive directors and the Company's remuneration committee meets such requirement. However, the Company understands that the most common interpretation of provision D.2.1 of the Code is that any additional director appointed as a member of the committee must also be an independent non-executive director and that if such interpretation is correct, Mr Everaert's membership of the Remuneration Committee did not comply with provision D.2.1 of the Code.

Therefore on 22 March 2016, Mr Everaert resigned from the Remuneration Committee so that the composition of the Committee would unequivocally comply with Provision D.2.1 of the Code.

E.2.3 All directors did not attend the 2016 Annual General Meeting, however those directors who did not attend were available by teleconference to answer questions from shareholders.

We describe how we have applied the main principles of the 2014 Code in the following table, cross-referencing to other parts of this Annual Report. The table helps us to evaluate our compliance during the year and should be read in conjunction with the Corporate Governance section as a whole. Headings in the table correspond to the headings in the Code.

A. Leadership

A.1 The role of the Board
The Board's responsibilities are set out in the section entitled "How the Board Works" on page 75 of the Annual Report. The identities of the Chairman, Chief Executive, Senior Independent Director and chairmen of the committees are given on pages 70-72.

The Board met formally five times during 2016. All directors are, where possible, expected to attend all Board and relevant committee meetings. Details of Board meeting attendance for the year are set out on page 79 of the Annual Report.

The Board has approved certain policies including a formal schedule of matters reserved for the Board, a delegation of signature authority policy and an internal approvals policy which delegates the approval of certain matters to the Senior Management Team and/or certain of its members. Further information can be found on page 78 of the Annual Report.

A.2 Division of responsibilities
Frank Monstrey, the chairman, is responsible for leading the Board while Kai-Uwe Kessel, the chief executive, is responsible for the day-to-day management of the Group. Further details of the roles of chairman and chief executive can be found on page 76 of the Annual Report.

A.3 The Chairman
The chairman sets the agenda for Board meetings and promotes a culture of openness and debate by ensuring there is effective communication between executive and non-executive directors.

As explained in more detail on page 80 of the Annual Report the chairman does not meet the independence criteria set out in provision B.1.1 of the Code.

A.4 Non-executive directors
With effect from 31 December 2016, the Board appointed Mark Martin to replace Mr von der Linden as senior independent director. Mr Martin provides a communication channel between the chairman and the non-executive directors. Further information regarding Mr Martin's role can be found on page 76 of the Annual Report.

The chairman is available to the non-executive directors and often attends meetings of the Audit and Remuneration Committees in the absence of the other executive directors.

The Nomination and Governance Committee Report can be found on pages 92-93 of the Annual Report.

Corporate governance approach continued

B. Effectiveness

B.1 The composition of the Board
The Board consists of nine directors; three executive directors, four independent non-executive directors and two non-executive directors who are not considered independent for the purposes of the Code. Therefore, as explained in further detail on page 80 of the Annual Report, the current composition of the Board does not comply with provision B.1.1 of the Code as five of the nine directors on the Board are not considered independent.

The Nomination and Governance Committee is responsible for regularly reviewing the composition of the Board. During 2016, two changes were made to the composition of the Board further details of which can be found in the chairman's overview on page 69 and the Nomination and Governance Committee report on pages 92-93.

B.2 Appointments to the Board
The Nomination and Governance Committee leads the appointment of new directors. The report of the Nomination and Governance Committee can be found on pages 92-93 of the Annual Report and provides an overview of what the committee has done during the year. The Nomination and Governance Committee terms of reference can be found at: www.nostrumoilandgas.com/en/nomination-committee.

A majority of members of the Nomination and Governance Committee are independent and Sir Christopher Codrington, Bt. in his capacity as an independent non-executive director is chairperson of the committee.

All directors are subject to annual re-election at the Company's Annual General Meeting.

B.3 Commitment
Details of the chairman's other significant commitments are set out in his biography on page 70 of the Annual Report. Directors are required to report any changes to their commitments to the Board.

The executive directors' service contracts and the non-executive directors' letters of appointment are available for inspection at the Company's registered office and will be available for inspection at the Company's annual general meeting.

Non-executive directors are advised of the time commitment expected from them on appointment and by accepting their appointment non-executive directors undertake that they will be able to allocate sufficient time to meet the time commitment required of the role.

B.4 Development
Details of director induction and training are provided on pages 77-78 of the Annual Report. The Board is regularly reminded that they can make suggestions to the chairman regarding any training and development needs.

B. Effectiveness

B.5 Information and support
The Company has an agreed procedure for directors to take independent professional advice at the expense of the Company which is managed by the company secretary. No such independent advice was sought in the 2016 financial year.

The company secretary assists the chairman by organising induction and training programmes and is responsible for ensuring that the correct Board procedures are followed. The company secretary also assists the chairman in ensuring that all directors have full and timely access to all relevant information and advises the Board on corporate governance matters. The removal of the company secretary is a matter for the Board as a whole.

B.6 Evaluation
The Board and its committees undertook an externally facilitated self-evaluation during 2016, further details of which can be found on page 77.

B.7 Re-election
All directors were subject to shareholder election at the 2016 Annual General Meeting, as will be the case at the 2017 Annual General Meeting. The biographies for all of the Company's directors can be found on pages 70-72 of the Annual Report.

C. Accountability

C.1 Financial and business reporting
The directors' statement of responsibility regarding the financial statements is set out on page 119 of the Annual Report. The directors' going concern statement is given on page 117 of the Annual Report.

The statement from the Company's auditor regarding its reporting responsibilities is set out on page 130 of the Annual Report.

Details of the Company's business model can be found on page 14.

C.2 Risk management and internal control
An overview of the Company's principal risks and uncertainties can be found on pages 53-59 of the Annual Report.

The Board has overall responsibility for determining the significant risks that may affect the Group in achieving its strategic objectives. More details on this matter together with details of how the Audit Committee, internal audit manager and senior management of the Group assist the Board with its responsibilities in relation to risk can be found in the Risk Management section of the Annual Report on pages 50-52.

The directors' viability statement can be found on page 60 of the Annual Report.

Corporate governance approach continued

C. Accountability

C.3 Audit committee and auditors
The Board has delegated a number of functions to the Audit Committee which are explained in more detail in the Audit Committee report which can be found on pages 86-91 of the Annual Report and in the terms of reference for the Audit Committee which can be found at: www.nostrumoilandgas.com/en/2012fy.

Regular updates are provided to the Board by the Audit Committee chairman.

The Audit Committee consists of at least three independent directors. The chairman is not a member of the Audit Committee.

D. Remuneration

D.1 The level and components of remuneration
The Remuneration Committee is responsible for setting the Group's remuneration policy. For further information see the Remuneration Committee report on pages 96-105 of the Annual Report and the directors' remuneration policy which was approved by shareholders at the 2015 Annual General Meeting on pages 106-111 of the Annual Report.

D.2 Procedure
Since Mr Everaert's resignation as a member of the Remuneration Committee, the Remuneration Committee has consisted entirely of independent non-executive directors. Further details can be found on page 96 of the Annual Report.

The Board has delegated a number of responsibilities to the Remuneration Committee including determining the remuneration of the chairman, the chief executive, the chief financial officer, the company secretary and the senior management team. Full details are set out in the Remuneration Committee terms of reference which can be found at: www.nostrumoilandgas.com/en/remuneration-committee.

The chairman, the chief executive and the chief financial officer determine the remuneration of all non-executive directors, including members of the committees.

E. Relations with shareholders

E.1 Dialogue with shareholders
The Board seeks to engage with shareholders regularly and the chairman seeks to ensure that the Board is kept appraised of shareholder views.

Further information regarding shareholder engagement can be found on page 78 of the Annual Report.

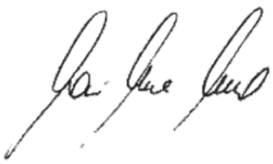
E.2 Constructive use of General Meetings
The Company's Annual General Meeting provides shareholders with the opportunity to vote on certain aspects of the Group's business and to speak with the directors.

Voting on all resolutions at the Annual General Meeting is on a poll. The proxy votes cast, including details of the votes withheld, are disclosed to those in attendance at the meeting and the results are published on the Company's website and via the Regulatory News Service.

A copy of the notice of the Annual General Meeting will be posted on our website and sent by post to those shareholders who have not opted-in to electronic communications at least twenty working days before the Annual General Meeting.

As all directors did not attend the Company's 2016 Annual General Meeting, the Company did not comply with Provisions E.2.3 of the Code. However, those directors that could not attend were available via teleconference to answer any questions.

The corporate governance approach has been approved by the Board



Kai-Uwe Kessel
Chief Executive Officer

27 March 2017

Tom Richardson
Chief Financial Officer

27 March 2017

Corporate governance continued
Audit Committee Report
Letter from the Chairman

Dear shareholder,
It is my pleasure to present the Audit Committee report for the financial year ended 31 December 2016.

I was appointed chairman of the Audit Committee effective from 31 December 2016, when Mr Eike von der Linden stepped down both as senior independent non-executive director and as chairman of the Audit Committee. On behalf of the Audit Committee, I would like to thank Eike for his invaluable contribution and resolute leadership and wish him every success for the future. I would also like to welcome my fellow Director Mr Mark Martin to the committee. Mark has served as an independent non-executive director of the Company since 2014 and brings a wealth of financial and industry experience.

2016 was another challenging year for Nostrum and we continued to work closely with senior management, external auditors and the internal auditor. Our work focused on supporting the Board by monitoring the quality and integrity of financial information, scrutinising internal control and risk management systems, compliance and seeking to ensure the effectiveness and objectivity of the external and internal auditors. In addition to these largely fixed agenda items the committee also examined the process of reserves estimation, oil and gas production rates, liquidity and viability analysis and progress of the construction of GTU3.

This was reinforced by our new approach of holding pre-meetings shortly prior to the committee's quarterly meetings, the latter being normally held on the same day as the quarterly Board meetings. Such pre-meetings provided the committee an opportunity to discuss fully critical issues and to address any questions or comments from committee members in advance of the formal committee and Board meetings.

I believe the committee has had and continues to have a robust balance of relevant skills and experience, and that the committee has effectively discharged its duties throughout the year.

Atul Gupta

Atul Gupta
Chairman, Audit Committee
Independent Non-executive Director

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

Name	Membership start date
Eike von der Linden	Member and Chairman from 19 May 2014 to 31 December 2016
Atul Gupta	Member since 19 May 2014, Chairman since 31 December 2016
Sir Christopher Codrington, Bt.	Member since 19 May 2014
Mark Martin	Member since 31 December 2016

The members of the Audit Committee were selected with the aim of providing a wide range of financial, commercial and industry expertise necessary to meet the role and responsibilities of the committee. Details of the qualifications of each member of the committee can be found in their respective biographies on pages 70-72.

The Company engaged Eike von der Linden, following his resignation as a member of the Audit Committee, as a consultant to advise Audit Committee members at their request on committee matters for a transitional period through to 31 March 2017.

Meetings

The committee meets on a quarterly basis and as and when required. 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 six meetings during 2016 and the attendance of each committee member at meetings of the committee is shown on page 79.

In addition, the committee 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")

The Group's 2015 Annual Report and Accounts were reviewed by the FRC's Corporate Reporting team, which was based on Group's report and accounts and did not benefit from detailed knowledge of the Group's business or an understanding of the underlying transactions entered into. The role of the FRC is not to verify the information provided but to consider compliance with reporting requirements. On the basis of this review, it was recommended to improve disclosures within the financial statements related to significant judgements and estimates, which, where relevant, were taken into account by the Group when preparing 2016 Annual Report and Accounts.

In addition, the committee received a copy of the report of the FRC's Audit Quality Review team issued on the basis of their review of the audit of the financial statements of the Group for the year ended 31 December 2015. The focus of the review was on identifying areas where improvements are required. The committee discussed the findings with the external auditor, and noted that no significant areas for improvement were identified in the report.

Self-assessment

The committee undertakes an annual evaluation of its performance and effectiveness. In June 2016, such an evaluation was included as part of the Board's externally facilitated performance evaluation conducted with the support of an external independent consulting company. 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. Areas of further focus arising from the evaluation were risk management and internal audit. Aside from this observation, the committee concluded that its mandate and oversight performance were appropriate.

Corporate governance continued
Audit Committee Report

Activities during the year
In 2016 an annual planner was introduced listing the topics and issues requiring the committee's attention. These topics were based on the requirements of the UK Corporate Governance Code 2014 ("2014 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 can be 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 summarizes 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
Oil and gas reserves estimation and accounting Oil and gas reserves are estimated by the Group's reserve engineers and audited by independent reserve engineers. These are used to calculate the depletion of oil and gas assets and as input data for impairment testing models.	The committee reviewed assumptions and judgements made in the reserve estimation report and also examined developments in relevant regulations.
Recoverability of non-current assets' carrying values 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.	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 current oil price and related risk volatility. Special consideration was also given to the sensitivity analysis in relation to these assumptions.
Other significant judgements and estimates The decommissioning of oil and gas assets at the end of their economic lives, the provisioning for contingent and other liabilities, current and deferred income tax and fair value of financial instruments are all areas that require the management to use judgement and estimates.	The committee examined each of these issues and sought clarifications as and when necessary.

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 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 pages 50-52 of the Annual Report.

In accordance with requirements of the 2014 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.

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;
- 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.

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.

Corporate governance continued
Audit Committee Report

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 on-going litigation.

UK Corporate Governance Code
In relation to the work of the committee, as of 31 December 2016, Nostrum had complied with all the principles and provisions of the UK Corporate Governance Code 2014.

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 and as at the end of 2016 the committee was aware of one whistle-blowing case which was fully investigated in accordance with the whilstle-blowing policy. Internal audit was responsible for investigating the case and prepared a report detailing the outcomes of the investigation which was presented to the Audit Committee. The outcome of the investigation was that there was no evidence of workplace wrongdoing by the person named in the disclosure.

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

Guidance contained under provision C.3.7 of the 2014 Code provides that companies should put their external audit contract out to tender at least once every ten years. The committee initiated a tender for the external audit arrangements for the year ending 31 December 2016 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 28 June 2016.

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

Throughout 2016 the Group was in compliance with the provisions of The Statutory Audit Services Order 2014, issued by the CMA.

2016 audit
During Q4 2016 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.

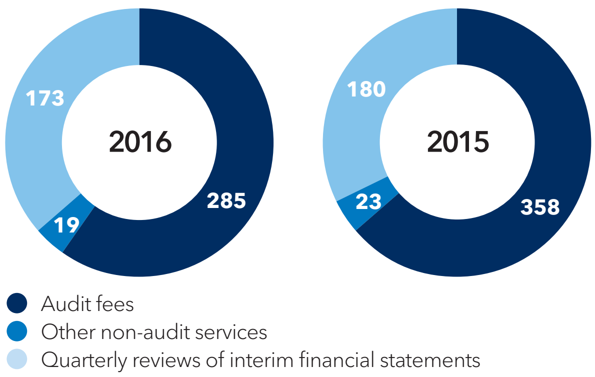
During 2016, the members of the committee held private meetings with the external auditor, which provided a mutual opportunity for open dialogue and feedback without management being present. Topics covered at such meetings included: the external auditor's assessment of significant risks and related 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 2016 H1 interim and 2016 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. 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, 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.

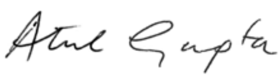
Audit and non-audit fees (US$ thousands)



The detailed breakdown of audit and non-audit fees can be found in the Note 30 to the consolidated financial statements of the Group on page 120. The ratio of audit fees to non-audit fees in 2016 was 1.84 (2015: 1.76). A significant proportion of non-audit fees was attributable to quarterly reviews of interim financial statements. 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 objectivity and independence of the external auditor.

On behalf of the Board



Atul Gupta
Chairman, Audit Committee
Independent Non-executive Director

27 March 2017

Nomination and Governance Committee Report

Letter from the Chairman

Chairman's introduction

I am pleased to report on the Nomination and Governance Committee, which I chair.

The Nomination and Governance Committee has met four times this year. The attendance of each committee member at committee meetings held during 2016 is shown on page 79. I report to the Board, as a separate agenda item, on the activities of the committee at each quarterly Board meeting.

Membership

Until 31 December 2016, the committee consisted of Frank Monstrey, Eike von der Linden and myself. However, on 31 December 2016, Eike von der Linden stepped down from the Board and his successor, Kaat Van Hecke, became a member of the Nomination and Governance Committee.

Role of the Nomination and Governance 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.

