Nostrum Oil & Gas PLC

Interim financial report

For the six months ended 30 June 2018

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Interim Management report

For the six months ended 30 June 2018

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Some of the statements in this Interim Financial Report are forward-looking. Forward-looking statements include statements regarding the intent, belief and current expectations of the Group or its officers with respect to various matters. When used in this document, the words "expects," "believes," "anticipates," "plans," "may," "will," "should" and similar expressions, and the negatives thereof, are intended to identify forward-looking statements. Such statements are not promises or guarantees, and are subject to risks and uncertainties that could cause actual outcomes to differ materially from those suggested by any such statements.

Overview

Nostrum (the “Company” and together with its subsidiaries the “Group” or “Nostrum”) is an independent oil and gas enterprise engaged in the exploration and production of oil and gas products in North-Western Kazakhstan. Nostrum, through its indirectly wholly-owned subsidiary Zhaikmunai LLP, is the owner and operator of four fields in Kazakhstan, the Chinarevskoye, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields. The Group’s primary field and licence area, which has been the Group’s sole source of production to date, is the Chinarevskoye Field located in the northern part of the oil-rich Pre-Caspian Basin.

The Chinarevskoye Field, approximately 274 square kilometres in size, is located in the West-Kazakhstan Oblast, near the border between Kazakhstan and Russia, and close to the main international railway lines in and out of Kazakhstan as well as to several major oil and gas pipelines. The Group conducts its operations in the Chinarevskoye Field pursuant to a subsoil use licence (the “Licence”) and an associated production sharing agreement (“PSA”). Based on the Ryder Scott Report dated 1 January 2018, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye Field were 358 million boe, of which 135 million bbl was crude oil and condensate, 54 million bbl was LPG and 168 million boe was sales gas.

Nostrum’s operational facilities in the Chinarevskoye Field consist of an oil treatment unit currently capable of processing 400,000 tonnes per year of crude oil, multiple oil gathering and transportation lines including a 120 kilometre oil pipeline from the field to its oil loading rail terminal in Rostoshi near Uralsk, a 17 kilometre gas pipeline from the field to the Orenburg-Novopskov pipeline, a gas powered electricity generation system, warehouse facilities, storage facilities, an employee field camp and a gas treatment facility. The first phase of the gas treatment facility, consisting of two gas treatment units, became fully operational in 2011 and has enabled Nostrum to produce marketable liquid condensate (a product lighter than Brent crude oil) and LPG from the gas condensate stream. During 2017, the Company completed an extension to its existing oil pipeline to connect it into the Atyrau-Samara international export pipeline operated by KazTransOil (“KTO pipeline”). Currently the Company exports all of its crude oil via the KTO pipeline.

Following the successful completion of the first phase of its gas treatment facility, Nostrum commenced the building of a third gas treatment unit to increase the operating capacity and production of liquid hydrocarbons. Nostrum expects the third gas treatment unit to be completed by the end of 2018. Management estimates that when fully operational, the third unit will double the Group’s current production capacity.

The Group’s three oil and gas development fields, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye, are also located in the Pre-Caspian basin to the North-West of Uralsk, approximately 60 to 120 kilometres from the Chinarevskoye field. These development fields are approximately 139 square kilometres in size. During the development phase, the Group will explore the three fields under short term exploratory licenses which are subject to periodic renewal. In 2016, the Group drilled one appraisal well in the Rostoshinskoye field, which changed the geological model of the Rostoshinskoye field and also increased the reserves potential of the Bashkirian section of the adjacent Darjinskoye field. The results of this appraisal well which were received in 2017 changed the geological model of the Rostoshinskoye field and also increased the reserves potential of the Bashkirian section of the adjacent Darjinskoye field. Further, preparations for re-entering an existing well on the Darjinskoye field are currently underway. According to the Ryder Scott Report dated 1 January 2018, the estimated net probable hydrocarbon reserves at these three fields were 131 million boe and estimated contingent resources of 12.7 million boe of liquids and 202.5 billion cubic feet of sales gas.

Business review / continued

Business strategy

Nostrum's long-term objective is to become one of the leading independent oil and gas exploration and production companies in the FSU. Our strategy for future growth is centred around achieving the following goals and objectives for 2018:

Stabilising production

The Group is focused upon stabilising production by concentrating drilling capex on production wells and growing proven reserves. Nostrum intends to drill 4 production wells in the East, an appraisal well in the North and the West of the field and depending on results a further appraisal well in the Northern area of the field. The first production well was water bearing. The second production well has just come on to production. In order to increase production from existing wells the Company intends to implement a low-pressure system that will allow existing wells to produce even as the well head pressure drops. In addition, when GTU3 is commissioned the existing LPG production will increase as GTU3 is able to strip more liquids from the gas stream compared to GTU1&2. Sales volumes for 2018 H1 were 29,886 boepd.

As of 30 June 2018, all installation work was completed on GTU3 and final civil works are well underway. The first units for instrument air and nitrogen production were successfully commissioned and put in operation.

Continue to recognise cost savings

Nostrum is targeting a reduction in G&A and opex below US$86m for 2018. The Company is also focused upon bringing drilling costs and related capex as low as possible. Nostrum has implemented a further cost reduction initiative to ensure that it can maximise margins through the higher oil price environment in 2018.

2P reserve growth through organic appraisal and M&A

Nostrum is focused on growing both organically and through M&A. Organic growth is being targeted in the Northern area of the field with two appraisal wells planned for 2018. The target area for M&A is opportunities in and around the Chinarevskoye field. The acquisition of 120 million boe of 2P reserves in the Trident fields for a total consideration of US$16 million was the first acquisition made pursuant to a strategy of consolidating stranded gas assets in 2013. In August 2018 the Company signed a binding agreement to process third party hydrocarbons produced by Ural Oil & Gas LLP. UOG is a company that is owned by KazMunaiGas ("KMG") (50%), Sinopec (27.5%) and MOL Group ("MOL") (22.5%). According to the 2017 KMG Annual Report, the related Rozhkovskoye field has 196 million boe 2P reserves booked. Nostrum continues to look at opportunities to grow its reserve base.

Linking corporate responsibility to the growth of the Company

During the Group's long presence in Kazakhstan it has built a comprehensive corporate social responsibility roadmap focusing upon employee security and welfare, investment in community building and environmental protection and reporting. The Group recognises that corporate social responsibility is key to the sustainability and success of our business and we are regularly developing internal best practices to improve standards. In 2018 the Company seeks to increase its presence in local communities and report on the wellbeing of employees and their working environment. Workplace safety rates are measured by the number of man hours without loss (millions), and for H1 2018 the Lost Time Injury Frequency was 1.59 (target 2.00).

Focusing on delivering shareholder value

The Group aims to strike a balance between reinvesting in future growth and returning cash to the shareholders. The above-mentioned objectives of stabilising and growing production leading to increased sales volumes, successful completion of GTU3, 2P reserves growth and further cost reductions are expected to lead directly to improved post-tax cash flows and drive further value for the Company. Free cash flows post tax are targeted for 2018.

Material events

Derivative financial instrument

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

Call of the 2012 Notes and the 2014 Notes

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

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

2018 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. (the "2018 Issuer") issued USD 400,000 thousand notes due 2025 (the "2018 Notes").

The 2018 Notes bear interest at the rate of 7.00% per year, payable on 16 February and 16 August of each year. The 2018 Notes may be redeemed by the 2018 Issuer in certain circumstances as set out in the relevant note indenture.

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

The issue of the 2018 Notes was used primarily to fund the Call of the 2012 Notes and the 2014 Notes, as described above. The covenants contained in the 2018 Notes match the covenants contained in the 2012 Notes, the 2014 Notes and the 2017 Notes.

