Consolidated financial statements

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

Our opinion on the financial statements

In our opinion:

- Nostrum Oil & Gas PLC's Group financial statements and Parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

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

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

Basis for opinion

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

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

Use of our report

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

Conclusions relating to principal risks, going concern and viability statement

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

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

Overview of our audit approach

Key audit matters	• Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation and the decommissioning provision • Impairment of exploration licenses, goodwill and oil & gas development and production fixed assets • Revenue recognition • Completeness of related party transactions and related disclosures • Risk of management override
Audit scope	• We performed an audit of the complete financial information of 3 components across United Kingdom, Belgium and Kazakhstan and audit procedures on specific balances for a further 6 components across United Kingdom, Belgium, Kazakhstan, Russia and the Netherlands. • The components where we performed full or specific audit procedures accounted for 94% of Profit before tax and amounted to full coverage of EBITDA, Revenue and Total assets.
Materiality	• Overall Group materiality of US$6.5m which represents 3% of EBITDA.

Key audit matters

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

Risk	**Our response to the risk**	**Key observations communicated to the Audit Committee**
Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation ('DD&A') and the decommissioning provision Refer to the Audit Committee Report on page 61; the estimates and judgements on page 114 and the disclosures in note 7 of the Consolidated Financial Statements (page 122) This was considered to be a significant risk due to the subjective nature of reserves estimates and their pervasive impact on the financial statements through impairmS6S9Homeent, DD&A calculations and the decommissioning provision. Reserves are also considered a fundamental indicator of the future potential of the Group's performance and its ability to continue as a going concern. The estimation of oil and gas reserves is a significant area of judgement due to the technical uncertainty in assessing reserves quantities. Consistent with the previous year, management has engaged a third party specialist in connection with the estimation of reserves volumes. The risk has remained consistent with the prior year.	Our audit procedures have focused on management's estimation process, including whether bias exists in determination of reserves. We assessed management's assumptions including commercial assumptions to ensure that they are based on supportable evidence. We have: • carried out procedures to walkthrough and understand the Group's internal process and key controls associated with the oil and gas reserves estimation process; • met with management's third party specialist during the planning and execution of the audit and assessed their competence and objectivity by enquiry of their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists, to satisfy ourselves that they are appropriately qualified to carry out the volumes estimation and prepare the input data used by the third party specialist. We checked the accuracy of the data transfer to the third party specialist; • corroborated management's commercial assumptions by checking they lie within an acceptable range compared to publicly available benchmarks where available. We compared management's internal assumptions to the latest plans and budgets for consistency; we have also challenged management's capabilities to execute on such plans by comparison to prior performance; • reviewed the final oil and gas reserves estimation report prepared by management's third party specialist in light of our understanding of the business and we confirmed with them that all significant changes in reserves were made in the appropriate period, and in compliance with relevant industry standards; and • validated that the updated reserves estimates were included appropriately in the Group's consideration of impairment, in accounting for DD&A and determination of decommissioning dates.	Based on audit procedures performed we consider that the reserves estimations are reasonable for use in impairment testing, management's going concern assessment, calculation of DD&A and the determination of decommissioning dates.
	We performed full scope audit procedures over this risk area in one location (Kazakhstan).	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of impairment of exploration licenses, goodwill and oil & gas development and production fixed assets Refer to the Audit Committee Report on page 61; the estimates and judgements on page 115 and the disclosures in notes 5 to 7 of the Consolidated Financial Statements (pages 121–123). At 31 December 2017 the carrying value of goodwill was US$32,425 thousand (2016: US$32,425 thousand); exploration licenses: US$47,828 thousand (2016: US$44,271 thousand); oil & gas development and production assets, including non-current advances: US$1,910,752 thousand (2016: US$1,787,928 thousand). Owing to the continued oil price volatility there is a related risk of impairment. Accounting standards require management to test goodwill for impairment annually. We focused on this area due to the significance of the carrying value of the Cash Generating Unit ('CGU') containing goodwill, the current economic environment and the judgement involved in the assessment of the recoverable amount of the Group's CGU around the future prices of oil, natural gas and related products, both in the short and long-term, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes. The risk has remained consistent with the prior year.	For exploration licenses we have evaluated management's assessment of each impairment trigger per IFRS 6 'Exploration for and Evaluation of Mineral Resources'. We have: • verified that the Group had the right to explore in the relevant exploration licence which included obtaining and reviewing supporting documentation such as license agreements and signed supplemental agreements and communication with relevant government agencies. In the event of non-compliance the Group can evidence that the terms are modified and any relevant penalties and fines accrued; • enquired that management had the intention to carry out exploration and evaluation activity in the relevant exploration area and corroborated these responses by reviewing management's cash-flow forecast models to verify they include further spend on the exploration activities. We discussed the intentions and strategy of the Group with senior management and Directors to confirm our understanding; • validated whether the Group has the ability to finance any planned future exploration and evaluation activity; • assessed the competency of management's experts, and (where applicable), the competency and objectivity of third party specialists engaged for the purposes of assessing the reserves and resources associated with those exploration and evaluation assets; and • compared the commercial viability of the exploration fields to the cash-flow forecast models. In addressing the risk of impairment for Goodwill and oil & gas development and production fixed assets we utilised our valuation specialists and evaluated management's impairment assessment by testing the key assumptions. We have: • walked through the controls designed by the Group relating to the assessment of the carrying value of goodwill and oil & gas development and production fixed assets; • tested the integrity of models with the assistance of our own specialists; • tested price and discount rate assumptions by comparing forecast oil price assumptions to the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the group; • focused our audit procedures on oil & gas reserves estimates, as described above in our report; • tested forecast cash flows by comparing the assumptions used within the impairment models to the approved budgets, business plans and other evidence of future intentions. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance; • compared the inflation and exchange rate assumptions to external market data; • evaluated management's sensitivity analysis of goodwill and oil & gas development and production fixed assets impairment testing in order to assess the potential impact of a range of reasonably possible outcomes. These sensitivities included adjustments to the discount rate, prices, future production volumes, opex and capex assumptions; and • evaluated the appropriateness of the financial statement disclosures.	We consider management's estimates to be reasonable with assumptions within an acceptable range. The Group's price assumptions are within the range of analyst expectations and other market data, including the range of what we understand other market participants are considering as long-term oil and gas prices. The pre-tax discount rate is within the range of our expectations. We concluded that the related disclosures provided in the Group's financial statements are appropriate.
	We performed full scope audit procedures over this risk area at the Group level (goodwill). We also audited the impairment assessment prepared by management for exploration licenses and oil & gas development and production fixed assets in Kazakhstan. By performing these procedures we obtained full coverage of the risk amount.	