The key responsibilities of the committee are to:

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

Committee meetings

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

Tom Richardson's appointment

The committee reviewed the mix and skills of the Board in light of its aim to develop talent internally to create a pipeline to the Board and decided that Tom Richardson, who had replaced Jan-Ru Muller as chief financial officer, should also replace Mr Muller as an executive director of the Company. Tom has worked for the Company for several years as Head of Corporate Finance and the committee felt that he was the most appropriate candidate in terms of experience, qualifications and knowledge of the Company and the industry in which it operates. Therefore, no external search consultancy was required in relation to this appointment.

The Board accepted the committee's recommendation and Tom accepted the Board's invitation and became chief financial officer and an executive director of the Company with effect from 1 September 2016.

Kaat Van Hecke's appointment

As mentioned in the committee's 2015 report, diversity is an important issue for the Board and it recognised that, despite the Company not being formally required to do so, steps should to be taken to try to meet the voluntary Board gender diversity targets set by Lord Davies. Therefore, the committee spent a significant portion of 2016 trying to identify a suitable female candidate to join the Board. The committee engaged Russell Reynolds Associates which has no connection to the Company in connection with this search and Mrs Van Hecke was identified as a suitable candidate and was invited to meet the committee members. Following those meetings, the committee recommended to the Board that Mrs Van Hecke be invited to become a non-executive director and that Eike von der Linden step down as director to make way for Mrs Van Hecke's appointment on the basis that an expansion of the size of the Board is not currently envisaged and in light of Provision B.2.3 of the Code, since Mr von der Linden was the longest-serving independent non-executive director. In light of this proposal, the committee also recommended to the Board that: (i) Mark Martin be appointed as senior independent director and as a member of the Audit Committee and (ii) Atul Gupta be appointed as chairman of the Audit Committee. The Board accepted all of the committee's recommendations and it was agreed that they would take effect from 31 December 2016.

Given Mr von der Linden's significant contribution to the Group and in particular, in relation to his prior role as chairman of the Audit Committee, the Company has entered into a separate advisory agreement with Mr von der Linden pursuant to which he will provide advisory services to the Audit Committee upon their request until 31 March 2017.

The committee is satisfied that, following the above mentioned changes, the mix of skills, experience and knowledge on the Board and, in particular, those of the chairman and chief executive remain appropriate and does not foresee making any further changes to the composition of the Board in the near future. The committee will continue to keep the composition of the Board including, but not limited to, gender diversity, under review and will recommend changes as and when it feels it is appropriate to do so without setting any specific targets relating to the same.

Board self-evaluation

The committee oversaw the 2016 externally facilitated self-evaluation of the Board and will continue its analysis of the results of the evaluation during 2017. A description of the process and conclusions of the 2016 externally facilitated Board evaluation is set out on page 77.

Director training

The committee has also kept the training needs of the directors under review throughout the year, especially in relation to environmental, social and governance matters. The chairman reminds the Board on a regular basis of their right to request training on any topic and details of Board training conducted throughout the year is set out on pages 77-78.

During the year ahead the committee intends to continue to build on the progress it has made in terms of succession planning to keep the composition of the Board and its committees under constant review and to assess how talent is developed internally to create a pipeline to the Board to ensure that good governance practices are being achieved. Further definition of the Board's approach to succession planning has been adopted as an action item for the committee for 2017.

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

27 March 2017

Remuneration Committee Report

Letter from the Chairman

Dear shareholder
On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for 2016.

Our remuneration policy aims to, amongst other things, align the remuneration of executives and senior management with the interests of the Company's shareholders and to ensure that rewards are justified by performance. The policy remains unchanged for 2017 and therefore will not be put to a vote at the 2017 Annual General Meeting. It is, however, included in this year's Directors' report on remuneration in full for ease of reference and to provide context to the work of the committee during the year. The annual Directors' report on remuneration, which is subject to an advisory vote at our 2017 Annual General Meeting, details how the remuneration policy was applied in 2016 and how it will be applied in 2017.

2015 was a very challenging year for the Group because of the low oil price environment. No bonuses were paid to the executive directors in 2016 for 2015 performance.

2016 has remained a challenging year for the Group commercially, with oil prices continuing to fall for most of the year. However, the Company has continued to deliver and the performance by senior executives against KPIs remained strong as follows:

- stable average production of 40,351 boepd was achieved for the full-year with average daily production reaching 44,708 boepd in the fourth quarter of 2016;
- steady progress was made on GTU3 construction and the project remains on target for completion during 2017;
- the Group was successful in reducing operational and G&A expenses by at least 25% and specific transport and sales figures by at least 15% compared with 2015 actuals; and
- the Company established a new senior management team and made good progress with implementing a functional organisation across the Group.

However, despite these achievements certain KPIs were not met, further details of which can be found on page 100. Therefore, the committee has decided to award the executive directors with annual bonus payments of between 28.8% and 31.24% of base salary being approximately 25% less than the maximum possible bonus opportunity of 40% of base salary.

The committee has the freedom to consider any issues it regards as of importance when setting executive directors' remuneration, including environmental, social and governance issues. The committee also works hard to ensure that any incentive structures for senior management do not raise any environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

Against this backdrop, the committee reviewed executive remuneration arrangements as well as remuneration arrangements for the broader employee population. In particular, as indicated in last year's Annual Report, the committee has spent the majority of 2016 focusing on reviewing the structure of the Group's existing phantom share option plan to assess its continued suitability for incentivising the executives and Group employees and to look at the options for an alternative long-term incentive plan/employee share option scheme. In March 2016, the committee engaged New Bridge Street (part of Aon plc) to provide advice in connection with the same and more details regarding their engagement can be found on page 97.

Throughout 2016, 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. An example of this is the resignation of Piet Everaert from the committee on 22 March 2016 to ensure that the Company unequivocally complies with the most common interpretation of Provision D.2.1 of the UK Corporate Governance Code.

The 2017 key performance indictors for the executive directors are set out on page 105. We have also disclosed the performance targets and achievement against these targets for the 2016 annual bonus on page 100.

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
Remuneration Committee Chair

27 March 2017

Remuneration Committee Report continued
2016 annual report on remuneration

In this section we give details of the composition of the Remuneration Committee and activities undertaken in the 2016 financial year. We will seek an advisory vote on the remuneration report at the 2017 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 2016 were:

Name	Membership start date
Mark Martin (Chairman)	19 May 2014
Eike von der Linden	19 May 2014[1]
Piet Everaert	19 May 2014[2]
Sir Christopher Codrington, Bt.	19 May 2014
Kaat Van Hecke	31 December 2016

1 Mr von der Linden resigned as a director on 31 December 2016.
2 Mr Everaert resigned as a member of the committee on 22 March 2016.

Given Mr Everaert's non-independent status and in light of the most common interpretation of Provision D.2.1 of the UK Corporate Governance Code, Mr Everaert resigned as a member of the Remuneration Committee with effect from 22 March 2016 to ensure that the Company unequivocally complies with the Code on this point. In addition, Mr von der Linden resigned from the Board with effect from 31 December 2016 and his successor, Mrs Kaat Van Hecke, replaced him as a member of the Remuneration Committee effective the same date.

None of the committee members have day-to-day involvement with the business. Their biographies are given on pages 71-72. 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 four meetings in 2016 and the attendance of each committee member at these meetings is shown on page 79. The principal agenda items at the formal meetings were as follows:

Meeting	Agenda item
March 2016	• Review and approve key performance indicators. • Approve senior management compensation and bonuses. • Review and approve the 2015 remuneration report. • Discuss and approve the engagement of New Bridge Street to assist with the development of a future long-term incentive plan and/or employee share option plan. • Discuss and approve the resignation of Piet Everaert.
May, August and November 2016	• Progress made in connection with the development of a long-term incentive plan and/or employee share option plan was discussed at the remaining three committee meetings during 2016.

With the exception of the chairman of the Board and the chief executive, no other executive directors participated in meetings of the committee during 2016.

During the year the committee received advice internally from Frank Monstrey (Chairman of the Board), Kai-Uwe Kessel (Chief Executive) and Thomas Hartnett (Company Secretary). The chairman and the chief executive were consulted on the remuneration of the other executive directors and senior members of executive management and on matters relating to the performance of the Company and the company secretary was consulted on regulatory requirements; none of the chairman of the Board, the chief executive nor the company secretary participated in decisions on their own remuneration. Members of the Group's human resources team may attend relevant portions of committee meetings to ensure appropriate input on matters related to 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. New Bridge Street was selected following a recommendation by senior management to the Remuneration Committee and 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 met with the chairman of the committee but did not attend any meetings of the Remuneration Committee during the year. Total fees for the provision of remuneration services in 2016 were £10,000 (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 overleaf. As there were no changes proposed to the remuneration policy for 2016, it was not submitted to shareholders for approval at the 2016 Annual General Meeting. The resolution put to shareholders at the 2016 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.

Remuneration Committee Report continued

2016 annual report on remuneration

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[1]	86,069,341	83.68%	16,785,416	16.32%	1,827,934
Approval of directors' annual report on remuneration	86,601,562	96.05%	3,557,134	3.95%	–

At the 2017 Annual General Meeting the directors' remuneration report will be put to shareholders for approval by way of an advisory vote. No changes are proposed to the remuneration policy and this will not be put to shareholders at the 2017 Annual General Meeting. In accordance with the Act, a resolution to approve the remuneration policy will next be submitted to shareholders for a binding vote at the 2018 Annual General Meeting.

Single total figure of remuneration for executive directors

The table below shows the single total figure of remuneration for the year ended 31 December 2016 for each executive director that served as a 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 euros and to avoid any anomalies in the figures reported due to fluctuations in the EUR/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[2] Amounts in EUR	**Period**	**Salary and fees**[3]	**Benefits in kind**[4]	**Annual bonus**[5]	**Option exercise**	**Total (audited)**
Frank Monstrey (Chairman)	2016	698,828	–	209,648	–	**908,476**
	2015	691,976	–	–	–	**691,976**
Kai-Uwe Kessel (Chief Executive Officer)	2016	697,870[6]	8,434	209,596	–	**915,900**
	2015	729,031	5,931	–	–	**734,962**
Jan-Ru Muller (Chief Financial Officer)[7]	2016	300,040	–	55,028	–	**355,068**
	2015	435,845	–	–	–	**435,845**
Tom Richardson (Chief Financial Officer)[8]	2016	119,856	–	35,957	–	**155,813**
	2015	–	–	–	–	**–**

1 These voting figures are taken from the Company's 2015 Annual General Meeting, which is the meeting at which the current directors' remuneration policy was approved.
2 Mr Muller was remunerated for his services in part through a director's fee under his service agreement with Nostrum Oil & Gas PLC and in part as a Group executive through fees payable under a service agreement with Nostrum Services N.V. Mr Monstrey and Mr Kessel are remunerated entirely as Group executives under separate service agreements with Nostrum Services N.V.
3 Salaries were not increased in 2016. Any increase shown is due to the fact that 2015 salary rises were only applied from 1 July 2015.
4 Only Kai-Uwe Kessel receives any benefits in kind which relate to the provision of a company car.
5 No bonuses were paid in 2016 for 2015 performance. Any bonus amounts shown in the Company's 2015 Annual Report and paid in 2015 were in respect of the 2014 performance period and are therefore not included in this year's single total figure table which includes a comparison of amounts paid or payable in respect of the 2015 and 2016 reporting periods. 2016 bonuses become payable in July 2017
6 Kai-Uwe Kessel is remunerated on a net guarantee basis and given his tax liability was lower in 2016 than in the preceding year his gross remuneration was lowered to achieve the same net remuneration.
7 Jan-Ru Muller resigned as Chief Financial Officer effective 1 September 2016. The information shown in the table is for the period 1 January 2016 to 1 September 2016.
8 Tom Richardson was appointed as Chief Financial Officer with effect from 1 September 2016. The information shown in the table is for the period 1 September 2016 to 31 December 2016. Mr Richardson is remunerated in GBP but for the purposes of this table his salary has been converted into EUR using the average exchange rate between 1 September 2016 and 31 December 2016 (1.1599).

Single total figure of remuneration for non-executive directors

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

Director Amounts in USD	**Period**	**Fees**	**Total (audited)**
Eike von der Linden[1]	2016	130,000	**130,000**
	2015	130,000	**130,000**
Piet Everaert	2016	100,000	**100,000**
	2015	100,000	**100,000**
Sir Christopher Codrington, Bt.[2]	2016	110,000	**110,000**
	2015	110,000	**110,000**
Mark Martin[3]	2016	110,055	**110,055**
	2015	110,000	**110,000**
Pankaj Jain	2016	100,000	**100,000**
	2015	100,000	**100,000**
Atul Gupta[4]	2016	100,027	**100,027**
	2015	100,000	**100,000**
Kaat Van Hecke[5]	2016	274	**274**
	2015	–	**-**

1 Mr von der Linden received an additional fee for being both the senior independent director and the chairman of the Audit Committee. Mr von der Linden resigned as a director effective 31 December 2016.
2 Sir Codrington receives an additional fee for being the chairman of the Nomination and Governance Committee.
3 Mr Martin receives an additional fee for being the chairman of the Remuneration Committee. Mr Martin also succeeded Eike von der Linden as senior independent director effective 31 December 2016 and receives an additional fee for being senior independent director. The additional US$55 will be paid to Mr Martin in March 2017.
4 Atul Gupta replaced Eike von der Linden as chairman of the Audit Committee effective 31 December 2016 and therefore receives an additional fee for being chairman of the Audit Committee. The additional US$27 will be paid to Mr Gupta in March 2017.
5 Kaat Van Hecke joined the Board on 31 December 2016.

Remuneration Committee Report continued
2016 annual report on remuneration

Notes on the single total figure remuneration table

Base salaries

The committee reviewed salaries and it was decided that given the precipitous drop in the oil price in the second half of 2015 and the resulting effect on the Group's revenues, executive directors would not be awarded any salary increases for 2016.

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. Refer to page 107 of the remuneration policy for more information in relation to the Company's bonus policy.

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 2016 to 31 December 2016, the key performance indicators for annual cash bonuses for executive directors (including details of any commercially sensitive targets not disclosed in our 2015 Annual Report) were as follows:

2016 bonus performance measures	Weight	Actual	% of base salary
Operational and financial	**40%**	**34%**	**13.6%**
Hydrocarbon production above 42,000 boe/day	20%	19%	7.6%
Progress GTU3 construction to achieve mechanical completion by end of May 2017	10%	5%	2%
Implement cost-reduction programme targeting reduction in operational and G&A expenses by at least 25% and specific transport and sales expenses by at least 15% compared to 2015 actuals	10%	10%	4%
Strategic objectives	**15%**	**10%**	**4%**
Renegotiate PSA terms to allow full cost recoverability and with the goal of restoring the PSA balance of economic interests	10%	5%	2%
Develop and implement functional organisation within the Group and delegate authority to budget owners to improve efficiency	5%	5%	2%
HSE, social and governance			
Including reduction in lost time injuries per 1 million man hours worked below 2	5%	0%	0%
Sub-total: Corporate KPIs	**60%**	**44%**	**17.6%**
Personal objectives	**40%**	**31%**	**12.4%**
Frank Monstrey – a selection of specific targets supporting the corporate KPIs and Board functions	40%	31%	12.4%
Kai-Uwe Kessel – a combination of specific targets supporting the corporate KPIs and including production, exploration and strategic targets	40%	28%	11.2%
Jan-Ru Muller – a combination of specific targets supporting the corporate KPIs including maintaining financial strength, financial reporting and risk assessment	40%	27%	10.8%
Tom Richardson – a combination of specific targets supporting the corporate KPIs including maintaining financial strength, financial reporting and risk assessment	40%	34%	13.6%
Total (Frank Monstrey)	100%	75%	30%
Total (Kai-Uwe Kessel)	100%	72%	28.8%
Total (Jan-Ru Muller)	100%	71%	28.4%
Total (Tom Richardson)	100%	78%	31.2%

As performance of the executive directors was within a range of between 71-78% the committee decided to award each of them a bonus equal to 75% of maximum bonus opportunity.

Based on an assessment of Company and individual performance of the executive directors during 2016 the committee awarded bonuses of between 28.8% and 31.2% of base salary to the executive directors. The committee made this determination for the following reasons:

- the Group averaged 40,351 boepd production during 2016 and therefore, despite particularly high average daily production figures in the last quarter of 2016, the executive directors did not meet their full average production target of 42,000 boepd;
- despite steady progress being made on GTU-3 during 2016 and whilst mechanical completion is scheduled to be achieved in 2017 it will not be completed by the end of May 2017;
- the Group succeeded in reducing operational and G&A expenses by at least 25% and specific transport and sales expenses by at least 15% compared with 2015 actuals;
- the Group continued with its negotiations with the Kazakh government to allow for full cost recoverability under its PSA and to restore the balance of economic interests but the process has taken longer than originally anticipated as achievement of this target relies on the cooperation of external parties;
- good progress has been made with the development and implementation of a functional organisation across the Group. A new senior management team was implemented in September 2016 and new internal policies have been developed to allow for the implementation of a functional organisational, but there is still work left to do in 2017 on the future implementation of the new structure across the entire Group; and
- the Group ended 2016 with 2.99 lost time injuries per 1 million hours worked and therefore the target of 2 lost time injuries per 1 million hours worked 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 July of the following year and so the rationale behind a clawback mechanism is less relevant.