UOG agreement

On 2 August 2018, Nostrum Oil & Gas PLC announced that through its subsidiary Zhaikmunai LLP it has entered into binding agreements to process third party hydrocarbons delivered by Ural Oil & Gas LLP ("UOG"). Under the agreements, once UOG has obtained all necessary internal approvals they will fund the infrastructure required to deliver the hydrocarbons to the boundary of the Chinarevskoye field. The high level commercial terms comprise of two parts. Firstly, a tolling fee for the stabilisation of liquid condensate which will be US$8 per barrel and secondly the purchasing of raw gas from UOG at a price to be agreed at the point of delivery.

Operational and financial performance

Results of operations for the six months ended 30 June 2018 and 2017

Financial highlights

In millions of US$ (unless mentioned otherwise)	Six months ended 30 June 2018 (unaudited)	2017 (unaudited)	Variance	Variance, %
Revenue	**191.5**	210.0	*(18.5)*	*(8.8)%*
EBITDA*	**113.2**	120.6	*(7.4)*	*(6.1)%*
EBITDA margin	**59.1%**	57.4%	*1.7%*	–
Cash Position	**127.6**	97.5	*30.1*	*30.9%*
Net Debt	**1,000.2**	864.3	*135.9*	*15.7%*

** See EBITDA reconciliation at the end of the section. Certain amounts used in the calculations do not correspond to the H1 2017 financial statements and reflect adjustments made, please refer to Note 3 in the Interim condensed consolidated financial statements for more details.*

Overview

The table below sets forth the line items of the Group's interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2018 and 2017 in US dollars and as a percentage of revenue.

In thousands of US dollars	Six months ended 30 June 2018 (unaudited)	% of revenue	2017 (unaudited, restated*)	% of revenue
Revenue	**191,494**	**100.0%**	210,021	100.0%
Cost of sales	**(82,766)**	**43.2%**	(88,397)	42.1%
Gross profit	**108,728**	**56.8%**	121,624	57.9%
General and administrative expenses	**(13,538)**	**7.1%**	(16,548)	7.9%
Selling and transportation expenses	**(25,679)**	**13.4%**	(37,082)	17.7%
Finance costs	**(29,206)**	**15.3%**	(20,061)	9.6%
Taxes other than income tax	**(14,383)**	**7.5%**	(10,765)	5.1%
Employee share options - fair value adjustment	**1,684**	**0.9%**	(673)	0.3%
Foreign exchange (loss)/gain, net	**(130)**	**0.1%**	2,949	1.4%
(Loss)/gain on derivative financial instrument	**(11,962)**	**6.2%**	309	0.1%
Interest income	**140**	**0.1%**	167	0.1%
Other income	**1,420**	**0.7%**	1,812	0.9%
Other expenses	**(5,155)**	**2.7%**	(7,156)	3.4%
Profit before income tax	**11,919**	**6.2%**	34,576	16.5%
Income tax expense	**(13,826)**	**7.2%**	(21,152)	10.1%
(Loss)/profit for the period	**(1,907)**	**1.0%**	13,424	6.4%
Other comprehensive income	**9**	**0.0%**	544	0.3%
Total comprehensive (loss)/income for the period	**(1,898)**	**1.0%**	13,968	6.7%

** Certain amounts used in the calculations do not correspond to the H1 2017 financial statements and reflect adjustments made, please refer to Note 3 in the Interim condensed consolidated financial statements for more details.*

Group's profit decreased by US$15.3 million from US$13.4 million for H1 2017 to a loss of US$1.9 million for the six months ended 30 June 2018 (the "reporting period") mainly due to a loss on the value of Nostrum's oil price hedge which matures in December 2018.

Revenue

The Group's revenue decreased by 8.8% to US$191.5 million for the reporting period (H1 2017: US$210.0). This is mainly explained by the decrease in sales volumes by 27.3% from 41,107 boepd in H1 2017 to 29,886 boepd in H1 2018. This was partially offset by the increase in the average Brent crude oil price from 52.7US$/bbl during the first half of 2017 to 71.2 US$/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.

Operational and financial performance / continued

Revenues from sales to the Group's largest three customers amounted to US$128.5 million, US$37.7 million and US$5.0 million respectively (H1 2017: US$98.8 million, US$53.6 million and US$21.0 million respectively).

The Group's revenue breakdown by products and sales volumes for the reporting period and H1 2017 is presented below:

	Six months ended 30 June			
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**	**Variance**	**Variance, %**
Oil and gas condensate	**134,664**	136,119	*(1,455)*	*(1.1)%*
Gas and LPG	**56,830**	73,902	*(17,072)*	*(23.1)%*
Total revenue	**191,494**	210,021	*(18,527)*	*(8.8)%*
Sales volumes (boe)	**5,409,353**	7,440,448	*(2,031,095)*	*(27.3)%*
Average Brent crude oil price (US$/bbl)	**71.2**	52.7		

The following table shows the Group's revenue breakdown by export/domestic sales for the reporting period and H1 2017:

	Six months ended 30 June			
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**	**Variance**	**Variance, %**
Revenue from export sales	**144,871**	142,405	*2,466*	*1.7%*
Revenue from domestic sales	**46,623**	67,616	*(20,993)*	*(31.0)%*
Total	**191,494**	210,021	*(18,527)*	*(8.8)%*

Cost of sales

	Six months ended 30 June			
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**	**Variance**	**Variance, %**
Depreciation, depletion and amortisation	**57,057**	62,137	*(5,080)*	*(8.2)%*
Payroll and related taxes	**10,204**	8,712	*1,492*	*17.1%*
Repair, maintenance and other services	**8,092**	9,196	*(1,104)*	*(12.0)%*
Other transportation services	**3,483**	3,779	*(296)*	*(7.8)%*
Materials and supplies	**2,306**	2,620	*(314)*	*(12.0)%*
Well workover costs	**1,076**	1,796	*(720)*	*(40.1)%*
Environmental levies	**236**	178	*58*	*32.6%*
Change in stock	**(154)**	(202)	*48*	*23.8%*
Other	**466**	181	*285*	*157.5%*
Total	**82,766**	88,397	*(5,631)*	*(6.4)%*

Cost of sales decreased by 6.4% to US$82.8 million for the reporting period (H1 2017: US$88.4 million). The decrease is primarily explained by the lower depreciation, depletion and amortization charge and decrease in expenses for repair, maintenance and other services. The decrease was partially offset by higher expenses on payroll and related taxes and other expenses.

On a boe basis, cost of sales increased by US$3.42 or 28.8% to US$15.30 for the reporting period (H1 2017: US$11.88) and cost of sales net of depreciation per boe increased by US$1.22, or 34.6%, to US$4.75 (H1 2017: US$3.53).

Operational and financial performance / continued

General and administrative expenses

In thousands of US dollars	Six months ended 30 June 2018 (unaudited)	2017 (unaudited)	Variance	Variance, %
Payroll and related taxes	**6,832**	7,255	*(423)*	*(5.8)%*
Professional services	**3,615**	4,999	*(1,384)*	*(27.7)%*
Depreciation and amortisation	**978**	1,215	*(237)*	*(19.5)%*
Insurance fees	**653**	744	*(91)*	*(12.2)%*
Lease payments	**449**	416	*33*	*7.9%*
Business travel	**360**	809	*(449)*	*(55.5)%*
Communication	**198**	199	*(1)*	*(0.5)%*
Bank charges	**95**	117	*(22)*	*(18.8)%*
Materials and supplies	**74**	193	*(119)*	*(61.7)%*
Other	**284**	601	*(317)*	*(52.7)%*
Total	**13,538**	16,548	*(3,010)*	*(18.2)%*

General and administrative expenses decreased by 18.2% to US$13.5 million for the reporting period (H1 2017: US$16.5 million). This was primarily a combination of decrease in payroll and related taxes, professional services and business travel.