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition Refer to the Audit Committee Report on page 61; The Summary of significant accounting policies in page 121 and the disclosures in note 20 of the Consolidated Financial Statements (page 130) Revenue for the year ended 31 December 2017 amounts to US$405,533 thousand (2016: US$347,983 thousand). Revenue sales include crude oil, gas condensate, dry gas and liquefied petroleum gas ('LPG'). There exists a risk of management manipulation to overstate or understate revenue. This could be achieved by potentially recording sales in an incorrect period. The risk has remained consistent with the prior year.	Our component team in Kazakhstan performed procedures to walkthrough and understand the process and key controls associated with the revenue recognition and accounts receivable process. We made enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with their terms, we also performed procedures that are designed to address the risk of manipulation of accounting records and the ability to override controls. We have: • tested a sample of third party evidence to verify revenue transactions are recorded appropriately, this included inspection of sales contracts with customers and delivery documents. We performed substantive audit procedures on cash accounts to verify cash collection from customers; • analysed the entire population of revenue transactions and identified revenue journals for which the corresponding entry was not posted against trade debtors and trade debtors not cleared through cash. From the outstanding debtor accounts identified, we confirmed the material debtors balances with the relevant counterparties as well as tested that debtors amounts were received subsequent to year-end; • tested the appropriateness of journal entries impacting revenue, using data extracted from the accounting system, as well as other adjustments made in the preparation of the financial statements; • carried out other analytical review procedures on each individual revenue stream using disaggregated volume by product, by customer and by month to assess the respective products' underlying performance and corroborate the appropriateness of the timing of revenue recognition; and • evaluated the financial statement disclosures for compliance with the requirements of accounting standards.	We consider that Revenue is recognised in accordance with sales agreements. We also consider the financial statements disclosures with respect to Revenue are reasonable and adequate.
	We performed full scope audit procedures over this risk area in one location (Kazakhstan). By performing these procedures we obtained full coverage of hte risk account.	
Completeness of related party transactions ("RPT") and related disclosures Refer to the Audit Committee Report on page 61 and the disclosures of related party transactions in note 30 of the Group Financial Statements (page 137) Transactions with related parties mainly comprise transactions between the subsidiaries of the Company and entities controlled by the shareholders with significant influence over the Group. Given the significant monetary amounts involved we consider RPTs and related disclosures to be a significant risk. The risk has remained consistent with the prior year.	Our audit procedures have focused on obtaining evidence over the completeness of related party transactions and the related disclosures. We have: • obtained an understanding of the process that management has established to identify, account for and disclose RPTs and authorise and approve significant RPTs and arrangements outside the normal course of business; • inspected bank and legal confirmations, minutes of meetings and significant agreements with new counterparties; • identified high value and unusual transactions, if any, and if necessary performed further procedures; • obtained an updated list of all related parties to the Group and reviewed the general ledger against this list to ensure completeness of transactions; • made enquiries of management in order to identify if any related party transactions outside the normal course of business have taken place; and • verified the completeness of disclosures in the financial statements.	Based on the procedures performed, we have not noted any undisclosed related party transactions.
	In addressing this risk, audit procedures were performed by the component teams in Kazakhstan and Belgium and the Group engagement team.	

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

An overview of the scope of our audit

Tailoring the scope

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

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

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

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

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

An overview of the scope of our audit (continued)

Involvement with component teams

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

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

Our application of materiality

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

Materiality

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

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

Performance materiality

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

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

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

Reporting threshold

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

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

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

Other information

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

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

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

We have nothing to report in this regard.

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Our approach was as follows:

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

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

Other matters we are required to address

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

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

Richard Addison
(Senior statutory auditor)

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

London, 26 March 2018.

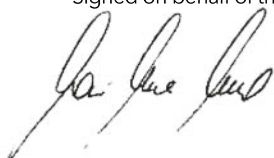
Notes:
1. The maintenance and integrity of the Nostrum Oil & Gas PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to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

Consolidated statement of financial position

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

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

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



Kai-Uwe Kessel
Chief Executive Officer

Tom Richardson
Chief Financial Officer

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

Consolidated statement of comprehensive income

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

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

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

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

Consolidated statement of cash flows

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

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

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

Consolidated statement of changes in equity

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

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

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

Notes to the consolidated financial statements

1. General

Overview

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

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

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

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

1. Merged with Nostrum Services CIS BVBA during 2016

Grandstil LLC was liquidated as of 6 December 2017.