Long-term incentive awards
In 2016, the Company did not operate a performance based long-term incentive scheme.

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

Payments to past directors
No payments were made to past directors of the Company during the year ended 31 December 2016.

Payments for loss of office
No payments were made in respect of loss of office during the year ended 31 December 2016.

Non-executive director fees
No review of non-executive director fees has been conducted and therefore the annual fees for non-executive directors will remain the same in 2017 as they were in 2016. The next review of non-executive director fees is expected to occur in 2018.

Remuneration Committee Report continued
2016 annual report on remuneration

Directors' shareholdings

The beneficial interests of the directors in the share capital of the Company as at 31 December 2016 were as follows:

Director	Total (audited)
Frank Monstrey	24,888,950
Kai-Uwe Kessel	10,000
Tom Richardson	–
Eike von der Linden[1]	15,160
Atul Gupta	–
Sir Christopher Codrington, Bt.	3,312
Mark Martin	10,000
Piet Everaert	22,000
Pankaj Jain	119,700
Kaat Van Hecke	–

1 Mr von der Linden resigned from the Board with effect from 31 December 2016.

At present, the Company does not impose any shareholding guidelines on directors and there have been no changes in the interests of the directors or their persons closely associated in the period between the end of the financial year 2016 and the date of this Annual Report.

Phantom share option plan

The Company currently operates one non-performance related share option plan (the **"Plan"**). As at 31 December 2016, 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 ten years from the date of grant, pursuant to the Plan:

(Audited) Director	Date of grant	Options held at 31 December 2015	Face value (in USD)	Options exercised during the financial year 2016	Options lapsed during the financial year 2016	Options held at 31 December 2016	Option exercise price (US$ per option)	Expiry date
Frank Monstrey	–	–	–	–	–	–	–	–
Kai-Uwe Kessel	27.03.08	700,974	–[1]	–	–	700,974	4.0	26.03.18
	26.03.13	200,000	18,000[2]	–	–	200,000	10.0	25.03.23
Jan-Ru Muller[3]	27.03.08	120,130	–[1]	–	–	120,130	4.0	26.03.18
	26.03.13	70,000	6,300	–	–	70,000	10.0	25.03.25
Tom Richardson	26.03.13	110,000	9,900[2]	–	–	110,000	10.0	25.03.23

1 The options do not have a face value at the date of the grant, since the grant date was before the GDR listing on the London Stock Exchange on 1 April 2008.
2 Calculated by multiplying the market value of the options at the date of grant (US$10.09) less $10.00 by the number of options granted.
3 Such options are held by a Company associated with Mr Muller, Tengarra Capital B.V. Mr Muller resigned as a Director of the Company on 1 September 2016.

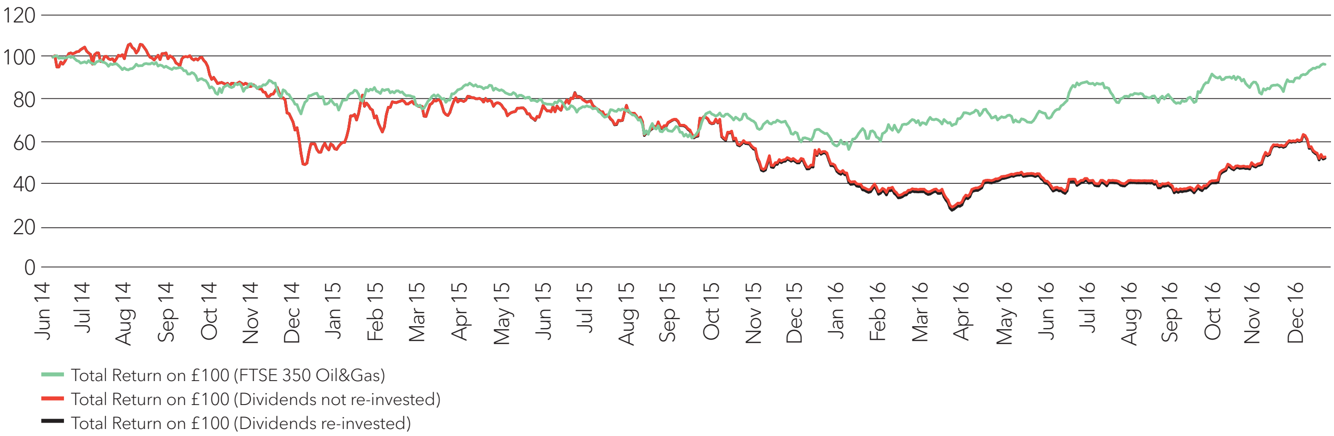
There have been no changes in the interests in the Plan between the end of the financial year 2016 and the date of this Annual Report.

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.

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

Total share return



History of CEO remuneration

The total remuneration figures compared with a respective maximum opportunity for the chief executive during each of the last five financial years are shown in the table below. Kai-Uwe Kessel was in the position for all five years shown.

Year	Total CEO remuneration (EUR)	Annual bonus as % of maximum opportunity[1]
2012	792,812	100%
2013	889,217	100%
2014	2,050,323[2]	100%
2015	971,224	80%[3]
2016	915,900	75%

1 For the period 2012 until 2014 the bonus scenarios were either 0% or 100% and any bonus amounts included in the CEO's total remuneration related to the prior year's performance.
2 Total CEO remuneration for 2014 includes remuneration from the exercise of share options.
3 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.

Remuneration Committee Report continued
2016 annual report on remuneration

Percentage change in chief executive's remuneration
The table below shows the percentage change in the chief executive's 2016 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[1])	Chief Executive 2016	2015	% change	Comparator Group % change
Salaries[2]	**697,870**	729,031	**-4.3**	**-**
Benefits	**8,434**	5,931	**42.2**	**20.23**
Annual bonus[3]	**209,596**	–	**n/a**	**n/a**

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	2016	2015	% change
Remuneration paid to all employees[4]	**32,241**	40,850	-21.10%
Dividends to shareholders (total)[5]	**-**	49,060	-100%
– Dividends	**-**	49,060	-100%
– Share buy-back	**-**	–	–

1 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.
2 Salary increases are determined and awarded during the course of the calendar year. Kai-Uwe Kessel is remunerated on a net guarantee basis and given his tax liability was lower in 2016 than in the preceding year, his gross remuneration was lowered to achieve the same net remuneration. No salary increases were awarded to management or staff in 2016.
3 No bonus was paid for 2015 performance.
4 Total remuneration reflects overall payroll and related taxes. Refer to the consolidated financial statements for further information.
5 In 2014, the Group was reorganised and the parent company of the group became a PLC, replacing the prior LP parent. Dividends are now paid per ordinary share but prior to 2015, distributions were paid per common unit.

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 106-111 of this Annual Report. All directors are subject to annual reappointment and accordingly all executive and non-executive directors will stand for re-election at the Annual General Meeting.

Statement of 2017 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. There is no requirement for a vote on the policy in 2017 unless any changes to the policy are proposed and as the committee feels that the policy continues to remain both appropriate and effective no changes are proposed for the coming year.

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

Remuneration in 2017 will be consistent with the policy described on pages 106-111.

Salaries and service fees
The committee reviewed the salaries of the executive directors in March 2017 and it was determined that the executive directors would receive a salary increase of 2% effective from 1 March 2017.

Annual bonus
In accordance with the remuneration policy, the executive director annual bonus opportunity is up to 40% of base compensation.

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 2017 to determine the annual bonus amounts payable to executive directors in 2018. Details of 2017 KPIs are set out below. 2017 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.

2017 – Bonus Performance Measures	Weight
Operational and financial	**50%**
Increase production above an average of 44,000 boe/day	15%
Progress GTU3 construction for completion by the end of 2017	10%
Refinance part of the existing debt of US$960m by the end of 2017	15%
Maintain operational costs and transport costs at current levels on a boe basis	10%
Strategic objectives	**20%**
Make progress with renegotiation with the Kazakh state to optimise the balance of interest between Nostrum and the Kazakh state	10%
Increase proven and probable reserve base	10%
HSE, social and governance	**5%**
Reduce LTIs per 1 million man hours below 2	5%
Sub-total: Corporate KPIs	**75%**
Personal objectives	**25%**
Frank Monstrey – deliver key strategic objectives of the company and ensure all board requirements are met	25%
Kai-Uwe Kessel – deliver the 2017 company objectives	25%
Tom Richardson – deliver the 2017 company financial objectives	25%
Total	**100%**

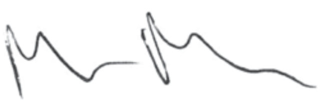
Phantom share option plan
The committee does not envisage the award of any additional phantom share options to executive directors in 2017.

The committee is currently reviewing the effectiveness of the phantom share option plan for the executive directors and wider employee population and is considering alternative long-term incentive plan structures. Discussions will continue in 2017 and should any change occur, shareholders will be consulted and approval sought, as appropriate.

Non-executive directors
No review of non-executive director fees has been conducted and therefore the annual fees for non-executive directors will remain the same in 2017 as they were in 2016. The next review of non-executive director fees is expected to occur in 2018.

Approval of the directors' remuneration report
The Directors' remuneration report was approved by the Board on 23 March 2017.

On behalf of the Board



Mark Martin
Remuneration Committee Chair

27 March 2017

Remuneration Committee Report continued
Directors' remuneration policy

This sets out the remuneration policy (the "Policy") for the Board which was approved by shareholders at the 2015 Annual General Meeting held on 26 May 2015 and took effect from this point. Whilst we do not envisage making any changes to our policy prior to the Company's 2018 Annual General Meeting, we conduct annual reviews to ensure that it continues to support the strategy of the Company. If we feel it is necessary to make a change to our policy prior to the end of this three year period we will seek shareholder approval.

No changes have been made to our remuneration policy since the 2015 Annual General Meeting and the policy has been included in full below as set out in the 2014 Annual Report.

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

Policy objectives
This policy is designed to:

1. Provide a structure and level of pay that attracts and retains high calibre directors, managers and employees capable of delivering the Company's strategic objectives.
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 and senior managers 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 and senior members of the executive management takes into account: (i) pay and conditions throughout the Company; and (ii) corporate governance best practice including health & safety, environmental, social and governance risks.

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

- FTSE 250 companies of a similar size to Nostrum.
- Oil and gas E&P companies globally which compete for scarce skills within the industry.
- Companies operating predominantly in the FSU which compete for expatriate and local staff.

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

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

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

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

The remuneration policy table
The table on page 107 sets out the key components of the reward package for executive directors.

Executive directors' remuneration policy table

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
Base pay	To provide market-competitive base salaries.	There is no prescribed maximum annual increase. The committee takes into account remuneration levels at peer group companies together with the performance of the Company and each individual's personal contribution.	• Base salary is reviewed annually and fixed for 12 months.	None
Benefits	To reflect market practice and provided in line with peer companies.	The aggregate value of such benefits should not constitute a significant proportion of any employee's compensation.	Benefits include: • medical • life insurance • permanent health insurance (long-term disability or income protection insurance) • a company car is provided to the CEO.	None
Annual bonus	Executive directors may be eligible for an annual cash bonus for good performance (as determined at the Board's discretion).	• In general, maximum opportunity of 40% of base salary compensation. • Any larger bonus will be set based on specific medium-term objectives that have been agreed in advance by the committee.	• The annual bonus is determined by reference to performance in the prior calendar year. • Annual bonuses are generally paid in cash in August of each year.	• Good performance (as determined at the Board's discretion). • In exercising its discretion to determine whether there has been good performance by executive directors the Board shall have regard primarily to the extent to which the performance target set by the Board for such executive directors have been achieved. • Targets for bonuses are those to which individuals can personally contribute by strong performance and are not based on macro variables (such as market cap, oil prices, etc.) that are not within the control of individuals.
Phantom share option plan	The Board places great importance on minimising dilution of existing shareholders. Share awards will therefore only be made to senior management who are able to make a material contribution to shareholder value that substantially exceeds the value of any share awards made.	Share awards will only be made on the basis of achieving concrete long-term objectives defined in advance by the committee. Share awards will vest over several years.	• Elian Employee Benefit Trustee Limited administers the Plan and is responsible for granting rights under the Plan. • Each right entitles holders to receive, on exercise, a cash amount equal to the excess of the market value on the exercise date of the ordinary shares of the Company to which it relates over a base value set at the date of grant. • All executive directors of the Company are eligible to participate in the Plan at the discretion of the Board. • Awards vest on the basis described in the notes 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.	
Pensions	Not currently provided.	N/A	N/A	
Shareholding	Aligns interests of executive directors with those of shareholders.	• Executive directors are encouraged to maintain a holding in the Company to align their interests with shareholders.	The committee monitors the holdings of executive directors.	

Remuneration Committee Report continued
Directors' remuneration policy

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

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

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

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

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

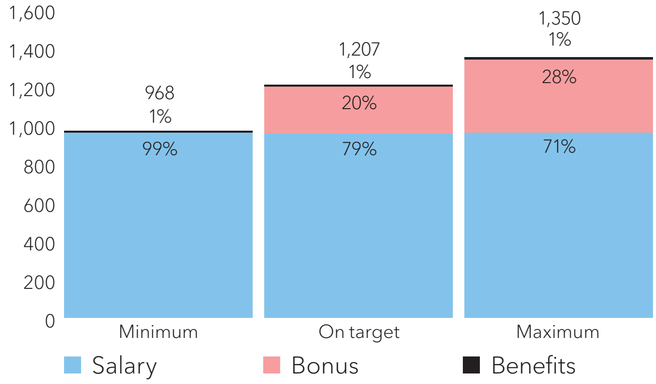
According to the policy of the Board, benefits are not expected to be a significant component of remuneration. In 2015, only Mr Kessel is expected to receive benefit payments directly. Benefits are not paid to Mr Monstrey and Mr Muller. Instead, Mr Monstrey and Mr Muller are paid a base salary out of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

The bar charts below do not include any amounts in relation to the Phantom Share Option Plan because:

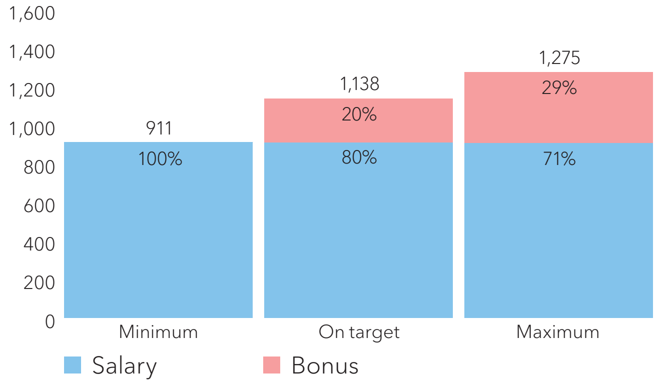
(i) as at the time of this Annual Report the Board is not able to determine whether any options will be issued under the Phantom Share Option Plan in 2015 (as described in the Directors' remuneration policy, option awards will only be made on the basis of achieving concrete long-term objectives defined in advance by the committee and will vest over several years); and

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

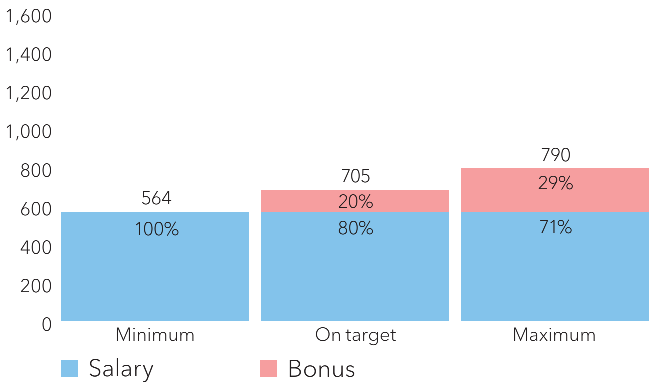
Kai-Uwe Kessel, Chief Executive Officer
amounts in USD thousand



Frank Monstrey, Chairman of the Board
amounts in USD thousand



Jan-Ru Muller, Chief Financial Officer[1]
amounts in USD 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 107.
- Where an individual would be forfeiting valuable remuneration in order to join the Company, the need to retain flexibility should be considered in order for the committee to be able to set base salary at a level necessary to facilitate the hiring of the highest calibre candidates including awards or payments to compensate for remuneration arrangements forfeited on leaving a previous employer. The committee would require reasonable evidence of the nature and value of any forfeited compensation and would, to the extent practicable, ensure any compensation awarded was no more valuable than the forfeited award.
- Judgement will be exercised to determine the appropriate measure of compensation for any forfeited award by taking account of relevant factors such as the value of any lost award, performance conditions and the time over which they would have vested or been paid.
- Where an existing employee of the Company is promoted to the Board, the Company will honour any commitment to remuneration made in respect of a prior role including any outstanding awards of options under the Plan.