Selling and transportation expenses

In thousands of US dollars	Six months ended 30 June 2018 (unaudited)	2017 (unaudited)	Variance	Variance, %
Loading and storage costs	**9,535**	15,636	*(6,101)*	*(39.0)%*
Transportation costs	**7,852**	11,423	*(3,571)*	*(31.3)%*
Marketing services	**5,758**	7,779	*(2,021)*	*(26.0)%*
Payroll and related taxes	**1,191**	946	*245*	*25.9%*
Other	**1,343**	1,298	*45*	*3.5%*
Total	**25,679**	37,082	*(11,403)*	*(30.8)%*

Selling and transportation expenses decreased by 30.8% to US$25.7 million for the reporting period (H1 2017: US$37.1 million). Decrease in loading and storage costs and transportation costs is a consequence of change in a way of transportation of oil through oil pipeline and destinations of LPG sales. Marketing services decreased as a result of less dry gas sold during the reporting period.

Finance costs

In thousands of US dollars	Six months ended 30 June 2018 (unaudited)	2017 (unaudited)	Variance	Variance, %
Interest expense on borrowings	**21,931**	19,419	*2,512*	*12.9%*
Transaction costs	**6,648**	–	*6,648*	*100.0%*
Unwinding of discount on amounts due to Government of Kazakhstan	**329**	351	*(22)*	*(6.3)%*
Unwinding of discount on abandonment and site restoration provision	**119**	163	*(44)*	*(27.0)%*
Unwinding of discount on social obligations liability	**–**	40	*(40)*	*(100.0)%*
Finance charges under finance leases	**68**	88	*(20)*	*(22.7)%*
Other finance costs	**111**	–	*111*	-
Total	**29,206**	20,061	*9,145*	*45.6%*

Finance costs increased by 45.6% to US$29.2 million for the reporting period (H1 2017: US$20.1 million). The increase is mainly attributable to transaction costs of US$6.6 million related to the refinancing of the Notes in February 2018. The increase in interest expense on borrowings was due to slight increase in the amount of borrowings resulting from refinancing in the second half of 2017 and first half of 2018, as well as relatively higher interest rates on the 2017 Notes and the 2018 Notes (8% and 7%, respectively), as compared to the 2012 Notes and the 2014 Notes (7.125% and 6.375%, respectively).

Operational and financial performance / continued

Other

Taxes other than income tax increase was caused mainly by higher export customs duties of US$5.5 million paid by the Group for the reporting period (H1 2017: US$ 1.0 million). The export customs duties are custom duties for the export of crude. The increase is mainly driven by the change in destination of crude oil sales. Crude oil sold in the Eurasian Economic Union is exempt from export duty. In H1 2017 Nostrum sold oil mainly in EEU countries, while during the reporting period crude oil was sold outside EEU countries.

Foreign exchange loss amounted to US$0.1 million for the reporting period (H1 2017: gain of US$2.9 million). The gains in H1 2017 are explained by the tenge strengthening during the period.

Other expenses decreased by 28.0% to US$5.2 million for the reporting period (H1 2017: US$7.2 million). The difference is mainly attributable to the bad debt provision of US$ 1.8 million recognised by the Group during H1 2017.

Income tax expense decreased by 34.6% to US$13.8 million for the reporting period (H1 2017: US$21.2 million). The decrease in income tax expense was driven by lower taxable profit.

Liquidity and capital resources

During the period under review, Nostrum's principal sources of funds were cash from operations.

Cash Flows

The following table sets forth the Group's consolidated cash flow statement data for the reporting period and H1 2017:

	Six months ended 30 June	
In thousands of US dollars	**2018**	2017
Cash and cash equivalents at the beginning of the period	**126,951**	101,134
Net cash flows from operating activities	**99,864**	116,776
Net cash used in investing activities	**(95,389)**	(89,703)
Net cash used in financing activities	**(3,569)**	(31,658)
Effects of exchange rate changes on cash and cash equivalents	**(221)**	974
Cash and cash equivalents at the end of the period	**127,636**	97,523

Net cash flows from operating activities

Net cash flow from operating activities was US$99.9 million for the reporting period (H1 2017: US$116.8 million) and was primarily attributable to:

- profit before income tax for the reporting period of US$11.9 million (H1 2017: US$34.6 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$58.0 million (H1 2017: US$63.4 million), and finance costs of US$29.2 million (H1 2017: US$20.1 million).
- a US$5.9 million change in working capital (H1 2017: US$7.3 million) primarily attributable to an increase in trade receivables of US$8.7 million (H1 2017: a decrease of US$8.2 million), a decrease in prepayments and other current assets of US$2.3 million (H1 2017: an increase of US$1.7 million), and an increase in trade payables of US$3.4 million (H1 2017: an increase of US$2.5 million).
- income tax paid of US$5.9 million (H1 2017: US$10.0 million).

Net cash used in investing activities

Net cash used in investing activities for the reporting period was US$95.4 million (H1 2017: US$89.7 million) due primarily to costs associated with the drilling of new wells of US$40.4 million for the reporting period (H1 2017: US$21.8 million) and costs associated with the third unit of the gas treatment facility of US$34.9 million (H1 2017: US$66.8 million).

Net cash used in financing activities

Net cash used in financing activities during the reporting period was US$3.6 million, and was mainly represented by repayment of the 2012 Notes and the 2014 Notes and issue of the 2018 Notes, as well as the finance costs paid on the Group's borrowings of US$38.1 million (H1 2017: US$31.7 million).

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$94.9 million (H1 2017: US$88.5 million). This reflects drilling costs, field infrastructure development projects and development costs for the oil treatment facility and the gas treatment facility.

Operational and financial performance / continued

Primary factors affecting results of operations

The primary factors affecting the Group's results of operations during the reporting period are the following:

Pricing

The pricing for all of the Group's crude oil, condensate, dry gas and LPG is, directly or indirectly, related to the price of Brent crude oil. During the reporting period the price of Brent crude oil experienced significant fluctuations. According to Bloomberg, international Brent oil prices have varied between a low of approximately US$44.8 per barrel and a high of approximately US$57.1 per barrel in the first half of 2017, and between US$80.5 per barrel and US$61.8 per barrel during the reporting period.

	Six months ended 30 June	
	2018	2017
Average Brent crude oil price (US$/bbl)	**71.2**	52.7

The Group has a hedging policy whereby it hedges against adverse oil price movements during times of considerable non scalable capital expenditure. Based on the contracts Zhaikmunai LLP has entered into with various equipment suppliers for the third gas treatment unit, Nostrum is closely monitoring the hedging market.

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

Cost of sales

The Group's oil and gas prices are based on a mix of fixed and quotation pricing, and therefore Nostrum's ability to control costs is critical to its profitability. Nostrum's cost of sales comprise various costs including depreciation of oil and gas properties, repair, maintenance and other services, royalties, payroll and related taxes, materials and supplies, other transportation services, government profit share, environmental levies, and well workover costs.

Depreciation and amortisation costs represent 68.9% of total cost of sales for the reporting period (H1 2017: 70.3%). These costs fluctuate according to the level of Nostrum's proved developed reserves, the volume of oil and gas it produces and the net book value of its oil and gas properties.

Repair, maintenance and other services are related to the repair and maintenance of the Group's infrastructure, including the gas treatment facility but do not include ongoing repair and maintenance of production and exploration wells. These costs represent 9.8% of the total costs of sales (H1 2017: 10.4%) and fluctuate depending on the planned works on certain objects.

Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 1.3% and 2.0% for the six months ended 30 June 2018 and 2017, respectively.

Finance costs

Finance costs in the reporting period consisted of interest expenses in relation to the 2017 Notes and the 2018 Notes, part of the interest expenses on the 2012 Notes and the 2014 Notes prior to refinancing, as well as unwinding of discount on amounts due to the Kazakh Government and unwinding of discount on abandonment and site restoration liability. Capitalised borrowing costs (including a portion of the interest expense and amortisation of the arrangement fees) amounted to US$23.7 million in the reporting period (H1 2017: US$15.1 million). Non-capitalised interest amounted to US$21.9 million in the reporting period (H1 2017: US$19.4 million).

