Full Year Results for the Year Ending 31 December 2016

Amsterdam, 28 March 2017

Nostrum Oil & Gas PLC (LSE: NOG) ("Nostrum" or "the Company", and together with its subsidiaries the "Group"), an independent oil and gas company engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin, today announces its full-year financial results for the twelve months ending 31 December 2016 of Nostrum and the Group, together with its 2016 Annual Report.

2016 Financial and Operational highlights of the Group:

Financial

- Revenue of US$348.0m (2015: US$448.9m)
- EBITDA[1] of US$194.3m (2015: US$229.4m); EBITDA[1] margin of 56.0% (2015: 51.1%)
- Net income of US$(81.9) m (2015: US$(94.4) m
- Net operating cash flows of US$206.5m (2015: US$153.3m)
- Closing cash[2] of US$101.1m (2015: US$165.6m)
- Net debt of $US857.9m (2015: US$785.9m); Net debt / EBITDA ratio of 4.4x (2015: 3.4x)
- Payments in excess of US$27m received over the year from the Company's 15,000 boepd hedge with a strike price of US$49.16
- Reduction in operating costs by 14% to US$3.7 per barrel in 2016 from US$4.3 per barrel in 2015
- Reduction in transport costs by 19% to US$5.1 per barrel in 2016 from US$6.3 per barrel in 2015

Operational

- 2016 total production of 14.8 mmboe; average daily production of 40,351 boepd (2015: 40,391)
- Drilling programme for FY 2016 was completed by end of Q3, with three production wells brought online in Q4
- The construction of the third Gas Treatment Unit ("GTU3") continues in line with budget guidance with completion expected during H2 2017
- KazTransOil ("KTO") pipeline connection remains on track for commissioning by Q2 2017 bringing significant reductions to crude oil transportation costs at a cost of less than US$10 million
- Plan to drill seven wells at Chinarevskoye in 2017, including one appraisal well
- Confirmation of material 2P reserves of 466 mmboe as at 1 January 2017 following Ryder Scott independent reserve audit (1P reserve replacement ratio of 97%)
- Identification of material contingent resources of 118 mmboe of liquids and 622 billion cubic feet of sales gas

Strategic focus for 2017:

- Maintain average daily production above 44,000 boepd during 2017
- Complete the construction of GTU3 – more than doubling the Company's raw gas processing capacity during H2 2017
- Maintain financial discipline with a minimum of US$50 million of cash on the Group's balance sheet at all times
- Refinance all or part of the Company's outstanding bond debt
- Grow the Company's reserve base in North-western Kazakhstan to prolong the Company's targeted average daily production plateau of over 100,000 boepd until the end of the Chinarevskoye license
- Continue to drive the growth of the Company through responsible and sustainable corporate culture

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

Conference call
Nostrum's management team will be hosting a presentation for analysts of the Company's 2016 Full-Year Results at 09.30 GMT on 28 March 2017, followed by a conference call for investors at 14:00 GMT.

If you would like to participate in this call, please register by clicking on the following link and following instructions: Results Call

Download: Full Year Results Presentation

Download: Consolidated Group financials

Download: 2016 Annual Report

[1] Defined as Profit Before Tax + Finance Costs + Foreign Exchange Loss /(Gain) + ESOP + Depreciation – Interest Income + Other Expenses /(Income)
[2] Defined as Cash & Cash Equivalents + Current Investments – restricted cash
[3] Cash costs include: COGS less depreciation, selling and transportation expenses, income tax paid (cash flow), finance costs paid (cash flow) and general and administrative expenses

Further information
For further information please visit www.nog.co.uk

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About Nostrum

Nostrum Oil & Gas PLC is an independent oil and gas company currently engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin. Its shares are listed on the London Stock Exchange (ticker symbol: NOG). The principal producing asset of Nostrum is the Chinarevskoye field, in which it holds a 100% interest and is the operator through its wholly-owned subsidiary Zhaikmunai LLP. In addition, Nostrum holds a 100% interest in and is the operator of the Rostoshinskoye, Darinskoye and Yuzhno-Gremyachenskoye oil and gas fields through the same subsidiary. Located in the pre-Caspian basin to the north-west of Uralsk, these exploration and development fields are situated approximately 60 and 120 kilometres respectively from the Chinarevskoye field.

Forward-Looking Statements

Some of the statements in this document 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.

No part of this announcement constitutes, or shall be taken to constitute, an invitation or inducement to invest in the Company or any other entity, and shareholders of the Company are cautioned not to place undue reliance on the forward-looking statements. Save as required by the Listing Rules and applicable law, the Company does not undertake to update or change any forward-looking statements to reflect events occurring after the date of this announcement.