1 Mr Muller resigned as Chief Financial Officer effective 1 September 2016 and was replaced by Tom Richardson.

- The need, in order to recruit the best candidates, for the Company to offer forms of sign-on remuneration the necessity and level of which will depend on circumstances.
- Where an individual is relocating in order to take up a role, the Company may provide certain one-off benefits including, but not limited to, reasonable relocation expenses, accommodation, housing allowance and assistance with visa applications.

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

Service agreements

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

	Service agreement date	Salary as at 1 January 2015 (USD)
Frank Monstrey	19 May 2014	911,216
Kai-Uwe Kessel	19 May 2014	955,996
Jan-Ru Muller[1]	19 May 2014[2]	564,409

1 Mr Muller resigned as Chief Financial Officer effective 1 September 2016 and was replaced by Tom Richardson.
2 The executive directors are remunerated in EUR; the EUR amounts have been converted to USD using the 2014 average EUR/USD exchange rate (1.33).

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;
- 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.

Remuneration Committee Report continued
Directors' remuneration policy

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

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

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

Payments for departing executive directors

Provision	Policy
Notice period and compensation for loss of office in service contracts	• 12 months' notice from the Company to the executive director. • Up to 12 months' base salary (in line with notice period). Notice period payments will either be made as normal (if the executive director continues to work during the notice period or is on gardening leave) or they will be made as monthly payments in lieu of notice (subject to mitigation if alternative employment is found).
Treatment of annual bonus on termination	• No entitlement.
Treatment of unvested share option awards	• An executive director's award will generally lapse to the extent they have not vested on the date of voluntary cessation of employment and any portion that remains outstanding but unexercised after 12 months following such cessation will lapse.

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

Non-executive directors' remuneration policy table

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

1 Except for Mrs Van Hecke who was appointed on 31 December 2016.

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
All non-executive directors of the Company were appointed on 19 May 2014[1]. 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.

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

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

Statement of consideration of shareholder views
Senior executive management of the Company regularly meets with shareholders and solicits their views on the Company's policies in relation to director and executive remuneration, and takes such views into account when formulating remuneration policies and remuneration levels in specific cases.

Directors' Report

The directors submit their report and the consolidated audited financial statements of the Group and the audited parent financial statements of the Company for the year ended 31 December 2016.

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

Directors and their interests
Full biographical details of the individuals who were directors of the Company at anytime during the financial year ended 31 December 2016 are set out on pages 70-72 of this annual report.

Details of each director's interests in the Company's ordinary shares and options held over ordinary shares are set out in full in the directors' remuneration report on pages 101 and 102 respectively.

Dividends
No dividends were paid during the year ended 31 December 2016.

No dividend is proposed to be paid in 2017 in respect of the year ended 31 December 2016 due to lower revenues as a result of declining oil prices.

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

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

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 2016.

Contributions to non-EU political parties
No contributions to non-EU political parties were made during the year 2016.

Financial risk management objectives and policies
Disclosures relating to financial risk management objectives and policies, including our policy for hedging are set out in note 32 to the consolidated audited financial statements.

Future developments within the Group
The strategic report on pages 2-67 contains details of likely future developments in the business of the Group.

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 2016 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 2016 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 2016 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 £186,000,000 in nominal value) 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.

The Elian Employee Benefit Trustee Limited holds shares in the Company in trust (the **"Trust"**) for the purposes of the Company's phantom share option plan, and the rights attaching to them are exercised by independent trustees. As at 31 December 2016 the Trust held 3,279,204 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 2016. 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.

Directors' Report continued

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 39-43.

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

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

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

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

Employee communications and involvement
The Group has processes in place for communicating 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 Group has also developed an intranet, which assists in communicating with employees across borders and provides key information to all Group employees.

The Company also operates an employee phantom share option plan, further details of which can be found in the directors' remuneration policy on page 108 and the notes to the consolidated audited financial statements for the year ended 31 December 2016.

Substantial shareholders
As of 31 December 2016, 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 5 or otherwise.

Name	Number of ordinary shares	% of issued ordinary shares
Mayfair Investments B.V.	48,333,300	25.7
Baring Vostok Capital Partners	29,050,054	15.4
Claremont Holdings C.V.	24,888,950	13.2
Harding Loevner LP	13,559,457	7.2
Aberforth Partners LLP	13,347,859	7.1
M&G Investment Management Limited	10,303,791	5.5

There were no major transactions in the share capital of the Company or any change in the structure of shareholders holding 3 or more per cent of the ordinary shares in the reporting period apart from the decrease in the holdings of Claremont Holdings C.V. from 17.3% as at 31 December 2015 to 13.2% as at 31 December 2016. Mr Monstrey also notified the Company that Claremont Holdings Limited, a closely associated person, cancelled: (i) a call option over 5,191,491 ordinary shares and (ii) a call option over 3,310,636 ordinary shares, the voting rights of which were held by Claremont Holdings C.V. and confirmed that this has not resulted in any change to the voting rights attached to ordinary shares in the Company of any of Frank Monstrey, his spouse Petra Noé, Claremont Holdings C.V. or Claremont Holdings Limited.

In addition to the above, the Company received the following TR1 notifications during the financial year:

Date	Shareholder	Holding before triggering transaction	Holding after triggering transaction	Percentage of voting rights	Direct/indirect
13 April 2016	VTB Capital plc	6,489,364	14,511,201	7.71%	Direct
24 June 2016	Harding Loevner, LP	9,080,899	9,284,699	5.02%	Direct
21 July 2016	VTB Capital plc	14,511,201	11,229,364	6.08%	Direct
17 August 2016	VTB Capital plc	11,229,364	8,324,887	4.51%	Direct
26 August 2016	VTB Capital plc	8,324,887	5,891,093	3.19%	Direct
12 September 2016	VTB Capital plc	5,891,093	5,476,500	2.96%	Direct
19 September 2016	VTB Capital plc	5,476,500	5,558,841	3.01%	Direct
26 September 2016	VTB Capital plc	5,558,841	5,517,458	2.99%	Direct

On 17 February 2017, the Company received a TR1 notification from M&G Investments Fund (3) notifying the Company that its shareholding had decreased from 9,572,738 (5.09%) shares to 9,210,923 (4.98%).

Related party transactions
Refer to note 29 of the consolidated financial statements for a description of related party transactions in the reporting period.

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

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

Terms of the Claremont Relationship Agreement
Under the Claremont Relationship Agreement, Claremont has agreed that (a) it will, and will procure its affiliates to, allow the business and affairs of the Company and the Group to be operated in the best interests of the shareholders as a whole, (b) it will, and will procure its affiliates will, allow the Company and its affiliates at all times to carry on its business independently of Claremont and its affiliates, (c) it will not, and will procure its affiliates will not, act in any way which shall prejudice the ability of the Company and its affiliates to carry on its business independently of Claremont or its affiliates, (d) it will, and will procure its affiliates to, allow the Company to be managed in accordance with the Corporate Governance Code to the extent and on such terms as may be determined by the Board and to comply with any further amendments or supplements to the Corporate Governance Code as may be adopted by the Board, and it acknowledges its obligations under, and agrees to comply with, and will procure its affiliates comply with, the Disclosure Guidance and Transparency Rules in respect of its interests in the Ordinary Shares, (e) it will not, and will procure its affiliates will not, take any action (or omit to take any action) to prejudice the Company's status as a listed company or its suitability for listing under the Listing Rules after Admission has occurred or the Company's ongoing compliance with the Listing Rules and the Disclosure Guidance and Transparency Rules or have the effect of preventing the Company from complying with its obligations under the Listing Rules, provided that this shall not prevent Claremont (or any other person) from: (i) accepting a takeover offer for the Company made in accordance with the City Code (a **"Takeover Offer"**) in relation to their respective interests in the Company or, where such Takeover Offer is made by way of a scheme of arrangement under Part 26 of the Companies Act (a **"CA2006 Scheme"**), voting in favour of such CA2006 Scheme at the court and related shareholder meetings or otherwise agreeing to sell their ordinary shares in connection with a Takeover Offer; or (ii) making a Takeover Offer by way of a general offer for all outstanding ordinary shares or by way of a CA2006 Scheme and de-listing the

Directors' Report continued

Company after such Takeover Offer has become wholly unconditional or, in the case of a CA2006 Scheme, after it has become effective, (f) it will not, and will procure that its affiliates will not, influence the day-to-day running of the Company at an operational level or hold or acquire a material shareholding in one or more significant subsidiaries of the Company; and (g) it will exercise its voting rights in such a manner as to procure (to the extent possible): (i) at least half of the Board comprises independent directors (excluding the chairman of the Board); (ii) the Audit Committee shall comprise entirely independent directors and the Remuneration Committee shall comprise not less than three independent directors; and (iii) the Nomination 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.

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 Guidance 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 Guidance 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 employee share option plan shall be deemed to have vested and the Board shall direct Elian 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 tenth anniversary of the date of grant. Any options that have not been exercised will lapse at the end of this period.

2. The 2012 Bonds and the 2014 Bonds contain change of control provisions. If a change of control occurs the Company will be required to offer to repurchase the 2019 Bonds and the New 2019 Bonds at 101% of their principal amount, plus accrued and unpaid interest to the date of purchase.

Greenhouse gases
Information regarding the Group's greenhouse gas emissions for activities for which the Group is responsible is set out on pages 46-47.

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.

Going concern
The financial position and performance of the Company and the Group and its cash flows are set out in the financial review section of this annual report on pages 61-67.

The going concern statement required by the Listing Rules and the UK Corporate Governance Code is set out in note 2 of the consolidated audited financial statements for the year ended 31 December 2016.

Directors' Report continued

Requirements of the listing rules

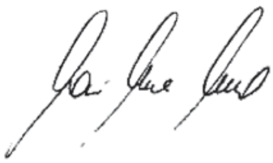
The following table provides references to where the information required by listing rule 9.8.4R is disclosed.

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

There were no major events that occurred between 31 December 2016 and the date of this annual report.

On behalf of the Board



Kai-Uwe Kessel
Chief Executive Officer

27 March 2017

Tom Richardson
Chief Financial Officer

27 March 2017

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

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

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

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

To the best of the directors' knowledge:

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

(b) the management report includes a fair review of the development or 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

27 March 2017

Tom Richardson
Chief Financial Officer

27 March 2017

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

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

Our opinion on the financial statements

In our opinion:

- Nostrum Oil and 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 2016 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.

What we have audited

Nostrum Oil and Gas PLC's financial statements comprise:

Group	**Parent company**
Consolidated statement of financial position	Statement of financial position
Consolidated statement of Comprehensive Income	Statement of changes in equity
Consolidated statement of cash flows	Cash flow statement
Consolidated statement of changes in equity	Related notes 1 to 14 to the financial statements
Related notes 1 to 33 to the financial statements	

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

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.

Overview of our audit approach

Risks of material misstatement	• Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation and 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	• We performed a full scope audit of three components across United Kingdom, Belgium and Kazakhstan and audit procedures on specific balances for a further five components across United Kingdom, Kazakhstan, Russia and the Netherlands. • The components where we performed full or specific audit procedures accounted for 99% of Loss before income tax, 100% of EBITDA, 100% of Revenue and 99% of Total assets.
Materiality	• Overall Group materiality of US$3.2m which represents 3% of EBITDA.

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

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation and decommissioning provision *Refer to the Audit Committee Report on page 86; the estimates and judgements on page 144 and the disclosures in note 7 of the Consolidated Financial Statements (page 153)* 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 decommissioning provision estimate. Reserves are also considered a fundamental indicator of the future potential of the Group's performance and its ability to continue as going concern. 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	Our audit procedures have focused on management's estimation process, including whether bias exists in determination of reserves. We challenged management's assumptions including commercial assumptions to ensure that they are based on supportable evidence. We have: ▪ carried out procedures to walkthrough and understand the Group's internal process and key controls associated with 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 appropriate. 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.	We consider that the reserves estimations are reasonable for use in the impairment testing and management's going concern assessment, calculation of DD&A and the determination of decommissioning dates.

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with the estimation of reserves volumes	We performed full scope audit procedures over this risk area in one location (Kazakhstan).	
The risk of Impairment of exploration licenses, goodwill and oil & gas development and production fixed assets *Refer to the Audit Committee Report on page 86; the estimates and judgements on page 146 and the disclosures in notes 5 to 7 of the Consolidated Financial Statements (page 153-155).* *At 31 December 2016 the carrying value of goodwill was US$32,425 thousand (2015: US$32,425 thousand); exploration licenses: US$44,271 thousand (2015: US$36,917 thousand); oil & gas development and production assets, including non-current advances: US$1,787,172 thousand (2015: US$1,697,363 thousand).* A sustained low oil and gas price environment poses a heightened impairment risk for the Group. Management have identified an impairment trigger with respect to the oil & gas development and production fixed assets in Kazakhstan. We focused on this area due to the significance of the carrying value of the assets being assessed, the current economic environment and the judgement involved in the assessment of the recoverable amount of the Group's Cash Generating Unit ('CGU') around the future prices of oil, natural gas and related products,	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: ▪ verified that the Group had the right to explore in the relevant exploration license 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 the 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 ▪ corroborated the commercial viability of the exploration fields to the cash flow forecast models. 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: ▪ 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	We consider management's estimates to be reasonable for the current year 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. We concluded that the related disclosures provided in the Group's financial statements are appropriate.

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both in the short and long-term, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes.	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 elsewhere 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 committed capex assumptions; and ▪ evaluated the financial statement disclosures for compliance with the requirements of accounting standards. 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 coverage of 100% of the risk amount.	
Revenue recognition *Refer to the Audit Committee Report on page 86; The Summary of significant accounting policies in page 152 and the disclosures in note 20 of the Consolidated Financial Statements (page 162)* Revenue for the year ended 31 December 2016 amounts to US$347,983 thousand (2015: US$448,902 thousand). Revenue sales include crude oil, gas condensate, dry gas and	Our component team in Kazakhstan performed procedures to walkthrough and understand the process and test key controls associated with the revenue recognition and accounts receivable process. We made enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with their terms. We have: ▪ audited sales agreements to understand the contractual terms and appropriate revenue recognition by inspecting supporting evidence for a sample of revenue transactions and agreeing the period when revenue should be recognised to the contractual terms; ▪ performed substantive test of details on a sample of sales transactions by inspecting delivery documents, delivery terms, volumes and prices;	We believe that Revenue is recognised in accordance with sales agreements. We also consider the disclosures with respect to Revenue included in the financial statements are reasonable and adequate.

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liquefied petroleum gas ('LPG'). There exists a risk of management manipulation to overstate or understate revenue. This could be achieved by potentially recording sales in an incorrect period.	▪ performed audit procedures on the trade debtors' ageing and collectability to identify any doubtful and or irrecoverable debtors, confirmed the material debtor balances with the relevant counterparties as well as tested that debtor amounts were received subsequent to year-end; ▪ 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. We performed full scope audit procedures over this risk area in one location (Kazakhstan), which covered 100% of the risk amount.	
Completeness of related party transactions ("RPT") and related disclosures *Refer to the Audit Committee Report on page 86 and the disclosures of related party transactions in note 29 of the Group Financial Statements (page 167)* Transactions with related parties mainly comprise transactions between the subsidiaries of the Parent company and entities controlled by the shareholders with significant influence over the Group. Given the significant amounts involved, we consider RPTs and related disclosures to be a significant risk.	Our audit procedures have focused on obtaining evidence over the completeness of related party transactions and the related disclosures. We have: ▪ obtained an understanding of the process that management has established to identify, account for and disclose RPTs and authorise and approve significant RPTs and arrangements outside the normal course of business; ▪ inspected bank and legal confirmations, minutes of meetings and significant agreements with new counterparties; ▪ 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 the disclosure of RPTs; ▪ made enquiries of management in order to identify if any RPTs outside the normal course of business have taken place; and ▪ verified the completeness of disclosures in the financial statements. In addressing this risk, audit procedures were performed by the component team in Kazakhstan, Belgium and the Group engagement team.	We have not identified any undisclosed RPTs. We concluded to the Audit Committee that the disclosures of RPTs are complete.