Royalties, Government share and taxes payable pursuant to the PSA

Nostrum operates and produces pursuant to the PSA. The PSA has, during the periods under review, and will continue to have both a positive and negative effect on Nostrum's results of operations as a result of (i) the tax regime applicable to Nostrum under the PSA (discussed below) (ii) increasing royalty expenses payable to the State, (iii) the share of profit oil and the share of gas that Nostrum pays to the State and (iv) recovery bonus payable to the State.

Under the PSA, the Kazakh tax regime that was in place in 1997 applies to the Group for the entire term of the PSA and the Licence (as to VAT and social tax, the regime that was in place as of 1 July 2001 applies). As of 1 January 2009, the new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code did not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Articles 308 and 308-1 of the Tax Code. Despite the stabilisation clauses (providing for general and tax stability) provided for by the PSA, in 2008, in 2010 and again in 2013, Nostrum was required to pay new crude oil export duties introduced by the Kazakh Government. Despite Nostrum's efforts to show that the new export duties were not applicable to it, the State authorities did not accept this position and Nostrum was required to pay the export duties.

Operational and financial performance / continued

For the purposes of corporate income tax from 1 January 2007, the Group considers its revenue from oil and gas sales related to the Tournaisian horizon as taxable revenue and its expenses related to the Tournaisian horizon as deductible expenses, except those expenses which are not deductible in accordance with the tax legislation of Kazakhstan. Assets related to the Tournaisian reservoir that were acquired during the exploration phase are then depreciated for tax purposes at a maximum rate of 25.0% per annum. Assets related to the Tournaisian reservoir that were acquired after the commencement of the production phase are subject to the depreciation rate in accordance with the 1997 Kazakh tax regime, which is between 5% and 25% depending on the nature of the asset. The Kazakhstan Ministry of Energy approved an extension to the Chinarevskoye exploration period on 11 March 2016, with the exploration period extended until 26 May 2018. Assets related to the other horizons will depreciate in the same manner as those described above for the Tournaisian reservoir.

Under the PSA, Nostrum is obliged to pay to the State royalties on the volumes of crude oil and gas produced, with the royalty rate increasing as the volume of hydrocarbons produced increases. In addition, Nostrum is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State also increases as annual production levels increase. Pursuant to the PSA, the Group is currently able to effectively deduct a significant proportion of production (known as Cost Oil) from the sharing arrangement. Cost Oil reflects the deductible capital and operating expenditures incurred by the Group in relation to its operations. Royalties represented 4.2% of total taxes other than income tax for the reporting period (H1 2017: 4.3%). As for the government profit share, it represented (0.2)% of total taxes other than income tax for the reporting period (H1 2017: (0.2)%).

Alternative performance measures

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

EBITDA

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

	Six months ended 30 June	
In thousands of US dollars	**2018 (unaudited)**	2017 (unaudited, restated*)
EBITDA reconciliation		
Profit before income tax	**11,919**	34,576
Add back:		
Finance costs	**29,206**	20,061
Employee share option plan fair value adjustment	**(1,684)**	673
Foreign exchange loss / (gain), net	**130**	(2,949)
Loss / (gain) on derivative financial instrument	**11,962**	(309)
Interest income	**(140)**	(167)
Other expenses	**5,155**	7,156
Other income	**(1,420)**	(1,812)
Depreciation, depletion and amortisation	**58,035**	63,352
EBITDA	**113,163**	120,581

** Certain amounts used in the calculations do not correspond to the H1 2017 financial statements and reflect adjustments made, please refer to Note 3 in the Interim condensed consolidated financial statements for more details.*

Related parties and related party transactions

The following is a description of the material transactions with related parties to which the Company or its subsidiaries are a party. The Company believes that it has executed all of its transactions with related parties on terms no less favorable to the Group than those it could have obtained from unaffiliated third parties.

Save as disclosed in the Note 24 to the interim condensed consolidated financial statements, there were no related party transactions entered into during the reporting period.

Principal risks and uncertainties

Key risks are reviewed by the executive committee and the Board of Nostrum Oil & Gas PLC on a regular basis and where appropriate, actions are taken to mitigate the key risks that are identified.

The key risks and uncertainties are unchanged from those disclosed in the Group's 2017 Annual Report. The Group believes that its principal risks and uncertainties for the remaining six months are:

Description of risk	Risk management
STRATEGIC RISKS	
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 project and the well drilling programme are subject to customary risks related to delay, noncompletion and cost overruns which could impact future production and the Group's performance. In addition, the Group's strategic initiatives, as well as certain other ordinary activities, are subject to the risks that terms of the transactions with related parties may deviate from market terms, as well as associated risks related to the disclosure of such transactions.	The Group has a team of dedicated specialists who assess possible acquisitions of oil and gas fields and assets. In 2013, the Group acquired subsoil use rights for three oil and gas fields near the Chinarevskoye field. The Group has concluded the majority of the construction process in relation to GTU3 and monitors the remaining works on an ongoing basis. Senior management and the Board continuously monitor the timing, scope and performance of the drilling programme and takes into account the status of the GTU3 project and current oil prices. A detailed drilling programme is approved by senior management for each well which forms the basis against which the progress of works and costs are reported.
Business and market environment	
The Group is exposed to various risks related to the market and external business environment, which are out of the Group's control. Such risks include: - the volatility of commodity prices on the markets; - the geopolitical situation affecting the Group's areas of operations; - the changes in currency exchange rates. Given that the Group's sales prices of crude oil and condensate are based on market prices, the Group's future earnings are exposed to adverse impact by changes in the market price of crude oil. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. The Group could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve. The Group's strategy and business model are not directly influenced by any significant risk resulting from Brexit.	The Group uses financial instruments to manage commodity price risks and liquidity risks. See note 23 Derivative financial Instruments in the interim condensed consolidated financial statements for details of the nature and extent of such position(s), and for qualitative and quantitative disclosures of these instruments. In addition, the Group is exporting the majority of its dry gas under contract referencing export prices which are usually substantially higher than domestic prices. In 2017 the Group expanded its transportation options as it completed a connection to an oil pipeline. It can now transport its crude oil either via rail tank car or pipeline. To mitigate the geopolitical and customer risks, the Group has been strengthening customer relationships through establishing long-term offtake agreements while also looking at possibilities to geographically diversify its customer portfolio. 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.

Principal risks and uncertainties / continued

Description of risk	Risk management
OPERATIONAL RISKS	
Oil and gas reserves and operations	
Oil and gas reserves estimation, exploration, development and production are accompanied by typical risks inherent to activities in this industry, which may adversely affect the Group's financial performance and achievement of strategic objectives. Estimation of oil and gas reserves requires exercise of judgement 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 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.
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.

Principal risks and uncertainties / continued

Description of risk	Risk management
COMPLIANCE RISKS	
Subsoil use agreements	
As the Group performs exploration, development and production activities in accordance with related licences for the oil and gas fields, there are related risks that the Group might not be able to obtain extensions when necessary, risks of non-compliance with the licence requirements due to ambiguities, risks of alteration of the licence terms by the authorities and others. These risks may result in the Group's inability to fulfil scheduled activities; fines, penalties, suspension or termination of licences by authorities; and, respectively, significant and adverse impact on the Group's business, financial performance and prospects.	The Group has procedures and processes in place for the timely application for extension of licence periods when it is considered appropriate, however, uncertainty remains in relation to timing and results of decisions of authorities (including the extension decisions for the Trident fields). The Group believes that it is in full compliance with the terms of its PSA for the Chinarevskoye field and maintains an open dialogue with Kazakh governmental authorities regarding all of its subsoil use agreements. In the event of noncompliance 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, anticorruption and bribery policy and a whistleblowing policy. The Group also performs periodic updates based on the changes in regulatory requirements, and carries out related communications and training for employees. Necessary communication lines are established with authorities to ensure timely and adequate inbound and outbound flow of information. Management and the Board monitor significant matters related to legal and compliance matters in order to act promptly in response to any actions. The Group continuously monitors its compliance with its policies on the level of authorisations for transactions. In addition, the management maintains an open dialogue with its sponsors in relation to any matter related to non-compliance with Listing Rules and other regulatory requirements.