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

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

Subsoil use rights terms

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

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

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

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

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

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

Royalty payments

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

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

Government "profit share"

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

2. Basis of preparation and consolidation

Basis of preparation

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

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

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

Notes to the consolidated financial statements continued

2. Basis of preparation and consolidation / continued

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

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

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

Group reorganisation

The Group has been formed through a reorganisation that took place in June 2014 in which Nostrum Oil & Gas PLC became a new parent entity of the Group (Note 13). The reorganisation is not a business combination and does not result in any change of economic substance of the Group. Accordingly, the consolidated financial statements of Nostrum Oil & Gas PLC are a continuation of the existing group (Nostrum Oil & Gas LP and its subsidiaries). The consolidated financial statements reflect the difference in share capital as an adjustment to equity (Other reserves) that is not subject to reclassification to income statement in the future periods.

Going concern

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

3. Changes in accounting policies and disclosures

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

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

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

(a) Classification and measurement

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

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

(b) Impairment

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

IFRS 15 Revenue from Contracts with Customers

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

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using modified retrospective application. During the year ended 31 December 2017, the Group performed an assessment of the impact of IFRS 15 on the financial statements of the Group.

(a) Sale of goods

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

(b) Variable consideration

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

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

(c) Advances received from customers

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in IFRS 15, and will not adjust the promised amount of the consideration for the effects of significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group will not account for a financing component even if it is significant.

The Group receives only short-term advances from its customers. However, the Group may receive from customers long-term advances in the future. Therefore, close monitoring of the advances from customers will be made to reveal any significant financing component because of the length of time.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor').

All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. A lessee can chose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations.

Notes to the consolidated financial statements continued

The Group has started an initial assessment of the potential impact on its financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of cars, railway tanks, vehicles and pumping stations.

3. Changes in accounting policies and disclosures / continued

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

Correction of an error and changes in presentation

In 2017, the Group carried out a detailed review of the expenditures on construction of its facilities and drilling of wells. As part of the review, it was discovered that there was an error in application of effective interest rate method for capitalisation of borrowing costs resulting in understatement of construction progress and respective overstatement of finance costs. On the other hand, the Group has been providing catering and accommodation services to its providers of construction, drilling and operational services on which income has been recognized, and at the same time respective expenditures of the suppliers were recharged to the Group and accordingly either capitalised as part of construction in progress or expensed as cost of sales or other expenses, leading to overstatement of these accounts.

For the purpose of the consolidated financial statements for the year ended 31 December 2017 and going forward, the Group presents "training", "sponsorship" and "social program" expenses within Other expenses in the Consolidated Statement Comprehensive Income. Previously, the Group presented these expenses within General and administrative expenses in the Consolidated Statement of Comprehensive Income.

For the purpose of the consolidated financial statements for the year ended 31 December 2017 and going forward, the Group also presents Taxes other than income tax, a new line item in the Consolidated Statement of Comprehensive Income which includes "royalties" and "government profit share" previously presented within Cost of Sales, "export customs duties" previously presented in Other expenses and "other taxes" previously presented within General and administrative expenses.

These corrections and changes in presentation have been reflected by restating each of the affected financial statement line items for the prior periods, as follows:

In thousands of US dollars	Reported	Interest capitalisation correction	Catering and accommodation correction	Reclassifications	As adjusted
As at 1 January 2016					
Retained earnings and reserves	772,441	3,393	(2,440)	–	773,394
For the year ended 31 December 2016					
Cost of sales	(199,455)	53	2,730	14,492	(182,180)
General and administrative expenses	(37,982)	–	–	3,224	(34,758)
Taxes other than income tax	–	–	–	(20,175)	(20,175)
Finance costs	(44,474)	2,765	–	–	(41,709)
Other income	9,841	–	(7,650)	–	2,191
Other expenses	(1,656)	–	1,061	2,459	1,864
Income tax expense	(17,407)	(845)	771	–	(17,481)
As at 31 December 2016					
Retained earnings and reserves	690,617	5,366	(5,528)	–	690,455
Property, plant and equipment	1,807,768	7,666	(6,910)	–	1,808,524
Deferred tax liability	344,689	2,300	(1,382)	–	345,607
Consolidated statement of cash flows for the year ended 31 December 2016					
Depreciation, depletion and amortisation	132,203	(53)	(565)	–	131,585
Finance costs	43,624	(2,765)	–	–	40,859
Purchase of property, plant and equipment	(197,250)	–	4,424	–	(192,826)

The Group has not included a third balance sheet as at 1 January 2016 because the adjustment to opening balances was not considered to be material.

4. Summary of significant accounting policies

Exploration expenditure

Costs directly associated with exploration wells are capitalised within exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration and materials and fuel used, rig costs, payments made to contractors and asset retirement obligation fees.

Significant estimates and assumptions: Exploration expenditure
If hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery, which is subject to estimation uncertainties. When this is no longer the case, the costs are written off.

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

The Group owns licences in the Western Kazakhstan region, including the Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye fields where the exploration periods will expire or have expired (respectively on 8 February 2018, 31 December 2017 and 31 December 2017). The Group's applications for extension of these exploration periods are under approval by the MOE. The Group remains committed to developing its exploration assets and based on the past history of the Group's ability to obtain extension, therefore, continues to carry the capitalised costs on its balance sheet. For more detailed information in relation to the subsoil use rights terms, please see Note 1.

Significant accounting judgement: Exploration expenditure
Judgement is also required when determining the appropriate grouping of the exploration assets into a CGU when assessing their recoverable amounts. The management has determined all three exploration fields as a single cash generating unit.

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

For more detailed information in relation to exploration and evaluation assets, please see Note 6.