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Risk of management override We consider the likelihood of management override occurring. We base our consideration on our understanding of the nature and risk of both management's opportunity and incentive to manipulate accounting records and earnings or financial ratios or to misappropriate assets given the sizable shareholdings of senior executives. Specifically we considered the heightened impairment risks, the risk of overstatement of the hedge instruments' valuation, and compliance with bank covenants in the light of a sustained low oil and gas price environment.	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. 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. 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. In addressing this risk, audit procedures were performed by component teams in Kazakhstan and Belgium and the Group engagement team. We tested manual and automated journal entries for all 8 components where we performed full or specific scope audit.	We have not identified any instances of management override or bias in significant estimates and judgements.

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 Group 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 16 reporting components of the Group, we selected 8 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 eight components selected, we performed a full scope audit of three components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("specific scope components"), we performed audit procedures on specific accounts within that 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. The three full scope components account for 100% of the Group's revenue and 108% of the Group's EBITDA. The EBITDA coverage of 108% represents one full scope component having a positive contribution of 122% offset by two

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full scope components having a negative contribution of 14%. The specific scope locations do not have income generating activities and we audited cash, payroll, general and administrative costs, the employee share option plan and other current liabilities.

Of the remaining eight components having together a negative contribution of 1% 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, inquiry procedures and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

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 met in London, United Kingdom, to consider the audit risk and strategy. The Senior Statutory Auditor and key members of the primary team visited the component team in Kazakhstan to attend the component closing meeting with local management, visited the operating field and the third unit of the gas treatment facility 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 where appropriate 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$3.2 million (2015: US$3.6 million), which is 3% of EBITDA (2015: 5% of profit before tax). 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 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 evaluated that to be the most relevant performance measure to the stakeholders of the Group.

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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% (2015: 50%) of our planning materiality, namely US$1.6m (2015: US$1.8m). We have set performance materiality at this percentage due to our past experience of the audit that indicates 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$0.2m to US$1.2m (2015: US$0.2m to US$1.4m).

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$0.2m (2015: 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.

Scope of the audit of the financial statements

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 119, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Consolidated financial statements

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

company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report. We are required to report to you if, in our opinion: • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or	We have no exceptions to report.

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

	• we have not received all the information and explanations we require for our audit.	
Listing Rules review requirements	We are required to review: • the directors' statement in relation to going concern, set out on page 117, and longer-term viability, set out on page 60; and • the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the directors' confirmation 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 disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the directors' statement 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; and • the directors' explanation 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.	We have nothing material to add or to draw attention to.

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

Signature
Richard Addison (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 March 2017

Notes:
1. The maintenance and integrity of the Nostrum Oil and 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 financial statements

Consolidated statement of financial position

As at 31 December 2016

In thousands of US dollars	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Exploration and evaluation assets	**6**	**44,271**	36,917
Goodwill	**5**	**32,425**	32,425
Property, plant and equipment	**7**	**1,807,768**	1,605,756
Restricted cash	**12**	**5,981**	5,375
Advances for non-current assets	**8**	**28,676**	130,660
Derivative financial instruments	**28**	**–**	43,005
		1,919,121	1,854,138
Current assets			
Inventories	**9**	**28,326**	28,951
Trade receivables	**10**	**29,052**	31,337
Prepayments and other current assets	**11**	**21,171**	27,411
Derivative financial instruments	**28**	**6,658**	54,095
Income tax prepayment		**1,062**	26,926
Cash and cash equivalents	**12**	**101,134**	165,560
		187,403	334,280
TOTAL ASSETS		**2,106,524**	2,188,418
EQUITY AND LIABILITIES			
Share capital and reserves	**13**		
Share capital		**3,203**	3,203
Treasury capital		**(1,846)**	(1,888)
Retained earnings and reserves		**690,617**	772,441
		691,974	773,756
Non-current liabilities			
Long-term borrowings	**15**	**943,534**	936,470
Abandonment and site restoration provision		**19,635**	15,928
Due to Government of Kazakhstan		**5,631**	5,777
Deferred tax liability		**344,689**	347,769
		1,313,489	1,305,944
Current liabilities			
Current portion of long-term borrowings	**15**	**15,518**	15,024
Employee share option plan liability	**25**	**4,339**	4,284
Trade payables	**18**	**43,320**	41,463
Advances received		**1,810**	245
Income tax payable		**1,124**	1,692
Current portion of due to Government of Kazakhstan		**1,289**	1,031
Other current liabilities	**19**	**33,661**	44,979
		101,061	108,718
TOTAL EQUITY AND LIABILITIES		**2,106,524**	2,188,418

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 138 through 174 are an integral part of these consolidated financial statements

Consolidated financial statements
Consolidated statement of comprehensive income

For the year ended 31 December 2016

In thousands of US dollars	Notes	2016	2015
Revenue			
Revenue from export sales		**244,586**	426,764
Revenue from domestic sales		**103,397**	22,138
	20	**347,983**	448,902
Cost of sales	21	**(199,455)**	(186,567)
Gross profit		**148,528**	262,335
General and administrative expenses	22	**(37,982)**	(49,309)
Selling and transportation expenses	23	**(75,681)**	(92,970)
Finance costs	24	**(44,474)**	(45,998)
Finance costs - reorganisation		**–**	(1,053)
Employee share option plan fair value adjustment	25	**99**	2,165
Foreign exchange loss, net		**(390)**	(21,200)
(Loss)/gain on derivative financial instrument	28	**(63,244)**	37,055
Interest income		**461**	515
Other income		**9,841**	11,296
Other expenses	26	**(1,656)**	(30,560)
(Loss)/profit before income tax		**(64,498)**	72,276
Current income tax expense		**(20,502)**	(25,656)
Deferred income tax gain / (expense)		**3,095**	(140,985)
Income tax expense	27	**(17,407)**	(166,641)
Loss for the year		**(81,905)**	(94,365)
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		**(70)**	(456)
Other comprehensive loss		**(70)**	(456)
Total comprehensive loss for the year		**(81,975)**	(94,821)
Loss for the year attributable to the shareholders (in thousands of US dollars)		**(81,975)**	(94,821)
Weighted average number of shares		**184,866,287**	184,828,819
Basic and diluted earnings per share (in US dollars)		**(0.44)**	(0.51)

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

The accounting policies and explanatory notes on pages 138 through 174 are an integral part of these consolidated financial statements

Consolidated financial statements
Consolidated statement of cash flows

For the year ended 31 December 2016

In thousands of US dollars	Notes	2016	2015
Cash flow from operating activities:			
(Loss)/profit before income tax		**(64,498)**	72,276
Adjustments for:			
Depreciation, depletion and amortisation	21,22	**132,203**	109,351
Finance costs - reorganisation		**–**	1,053
Finance costs	24	**43,624**	45,998
Employee share option plan fair value adjustment		**(99)**	(2,165)
Interest income		**(461)**	(515)
Foreign exchange gain on investing and financing activities		**(1,329)**	(3,003)
Loss on disposal of property, plant and equipment		**95**	39
Proceeds from derivative financial instruments	28	**27,198**	92,255
Purchase of derivative financial instruments	28	**–**	(92,000)
Loss/(gain) on derivative financial instruments	28	**63,244**	(37,055)
Accrued expenses		**243**	(1,098)
Operating profit before working capital changes		**200,220**	185,136
Changes in working capital:			
Change in inventories		**708**	(3,508)
Change in trade receivables		**2,285**	(1,227)
Change in prepayments and other current assets		**22,204**	12,231
Change in trade payables		**2,028**	7,337
Change in advances received		**1,566**	(2,426)
Change in due to Government of Kazakhstan		**(773)**	(1,031)
Change in other current liabilities		**(12,250)**	(2,090)
Cash generated from operations		**215,988**	194,422
Income tax paid		**(9,457)**	(41,165)
Net cash flows from operating activities		**206,531**	153,257
Cash flow from investing activities:			
Interest received		**461**	515
Purchase of property, plant and equipment		**(197,250)**	(256,136)
Sale of property, plant and equipment		**–**	543
Exploration and evaluation works	6	**(7,475)**	(12,943)
Acquisition of subsidiaries		**–**	(2,296)
Placement of bank deposits		**–**	(17,000)
Redemption of bank deposits		**–**	42,000
Loans granted		**(496)**	(5,000)
Repayment of loans granted		**–**	5,000
Net cash used in investing activities		**(204,760)**	(245,317)
Cash flow from financing activities:			
Finance costs paid		**(65,400)**	(65,400)
Payment of finance lease liabilities		**(669)**	–
Transfer to restricted cash		**(606)**	(351)
Treasury shares sold/(purchased)		**352**	–
Distributions paid	13	**–**	(49,060)
Finance costs - reorganisation		**–**	(1,053)
Net cash used in financing activities		**(66,323)**	(115,864)
Effects of exchange rate changes on cash and cash equivalents		**126**	(1,959)
Net decrease in cash and cash equivalents		**(64,426)**	(209,883)
Cash and cash equivalents at the beginning of the year	12	**165,560**	375,443
Cash and cash equivalents at the end of the year	12	**101,134**	165,560

The accounting policies and explanatory notes on pages 138 through 174 are an integral part of these consolidated financial statements

Consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2016

In thousands of US dollars	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
As at 1 January 2015		**3,203**	**(1,888)**	**261,289**	**655,076**	**917,680**
Loss for the year		–	–	–	(94,365)	(94,365)
Other comprehensive loss		–	–	(456)	–	(456)
Total comprehensive loss for the year		**–**	**–**	**(456)**	**(94,365)**	**(94,821)**
Profit distribution		–	–	–	(49,060)	(49,060)
Transaction costs		–	–	–	(43)	(43)
As at 31 December 2015		**3,203**	**(1,888)**	**260,833**	**511,608**	**773,756**
Loss for the year		–	–	–	(81,905)	(81,905)
Other comprehensive loss		–	–	(70)	–	(70)
Total comprehensive loss for the year		**–**	**–**	**(70)**	**(81,905)**	**(81,975)**
Sale of treasury capital		–	42	155	–	197
Transaction costs		–	–	–	(4)	(4)
As at 31 December 2016		**3,203**	**(1,846)**	**260,918**	**429,699**	**691,974**

The accounting policies and explanatory notes on pages 138 through 174 are an integral part of these consolidated financial statements

Consolidated financial statements
Notes to the consolidated financial statements

1. GENERAL

Overview

Nostrum Oil & Gas PLC ("the Company" or "the Parent") is a public limited company incorporated on 3 October 2013 under the Companies Act 2006 and registered in England and Wales with registered number 8717287. The registered address of Nostrum Oil & Gas PLC is: 4th Floor, 53-54 Grosvenor Street, London, UK, W1K 3HU.

The Parent became the holding company of the remainder of the Group (via its subsidiary Nostrum Oil Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange ("LSE") on 20 June 2014. 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, %
Grandstil LLC	Tamozhenny Lane 6/3 111033 Moscow Russian Federation	Participatory interests	**100**
Nostrum Associated Investments LLP[1]	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	**100**
Nostrum E&P Services LLC[2]	Liteyniy Prospekt 26 A 191028 St. Petersburg Russian Federation	Participatory interests	**100**
Nostrum Oil & Gas Coöperatief U.A.[3]	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Members' interests	**100**
Nostrum Oil & Gas BV[4]	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Ordinary shares	**100**
Nostrum Oil & Gas UK Ltd.	Grosvenor Street 53-54 London W1K 3HU United Kingdom	Ordinary shares	**100**
Nostrum Services Central Asia LLP[5]	Aksai 3a, 75/38 050031 Almaty Republic of Kazakhstan	Participatory interests	**100**
Nostrum Services N.V.[6]	Brand Whitlocklaan 42 1200 Brussel Belgium	Ordinary shares	**100**
Zhaikmunai LLP	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	**100**

[1] *Formerly Condensate Holding LLP*
[2] *Formerly Investprofi LLC*
[3] *Formerly Nostrum Oil Coöperatief U.A.*
[4] *Formerly Zhaikmunai Netherlands B.V, which was also merged with Nostrum Oil & Gas Finance BV and Nostrum Oil BV during 2015*
[5] *Formerly Amersham Oil LLP*
[6] *Formerly Probel Capital Management N.V., which was also merged with Nostrum Services CIS BVBA during 2016*

Jubilata Investments Limited and Claydon Industrial Limited were liquidated as of 5 October 2016

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

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Notes to the consolidated financial statements CONTINUED

As at 31 December 2016, the Group employed 989 employees (FY 2015: 1,063).

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. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. On 28 July 2015 the eleventh supplementary agreement to the Contract was signed extending the exploration period to 26 May 2016. On 28 December 2016 the thirteenth supplementary agreement to the Contract was signed extending the exploration period for the Bobrikovski reservoir to 26 May 2018.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. Subsequently, the exploration period was extended until 8 February 2017. 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 Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2017.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2017.

Royalty payments

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

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

Government "profit share"

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

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as

Consolidated financial statements
Notes to the consolidated financial statements CONTINUED

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 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

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

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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 14). 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.

Consolidated financial statements
Notes to the consolidated financial statements CONTINUED

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 2016. 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 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

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

These amendments do not have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

IFRS 7 Financial Instruments: Disclosures

Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. This amendment does not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

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 2016, the Group performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary 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 the future. 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 at fair value derivative financial instruments.

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

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarification issued by the IASB in April 2016 and will monitor any further developments.

(a) Sale of goods

The Group's revenue is driven by sale of crude oil, gas condensate and LPG. The goods are sold on their own in separate identified contracts with customers. Therefore, contracts with customers of the sale of goods is generally expected to be the only performance obligation are not expected to have any impact on the Group's 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, generally on the delivery of the goods.

(b) Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. Many of the disclosure requirements in IFRS 15 are completely new. In 2016 the Group started to develop appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods

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Notes to the consolidated financial statements CONTINUED

beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie 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 chose 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.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its financial statements but in broad terms, the impact will be to recognise a lease liability and a corresponding asset for most of the operating lease commitments disclosed in Note 31.

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 and payments made to contractors and asset retirement obligation fees.

Significant accounting judgments, 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. When this is no longer the case, the costs are written off.

Subsoil use rights acquisition costs are initially capitalised in exploration and evaluation assets. Subsoil use rights acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the subsoil use rights have been relinquished or has expired, the carrying value of the subsoil use rights acquisition costs is written off through profit or loss.

The Group owns licenses in the Western Kazakhstan region, including the Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye fields where the exploration period will expire in 2017. The Group's application for extension of the exploration period on the Rostoshinskoye field is under approval by the MOE and will seek extension on the terms for the Yuzhno-Gremyachenskoye and Darjinskoye fields in 2017. 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

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Notes to the consolidated financial statements CONTINUED

the capitalized costs on its balance sheet. For more detailed information in relation to the subsoil use rights terms, please see Note 1.

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 its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments

All capitalised costs of oil and gas properties are depleted using the unit-of-production method based on estimated proved developed reserves of the field, except the Group depreciates its oil pipeline and oil loading terminal on a straight line basis over the life of the relevant subsoil use rights. In the case of assets that have a useful life shorter than the lifetime of the field the straight line method is applied.

Other properties

All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

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

For more detailed information in relation to property plant and equipment, please refer to Note 7.

Significant accounting judgments, estimates and assumptions: 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.

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

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually.

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A, whereby changes in proved reserves are dealt with prospectively by amortizing the remaining carrying value of the asset over the expected future production. 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.

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Notes to the consolidated financial statements CONTINUED

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 judgments, estimates and assumptions: impairment of property, plant and equipment, exploration and evaluation assets and goodwill

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.

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 license term of the Chinarevskoye field. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers and respective past history of the Group's ability to transfer probable reserves into proved.

The 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$55/bbl for 2017 and 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 14.1% (2015: 14.0%);
- Completion of the third unit for the gas treatment facility in 2017 resulting in gradual increase in the annual production volumes from 40,351 boepd in 2016 to approximately 100,000 boepd by the end of 2019.

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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. None of the reasonably possible changes in other key assumptions causes the cash generating unit's carrying amount 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.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax bases of income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Group and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

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 2016 and 2015, please see Note 27.

Significant accounting judgments, estimates and assumptions: 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 2016.

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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 2016 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained. 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 27.

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**
Grandstil LLC	Russian rouble
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 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

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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 2016 and 2015, please see Note 9.

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 31, 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.

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Significant accounting judgments, estimates and assumptions: provisions and contingencies

Provisions and liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

Significant management judgment is required to evaluate any claims and actions to determine whether a provision relating to a specific litigation should be recognized or revised, or a contingent liability is required to be disclosed, since the outcome of litigation is difficult to predict.

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 significant estimates and judgments by management. Significant judgments in making such estimates include estimates of future cash outflows timing 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.