Principal risks and uncertainties / continued

Description of risk	Risk management
FINANCIAL RISKS	
Tax risks and uncertainties	
The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create risks related to additional tax liabilities from assessments or risks related 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 risk	
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 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 for the Group to 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.
Financing risk	
The Group's ability to access and source debt or equity capital is also exposed to volatility and uncertainties in global financial markets, which may adversely impact the Group's ability to meet its commitments associated with its financial liabilities, increase the cost of financing and affect the plans towards realisation of its strategic initiatives.	The Group performs financial reviews, establishes credit limits and engages with reliable financial counterparties. The Group's corporate finance function continuously monitors debt and equity markets and maintains an open dialogue with investors to be able to react quickly to any need for financing.
OTHER RISKS	
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; - the availability of human resources; and may also significantly impact the 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. The Group has a wide range of internal controls over its supply chains and accounting and reporting processes, including policies, procedures, segregation of duties for authorisation of matters, periodic training for employees, etc. Senior management and the Board stay alert to emerging challenges related to various management systems and related governance matters and when necessary initiate change initiatives to ensure enhancement and integration of certain management systems.

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

Going concern

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

Responsibility statement

To the best of our knowledge

a) the interim condensed set of financial statements, which has been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4 R;

b) the interim management report includes a fair review of the information required by DTR 4.2.7 R; and

c) the interim management report includes a fair review of the information required by DTR 4.2.8 R.

Signed on behalf of the Board:

Kai-Uwe Kessel

Chief Executive Officer

Tom Richardson

Chief Financial Officer

Nostrum Oil & Gas PLC

Interim condensed consolidated financial statements (unaudited)

For the six months ended 30 June 2018

Independent review report to Nostrum Oil & Gas PLC

Introduction

We have been engaged by Nostrum Oil & Gas plc to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018, which comprises the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of cash flows, the interim condensed consolidated statement of changes in equity and the related explanatory notes 1 to 27. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements (ISRE) 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board (ISRE 2410). To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Director' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

20 August 2018

Interim condensed consolidated statement of financial position

As at 30 June 2018

In thousands of US dollars	Notes	30 June 2018 (unaudited)	31 December 2017 (audited)
ASSETS			
Non-current assets			
Exploration and evaluation assets	4	**48,306**	47,828
Goodwill		**32,425**	32,425
Property, plant and equipment	5	**1,997,796**	1,941,895
Restricted cash	9	**6,870**	6,663
Advances for non-current assets	6	**11,261**	14,598
		2,096,658	2,043,409
Current assets			
Inventories		**31,640**	29,746
Trade receivables	7	**43,243**	34,520
Prepayments and other current assets	8	**24,715**	27,103
Income tax prepayment		**8,560**	3,380
Cash and cash equivalents	9	**127,636**	126,951
		235,794	221,700
TOTAL ASSETS		**2,332,452**	2,265,109
EQUITY AND LIABILITIES			
Share capital and reserves	10		
Share capital		**3,203**	3,203
Treasury capital		**(1,660)**	(1,660)
Retained earnings and reserves		**674,437**	668,010
		675,980	669,553
Non-current liabilities			
Long-term borrowings	12	**1,092,099**	1,056,541
Abandonment and site restoration provision		**23,763**	23,590
Due to Government of Kazakhstan		**5,280**	5,466
Deferred tax liability		**398,650**	381,596
		1,519,792	1,467,193
Current liabilities			
Current portion of long-term borrowings	12	**35,767**	31,337
Employee share option plan liability	21	**402**	2,086
Trade payables	13	**51,377**	56,855
Advances received		**340**	1,279
Income tax payable		**–**	499
Derivative financial instruments	23	**11,962**	–
Current portion of due to Government of Kazakhstan		**1,031**	1,031
Other current liabilities	14	**35,801**	35,276
		136,680	128,363
TOTAL EQUITY AND LIABILITIES		**2,332,452**	2,265,109

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

Kai-Uwe Kessel

Chief Executive Officer

Tom Richardson

Chief Financial Officer

The accounting policies and explanatory notes on pages 27 through 43 are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of comprehensive income

For the six months ended 30 June 2018

		Six months ended 30 June	
In thousands of US dollars	**Notes**	**2018 (unaudited)**	2017 (unaudited, restated*)
Revenue			
Revenue from export sales		**144,871**	142,405
Revenue from domestic sales		**46,623**	67,616
	15	**191,494**	210,021
Cost of sales	**16**	**(82,766)**	(88,397)
Gross profit		**108,728**	121,624
General and administrative expenses	**17**	**(13,538)**	(16,548)
Selling and transportation expenses	**18**	**(25,679)**	(37,082)
Taxes other than income tax	**19**	**(14,383)**	(10,765)
Finance costs	**20**	**(29,206)**	(20,061)
Employee share options - fair value adjustment	**21**	**1,684**	(673)
Foreign exchange (loss)/gain, net		**(130)**	2,949
(Loss)/gain on derivative financial instrument	**23**	**(11,962)**	309
Interest income		**140**	167
Other income		**1,420**	1,812
Other expenses		**(5,155)**	(7,156)
Profit before income tax		**11,919**	34,576
Current income tax beneift / (expense)		**215**	(27,185)
Deferred income tax benefit / (expense)		**(14,041)**	6,033
Income tax expense	**22**	**(13,826)**	(21,152)
(Loss)/profit for the period		**(1,907)**	13,424
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		**9**	544
Other comprehensive income		**9**	544
Total comprehensive (loss)/income for the period		**(1,898)**	13,968
(Loss)/profit for the period attributable to the shareholders (in thousands of US dollars)		**(1,898)**	13,968
Weighted average number of shares		**185,234,079**	185,068,917
Basic and diluted earnings per share (in US dollars)		**(0.01)**	0.08

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

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

The accounting policies and explanatory notes on pages 27 through 43 are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows

For the six months ended 30 June 2018

		Six months ended 30 June	
In thousands of US dollars	Notes	2018 (unaudited)	2017 (unaudited, restated*)
Cash flow from operating activities:			
Profit before income tax		**11,919**	34,576
Adjustments for:			
Depreciation, depletion and amortisation	**16,17**	**58,035**	63,352
Finance costs	**20**	**29,206**	20,061
Employee share option plan fair value adjustment		**(1,684)**	673
Interest income		**(137)**	(167)
Foreign exchange (gain)/loss on investing and financing activities		**836**	(1,041)
Impairment of property, plant and equipment		**1,429**	396
Loss/(gain) on derivative financial instruments	**23**	**11,962**	(309)
Provision for doubtful debts		**85**	1,751
Accrued expenses		**–**	254
Operating profit before working capital changes		**111,651**	119,546
Changes in working capital:			
Change in inventories		**(1,888)**	(233)
Change in trade receivables		**(8,723)**	8,206
Change in prepayments and other current assets		**2,302**	(1,688)
Change in trade payables		**3,381**	2,459
Change in advances received		**(939)**	246
Change in due to Government of Kazakhstan		**(515)**	(774)
Change in other current liabilities		**527**	196
Payments under Employee share option plan		**–**	(1,162)
Cash generated from operations		**105,796**	126,796
Income tax paid		**(5,932)**	(10,020)
Net cash flows from operating activities		**99,864**	116,776
Cash flow from investing activities:			
Interest received		**137**	167
Purchase of property, plant and equipment		**(94,923)**	(88,468)
Exploration and evaluation works	**4**	**(603)**	(1,156)
Loans granted		**–**	(246)
Net cash used in investing activities		**(95,389)**	(89,703)
Cash flow from financing activities:			
Finance costs paid		**(38,111)**	(32,809)
Fees and premium paid on arrangement of notes	**12**	**(9,153)**	–
Repayment of notes		**(353,192)**	–
Issue of notes		**397,280**	–
Payment of finance lease liabilities		**(75)**	(379)
Transfer to restricted cash		**(207)**	(323)
Treasury shares sold/(purchased)		**–**	1,853
Other finance costs		**(111)**	–
Net cash used in financing activities		**(3,569)**	(31,658)
Effects of exchange rate changes on cash and cash equivalents		**(221)**	974
Net increase/(decrease) in cash and cash equivalents		**685**	(3,611)
Cash and cash equivalents at the beginning of the period	**9**	**126,951**	101,134
Cash and cash equivalents at the end of the period	**9**	**127,636**	97,523