Property, plant and equipment

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligations, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

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

Other properties

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

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies / continued

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

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

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

Significant accounting judgment: oil and gas reserves
Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortisation (the "DD&A"). These reserve quantities are used for calculating the unit of production depletion rate as it reflects the expected pattern of consumption of future economic benefits by the Group.

Significant estimates and assumptions: oil and gas reserves
The Group uses the internal estimates confirmed by independent reserve engineers on an annual basis to assess the oil and gas reserves of its oil and gas fields. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under the SPE methodology, the Group uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

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

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A, whereby changes in proved reserves are dealt with prospectively by amortising the remaining carrying value of the asset over the expected future production. Downward revision of the proved reserves estimates in the future could lead to relative increase in depreciation expense. Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group. Details on carrying values of oil and gas properties and related depreciation, depletion and amortization are shown in Note 7.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest ("NCI") in the acquiree. For each business combination, the Group elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised separately, but instead are subsumed in goodwill.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a Cash Generating Unit ("CGU") and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Impairment of property, plant and equipment, exploration and evaluation assets and goodwill

The Group assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the Group's business plans, significant decreases in the market commodity prices, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped into CGU for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. For more detailed information in relation to goodwill, please refer to Note 5.

The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information for the determination of value in use. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax rate.

Significant accounting judgements: identification of cash-generating unit
Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. Management has determined a single cash-generating unit within the Group's non-current assets consisting of all Group's assets related to its Chinarevskoye and exploration fields and gas treatment facility.

Significant accounting estimates and assumptions: impairment of property, plant and equipment, exploration and evaluation assets and goodwill
Determination as to whether, and by how much, the CGU containing goodwill is impaired involves management's best estimates on highly uncertain matters such as future commodity prices, operating expenses and capital expenditures estimates, discount rate, future production volumes and fiscal regimes.

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

The recoverability of exploration assets is covered under Exploration expenditure above.

The key assumptions used in the Group's discounted cash flow model reflecting past experience and taking in account of external factors are subject to periodic review. These assumptions are:

- Oil prices (in real terms): US$60/bbl for 2018-2032;
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;
- Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates and production profiles; and
- Pre-tax discount rate of 14.7% (2017: 14.1%);
- Completion of the third unit for the gas treatment facility in 2018 resulting in gradual increase in the annual production volumes.

These estimates may have a material impact on the value in use and, respective impairment, e.g. low oil prices for an extended period might lead to impairment charges. Even though the Group recognised a loss during the current year, mainly caused by the low oil prices, its operating cash flow remained strong. Short-term fluctuations in the oil prices are not considered to be indicative taking into account the long-lived nature of the Group's assets.

A 100 basis points increase in the pre-tax rate to 15% would result in no additional impairment charges. Even though reasonably possible changes in key assumptions may lead to material changes in recoverable amount of the cash generating unit, none of such changes causes the carrying amount of this cash generating unit as presented in these financial statements to exceed its recoverable amount. More detailed information related to carrying values of oil and gas properties and related depreciation, depletion and amortisation are shown in Note 7. For information related to goodwill, please refer to Note 5.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies / continued

Taxation

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

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that apply to the relevant taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

For more detailed information in current and deferred income tax disclosure as at 31 December 2017 and 2016, please see Note 28.

Significant accounting estimation uncertainty: taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2017.

The Group is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for taxes for which it is considered probable will be payable, based on professional advice and consideration of the nature of current discussions with the tax authority.

As at 31 December 2017 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see Note 28.

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The functional currency of the Company is the United States dollar (the "US dollar" or "US$"). The functional currencies of the Group's subsidiaries are as follows:

Company	Functional currency
Nostrum Associated Investments LLP	Tenge
Nostrum E&P Services LLC	Russian rouble
Nostrum Oil & Gas Coöperatief U.A.	US dollar
Nostrum Oil & Gas BV	US dollar
Nostrum Oil & Gas Finance BV	US dollar
Nostrum Oil & Gas UK Ltd.	British Pound
Nostrum Services Central Asia LLP	Tenge
Nostrum Services N.V.	Euro
Zhaikmunai LLP	US dollar

Transactions in foreign currencies are initially recorded by the Group's subsidiaries at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

In the consolidated financial statements, the assets and liabilities of non-US dollar functional currency subsidiaries are translated into US dollars at the spot exchange rate on the balance sheet date. The results and cash flows of non-US dollar functional currency subsidiaries are translated into US dollars using average rates of exchange. In the consolidated financial statements, exchange adjustments arising when the opening net assets and the profits for the year retained by non-US dollar functional currency subsidiaries are translated into US dollars are reported in the statement of comprehensive income.

Advances for non-current assets

Advances paid for capital investments/acquisition of non-current assets are qualified as advances for non-current assets regardless of the period of supplies of relevant assets or the supply of work or services to close advances. Advances paid for the purchase of non-current assets are recognised by the Group as non-current assets and are not discounted.

For more detailed information in relation to advances for non-current assets, please refer to Note 8.

Borrowing costs

The Group capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalisation include all assets under construction that are not being depreciated, depleted, or amortised, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

For more detailed information in relation to capitalisation of borrowing costs, please refer to Note 7.

Inventories

Inventories are stated at the lower of cost or net realisable value ("NRV"). Cost of oil, gas condensate and liquefied petroleum gas ("LPG") is determined on the weighted-average method based on the production cost including the relevant expenses on depreciation, depletion and impairment and overhead costs based on production volume. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

For more information in relation to the breakdown of inventories as at 31 December 2017 and 2016, please see Note 9.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies / continued

Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed by the Group at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group classifies as contingent liabilities those possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise and the present obligations that arise from past events but are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Group does not recognise contingent liabilities but discloses contingent liabilities in Note 32, unless the possibility of an outflow of resources embodying economic benefits is remote.