The Group believes that the impact of any reasonably foreseeable change to these provisions on the Group's results of operations, financial position or liquidity will not be material. 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 programs under subsoil use agreements (SUA) on a regular basis. When evaluating the adequacy of an accrual, management bases its estimates on the latest work program included in the SUA, and relevant signed supplements and potential future changes in payment terms (including the currency in which these liabilities are to be settled). Future changes in the work programs may require adjustments to the accrual recorded in the consolidated financial statements.

Financial assets

Initial recognition, 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.

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Notes to the consolidated financial statements CONTINUED

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.

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.

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 28

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Notes to the consolidated financial statements CONTINUED

Significant accounting judgments, estimates and assumptions: fair value of financial instruments

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible.

The fair value of derivative financial instruments is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange. Significant management judgment is required to estimate expected volatility used in the internal valuation model. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Changes in the key assumptions may have a material impact on the fair value gains and losses on derivatives recognised in the future reporting periods.

The detail information on the derivative financial instruments and their fair value sensitivity to changes in volatilities and oil price assumptions is provided in Note 32.

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 2016 and 2015, 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 Group measures the cost of cash-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 25.

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5. GOODWILL

As at 31 December 2016 and 31 December 2015, goodwill comprised the following due to business combinations:

In thousands of US dollars	**2016**	2015
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 2016**	31 December 2015
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**28,436**	21,082
	44,271	36,917

During the year ended 31 December 2016 the Group had additions to exploration and evaluation assets of US$7,354 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (FY 2015: US$12,537 thousand). Interest was not capitalised on exploration and evaluation assets.

7. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2016 and 31 December 2015 property, plant and equipment comprised the following:

In thousands of US dollars	**31 December 2016**	31 December 2015
Oil and gas properties	**1,758,496**	1,566,703
Other property, plant and equipment	**49,272**	39,053
	1,807,768	1,605,756

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 2016 and 2015 was as follows:

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In thousands of US dollars	Working assets	Construction in progress	Total
Balance at 1 January 2015, net of accumulated depreciation and depletion	**1,032,888**	**368,959**	**1,401,847**
Additions	(1,131)	265,569	264,438
Transfers	101,481	(99,369)	2,112
Depreciation and depletion charge	(101,694)	–	(101,694)
Balance at 31 December 2015, net of accumulated depreciation and depletion	**1,031,544**	**535,159**	**1,566,703**
Additions	5,646	311,285	316,931
Transfers	219,674	(220,492)	(818)
Depreciation and depletion charge	(124,320)	–	(124,320)
Balance at 31 December 2016, net of accumulated depreciation and depletion	**1,132,544**	**625,952**	**1,758,496**
As at 31 December 2014			
Cost	1,459,457	368,959	1,828,416
Accumulated depreciation and depletion	(426,569)	–	(426,569)
Balance, net of accumulated depreciation and depletion	**1,032,888**	**368,959**	**1,401,847**
As at 31 December 2015			
Cost	1,559,807	535,159	2,094,966
Accumulated depreciation and depletion	(528,263)	–	(528,263)
Balance, net of accumulated depreciation and depletion	**1,031,544**	**535,159**	**1,566,703**
As at 31 December 2016			
Cost	1,785,127	625,952	2,411,079
Accumulated depreciation and depletion	(652,583)	–	(652,583)
Balance, net of accumulated depreciation and depletion	**1,132,544**	**625,952**	**1,758,496**

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 11.95% and 10.2% in 2016 and 2015, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2016. 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 2016 resulted in the increase of the oil and gas properties by US$ 2,399 thousand (31 December 2015: a decrease of US$ 5,622 thousand).The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2016 and 31 December 2015:

In thousands of US dollars	**31 December 2016**	31 December 2015
Borrowing costs including amortisation of arrangement fee	**72,630**	71,782
Capitalisation rate	**6.98%**	7.01%
Capitalised borrowing costs	**29,569**	27,112

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Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2015, net of accumulated depreciation	**23,768**	**5,850**	**1,645**	**8,742**	**305**	**40,310**
Additions	1,101	1,699	268	6,126	231	9,425
Transfers	270	912	(6)	(3,071)	(217)	(2,112)
Disposals	–	(24)	(1,933)	(285)	–	(2,242)
Disposals depreciation	–	22	1,370	57	–	1,449
Depreciation	(3,213)	(2,535)	(363)	(1,549)	–	(7,660)
Translation difference	–	–	(4)	(113)	–	(117)
Balance at 31 December 2015, 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**
As at 31 December 2014						
Cost	31,497	15,068	4,167	12,270	305	63,307
Accumulated depreciation	(7,729)	(9,218)	(2,522)	(3,528)	–	(22,997)
Balance, net of accumulated depreciation	**23,768**	**5,850**	**1,645**	**8,742**	**305**	**40,310**
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**

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 2016	31 December 2015
Advances for pipes and construction materials	**7,875**	76,806
Advances for construction services	**20,801**	53,854
	28,676	130,660

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9. INVENTORIES

As at 31 December 2016 and 31 December 2015 inventories comprised the following:

In thousands of US dollars	**31 December 2016**	31 December 2015
Spare parts and other inventories	**21,789**	20,368
Gas condensate	**4,914**	5,684
Crude oil	**1,488**	2,528
LPG	**125**	371
Gas	**10**	–
	28,326	28,951

As at 31 December 2016 and 31 December 2015 inventories are carried at cost.

10. TRADE RECEIVABLES

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

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

11. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US dollars	**31 December 2016**	31 December 2015
VAT receivable	**10,564**	18,709
Advances paid	**6,487**	4,254
Other taxes receivable	**2,322**	2,888
Other	**1,798**	1,560
	21,171	27,411

Advances paid consist primarily of prepayments made to service providers.

12. CASH AND CASH EQUIVALENTS

In thousands of US dollars	**31 December 2016**	31 December 2015
Current accounts in US dollars	**72,537**	114,346
Current accounts in tenge	**17,206**	2,038
Current accounts in other currencies	**6,375**	7,167
Petty cash	**16**	9
Bank deposits with maturity less than three months	**5,000**	42,000
	101,134	165,560

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 liquidation fund deposit in the amount of US$ 521 thousand with Sberbank in Kazakhstan, US$3,404 thousand with Kazkommertsbank and US$ 2,055 thousand with Halyk bank (31 December 2015: US$5,375 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

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13. SHARE CAPITAL AND RESERVES

As at 31 December 2016 the ownership interests in the Parent consist of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

Number of GDRs/shares	In circulation	Treasury capital	Total
As at 1 January 2015	**184,828,819**	**3,354,139**	**188,182,958**
As at 31 December 2015	**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**

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and are held by Elian Employee Benefit Trustee Limited, which upon request from employees to exercise options, sells shares on the market and settles respective obligations under the ESOP. This trust constitutes a special purpose entity under IFRS and therefore, these shares are recorded as treasury capital of the Company.

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

Distributions

There were no distributions made during the year ended 31 December 2016. During the year ended 31 December 2015 Nostrum Oil & Gas PLC made a distribution of US$ 0.27 per share to the shareholders which amounted to a total of US$ 49,060 thousand and was paid in full on 26 June 2015.

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 2016 the book value per share amounted to US$3.50 (31 December 2015: US$3.94).

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.

In thousands of US dollars	2016	2015
Loss for the year attributable to the shareholders (in thousands of US dollars)	**(81,975)**	(94,821)
Weighted average number of shares	**184,866,287**	184,828,819
Basic and diluted earnings per share (in US dollars)	**(0.44)**	(0.51)

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15. BORROWINGS

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

In thousands of US dollars	**31 December 2016**	31 December 2015
Notes issued in 2012 and maturing in 2019	**550,943**	545,868
Notes issued in 2014 and maturing in 2019	**406,931**	405,626
Finance lease liability	**1,178**	–
	959,052	951,494
Less amounts due within 12 months	**(15,518)**	(15,024)
Amounts due after 12 months	**943,534**	936,470

2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US$ 560,000 thousand notes (the "2012 Notes").

On 24 April 2013 Zhaikmunai LLP (the "2012 Issuer") replaced the 2012 Initial Issuer of the 2012 Notes, whereupon it assumed all of the obligations of the 2012 Initial Issuer under the 2012 Notes.

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013.

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 the rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and 14 August of each year, beginning on 14 August 2014.

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:

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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.

Costs directly attributable to the 2014 Notes arrangement amounted to US$6,525 thousand.

Covenants contained in the 2012 Notes and the 2014 Notes

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

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to Nostrum Oil & Gas PLC or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses; and
- consolidate or merge with other entities.

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

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

Finance lease

On 12 April 2016 Zhaikmunai LLP entered into a finance lease agreement for the main administrative office in Uralsk for a period of 20 years for a fee of US$ 66 thousand per month. As at 31 December 2016 the finance lease prepayment amounted to US$ 12,151 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

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	31 December 2016		31 December 2015	
In thousands of US dollars	**Minimum payments**	**Present value of payments**	**Minimum payments**	**Present value of payments**
No later than one year	**525**	496	**–**	–
Later than one year and no later than five years	**561**	349	**–**	–
Later than five years	**2,039**	333	**–**	–
Total minimum lease payments	**3,125**	1,178	**–**	–
Less amounts representing finance charges	**(1,947)**	–	**–**	–
Present value of minimum lease payments	**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 2016 and 2015 is as follows:

In thousands of US dollars	**2016**	2015
Abandonment and site restoration provision as at 1 January	**15,928**	20,877
Unwinding of discount	**331**	426
Additional provision	**977**	247
Change in estimates	**2,399**	(5,622)
Abandonment and site restoration provision as at 31 December	**19,635**	15,928

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 2016 were 2.5% and 4.28%, respectively (31 December 2015: 2.49% and 5.54%).

The change in the long-term inflation rate and discount rate in the year ended 31 December 2016 resulted in the increase of the abandonment and site restoration provision by US$ 2,399 thousand (31 December 2015: the decrease by US$ 5,622 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%.

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The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2016 and 31 December 2015 is as follows:

In thousands of US dollars	**2016**	2015
Due to Government of Kazakhstan as at 1 January	**6,808**	6,937
Unwinding of discount	**885**	902
Paid during the year	**(773)**	(1,031)
	6,920	6,808
Less: current portion of due to Government of Kazakhstan	**(1,289)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,631**	5,777

18. TRADE PAYABLES

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

In thousands of US dollars	**31 December 2016**	31 December 2015
Tenge denominated trade payables	**22,315**	22,364
US dollar denominated trade payables	**11,846**	14,032
Euro denominated trade payables	**7,470**	2,875
Russian rouble denominated trade payables	**1,347**	1,928
Trade payables denominated in other currencies	**342**	264
	43,320	41,463

19. OTHER CURRENT LIABILITIES

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

In thousands of US dollars	**31 December 2016**	31 December 2015
Training obligations accrual	**12,018**	11,443
Taxes payable, other than corporate income tax	**7,041**	9,748
Accruals under the subsoil use agreements	**6,462**	16,902
Due to employees	**5,495**	3,992
Other current liabilities	**2,645**	2,894
	33,661	44,979

Accruals under subsoil use agreements mainly include amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

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, which was accrued during prior year.

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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 2016 was US$45.1 (FY 2015: US$53.6)

In thousands of US dollars	**2016**	2015
Oil and gas condensate	**226,357**	297,777
Gas and LPG	**121,626**	151,125
	347,983	448,902

During the year ended 31 December 2016 the revenue from sales to three major customers amounted to US$109,499 thousand, US$92,885 thousand and US$38,053 thousand respectively (FY 2015: US$141,359 thousand, US$104,978 thousand and US$85,954 thousand respectively). The Group's exports are mainly represented by deliveries to Finland, the Black Sea ports of Russia and the United Arab Emirates.

21. COST OF SALES

In thousands of US dollars	**2016**	2015
Depreciation, depletion and amortisation	**130,043**	107,678
Repair, maintenance and other services	**21,097**	26,557
Payroll and related taxes	**13,290**	18,682
Royalties	**11,910**	14,364
Other transportation services	**6,843**	3,049
Materials and supplies	**4,649**	7,838
Well workover costs	**3,928**	5,182
Government profit share	**2,582**	1,880
Change in stock	**2,047**	(3,613)
Environmental levies	**1,071**	1,391
Other	**1,995**	3,559
	199,455	186,567

22. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	**2016**	2015
Payroll and related taxes	**13,313**	16,636
Professional services	**11,868**	13,997
Business travel	**3,695**	6,091
Training	**2,185**	3,110
Depreciation and amortisation	**2,160**	1,673
Insurance fees	**1,129**	1,715
Lease payments	**694**	1,012
Sponsorship	**574**	1,314
Communication	**484**	766
Materials and supplies	**353**	635
Bank charges	**346**	607
Social program	**315**	302
Other taxes	**150**	339
Other	**716**	1,112
	37,982	49,309

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23. SELLING AND TRANSPORTATION EXPENSES

In thousands of US dollars	**2016**	2015
Loading and storage costs	**33,219**	41,229
Transportation costs	**24,861**	45,071
Marketing services	**14,138**	159
Payroll and related taxes	**1,234**	1,901
Other	**2,229**	4,610
	75,681	92,970

24. FINANCE COSTS

In thousands of US dollars	**2016**	2015
Interest expense on borrowings	**42,211**	44,670
Unwinding of discount on amounts due to Government of Kazakhstan	**885**	902
Unwinding of discount on abandonment and site restoration provision	**327**	426
Unwinding of discount on social obligations liability	**850**	–
Finance charges under finance leases	**201**	–
	44,474	45,998

25. EMPLOYEES' REMUNERATION

The average monthly number of employees (including Executive Directors) employed was as follows:

	2016	2015
Management and administrative	**294**	303
Technical and operational	**664**	765
	958	1,068

Their aggregate remuneration comprised:

In thousands of US dollars	**2016**	2015
Wages and salaries	**27,789**	35,092
Social security costs	**4,452**	5,757
Share-based payments	**–**	–
Other pension costs	**–**	–
	32,241	40,849

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$28,486 thousand (FY 2015: US$38,789 thousand).

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Key management personnel remuneration

In thousands of US dollars	**2016**	2015
Short-term employee benefits	**4,742**	4,703
Share-based payments	**–**	–
	4,742	4,703

Directors' remuneration

In thousands of US dollars	**2016**	2015
Short-term employees benefits	**3,234**	3,328
Share-based payments	**–**	–
Pension and other post-retirement benefits	**–**	–
	3,234	3,328

Employee share option plan

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

Employees (including senior executives and executive directors) of members of the Group or their associates receive remuneration in the form of equity-based payment transactions, whereby employees render services as consideration for share appreciation rights, which can only be settled in cash ("cash-settled transactions").

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The equity-based payment plan is described below.

During 2008-2015, 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 give its holder a right to a difference between the market value of the Group's ordinary shares at the date of exercise and a stated base value. The services received and a liability to pay for those services are recognised over the expected vesting period.

Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The carrying value of the liability relating to 2,536,478 of SARs at 31 December 2016 is US$ 4,339 thousand (31 December 2015: 2,611,413 SARs with carrying value of US$ 4,284 thousand). During the year ended 31 December 2016 252,000 SARs were fully vested (FY 2015:302,000).

The following table illustrates the number ("No.") and exercise prices ("EP") of, and movements in, SARs during the year:

	2016		2015	
	No.	**EP,US$**	No.	EP,US$
Total outstanding at the beginning of the year (with EP of US$ 4)	**1,351,413**	**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	**2,611,413**		2,611,413	
Share options exercised	**(74,935)**	**4**	–	4
Total outstanding at the end of the year	**2,536,478**		2,611,413	
Total exercisable at the end of the year	**2,294,478**		2,117,413	

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There were no SARs granted during the years ended 31 December 2016 and 2015. The weighted average price at the date of exercise for SARs exercised during the year ended 31 December 2016 amounted to US$ 2.06 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 2016 and 2015:

	2016	2015
Price at the reporting date (US$)	**4.7**	6.0
Distribution yield (%)	**0%**	3.0%
Expected volatility (%)	**45.0%**	45.0%
Risk-free interest rate (%)	**1.2%**	2.5%
Expected life (years)	**10**	10
Option turnover (%)	**10.0%**	10.0%
Price trigger	**2.0**	2.0

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

26. OTHER EXPENSES

In thousands of US dollars	**2016**	2015
Export customs duty	**5,534**	14,163
Compensation	**571**	2,482
Accruals under subsoil use agreements (Note 19)	**(9,808)**	6,903
Other expense	**5,359**	7,012
	1,656	30,560

Export customs duty is comprised of customs duties for export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc. Based on their interpretation of CIS free-trade legislation the Kazakhstan customs authorities imposed customs duties on oil exports from Kazakhstan to Ukraine starting from December 2012.