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

The accounting policies and explanatory notes on pages 27 through 43 are an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity

For the six months ended 30 June 2018

In thousands of US dollars	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
As at 1 January 2017 (audited, restated*)		**3,203**	**(1,846)**	**260,918**	**429,537**	**691,812**
Profit for the period		–	–	–	13,424	13,424
Other comprehensive income		–	–	544	–	544
Total comprehensive income for the period		**–**	**–**	**544**	**13,424**	**13,968**
Sale of treasury capital		–	186	674	–	860
Transaction costs		–	–	–	(24)	(24)
As at 30 June 2017 (unaudited, restated*)		**3,203**	**(1,660)**	**262,136**	**442,937**	**706,616**
Loss for the period		–	–	–	(37,306)	(37,306)
Other comprehensive income		–	–	281	–	281
Total comprehensive loss for the period		**–**	**–**	**281**	**(37,306)**	**(37,025)**
Transaction costs		–	–	–	(38)	(38)
As at 31 December 2017 (audited)		**3,203**	**(1,660)**	**262,417**	**405,593**	**669,553**
Impact of adopting IFRS 9		–	–	–	8,325	8,325
Restated opening balance under IFRS 9		**3,203**	**(1,660)**	**262,417**	**413,918**	**677,878**
Loss for the period		–	–	–	(1,907)	(1,907)
Other comprehensive income		–	–	9	–	9
Total comprehensive loss for the period		**–**	**–**	**9**	**(1,907)**	**(1,898)**
As at 30 June 2018 (unaudited)		**3,203**	**(1,660)**	**262,426**	**412,011**	**675,980**

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

The accounting policies and explanatory notes on pages 27 through 43 are an integral part of these interim condensed consolidated financial statements.

Notes to Interim condensed consolidated financial statements

1. General

Overview

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

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

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

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

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

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

As at 30 June 2018, the Group employed 953 employees (H1 2017: 974).

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.

Notes to Interim condensed consolidated financial statements / continued

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

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

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

Royalty payments

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

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

Government "profit share"

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

2. Basis of preparation and consolidation

Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as adopted by the European Union and the requirements of the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to interim financial reporting. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017 prepared in accordance with IFRS as adopted by the European Union.

The interim financial information for the six months ended 30 June 2018 and 2017 is unaudited and does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The comparative financial information for the year ended 31 December 2017 has been derived from the statutory financial statements for that year. Statutory accounts for the year ended 31 December 2017 were approved by the Board of directors on 23 March 2018 and filed with the Registrar of Companies. The Independent Auditors' Report on those accounts was unqualified.

Group reorganisation

The Group has been formed through a reorganisation in which Nostrum Oil & Gas PLC became a new parent entity of the Group. The reorganisation is not a business combination and does not result in any change of economic substance of the Group. Accordingly, the interim condensed consolidated financial statements of Nostrum Oil & Gas PLC are a continuation of the existing group (Nostrum Oil & Gas LP and its subsidiaries).

Going concern

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

3. Changes in accounting policies and disclosures

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the new standards and interpretations effective as of 1 January 2018. The effects of transition to IFRS 9 Financial Instruments (further referred to as IFRS 9) is described further below. None of the other amendments that are effective as of 1 January 2018 had significant impact on the Group's interim condensed consolidated financial statements.

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

Notes to Interim condensed consolidated financial statements / continued

IFRS 9 Financial Instruments

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

(a) Classification and measurement

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

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

In thousands of US dollars	**As previously reported**	**Remeasurement**	**As adjusted**
Property, plant and equipment	1,941,895	2,362	1,944,256
Total non-current assets	**2,043,409**	**2,362**	**2,045,770**
Total assets	**2,265,109**	**2,362**	**2,267,470**
Retained earnings	668,010	8,325	676,335
Total equity	**669,553**	**8,325**	**677,878**
Long-term borrowings	1,056,541	(9,065)	1,047,476
Deferred tax liabilities	381,596	3,102	384,697
Total non-current liabilities	**1,467,193**	**(5,963)**	**1,461,229**
Total equity and liabilities	**2,265,109**	**2,362**	**2,267,470**

(b) Impairment

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

IFRS 15 Revenue from Contracts with Customers

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

(a) Sale of goods

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

(b) Variable consideration

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

(c) Advances received from customers

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

Notes to Interim condensed consolidated financial statements / continued

IFRS 16 Leases

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

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

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

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

Correction of an error and changes in presentation

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

As part of the review, it was discovered that there was an error in capitalization of borrowing costs under IAS 23 Borrowing Costs resulting in understatement of Property, plant and equipment and respective overstatement of Finance costs. On the other hand, the Group has been providing catering and accommodation services to its providers of construction, drilling and operational services on which Other income has been recognized. At the same time respective expenditures of the suppliers were recharged to the Group and accordingly either capitalized as part of Property, plant and equipment or expensed as Cost of sales or Other expenses, leading to overstatement of these line items.

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

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

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

In thousands of US dollars	**Reported**	**Interest capitalization correction**	**Catering and accomodation correction**	**Reclassi-fications**	**As adjusted**
As at 1 January 2017 (audited)					
Retained earnings and reserves	690,617	5,366	(5,528)	–	690,455
For the six months ended 30 June 2017 (unaudited)					
Cost of sales	(98,474)	111	1,301	8,665	(88,397)
General and administrative expenses	(18,418)	–	–	1,870	(16,548)
Taxes other than income tax	–	–	–	(10,765)	(10,765)
Finance costs	(21,473)	1,412	–	–	(20,061)
Other income	5,476	–	(3,664)	–	1,812
Other expenses	(8,357)	–	971	230	(7,156)
Deferred income tax expense benefit	6,212	(457)	278	–	6,033
As at 30 June 2017 (unaudited)					
Retained earnings and reserves	705,283	6,432	(6,642)	–	705,073
Interim condensed consolidated statement of cash flows for the six months ended 30 June 2017					
Profit before income tax	34,445	1,523	(1,392)	–	34,576
Depreciation, depletion and amortisation	63,758	(111)	(295)	–	63,352
Finance costs	21,473	(1,412)	–	–	20,061
Purchase of property, plant and equipment	(90,155)	–	1,687	–	(88,468)

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

Notes to Interim condensed consolidated financial statements / continued

4. Exploration and evaluation assets

In thousands of US dollars	**30 June 2018 (unaudited)**	31 December 2017 (audited)
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**32,471**	31,993
	48,306	47,828

During the six months ended 30 June 2018 the Group had additions to exploration and evaluation assets of US$478 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (H1 2017: US$1,130 thousand). Interest was not capitalised on exploration and evaluation assets.