Decommissioning

Provision for decommissioning is recognised in full, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made.

The Group estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation at current year prices adjusted for expected long-term inflation rate and discounted at applicable rate.

The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas properties. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit-of-production basis.

The Group reviews site restoration provisions at each financial reporting date and adjusts them to reflect current best estimates in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

- are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognised immediately in the profit or loss; and
- if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Movements in the abandonment and site restoration provision are disclosed in Note 16.

Significant accounting judgements: provisions and contingencies

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

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

Significant accounting estimates and assumptions: provisions and contingencies

The Group holds provision for the future decommissioning of oil and gas properties and site restoration. The estimation of the future dismantlement and site restoration costs involves use of significant estimates and assumptions by management, specifically for determining the timing of the future cash outflows and discount rate.

Management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights. Therefore, the most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows. Management of the Group believes that the long-term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan provides the best estimates of applicable risk uncorrected discount rate. Any changes in the expected future costs are reflected in both the provision and the asset. Moreover, actual decommissioning costs can differ from estimates because of constantly changing decommissioning technologies as well as changes in environmental laws and regulations and public expectations. As a result, there could be significant adjustments to the provisions established which would affect future financial results. For more details on abandonment and site restoration provision please refer to Note 16.

Other current liabilities

The Group makes accruals for liabilities related to the underperformance and/or adjustments of work programmes under subsoil use agreements (SUA) on a regular basis. When evaluating the adequacy of an accrual, management bases its estimates on the latest work program included in the SUA, and relevant signed supplements and potential future changes in payment terms (including the currency in which these liabilities are to be settled). Future changes in the work programmes may require adjustments to the accrual recorded in the consolidated financial statements.

Financial assets

Initial recognition, measurement and derecognition

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

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

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

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

Financial assets are de-recognised when the rights to receive cash flows from the asset have expired.

Loans and receivables are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Impairment of financial assets

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

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

For financial assets carried at amortised cost the Group assesses individually whether objective evidence of impairment exists. If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies / continued

Financial liabilities

Initial recognition, measurement and derecognition

All financial liabilities are recorded initially at fair value. The Group's financial liabilities include trade and other payables and borrowings.

After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the EIR. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, the difference in the respective carrying amounts is recognised in the profit or loss.

Significant accounting judgements: modification of liabilities

When an existing financial liability is replaced by another from the same lender judgement is required to determine whether the terms of the new financial liability are substantially different from the terms of the original liability. As part of its capital management strategy, the Group can repurchase issued Notes ("old Notes") and issue new Notes on different terms.

The holders of the old Notes are given an option to exchange the old Notes for the new Notes. If the terms are not substantially different, the exchange of Notes does not result in derecognition of the financial liability, and the Group recalculates the gross carrying amount of the new Notes taking in consideration the relative proportion of the arrangement fees associated with the Notes being exchanged. In relation to the portion of the Notes which are repurchased rather than exchanged for newly issued Notes, the Group derecognises those Notes along with the relative portion of the unamortised arrangement fees. For more information on the Group's borrowings please refer to Note 15.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedging

The Group uses hedging contracts for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

For more detailed information in relation to derivative financial instruments, please refer to Note 29.

Cash and short-term deposits

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the Group and therefore is not considered highly liquid – for example, cash set aside to cover decommissioning obligations.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

For more detailed information in relation to cash and cash equivalents as at 31 December 2017 and 2016, please see Note 12.

Revenue recognition

The Group sells crude oil, gas condensate and LPG under agreements priced by reference to Platt's and/or Argus' index quotations and adjusted for freight, insurance and quality differentials where applicable. The Group sells gas under agreements at fixed prices.

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

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

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in other reserves. Voting rights related to treasury shares are nullified for the Group and no distributions are accepted in relation to them. Share options exercised during the reporting period are satisfied with treasury shares.

Share-based payments

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

The cost of equity-settled transactions are measured at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element, which is not remeasured subsequently until the settlement date.

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 26.

5. Goodwill

As at 31 December 2017 and 31 December 2016, goodwill comprised the following due to business combinations:

In thousands of US dollars	**2017**	2016
Balance as at 1 January	**32,425**	32,425
Goodwill addition	**–**	–
Balance as at 31 December	**32,425**	32,425

The goodwill arises from the purchase of Nostrum Services CIS BVBA and Nostrum Services Central Asia LLP and is annually tested for impairment.

For information in relation to goodwill impairment testing, please see Note 4.

6. Exploration and evaluation assets

In thousands of US dollars	**31 December 2017**	31 December 2016
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**31,993**	28,436
	47,828	44,271

During the year ended 31 December 2017 the Group had additions to exploration and evaluation assets of US$3,557 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (FY 2016: US$7,354 thousand). Interest was not capitalised on exploration and evaluation assets.