Accruals under subsoil use agreements mainly include net amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

27. INCOME TAX

The income tax expense comprised the following:

In thousands of US dollars	**2016**	2015
Deferred income tax expense	**(3,095)**	140,985
Corporate income tax	**21,328**	24,219
Withholding tax	**482**	2,821
Adjustment in respect of the current income tax for the prior periods	**(1,308)**	(1,384)
Total income tax expense	**17,407**	166,641

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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	**2016**	2015
(Loss)/Profit before income tax	**(64,497)**	72,275
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**(19,349)**	21,682
Effect of exchange rate on the tax base	**(2,423)**	101,043
Adjustments in respect of current income tax of previous years	**(1,308)**	(1,384)
Effect of loss / (income) taxed at different rate[1]	**8,219**	(2,921)
Non-deductible interest expense on borrowings	**22,864**	20,698
Deferred tax asset not recognised	**3,537**	5,297
Non-deductible penalties	**(1,343)**	3,656
Non-deductible compensation for gas	**36**	–
Net foreign exchange loss	**2,828**	12,086
Non-deductible social expenditures	**–**	1,021
Non-deductible cost of technological loss	**–**	141
Non-deductible training expenditures	**181**	561
Other non-deductible expenses	**4,165**	4,761
Income tax expenses reported in the consolidated financial statements	**17,407**	166,641

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

The Group's effective tax rate for the year ended 31 December 2016 is negative 27.0% (2015: 230.6%). 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 2016 is 9.1% (2015: 45.4%).

In addition the effective tax rate was impacted by the effect of losses and gains taxed at different rate mainly including loss and gain on derivative financial instruments taxed at underlying tax rate of 20% which increased effective tax rate by 12.7% for the year ended 31 December 2016 (2015: decreased by 4.0%).

As at 31 December 2016 the Group has tax losses of US$71,051 thousand (2015: US$21,233 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 2023-2025. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group.

Deferred tax liability is calculated by applying the Kazakhstani statutory tax rate applicable to the Chinarevskoye subsoil use rights to the temporary differences between the tax amounts and the amounts reported in the consolidated financial statements and are comprised of the following:

In thousands of US dollars	**31 December 2016**	31 December 2015
Deferred tax asset		
Accounts payable and provisions	**4,954**	4,486
Deferred tax liability		
Property, plant and equipment	**(348,311)**	(332,835)
Derivative financial instruments	**(1,332)**	(19,420)
Net deferred tax liability	**(344,689)**	(347,769)

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The movements in the deferred tax liability were as follows:

In thousands of US dollars	**2016**	2015
Balance as at 1 January	**347,769**	206,784
Current period charge to statement of income	**(3,080)**	140,985
Balance as at 31 December	**344,689**	347,769

28. DERIVATIVE FINANCIAL INSTRUMENTS

During the years ended 31 December 2016 and 2015 the movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US dollars	**2016**	2015
Derivative financial instruments at fair value at 1 January	**97,100**	60,301
Proceeds from sale of hedging contract	**(27,198)**	(92,256)
Purchase of hedging contract	**–**	92,000
(Loss)/gain on derivative financial instruments	**(63,244)**	37,055
Derivative financial instruments	**6,658**	97,100
Less current portion of derivative financial instruments	**6,658**	54,095
Long-term derivative financial instruments at fair value at 31 December	**–**	43,005

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 32.

29. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements transactions with related parties mainly comprise transactions between subsidiaries of the Company and the shareholders and/or their subsidiaries or associated companies.

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2016 and 31 December 2015 consisted of the following:

In thousands of US dollars	**31 December 2016**	31 December 2015
Trade receivables and advances paid		
JSC OGCC KazStroyService	**18,063**	35,832
Cervus Business Services	**–**	132

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

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

In thousands of US dollars	**31 December 2016**	31 December 2015
Trade payables		
JSC OGCC KazStroyService	**6,291**	4,144

During the years ended 31 December 2016 and 2015 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	**2016**	2015
Purchases		
JSC OGCC KazStroyService	**40,746**	29,906
Management fees and consulting services		
Cervus Business Services	**1,341**	1,392
VWEW Advocaten VOF	**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 for a consideration of US$ 150 million, which was amended with effect from 10 August 2015 by a supplementary agreement increasing that consideration to US$ 160 million. The technical support and service agreement with the Contractor that was originally valid until 31 December 2015 was extended until 30 September 2016.

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2016 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

During the year ended 31 December 2016 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA and VWEW Advocaten VOF.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$4,742 thousand for the year ended 31 December 2016 (FY 2015: US$4,703 thousand). There were no payments made under the ESOP during the years ended 31 December 2016 and 2015.

30. AUDIT AND NON-AUDIT FEES

During the years ended 31 December 2016 and 2015 audit and non-audit fees comprise the following:

In thousands of US dollars	**2016**	2015
Audit of the financial statements	**309**	358
Total audit services	**309**	358
Audit-related assurance services	**149**	180
Other non-audit services	**19**	23
Total non-audit services	**168**	203
Total fees	**477**	561

The audit fees in the table above include the audit fees of US$10 thousand in relation to the Parent.

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

31. 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 2016. As at 31 December 2016 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

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 2016 the Group had contractual capital commitments in the amount of US$96,990 thousand (31 December 2015: US$123,529 thousand) mainly in respect to the Group's oil field exploration and development activities.

Operating lease

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

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

In thousands of US dollars	**31 December 2016**	31 December 2015
No later than one year	**9,589**	12,471
Later than one year and no later than five years	**28,795**	4,623

Lease expenses of railway tank wagons for the year ended 31 December 2016 amounted to US$12,285 thousand (FY 2015: US$15,690 thousand).

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement No. 9), the Group is obliged to:

- spend US$ 300 thousand per annum to finance social infrastructure;
- make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and

- adhere to a spending schedule on education which lasts until (and including) 2020.

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno Gremyachinskoye fields require fulfilment of several social and other obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 26 December 2016) require the subsurface user to:

- spend US$ 1,000 thousand for funding of development of Astana city;
- invest at least US$ 20,694 thousand for exploration of the field during the exploration period;
- reimburse historical costs of US$ 383 thousand to the Government upon commencement of production stage;
- fund liquidation expenses equal to US$ 147 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$ 21,770 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 209 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$ 27,910 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 271 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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations as well as exploration of the three new oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye. The Group's financial assets consist of trade and other receivables, non-current investments, current investments and cash and cash equivalents.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, credit risk and commodity price risk. The Group's management reviews and agrees policies for managing each of these risks, which are summarized below.

Commodity price risk

The Group is exposed to the effect of fluctuations in price of crude oil, which is quoted in US dollar on the international markets. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Interest rate risk

The Group is not exposed to interest rate risk in 2016 and 2015 as the Group had no financial instruments with floating rates as at years ended 31 December 2016 and 2015.

Foreign currency risk

As a significant portion of the Group's operation is the tenge denominated, the Group's statement of financial position can be affected by movements in the US dollar / tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

Consolidated financial statements
Notes to the consolidated financial statements 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
2016		
US dollar thousand	+ 20.00%	508
US dollar thousand	- 20.00%	(508)
2015		
US dollar thousand	+ 60.00%	18,250
US dollar thousand	- 20.00%	(6,083)

The Group's foreign currency denominated monetary assets and liabilities were as follows:

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)**

As at 31 December 2015	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	2,047	70	6,472	626	9,215
Trade receivables	1,455	–	–	–	1,455
Trade payables	(22,364)	(1,928)	(2,876)	(264)	(27,432)
Other current liabilities	(11,554)	(159)	(855)	(1,783)	(14,351)
	(30,416)	**(2,017)**	**2,741**	**(1,421)**	**(31,113)**

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 program on-going: a) not more than 25% of borrowings should mature in the next twelve-month period and b) a minimum balance of US$ 50 million is retained on the balance sheet post repayment or refinancing of any debt due in the next twelve-month period.

The Group's total outstanding debt consists of two notes: US$ 560 million issued in 2012 and maturing in 2019 and US$ 400 million issued in 2014 and maturing in 2019. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

Consolidated financial statements
Notes to the consolidated financial statements CONTINUED

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2016 and 31 December 2015 based on contractual undiscounted payments:

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**

As at 31 December 2015	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	12,750	52,650	1,156,200	–	**1,221,600**
Trade payables	37,934	–	3,529	–	–	**41,463**
Other current liabilities	17,554	–	–	–	–	**17,554**
Due to Government of Kazakhstan	–	258	773	4,124	10,567	**15,722**
	55,488	**13,008**	**56,952**	**1,160,324**	**10,567**	**1,296,339**

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 A1 (stable) from Moody's rating agency at 31 December 2016. 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.

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

Fair values of financial instruments

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

	Carrying amount		Fair value	
In thousands of US dollars	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Financial assets measured at fair value				
Derivative financial instruments	**6,658**	97,100	**6,658**	97,100
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(959,052)**	(951,494)	**(955,924)**	(809,824)
Total	**(952,394)**	(854,394)	**(949,266)**	(712,724)

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.

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 and 31 December 2015:

	31 December 2016	31 December 2015
Future price at the reporting date (US$)	**56.82–58.84**	37.19-48.75
Expected volatility (%)	**27.33**	30
Risk-free interest rate (%)	**0.84**	0.32-0.69
Maturity (months)	**1–11**	1-23

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

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

	Increase in the assumption	**Decrease in the assumption**
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	(1,523)	1,976
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	**1,203**	(1,143)

Movement in the derivative financial instruments is disclosed in Note 28.

During the years ended 31 December 2016 and 2015 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Consolidated financial statements
Notes to the consolidated financial statements CONTINUED

Capital management

For the purpose of the Group's capital management, capital includes issued capital, additional paid-in capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the notes that define capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to immediately call borrowings. There have been no breaches in the financial covenants of the notes in the current period nor the prior period.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or increase share capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 40%. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

In thousands of US dollars	**2016**	2015
Interest bearing borrowings	**959,052**	951,494
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(107,115)**	(170,935)
Net debt	**851,937**	780,559
Equity	**691,974**	773,756
Total capital	**691,974**	773,756
Capital and net debt	**1,543,911**	1,554,315
Gearing ratio	**55%**	50%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

33. EVENTS AFTER THE REPORTING PERIOD

There were no significant events between the reporting date and the date of publication.

Parent Company financial statements

Parent company financial statements
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Parent company financial statements

Parent company statement of financial position

As at 31 December 2016

In thousands of US dollars	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Investments in subsidiaries	5	**106,222**	106,222
		106,222	106,222
Current assets			
Advances paid		**23**	–
Receivables from related parties	6	**27,659**	26,538
Cash and cash equivalents	7	**761**	1,052
		28,443	27,590
TOTAL ASSETS		**134,665**	133,812
EQUITY AND LIABILITIES			
Share capital and reserves			
Issued share capital	8	**3,203**	3,203
Retained earnings		**105,266**	103,810
		108,469	107,013
Current liabilities			
Trade payables		**243**	170
Payables to related parties	9	**25,331**	25,655
Accrued liabilities		**622**	974
		26,196	26,799
TOTAL EQUITY AND LIABILITIES		**134,665**	133,812

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 profit of US$ 1,456 for the financial year ended 31 December 2016 (2015: loss of US$50,479 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 180 through 186 are an integral part of these consolidated financial statements

Parent company financial statements
Parent company statement of cash flows

For the year ended 31 December 2016

In thousands of US dollars	**Notes**	**2016**	2015
Cash flow from operating activities:			
Profit before income tax		**1,455**	50,479
Adjustments for:			
Foreign exchange (gain)/loss on investing and financing activities		**39**	(806)
Accrued expenses		**(352)**	556
Investment income		**(1,400)**	(50,000)
Operating profit before working capital changes		**(258)**	229
Changes in working capital:			
Change in prepayments and other current assets		**(240)**	(171)
Change in trade payables		**73**	(968)
Change in other current liabilities		**(5)**	–
Cash generated from operations		**(430)**	(910)
Net cash used in operating activities		**(430)**	(910)
Cash flow from investing activities:			
Acquisition of subsidiaries		**(222)**	–
Dividend received		**400**	50,000
Net cash from investing activities		**178**	50,000
Cash flow from financing activities:			
Dividends paid		**–**	(49,060)
Net cash used in financing activities		**–**	(49,060)
Effects of exchange rate changes on cash and cash equivalents		**(39)**	806
Net (decrease)/increase in cash and cash equivalents		**(291)**	836
Cash and cash equivalents at the beginning of the year	**7**	**1,052**	216
Cash and cash equivalents at the end of the year	**7**	**761**	1,052

The accounting policies and explanatory notes on pages 179 through 185 are an integral part of these consolidated financial statements

Parent company financial statements
Parent company statement of changes in equity

As at 31 December 2016

In thousands of US dollars	Notes	Share capital	Retained earnings	Total
As at 1 January 2015		3,203	**102,391**	105,594
Profit for the year		–	**50,479**	50,479
Total comprehensive income for the year		–	**50,479**	50,479
Redemption of shares		–	**–**	–
Profit distribution		–	**(49,060)**	(49,060)
As at 31 December 2015		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

The accounting policies and explanatory notes on pages 180 through 186 are an integral part of these consolidated financial statements

Parent company financial statements

Notes to the Parent company financial statements

1. GENERAL

Nostrum Oil & Gas PLC ("the Company") is a public limited company incorporated on 3 October 2013 under the Companies Act 2006 and registered in England and Wales with registered number 8717287. The registered address of Nostrum Oil & Gas PLC is: 4th Floor, 53-54 Grosvenor Street, London, UK, W1K 3HU.

The subsidiary undertakings of the Company as at 31 December 2016 and the percentage holding of their capital are set out below:

Company	Country of registration or incorporation	Form of capital	Ownership, %
Direct subsidiary undertakings:			
Nostrum Oil & Gas Coöperatief U.A.[1]	Netherlands	Members' interests	100
Nostrum Oil & Gas BV[2]	Netherlands	Ordinary shares	100
Indirect subsidiary undertakings:			
Grandstil LLC	Russian Federation	Participatory interests	100
Nostrum Associated Investments LLP[3]	Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC[4]	Russian Federation	Participatory interests	100
Nostrum Oil & Gas UK Ltd.	England and Wales	Ordinary shares	100
Nostrum Services Central Asia LLP[5]	Republic of Kazakhstan	Participatory interests	100
Nostrum Services N.V.[6]	Belgium	Ordinary shares	100
Zhaikmunai LLP	Republic of Kazakhstan	Participatory interests	100

[1] *Formerly Nostrum Oil Coöperatief U.A.*
[2] *Formerly Zhaikmunai Netherlands B.V.*
[3] *Formerly Condensate Holding LLP*
[4] *Formerly Investprofi LLC*
[5] *Formerly Amersham Oil LLP*
[6] *Formerly Probel Capital Management N.V., which was also merged with Nostrum Services CIS BVBA during 2016*

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 2016 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, except for the following amendments to IFRS effective as at 1 January 2016:

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

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

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively. These amendments are not expected to have any impact to the Company.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. These amendments do not have any impact on the Company's financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

• The materiality requirements in IAS 1

• That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated

• That entities have flexibility as to the order in which they present the notes to financial statements

• That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Company.

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.

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 $).

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

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 in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Investments

Investments in subsidiaries are recorded at cost. The Company assesses investments for impairment whenever events or changes in the circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Financial assets

Initial recognition and measurement

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

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include investments, loans, cash and cash equivalents and receivables.

Subsequent measurement

Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks.

Derecognition

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

The rights to receive cash flows from the asset have expired

The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) 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

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

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.

5. INVESTMENTS IN SUBSIDIARIES

Investments of the Company as at 31 December 2016 comprised of:

In thousands of US dollars	**31 December 2016**	31 December 2015
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

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

On 22 June 2015 the Company acquired Nostrum Oil & Gas B.V. from its subsidiary Nostrum Oil & Gas Coöperatief U.A. for a consideration of US$ 222,270. The payment of the consideration has been made on 22 February 2016.

Following the acquisition of Nostrum Oil & Gas B.V., the Company's other investment, Nostrum Oil B.V., was merged with Nostrum Oil & Gas B.V. on 8 August 2015. Nostrum Oil & Gas B.V. is the surviving entity of this merger.

Hence at 31 December 2016 and 2015 the total investment of the Company in Nostrum Oil & Gas B.V. was US$ 222,271.

6. RECEIVABLES FROM RELATED PARTIES

As at 31 December 2016 receivables from related parties are represented by a receivable from the Nostrum employee benefit trust in amount of US$ 25,331 thousand (2015: US$ 25,433 thousand) and a receivable from Nostrum Oil & Gas Coöperatief U.A. in amount of US$ 2,328 thousand (2015: US$ 1,105 thousand).