5. Property, plant and equipment

During the six months ended 30 June 2018 the Group had additions of property, plant and equipment of US$115,688 thousand (H1 2017: US$113,030 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US$23,654 thousand (H1 2017: US$14,428 thousand).

As at 30 June 2018 the net carrying amount of property, plant and equipment held under finance lease was US$12,283 thousand (31 December 2017: 12,632).

See Note 25 for capital commitments.

6. 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	**30 June 2018 (unaudited)**	31 December 2017 (audited)
Advances for construction services	**10,659**	9,512
Advances for pipes and construction materials	**602**	5,086
	11,261	14,598

7. Trade receivables

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

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

8. Prepayments and other current assets

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

In thousands of US dollars	**30 June 2018 (unaudited)**	31 December 2017 (audited)
VAT receivable	**13,396**	14,960
Advances paid	**6,172**	6,826
Other taxes receivable	**3,980**	4,279
Other	**1,167**	1,038
	24,715	27,103

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

Notes to Interim condensed consolidated financial statements / continued

9. Cash and cash equivalents

In thousands of US dollars	**30 June 2018 (unaudited)**	31 December 2017 (audited)
Current accounts in US dollars	**115,856**	106,487
Current accounts in tenge	**9,081**	17,342
Current accounts in other currencies	**2,692**	3,110
Petty cash	**7**	12
	127,636	126,951

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as liquidation fund deposit in the amount of US$ 733 thousand with Sberbank in Kazakhstan and US$ 6,137 thousand with Halyk bank (31 December 2017: a total of US$6,663 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

10. Share capital and reserves

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

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

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

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

Distributions

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

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 30 June 2018 the book value per share amounted to US$3.42 (31 December 2017: US$3.39).

Notes to Interim condensed consolidated financial statements / continued

11. 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.

	Six months ended 30 June	
In thousands of US dollars	**2018 (unaudited)**	2017 (unaudited, restated*)
(Loss)/profit for the period attributable to the shareholders (in thousands of US dollars)	**(1,898)**	13,968
Weighted average number of shares	**185,234,079**	185,068,917
Basic and diluted earnings per share (in US dollars)	**(0.01)**	0.08

12. Borrowings

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

In thousands of US dollars	**30 June 2018 (unaudited)**	31 December 2017 (audited)
Notes issued in 2017 and maturing in 2022	**725,043**	731,474
Notes issued in 2018 and maturing in 2025	**402,016**	–
Notes issued in 2012 and maturing in 2019	**–**	167,731
Notes issued in 2014 and maturing in 2019	**–**	187,863
Finance lease liability	**807**	810
	1,127,866	1,087,878
Less amounts due within 12 months	**(35,767)**	(31,337)
Amounts due after 12 months	**1,092,099**	1,056,541

2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US$ 560,000 thousand notes (the "2012 Notes"). On 24 April 2013 Zhaikmunai LLP (the "2012 Issuer") replaced the 2012 Initial Issuer of the 2012 Notes, whereupon it assumed all of the obligations of the 2012 Initial Issuer under the 2012 Notes. The 2012 Notes bear interest at a rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013.

2014 Notes

On 14 February 2014, Nostrum Oil & Gas Finance B.V. (the "2014 Initial Issuer") issued US$ 400,000 thousand notes (the "2014 Notes"). On 6 May 2014, Zhaikmunai LLP (the "2014 Issuer") replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes, whereupon it assumed all of the obligations of the 2014 Initial Issuer under the 2014 Notes. The 2014 Notes bear interest at a rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and 14 August of each year, beginning on 14 August 2014.

2017 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2017 Issuer") issued US$ 725,000 thousand notes (the "2017 Notes"). The 2017 Notes bear interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year.

The issue of the 2017 Notes was used primarily to fund the purchase from bondholders US$ 390,884 thousand in principal amount of the outstanding 2012 Notes and US$ 215,924 thousand in principal amount of the outstanding 2014 Notes. Total tender consideration was US$ 102.60 per US$ 100 for the outstanding 2012 Notes and US$ 100.60 per US$ 100 for the outstanding 2014 Notes validly tendered during the Early Bird window. In addition, a consent payment of US$ 40c per US$ 100 was paid for all 2012 Notes and 2014 Notes validly tendered during the Early Bird window or if a Consent Only Instruction was received during the Early Bird window. Both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

Notes to Interim condensed consolidated financial statements / continued

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

2018 Notes

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

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

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

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

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

Call of the 2012 Notes and the 2014 Notes

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

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

Transaction costs and discounts

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

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

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

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

Notes to Interim condensed consolidated financial statements / continued

Finance lease

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

	30 June 2018 (unaudited)		31 December 2017 (audited)	
In thousands of US dollars	Minimum payments	Present value of payments	Minimum payments	Present value of payments
No later than one year	**142**	131	**144**	131
Later than one year and no later than five years	**558**	344	**558**	345
Later than five years	**1,829**	332	**1,900**	334
Total minimum lease payments	**2,529**	807	**2,602**	810
Less amounts representing finance charges	**(1,722)**		**(1,792)**	
Present value of minimum lease payments	**807**	807	**810**	810

13. Trade payables

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

In thousands of US dollars	**30 June 2018 (unaudited)**	31 December 2017 (audited)
Tenge denominated trade payables	**23,051**	27,153
US dollar denominated trade payables	**20,456**	22,861
Euro denominated trade payables	**6,335**	5,393
Russian rouble denominated trade payables	**1,218**	1,098
Trade payables denominated in other currencies	**317**	350
	51,377	56,855

14. Other current liabilities

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

In thousands of US dollars	**30 June 2018 (unaudited)**	31 December 2017 (audited)
Training obligations accrual	**13,388**	11,592
Accruals under the subsoil use agreements	**7,631**	9,941
Taxes payable, other than corporate income tax	**6,214**	6,278
Due to employees	**5,127**	3,627
Other current liabilities	**3,441**	3,838
	35,801	35,276

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

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15. 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 six months ended 30 June 2018 was US$71.2 (H1 2017: US$52.7)

	Six months ended 30 June	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**
Oil and gas condensate	**134,664**	136,119
Gas and LPG	**56,830**	73,902
	191,494	210,021

During the six months ended 30 June 2018 the revenue from sales to three major customers amounted to US$128,499 thousand, US$37,724 thousand and US$5,009 thousand respectively (H1 2017: US$98,826 thousand, US$53,557 thousand and US$20,996 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.

16. Cost of sales

	Six months ended 30 June	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**
Depreciation, depletion and amortisation	**57,057**	62,137
Payroll and related taxes	**10,204**	8,712
Repair, maintenance and other services	**8,092**	9,196
Other transportation services	**3,483**	3,779
Materials and supplies	**2,306**	2,620
Well workover costs	**1,076**	1,796
Environmental levies	**236**	178
Change in stock	**(154)**	(202)
Other	**466**	181
	82,766	88,397

17. General and administrative expenses

	Six months ended 30 June	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**
Payroll and related taxes	**6,832**	7,255
Professional services	**3,615**	4,999
Depreciation and amortisation	**978**	1,215
Insurance fees	**653**	744
Lease payments	**449**	416
Business travel	**360**	809
Communication	**198**	199
Bank charges	**95**	117
Materials and supplies	**74**	193
Other	**284**	601
	13,538	16,548

Notes to Interim condensed consolidated financial statements / continued

18. Selling and transportation expenses

In thousands of US dollars	Six months ended 30 June 2018 (unaudited)	2017 (unaudited)
Loading and storage costs	**9,535**	15,636
Transportation costs	**7,852**	11,423
Marketing services	**5,758**	7,779
Payroll and related taxes	**1,191**	946
Other	**1,343**	1,298
	25,679	37,082

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

19. Taxes other than income tax

In thousands of US dollars	Six months ended 30 June 2018 (unaudited)	2017 (unaudited)
Royalties	**7,157**	7,823
Export customs duty	**5,559**	1,024
Government profit share	**1,587**	1,890
Other taxes	**80**	28
	14,383	10,765

20. Finance costs

In thousands of US dollars	Six months ended 30 June 2018 (unaudited)	2017 (unaudited)
Interest expense on borrowings	**21,931**	19,419
Transaction costs	**6,648**	–
Unwinding of discount on amounts due to Government of Kazakhstan	**329**	351
Unwinding of discount on abandonment and site restoration provision	**119**	163
Unwinding of discount on social obligations liability	**–**	40
Finance charges under finance leases	**68**	88
Other finance costs	**111**	–
	29,206	20,061

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

21. Employee share options

Employee share option plan

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

To date, options relating to 2,211,153 shares remain outstanding (the "Subsisting Options"), 946,153 options with a Base Value of US$4.00 and 1,265,000 options with a Base Value of US$10.00.