Notes to the consolidated financial statements continued

7. Property, plant and equipment

As at 31 December 2017 and 31 December 2016 property, plant and equipment comprised the following:

In thousands of US dollars	**31 December 2017**	31 December 2016
Oil and gas properties	**1,896,154**	1,759,252
Other property, plant and equipment	**45,740**	49,272
	1,941,894	1,808,524

Oil and gas properties

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The movement of oil and gas properties for the years ended 31 December 2017 and 2016 was as follows:

In thousands of US dollars	**Working assets**	**Construction in progress**	**Total**
Balance at 1 January 2016, net of accumulated depreciation and depletion	**1,031,957**	**536,541**	**1,568,498**
Additions	5,646	310,172	315,818
Transfers	219,674	(220,492)	(818)
Depreciation and depletion charge	(124,246)	–	(124,246)
Balance at 31 December 2016, net of accumulated depreciation and depletion	**1,133,031**	**626,221**	**1,759,252**
Additions	8,580	243,927	252,507
Transfers	104,664	(104,379)	285
Depreciation and depletion charge	(115,890)	–	(115,890)
Balance at 31 December 2017, net of accumulated depreciation and depletion	**1,130,385**	**765,769**	**1,896,154**
As at 31 December 2015			
Cost	1,559,807	536,541	2,096,348
Accumulated depreciation and depletion	(527,849)	–	(527,849)
Balance, net of accumulated depreciation and depletion	**1,031,958**	**536,541**	**1,568,499**
As at 31 December 2016			
Cost	1,785,127	626,221	2,411,348
Accumulated depreciation and depletion	(652,096)	–	(652,096)
Balance, net of accumulated depreciation and depletion	**1,133,031**	**626,221**	**1,759,252**
As at 31 December 2017			
Cost	1,898,361	765,769	2,664,130
Accumulated depreciation and depletion	(767,976)	–	(767,976)
Balance, net of accumulated depreciation and depletion	**1,130,385**	**765,769**	**1,896,154**

The category "Construction in progress" is represented by employee remuneration, materials and fuel used, rig costs, payments made to contractors, and asset retirement obligation fees directly associated with development of wells until the drilling of the well is complete and results have been evaluated.

The depletion rate for oil and gas working assets was 10.89% and 11.95% in 2017 and 2016, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2017. Depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (Note 16) in the year ended 31 December 2017 resulted in the increase of the oil and gas properties by US$ 1,391 thousand (31 December 2016: an increase of US$ 2,399 thousand).The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2017 and 31 December 2016:

In thousands of US dollars	**31 December 2017**	31 December 2016
Borrowing costs including amortisation of arrangement fee	**76,395**	69,865
Capitalisation rate	**6.98%**	6.98%
Capitalised borrowing costs	**33,599**	29,569

Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2016, net of accumulated depreciation	**21,926**	**5,924**	**977**	**9,907**	**319**	**39,053**
Additions	14,593	318	387	2,035	112	17,445
Transfers	1,759	216	104	(875)	(386)	818
Disposals	(62)	(97)	(49)	(507)	–	(715)
Disposals depreciation	58	70	31	367	–	526
Depreciation	(3,746)	(2,176)	(239)	(1,724)	–	(7,885)
Translation difference	–	–	–	30	–	30
Balance at 31 December 2016, net of accumulated depreciation	**34,528**	**4,255**	**1,211**	**9,233**	**45**	**49,272**
Additions	1,039	2,530	21	1,308	–	4,898
Transfers	67	22	–	(374)	–	(285)
Disposals	(8)	(452)	(1,223)	(468)	–	(2,151)
Disposals depreciation	7	360	981	276	–	1,624
Depreciation	(4,070)	(1,550)	(194)	(1,830)	–	(7,644)
Translation difference	–	–	–	26	–	26
Balance at 31 December 2017, net of accumulated depreciation	**31,563**	**5,165**	**796**	**8,171**	**45**	**45,740**
As at 31 December 2015						
Cost	32,868	17,655	2,461	14,895	319	68,198
Accumulated depreciation	(10,942)	(11,731)	(1,484)	(4,988)	–	(29,145)
Balance, net of accumulated depreciation	**21,926**	**5,924**	**977**	**9,907**	**319**	**39,053**
As at 31 December 2016						
Cost	49,159	18,094	2,900	15,587	45	85,785
Accumulated depreciation	(14,631)	(13,839)	(1,689)	(6,354)	–	(36,513)
Balance, net of accumulated depreciation	**34,528**	**4,255**	**1,211**	**9,233**	**45**	**49,272**
As at 31 December 2017						
Cost	50,257	20,194	1,710	16,129	45	88,335
Accumulated depreciation	(18,694)	(15,029)	(914)	(7,958)	–	(42,595)
Balance, net of accumulated depreciation	**31,563**	**5,165**	**796**	**8,171**	**45**	**45,740**

Notes to the consolidated financial statements continued

8. Advances for non-current assets

Advances for non-current assets mainly comprised prepayments made to suppliers of services and equipment for construction of a third unit for the Group's gas treatment facility.

In thousands of US dollars	**31 December 2017**	31 December 2016
Advances for construction services	**9,512**	20,801
Advances for pipes and construction materials	**5,086**	7,875
	14,598	28,676

9. Inventories

As at 31 December 2017 and 31 December 2016 inventories comprised the following:

In thousands of US dollars	**31 December 2017**	31 December 2016
Spare parts and other inventories	**23,506**	21,789
Gas condensate	**4,063**	4,914
Crude oil	**1,968**	1,488
LPG	**189**	125
Gas	**20**	10
	29,746	28,326

As at 31 December 2017 and 31 December 2016 inventories are carried at cost.

10. Trade receivables

As at 31 December 2017 and 31 December 2016 trade receivables were not interest-bearing and were mainly denominated in US dollars. Their average collection period is 30 days.

As at 31 December 2017 and 31 December 2016 there were neither past due nor impaired trade receivables.