7. CASH AND CASH EQUIVALENTS

In thousands of US dollars	**31 December 2016**	31 December 2015
Current accounts in US Dollars	**102**	130
Current accounts in Euro	**575**	454
Current accounts in Pounds Sterling	**84**	468
	761	1,052

8. SHAREHOLDERS' EQUITY

Nostrum Oil & Gas PLC became the new holding company for the business of Nostrum Oil & Gas LP based on the resolution passed by its limited partners on 17 June 2014 followed by the Group reorganisation referred to in that resolution.

On 18 June 2014, following the decision of the board of directors, Nostrum Oil & Gas LP commenced the Group's reorganisation. This was implemented by means of an exchange offer made by the Company to the GDR holders of Nostrum Oil & Gas LP, which were entitled to receive 1 share of Nostrum Oil & Gas PLC for each GDR of Nostrum Oil & Gas LP.

On 17 September 2014 US$102,797,484 were transferred from the share premium account to distributable reserves based on a Special Resolution passed at a general meeting of the Company, which was confirmed by an Order of the High Court of Justice.

Share capital of Nostrum Oil & Gas PLC

As at 31 December 2016 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 2016 amounts payable to related parties include US$ 25,331 thousand represented by arrangements with the Company's subsidiary Nostrum Oil & Gas Coöperatief U.A. in respect of the Nostrum employee benefit trust (2015: US$ 25,433 thousand). As at 31 December 2015 amounts payable to related parties also included US$ 222 thousand represented by the loan payable to the Company's subsidiary Nostrum Oil & Gas Coöperatief U.A. in respect of the consideration payable for the acquisition of Nostrum Oil & Gas B.V.

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

10. AUDITORS' REMUNERATION

The fees for the audit of the Company amount to US$10 thousand (2015: 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 2016 was US$2,584 thousand (2015: US$2,678 thousand) and was paid by other group companies. In addition, US$650 thousand (2015: 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.

Full details of individual directors' remuneration are given in the directors' remuneration report on pages 94-111 of the annual report.

12. RELATED PARTY TRANSACTIONS

Related parties of the Company include its direct and indirect subsidiaries, associates key management personnel and other entities that are under the control or significant influence of the key management personnel.

During the year ended 31 December 2016 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$2,624 thousand (2015: US$5,984).

As at 31 December 2016 receivables from related parties include US$25,331 thousand from Nostrum employee benefit trust (2015: US$25,433 thousand), and US$1,327 thousand from Nostrum Oil & Gas Coöperatief UA (2015: US$1,105 thousand).

As at 31 December 2016 liabilities to related parties include US$25,331 thousand payable to Nostrum Oil & Gas Coöperatief UA. (2015: US$25,655 thousand)

13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial assets consist of receivables from shareholders and cash and cash equivalents. The Company's financial liabilities consist of trade and other payables and accrued liabilities.

The main risks arising from the Company's financial instruments are foreign exchange risk and credit risk. The Company's management reviews and agrees policies for managing each of these risks, which are summarized below.

Foreign currency risk

Most of the Company's operation is denominated in USD, therefore the Company's statement of financial position is not significantly affected by exchange rate movements.

Credit risk

Financial instruments, which potentially subject the Company to credit risk, consist primarily of receivables and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Company considers that its maximum exposure is reflected by the amount of receivables from shareholders and cash and cash equivalents.

The Company places its US Dollar and Euro denominated cash with ING with a credit rating of A1 (upper medium grade) from Moody's rating agency at 31 December 2016.

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.

Parent company financial statements
Notes to the Parent company financial statements CONTINUED

The management assessed that its assets and liabilities approximate their carrying amounts largely due to their nature or the short-term maturities of these instruments.

Capital management

For the purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Company's capital management is to maximise the shareholder value.

14. EVENTS AFTER THE REPORTING PERIOD

There were no significant events between the reporting date and the date of publication.

Investor information

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Registered number: 8717287
Place of registration: England and Wales

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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 FTSE250 E&P

- Earnings per share: US$(0.44)/share
- Book value per share: US$3.5/share

Financial calendar 2017

Q1 2017	Operational update	Tuesday 25 April 2017
Q1 2017	Financial results	Tuesday 23 May 2017
H1 2017	Operational update	Tuesday 25 July 2017
H1 2017	Financial results	Tuesday 29 August 2017
Q3 2017	Operational update	Tuesday 24 October 2017
Q3 2017	Financial results	Tuesday 21 November 2017

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:

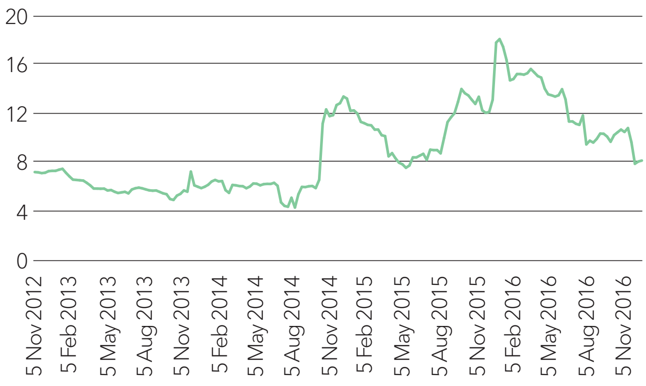
Settlement	Maturity	Currency	Amount (m)	Coupon	Listing		RegS	Rule 144A
Feb 2014	Feb 2019	USD	400	6.375%	Dublin/ Almaty	CUSIP ISIN Common Code	N64884AA2 USN64884AA29 103302323	66978CAA0 US66978CAA09 103302307
Nov 2012	Nov 2019	USD	560	7.125%	Dublin/ Almaty	CUSIP ISIN Common Code	N97716AA7 USN97716AA72 085313177	98953VAA0 US98953VAA08 085259776

For the summary of certain covenants relation to 2012 Notes and 2014 Notes, please see the consolidated financial statements.

Bond yield information

February 2019 (%)

November 2019 (%)



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	Stable
Moody's	B2	Negative

Zhaikmunai LLP's equity is not listed and it is a wholly-owned indirect subsidiary of Nostrum. Nostrum's equity is listed on the premium segment of the London Stock Exchange. The Group's investor relations programme aims at developing 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 policy of the investor relations department of the Group is to ensure all questions that any of the Group's stakeholders have are dealt with in a timely manner based on the underlying principles that the Group is viewed as being approachable and responsive to any potential queries.

Glossary

2010 Notes	10.5% notes issued in 2010
2012 Notes	7.125% notes issued in 2012
2014 Notes	6.375% notes issued in 2014

A

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

C_1	Methane
C_2	Ethane
C_3	Propane
C_4	Butane
C_5	Pentane
C_6	Hexane
C_7	Heptane
CAC	A pipeline with two branches originating in Turkmenistan and meeting in Kazakhstan before crossing into Russia and connecting to the Russian pipeline system, with an annual throughput capacity of 60.2 billion cubic metres.
cash	Cash and cash equivalents including current and non-current investments.
casing	Relatively thin-walled, large diameter steel rods that are screwed together to form a casing string, which is run into a core hole or well and cemented in place.
Caspian region	Parts of countries adjacent to the Caspian Sea.

Glossary continued

Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
CO_2	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.
downstream	Downstream refers to all petroleum operations occurring after delivery of crude oil or gas to a refinery or fractionation plant.
Development Plans	The development plans approved by the SCFD in March 2009.
directors or Board	The directors of the Company.
dry gas	Dry gas is natural gas (methane and ethane) with no significant content of heavier hydrocarbons. It is gaseous at subsurface and surface conditions.

E

E&P	Exploration and production.
EBITDA	Profit Before Tax non-recurring expenses + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation – Interest Income + Other Expenses / (Income)
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
Exploration Permit	The geological allotment (Annex to the Licence) issued by the Competent Authority to Zhaikmunai LLP.
exploration phase	The phase of operations which covers the search for oil or gas by carrying out detailed geological and geophysical surveys followed up where appropriate by exploratory drilling.
exploration well	Well drilled purely for exploratory (information gathering) purposes in a particular area.

F

farm-in	Transfer of a percentage of an oil or gas permit held by the farmor in return for (partial or complete) delivery of the work programme by the farmee(s). Note that this work would normally have had to have been delivered and paid for by the farmor.
farm-out	A contractual agreement with the holder of an oil and gas permit to assign all (or a percentage of) that interest to another party in exchange for delivering the work programme required by the permit, or fulfilling other contractually specified conditions.
FCA	Financial Conduct Authority of the United Kingdom.
FCA Uralsk	Sales made under free carrier terms according to which Nostrum delivers to the terminal in Uralsk and transportation risk and risk of loss are transferred to the buyer after delivery to the carrier.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition.
FOB	Sales made under free on board terms.
FSU	Former Soviet Union.

G

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.

Glossary continued

I

IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
INED	Independent Non-Executive Director.

J

joint venture	A joint venture is a set of trading entities who have agreed to act in concert to share the cost and rewards of exploring for and producing oil or gas from a permit.
joule	Unit of energy used for measuring gas volumes. • megajoules = 10^6 • gigajoules = 10^9 • terrajoules = 10^{12} • petajoules = 10^{15}

K

Kazakhstan	The Republic of Kazakhstan.
KASE	Kazakhstan Stock Exchange.
KazMunayGas	State-owned oil and gas company of Kazakhstan.
KazMunaiGas Exploration Production (KMG EP)	Onshore oil and gas exploration production subsidiary of KazMunayGas.

L

Licence	Licence series MG No. 253-D (Oil) issued to Zhaikmunai LLP by the Government on 26 May 1997, including amendments.
Licencing Law	The Kazakhstan Law "On Licensing" (No. 214, dated 11 January 2007, as amended, which came into effect on 9 August 2007).
liquids	A sales product in liquid form produced as a result of further processing by the onshore plant; for example, condensate and LPG.
LNG	Liquefied natural gas. Comprises mainly methane.
Listing Rules	The listing rules made by the Financial Conduct Authority under section 73A of the FSMA.
London Stock Exchange or LSE	London Stock Exchange.
LPG	Liquefied petroleum gas, the name given to the mix of propane and butane in their liquid state.

M

m	Metre(s).
m^3	Cubic metres.
m^3/d	Cubic metres per day.
man-hours	An hour regarded in terms of the amount of work that can be done by one person within this period.
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	Registered Office: 53-54 Grosvenor St London W1K 3HU UK Corporate Headquarters: Gustav Mahlerplein 23 B 1082 MS Amsterdam The Netherlands

O

operator	The individual or company responsible for conducting oil and gas exploration, development and production activities on an oil and gas lease or concession on its own behalf and, if applicable, for other working interest owners, generally pursuant to the terms of a joint operating agreement or comparable agreement.

P

Partnership	Nostrum Oil & Gas LP, which was the holding company of the Group before the reorganisation.
petroleum	Hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.
Possible Reserves	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.

Glossary continued

Probable Reserves	Probable reserves are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Probable Reserves. Proven plus probable reserves are referred to as 2P.
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.
Subsoil Law:	
– Old Subsoil Law	The Kazakhstan Law "On Subsoil and Subsoil Use" (No. 2828, dated 27 January 1996, as amended), recently replaced with the New Subsoil Law.
– New Subsoil Law	The most recent Kazakhstan Law "On Subsoil and Subsoil Use" (No. 291-IV, dated 24 June 2010 as amended).
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

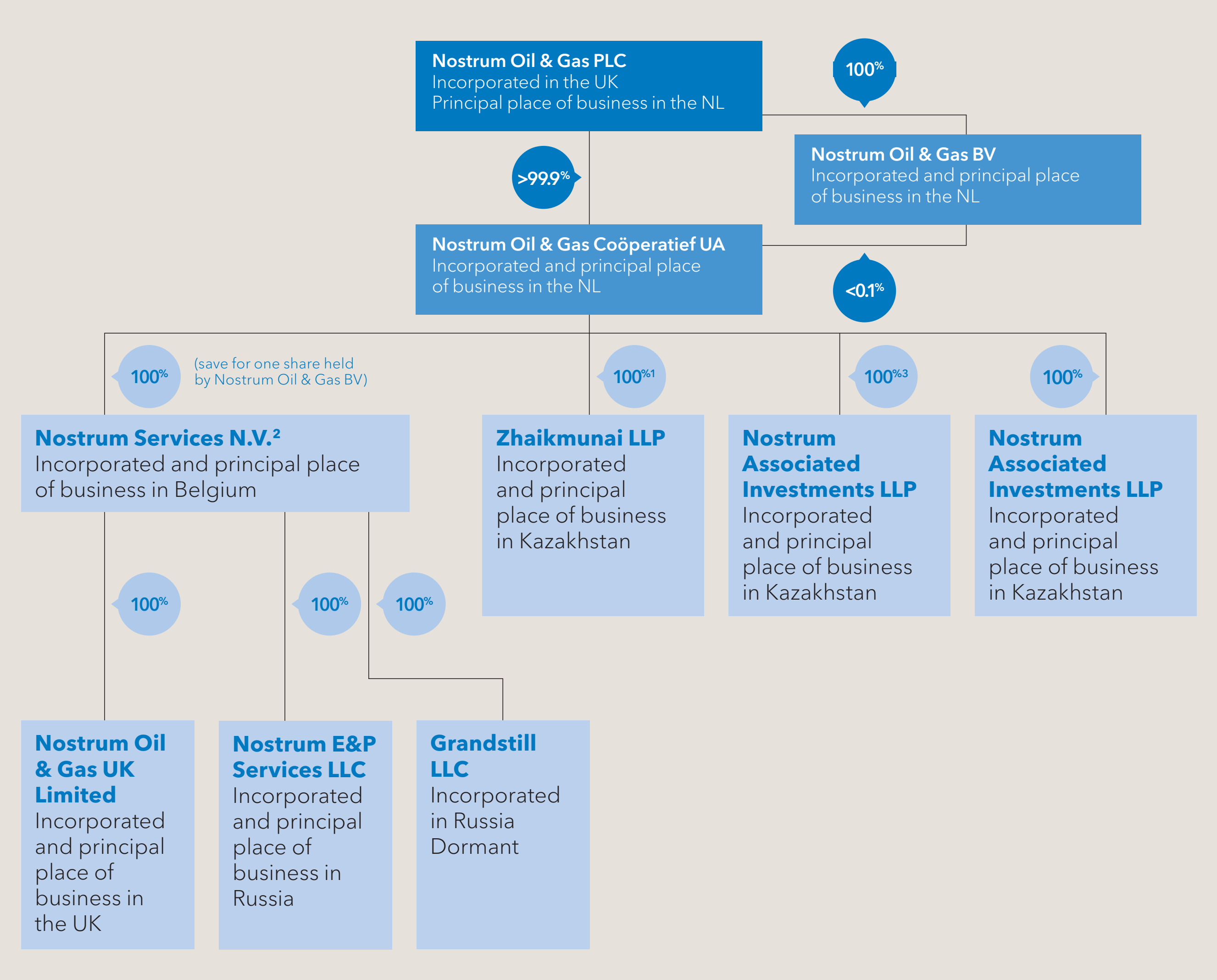
UNGG	Uralsk Oil and Gas Explorations Expedition. The Government of the Kazakh Soviet Socialist Republic decided in March 1960 to create a consortium "Uralskneftegazrazvedka" for conducting oil and gas exploration in the Uralsk region. In the '60s, the consortium was involved in more than 59 exploration 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.

Glossary continued

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: 59/2, Eurasia Prospect Uralsk, 090002 Republic of Kazakhstan	Representative Office: Office 319 2/2 Kurman Batyr Prospect Astana, 010000 Republic of Kazakhstan

Structure chart
as at 31 December 2016



1. During 2016, Zhaikmunai LLP bought back: (i) 0.036% of Zhaikmunai LLP's participatory interests from Claydon Industrial Limited; and (ii) 0.044% of Zhaikmunai's participatory interests from Nostrum Associated Investments LLP. Zhaikmunai LLP subsequently sold the 0.08% of its participatory interests it had bought back to Nostrum Oil & Gas Coöperatief UA. Accordingly, Nostrum Oil & Gas Coöperatief UA now directly holds 100% of Zhaikmunai LLP.
2. During 2016, Nostrum Services NV and Nostrum Services CIS BVBA were merged. Nostrum Services NV is the continuing entity.
3. During 2016, Jubilata Investments Limited and Claydon Industrial Limited were dissolved. Prior to dissolution, Jubilata Investments Limited sold Nostrum Associated Investments LLP to Nostrum Oil & Gas Coöperatief UA. Accordingly, Nostrum Oil & Gas Coöperatief UA now directly holds 100% of Nostrum Associated Investments LLP.

The above structure chart shows the Group's structure as at 31 December 2016.

The contribution and results of Nostrum Oil & Gas PLC and all its subsidiaries (apart from Zhaikmunai LLP) to the KPIs and results of the Group were insignificant.

Notes

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