Operational Overview

- FY 2016 average daily production of 40,351 boepd (FY guidance: 40,000 boepd)
- Q4 2016 average daily production of 44,708 boepd
- Successful completion of 2016 drilling programme including the commissioning of three new production wells at Chinarevskoye during H2 2016
- Construction of our third Gas Treatment Unit (GTU3) progressing on budget and on schedule for completion in 2017
- KazTransOil (KTO) pipeline connection remains on track for commissioning by Q2 2017 bringing significant reductions to crude oil transportation costs

Production Split
The product split for FY 2016 was as follows:

PRODUCTS	**FY 2016 Average Production (boepd)**	**FY 2016 Product Mix %**
Crude Oil & Stabilised Condensate	16,061	39.8
LPG (Liquid Petroleum Gas)	4,532	11.2
Dry Gas	19,758	49.0
TOTAL	**40,351**	**100**

<u>Current product destinations</u>

Nostrum's primary export destinations for 2016 were as follows:

- Crude oil – Neste Oil's refinery in Finland and SOCAR in Azerbaijan. 85% is exported and 15% sold domestically
- Condensate – Russian Black Sea port of Taman, 100% is exported
- LPG – Russian Black Sea ports, Central Asia and Eastern Europe
- Dry gas – All gas is sold at the connection point to the Intergas Central Asia pipeline

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

<u>Drilling</u>

2016 Drilling overview

Drilling

- 24 oil wells and 22 gas condensate wells are currently producing at the Chinarevskoye field
- Drilling programme for FY 2016 completed in Q3, with three production wells brought online in Q4
- Plan to drill seven wells at Chinarevskoye in 2017, of which one is an appraisal well
- Appraisal well at Rostoshinskoye pending a flaring permit before testing can start
- Preparations for re-entering an existing well on the Darjinskoye field is currently underway

Production schedule

Based on the current drilling programme stated above and taking into account the current oil price

we can provide the following production guidance. Should oil prices deviate materially the production guidance will be updated accordingly:

- 2017 – Approximately 44,000 – 60,000 boepd
- 2018 – Approximately 50,000 – 80,000 boepd
- 2019 – Approximately 80,000 – 100,000 boepd
- 2020 – Approximately 100,000 boepd

Progress on development of GTU3

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

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

The below figures reflect all cash payments made and future cash payments excluding VAT.

GTU3 Cash Spent (excl VAT)	**as at 31 December 2016**
Expenditure to date	US$378m
Expenditure pre completion	US$ 87m
Expenditure post completion	US$ 33m

Reserves and resources

	31 December 2015			**1 January 2017**		
	Chinarev skoye	**3 licenses**	**Total**	**Chinarev skoye**	**3 licenses**	**Total**
Proven	147	0	147	147	0	147
Probable	236	87	323	233	87	320
2P	383	87	470	379	87	466

As at 1 January 2017, the Company's independent reserve auditor, Ryder Scott confirmed the Group's 2P reserves of 466mmboe. 1P reserves at the Chinarevskoye license were 147mmboe which will be sufficient to reach the Company's average daily production target of over 100,000 boepd by 2020. In 2013, Nostrum also acquired 87mmboe of 2P reserves adjacent to the Chinarevskoye license area (Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields) for a consideration of US$16m.

In addition, we have approximately 118mmboe and 622 billion cubic feet of sales gas of contingent resources based off the latest Ryder Scott Reserves Report.

Nostrum has been appraising, developing and producing crude oil and gas condensate in North-western Kazakhstan for over a decade and this has allowed the Company to accumulate considerable knowledge of the Chinarevskoye field and surrounding regional geology. The Company

seeks to leverage this competitive advantage to pursue value accretive transactions which enhance our commercial reserve base and prolong the Company's average daily production plateau above 100,000 boepd until the end of the Chinarevskoye license period in 2031-2033.

Chairman's Statement - Frank Monstrey

Our Vision

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

Operational performance

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

GTU3 and growth

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

Underpinned by strong financial position

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

Governance and Board

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

Corporate social responsibility

CSR has always been important to the Board and I am pleased to highlight how our corporate social responsibility programmes continue to grow and support the sustainability of our business. A key

example is the annual evaluation for greenhouse gas emissions which allows us to plan for the subsequent introduction of energy and resource saving measures. With the ongoing construction of both GTU3 and our entry into the KTO connection pipeline, we have focused particularly on our health and safety processes within the Company and developed new campaigns to target the highest standards amongst Nostrum employees and contractors. We will continue to pay close attention to these as the Company enters its next growth phase and moves towards its 100,000+ boepd production target.