11. Prepayments and other current assets

As at 31 December 2017 and 31 December 2016 prepayments and other current assets comprised the following:

In thousands of US dollars	**31 December 2017**	31 December 2016
VAT receivable	**14,960**	10,564
Advances paid	**6,826**	6,487
Other taxes receivable	**4,279**	2,322
Other	**1,038**	1,798
	27,103	21,171

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2017, advances paid in the amount of US$ 1,756 thousand were impaired and fully provided for. Below table provides the movements in the provision for impairment of advances paid:

In thousands of US dollars	**Individually impaired**
As at 1 January 2016	**-**
Charge for the year	**-**
As at 31 December 2016	**-**
Charge for the year	**1,756**
As at 31 December 2017	**1,756**

12. Cash and cash equivalents

In thousands of US dollars	31 December 2017	31 December 2016
Current accounts in US dollars	**106,486**	72,537
Current accounts in tenge	**17,342**	17,206
Current accounts in other currencies	**3,111**	6,375
Petty cash	**12**	16
Bank deposits with maturity less than three months	**-**	5,000
	126,951	101,134

Bank deposits as at 31 December 2016 were represented by an interest-bearing deposit placed on 19 October 2016 for a three-month period with an interest rate of 0.68% per annum.

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as a liquidation fund deposit for the amount of US$ 752 thousand with Sberbank in Kazakhstan and US$ 5,911 thousand with Halyk bank (31 December 2016: a total of US$5,981 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

13. Share capital and reserves

As at 31 December 2017 the ownership interests in the Parent consists of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

Number of shares	In circulation	Treasury capital	Total
As at 1 January 2016	**184,828,819**	**3,354,139**	**188,182,958**
Share options exercised	74,935	(74,935)	–
As at 31 December 2016	**184,903,754**	**3,279,204**	**188,182,958**
Share options exercised	330,325	(330,325)	–
As at 31 December 2017	**185,234,079**	**2,948,879**	**188,182,958**

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

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

Distributions

During the years ended 31 December 2017 and 2016 there were no distributions made.

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 31 December 2017 the book value per share amounted to US$3.39 (31 December 2016: US$3.50).

Notes to the consolidated financial statements continued

14. Earnings per share

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period.

The basic and diluted EPS are the same as there are no instruments that have a dilutive effect on earnings.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

	For the year ended 31 December	
	2017	2016 Restated*
Loss for the year attributable to the shareholders (in thousands of US dollars)	**(23,882)**	(83,020)
Weighted average number of shares	**185,068,917**	184,866,287
Basic and diluted earnings per share (in US dollars)	**(0.13)**	(0.45)

15. Borrowings

Borrowings are comprised of the following as at 31 December 2017 and 31 December 2016:

In thousands of US dollars	**31 December 2017**	31 December 2016
Notes issued in 2012 and maturing in 2019	**167,731**	550,943
Notes issued in 2014 and maturing in 2019	**187,863**	406,931
Notes issued in 2017 and maturing in 2022	**731,474**	–
Finance lease liability	**810**	1,178
	1,087,878	959,052
Less amounts due within 12 months	**(31,337)**	(15,518)
Amounts due after 12 months	**1,056,541**	943,534

2012 Notes

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

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

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

On and after 13 November 2016, the 2012 Issuer shall be entitled at its option to redeem all or a portion of the 2012 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2012 Note), plus accrued and unpaid interest on the 2012 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelvemonth period commencing on 13 November of the years set forth below:

Period	**Redemption Price**
2016	103.56250%
2017	101.78125%
2018 and thereafter	100.00%

The 2012 Notes are jointly and severally guaranteed (the "2012 Guarantees") on a senior basis by Nostrum Oil & Gas PLC and all of its subsidiaries other than the 2012 Issuer (the "2012 Guarantors"). The 2012 Notes are the 2012 Issuer's and the 2012 Guarantors' senior obligations and rank equally with all of the 2012 Issuer's and the 2012 Guarantors' other senior indebtedness. The 2012 Notes and the 2012 Guarantees are unsecured. Claims of secured creditors of the 2012 Issuer or the 2012 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2012 Notes.

2014 Notes

On 14 February 2014, Nostrum Oil & Gas Finance B.V. (the "2014 Initial Issuer") issued US$ 400,000 thousand notes (the "2014 Notes").

On 6 May 2014, Zhaikmunai LLP (the "2014 Issuer") replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes, whereupon it assumed all of the obligations of the 2014 Initial Issuer under the 2014 Notes.

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

On and after 14 February 2017, the 2014 Issuer shall be entitled at its option to redeem all or a portion of the 2014 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2014 Note), plus accrued and unpaid interest on the 2014 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve month period commencing on 14 February of the years set forth below:

Period	**Redemption Price**
2017	103.1875%
2018 and thereafter	100.00%

The 2014 Notes are jointly and severally guaranteed (the "2014 Guarantees") on a senior basis by Nostrum Oil & Gas PLC and all of its subsidiaries other than the 2014 Issuer (the "2014 Guarantors"). The 2014 Notes are the 2014 Issuer's and the 2014 Guarantors' senior obligations and rank equally with all of the 2014 Issuer's and the 2014 Guarantors' other senior indebtedness. The 2014 Notes and the 2014 Guarantees are unsecured. Claims of secured creditors of the 2014 Issuer or the 2014 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2014 Notes.

2017 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2017 Issuer") issued US$ 725,000 thousand notes (the "2017 Notes").

The 2017 Notes bear interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year.

The 2017 Notes may be redeemed, in whole or part, by the 2017 Issuer upon not less than 30 nor more than 60 days' notice, at 106.000% of the principal amount plus accrued interest in the 12 month period beginning on 25 July 2019, at 104.000% of the principal amount plus accrued interest in the 12 month period beginning on 25 July 2020, or at 100.000% of the principal plus accrued interest after 25 July 2021. The 2017 Issuer may also redeem the 2017 Notes in other circumstances as set out in the relevant indenture relating to the 2017 Notes.