Each Subsisting Option is a right for its holder to receive on exercise a cash amount equal to the difference between the aggregate Base Value of the shares to which the Subsisting Option relates; and their aggregate market value on exercise. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

Notes to Interim condensed consolidated financial statements / continued

The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for the plan:

	30 June 2018 (unaudited)	31 December 2017 (audited)
Price at the reporting date (US$)	**2.5**	4.4
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**41.0%**	41.4%
Risk-free interest rate (%)	**1.1%**	0.7%
Expected life (years)	**10**	10
Option turnover (%)	**10%**	10%
Price trigger	**2.0**	2.0

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

2017 Long-term incentive plan

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

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

22. Income tax expense

	Six months ended 30 June	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**
Corporate income tax	**395**	27,093
Withholding tax	**241**	225
Deferred income tax (benefit) / expense	**14,041**	(6,034)
Adjustment in respect of the current income tax for the prior periods	**(851)**	(132)
Total income tax expense	**13,826**	21,152

Notes to Interim condensed consolidated financial statements / continued

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:

	Six months ended 30 June	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**
Profit before income tax	**11,919**	34,445
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**3,576**	10,333
Effect of exchange rate on the tax base	**1,771**	(2,484)
Adjustments in respect of current income tax of previous years	**(851)**	(132)
Effect of loss / (income) taxed at different rate[1]	**(529)**	(406)
Non-deductible interest expense on borrowings	**13,676**	10,779
Deferred tax asset not recognised	**(3,025)**	2,435
Other non-deductible expenses	**(792)**	627
Income tax expenses reported in the consolidated financial statements	**13,826**	21,152

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

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the income before tax for the six months ended 30 June 2018. Differences between the recognition criteria in IFRS and under the statutory taxation regulations give rise to a temporary difference between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the change in temporary differences is recorded at the applicable statutory rates, including the prevailing Kazakhstani tax rate of 30% applicable to income derived from the Chinarevskoye subsoil use license.

The major part of the Group's tax bases of non-monetary assets and liabilities is determined in tenge. Therefore, any change in the US dollar/tenge exchange rates results in a change in the temporary difference between the tax bases of non-current assets and their carrying amounts in the financial statements.

23. Derivative financial instruments

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

In thousands of US dollars		**Derivative financial instruments**
As at 1 January 2017 (audited)	**current**	**6,658**
	non-current	**–**
Gain on derivative financial instruments		308
As at 30 June 2017 (unaudited)	**current**	**6,966**
	non-current	**–**
Loss on derivative financial instruments		(6,966)
As at 31 December 2017 (audited)	**current**	**–**
	non-current	**–**
Loss on derivative financial instruments		(11,962)
As at 30 June 2018 (unaudited)	**current**	**(11,962)**
	non-current	**–**

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

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

Gains and losses on the derivative financial instruments, which do not qualify for hedge accounting, are taken directly to profit or loss.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 26.

24. Related party transactions

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

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 June 2018 and 31 December 2017 consisted of the following:

In thousands of US dollars	**30 June 2018 (unaudited)**	31 December 2017 (audited)
Trade receivables and advances paid		
JSC OGCC KazStroyService	**9,409**	7,573

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

In thousands of US dollars	**30 June 2018 (unaudited)**	31 December 2017 (audited)
Trade payables		
JSC OGCC KazStroyService	**10,657**	10,063

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

	Six months ended 30 June	
In thousands of US dollars	**2018 (unaudited)**	2017 (unaudited)
Purchases		
JSC OGCC KazStroyService	**8,134**	29,455
Management fees and consulting services		
Cervus Business Services	**–**	478
VWEW Advocaten VOF	**–**	2

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

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

During the six months ended 30 June 2018 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA and VWEW Advocaten VOF. Starting from April 2017 these entities ceased to be considered related parties in accordance with IAS 24 definitions.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$1,904 thousand for the six months ended 30 June 2018 (H1 2017: US$2,947 thousand). There were no payments to key management personnel under ESOP for the six months ended 30 June 2018 (H1 2017: US$531 thousand).

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25. Contingent liabilities and commitments

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 June 2018. As at 30 June 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

However, depending on any unfavourable court decisions with respect to any claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Group's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at 30 June 2018 the Group had contractual capital commitments in the amount of US$106,617 thousand
(31 December 2017: US$139,462 thousand) mainly in respect to the Group's oil field exploration and development activities.

Operating lease

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

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

In thousands of US dollars	**30 June 2018 (unaudited)**	31 December 2017 (audited)
No later than one year	**5,530**	7,019
Later than one year and no later than five years	**13,862**	14,057

Lease expenses of railway tank wagons for the six months ended 30 June 2018 amounted to US$2,705 thousand (H1 2017: US$4,246 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.

Notes to Interim condensed consolidated financial statements / continued

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 12 April 2018) require the subsurface user to:

- invest at least US$ 13,054 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 133 thousand;
- spend US$ 1,000 thousand for funding of development of Astana city;
- reimburse historical costs of US$ 383 thousand to the Government upon commencement of production stage;
- spend US$ 1,550 thousand to finance social infrastructure.

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

- invest at least US$ 19,528 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 191 thousand;

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

- invest at least US$ 26,398 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 259 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.

26. Fair values of financial instruments

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

	Carrying amount		**Fair value**	
In thousands of US dollars	**30 June 2018 (unaudited)**	31 December 2017 (audited)	**30 June 2018 (unaudited)**	31 December 2017 (audited)
Financial liabilities measured at amortised cost				
Derivative financial instruments	**(11,962)**	–	**(11,962)**	–
Interest bearing borrowings	**(1,127,059)**	(1,087,068)	**(1,042,267)**	(1,141,803)
Finance lease liabilities	**(807)**	(810)	**(1,123)**	(1,267)
Total	**(1,139,828)**	(1,087,878)	**(1,055,352)**	(1,143,070)

The management assessed that cash and cash equivalents, short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until December 2018.

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 30 June 2018:

	30 June 2018 (unaudited)
Future price at the reporting date (US$)	**71.76-79.23**
Expected volatility (%)	**21.76**
Risk-free interest rate (%)	**2.06**
Maturity (months)	**3–6**

Notes to Interim condensed consolidated financial statements / continued

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

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

	Increase in the assumption	Decrease in the assumption
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	(375)	491
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	301	(283)

There were no movements between levels of fair value of derivative instrument during six months ended 30 June 2018.

27. Events after the reporting period

On 2 August 2018, Nostrum Oil & Gas PLC announced that through its subsidiary Zhaikmunai LLP it has entered into binding agreements to process third party hydrocarbons delivered by Ural Oil & Gas LLP ("UOG"). Under the agreements, once UOG has obtained all necessary internal approvals they will fund the infrastructure required to deliver the hydrocarbons to the boundary of the Chinarevskoye field. The high level commercial terms comprise of two parts. Firstly, a tolling fee for the stabilisation of liquid condensate which will be US$8 per barrel and secondly the purchasing of raw gas from UOG at a price to be agreed at the point of delivery.