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

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

CSR priorities for 2017

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

Frank Monstrey
Chairman

Chief Executive's statement – Kai-Uwe Kessel

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

How we performed in 2016
Despite 2016 being a challenging year for the oil and gas sector Nostrum has enjoyed a very steady year both operationally and financially. Consistent progress was maintained on the construction of the GTU3 and three production wells were successfully brought online resulting in us achieving our production targets for the year. Operational costs were reduced to below US$4 / boe, our lowest on record. Our cash position remained above US$100 million during the year as we continued to generate strong operating cash flows and received cash from our hedge during Q1 and Q2.

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

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

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

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

4. Implement a cost reduction programme

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

Steady production levels

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

Future drilling programme at Chinarevskoye

In 2016 we completed three wells, in line with the number we set out to complete at the start of the year. Our drilling programme has always been designed to be scalable and the falling oil prices resulted in us scaling down the proposed drilling schedule for 2016. During 2017 we plan to drill seven wells and balance adding production with moving some probable reserves into the proven

category. This balance will allow us to ramp-up production as quickly as possible once the GTU3 is complete. As we have always stated, our drilling programme is balanced against the oil price and should we see a material increase, then there is always scope to increase drilling and ramp-up more quickly.

Construction of GTU3

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

Building up further reserves

A key long-term strategic target is to establish a material reserve base around our infrastructure. We have excellent opportunities both for organic growth within Chinarevskoye and the additional licences, as well as through potential acquisitions. We have today approximately 118 mmboe and 622 billion cubic feet of sales gas of contingent resources and an additional 87m 2P reserves in the three additional licences.. We will continue to build this reserve base over the coming years.

Key priority tasks for 2017

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

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

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

Kai-Uwe Kessel
Chief Executive Officer

Financial review and update (all figures in US$m unless otherwise stated):

	FY 2016	FY 2015	Change FY 15 to FY 16
Revenue	348	449	(101)
EBITDA [1]	195	229	(34)
EBITDA Margin	56%	51%	5%
Net cash used in investing activities [2]	205	245	(40)
Cash and Equivalents [3]	101	166	(65)
Net Debt [4]	858	786	72
Net Income	(81)	(95)	14
Average Brent crude oil price on which Nostrum based its sales (US$/bbl)	45	54	(9)

(1) Defined as profit before tax net of finance costs, foreign exchange loss/gain, ESOP, depreciation, interest income, other income and expenses.

(2) IFRS term based on indirect cash flow method

(3) Defined as cash and cash equivalents including current and non-current investments and excluding restricted cash

(4) Defined as total debt minus cash and cash equivalents

Results of operations for the years ended 31 December 2016 and 2015

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

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

Loss for the year	**(81,905)**	**23.5%**	(94,365)	21.0%
Other comprehensive loss	**(70)**	**0.0%**	(456)	0.1%
Total comprehensive loss for the year	**(81,975)**	**23.6%**	(94,821)	21.1%

General note

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

Revenue

The Group's revenue decreased by 22.5% to US$348.0 million for the reporting period (FY 2015: US$448.9). This is mainly explained by the decrease in the average Brent crude oil price from 53.6 US$/bbl during 2015 to 45.1 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.
Revenues from sales to the Group's largest three customers amounted to US$109.5 million, US$92.9 million and US$38.1 million respectively (FY 2015: US$141.4 million, US$105.0 million and US$86.0 million).
The Group's revenue breakdown by products and sales volumes for the reporting period and FY 2015 is presented below:

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

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

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

Cost of sales

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

Environmental levies	**1,071**	1,391	*(320)*	*(23.0)%*
Other	**1,995**	3,559	*(1,564)*	*(43.9)%*
Total	**199,455**	186,567	*12,888*	*6.9%*

Cost of sales increased by 6.9% to US$199.5 million for the reporting period (FY 2015: US$186.6 million). The increase is primarily explained by the change in depreciation referred to below, partially offset by decreases in repair, maintenance and other services, materials and supplies and payroll and related costs. On a boe basis, cost of sales increased marginally by US$0.71 or 5.4% to US$13.96 for the reporting period (FY 2015: US$13.25) and cost of sales net of depreciation per boe decreased by US$0.74, or 13.2%, to US$4.86 (FY 2015: US$5.60).
Depreciation, depletion and amortisation increased marginally by 20.8% to US$130.0 million for the reporting period (FY 2015: US$107.7 million). Depreciation is calculated with units of production method. Increase of depreciation in 2016 in comparison with prior period is a consequence of the ratio change between the volumes produced and the proven developed reserves as well as addition to O&G assets in the amount of US$316.9 million during reporting period.
Repair, maintenance and other services decreased by 20.6% to US$21.1 million for the reporting period (FY 2015: US$26.6 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of the Group, engineering and geophysical study expenses. These costs fluctuate depending on the planned works on certain objects. The decrease in the reporting period is mainly attributable to Tenge devaluation.

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

Royalties, which are calculated on the basis of production and market prices for the different products, decreased by 17.1% to US$11.9 million for the reporting period (FY 2015: US$14.4 million). This decrease follows the decline of revenues for sold products.
Other transportation services increased by 124.4% to US$6.8 million for the reporting period (FY 2015: US$3.0 million). Such an evolution is explained by the fact transportation services previously provided within the Group have been outsourced since Q4 2015 and these outsourced costs now include, for example, vehicle rental fare.

General and administrative expenses

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

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

Selling and transportation expenses

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

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

Finance costs

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

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

Other

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

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

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

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

Liquidity and capital resources

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

Cash Flows

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

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

Net cash flows from operating activities

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

- profit before income tax for the reporting period of US$64.5 million (FY 2015: US$72.3 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$132.2 million (FY 2015: US$109.4 million), finance costs of US$43.6 million (FY 2015: US$46.0 million), proceeds from derivative financial instruments of US$27.2 million (FY 2015: US$92.3 million, purchase of derivative financial instruments in prior year of US$92.0 million and loss/gain on derivatives of US$63.2 million (FY 2015: US$37.1million).
- a US$15.8 million change in working capital (FY 2015: US$9.3 million) primarily attributable to a decrease in prepayments and other current assets of US$22.2 million (FY 2015: a decrease of US$12.2 million), an increase in trade payables of US$2.0 (FY 2015: an increase of US$7.3 million) and a decrease in other current liabilities of US$12.3 million (FY 2015: a decrease of US$2.1 million).
- *income tax paid of US$9.5 million (FY 2015: US$41.2 million).*

Net cash used in investing activities

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

Net cash used in investing activities for the reporting period was US$204.8 million (FY 2015: US$245.3 million) due primarily to costs associated with the drilling of new wells of US$47.8 million for the reporting period FY 2015: US$58.7 million), costs associated with the third gas treatment unit of US$123.3 million (FY 2015: US$112.4 million), and costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US$4.5 million (FY 2015: US$7.6 million). In FY 2015 cash flow from investing activities included as well placement of US$17.0 million of bank deposits, partially offset by the redemption of US$42.0 million of cash deposits.

Net cash used in financing activities

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

Commitments
Liquidity risk is the risk that the Group will encounter difficulty raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management seeks to ensure that sufficient funds are available to meet any commitments as they arise. The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2016 based on contractual undiscounted payments:

As at 31 December 2016	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Borrowings	–	16,499	49,225	1,063,544	2,039	**1,131,307**
Trade payables	34,959	–	8,361	–	–	**43,320**
Other current liabilities	18,344	–	–	–	–	**18,344**
Due to Government of Kazakhstan	–	258	773	4,124	9,536	**14,691**
	53,303	**16,757**	**58,359**	**1,067,668**	**11,575**	**1,207,662**

Capital commitments
During the reporting period, Nostrum's cash used in capital expenditures for purchase of property, plant and equipment (excluding VAT) was approximately US$197.3 million (FY 2015: US$256.1 million). This mainly reflects drilling costs, field infrastructure development projects and development costs for the oil treatment unit and the gas treatment facility.

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

Gas Treatment Facility
Following the successful completion of the first phase of the gas treatment facility, consisting of two units, the Group is constructing a third unit for it. The construction of GTU3 is important for implementing the Group's strategy to increase operating capacity and production of liquid hydrocarbons. Management estimates, based on the production profile of both proved and probable reserves reported in the 2016 Ryder Scott Report and assuming the successful completion of the second phase of the gas treatment facility in 2017, that the Company's annual production will more than double from the 2016 annual production (with an average of 40,351boepd in 2016) by the end of 2018.
Total costs for the completion of GTU3 are estimated to be not more than US$500 million (US$378 million of which had already been incurred as at 31 December 2016).

Five-year summary

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

[1] IFRS term based on indirect cash flow methodology
[2] Prior to 20 June 2014 the equity of the Group was represented by GDRs, 2016 end of period share price is calculated as 3.86 GBP/share x 1,2295 US$/GBP = 4.75 US$/sha

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