The 2017 Notes are jointly and severally guaranteed (the "2017 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2017 Guarantors"). The 2017 Notes are the 2017 Issuer's and the 2017 Guarantors' senior obligations and rank equally with all of the 2017 Issuer's and the 2017 Guarantors' other senior indebtedness.

The issue of the 2017 Notes was used primarily to fund the Tender Offer and Consent Solicitation, as described below.

Tender Offer and Consent Solicitation for the 2012 Notes and the 2014 Notes

On 29 June 2017, Nostrum Oil & Gas Finance B.V., a subsidiary of Nostrum Oil & Gas PLC, announced a tender offer and consent solicitation in respect of the 2012 Notes and the 2014 Notes (the "Tender and Consent"). The Tender and Consent closed at 11:59 NY time on 27 July 2017, and was settled on 31 July 2017.

As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders US$390,884 thousand in principal amount of the outstanding 2012 Notes and US$ 215,924 thousand in principal amount of the outstanding 2014 Notes. Total tender consideration was US$102.60 per US$100 for the outstanding 2012 Notes and US$100.60 per US$ 100 for the outstanding 2014 Notes validly tendered during the Early Bird window. In addition, a consent payment of US$40c per US$ 100 was paid for all 2012 Notes and 2014 Notes validly tendered during the Early Bird window or if a Consent Only Instruction was received during the Early Bird window. Both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

Transaction costs

Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to US$12,256 thousand.

For the purposes of the accounting treatment Nostrum considers part of the purchased 2012 Notes and 2014 Notes to be modified and the remainder is treated as extinguished. Unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed (Note 25). Fees and expenses directly attributable to the modified portion of the debt were capitalised under the long-term borrowings.

Notes to the consolidated financial statements continued

15. Borrowings / continued

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

Following the consent solicitation discussed above, the 2012 Notes, 2014 Notes and 2017 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions, the ability of the 2012 Guarantors, the 2014 Guarantors, the 2017 Guarantors, and certain other members of the Group to:

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

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

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

In thousands of US dollars	1 January 2017	Finance charges under finance leases	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Other	31 December 2017
Long-term borrowings	943,534	–	725,000	(633,892)	21,899	–	**1,056,541**
Current portion of long-term borrowings	**15,518**	**156**	**-**	**(57,013)**	**71,585**	**1,091**	**31,337**

Finance lease

On 12 April 2016 Zhaikmunai LLP entered into a finance lease agreement for the main administrative office in Uralsk for a period of 20 years for a fee of US$66 thousand per month. As at 31 December 2017 the finance lease prepayment amounted to US$11,891 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	31 December 2017		31 December 2016	
In thousands of US dollars	**Minimum payments**	**Present value of payments**	Minimum payments	Present value of payments
No later than one year	**143**	**131**	525	496
Later than one year and no later than five years	**558**	**345**	561	349
Later than five years	**1,900**	**334**	2,039	333
Total minimum lease payments	**2,601**	**810**	3,125	1,178
Less amounts representing finance charges	**(1,791)**		(1,947)	
Present value of minimum lease payments	**810**	**810**	1,178	1,178

16. Abandonment and site restoration provision

The summary of changes in abandonment and site restoration provision during years ended 31 December 2017 and 2016 is as follows:

In thousands of US dollars	2017	2016
Abandonment and site restoration provision as at 1 January	**19,635**	15,928
Unwinding of discount	**225**	331
Additional provision	**2,430**	977
Provision used	**(91)**	–
Change in estimates	**1,391**	2,399
Abandonment and site restoration provision as at 31 December	**23,590**	19,635

Management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights in 2033. There are uncertainties in estimation of future costs as Kazakh laws and regulations concerning site restoration evolve.

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2017 were 2.5% and 3.63%, respectively (31 December 2016: 2.50% and 4.28%).

The change in the long-term inflation rate and discount rate in the year ended 31 December 2017 resulted in the increase of the abandonment and site restoration provision by US$780 thousand (31 December 2016: the increase by US$2,399 thousand).

17. Due to government of Kazakhstan

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the Group to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US$ 25,000 thousand.

Repayment of this liability commenced in 2008 with the first payment of US$1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US$258 thousand until 26 May 2031. The liability was discounted at 13%.

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2017 and 31 December 2016 is as follows:

In thousands of US dollars	2017	2016
Due to Government of Kazakhstan as at 1 January	**6,920**	6,808
Unwinding of discount	**866**	885
Paid during the year	**(1,289)**	(773)
	6,497	6,920
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,289)
Due to Government of Kazakhstan as at 31 December	**5,466**	5,631

18. Trade payables

Trade payables comprise the following as at 31 December 2017 and 31 December 2016:

In thousands of US dollars	31 December 2017	31 December 2016
Tenge denominated trade payables	**27,153**	22,315
US dollar denominated trade payables	**22,861**	11,846
Euro denominated trade payables	**5,395**	7,470
Russian rouble denominated trade payables	**1,098**	1,347
Trade payables denominated in other currencies	**348**	342
	56,855	43,320

Notes to the consolidated financial statements continued

19. Other current liabilities

Other current liabilities comprise the following as at 31 December 2017 and 31 December 2016:

In thousands of US dollars	**31 December 2017**	31 December 2016
Training obligations accrual	**11,592**	12,018
Accruals under the subsoil use agreements	**9,941**	6,462
Taxes payable, other than corporate income tax	**6,278**	7,041
Due to employees	**3,627**	5,495
Other current liabilities	**3,838**	2,645
	35,276	33,661

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

20. Revenue

The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the year ended 31 December 2017 was US$55.2 (FY 2016: US$45.1)

	For the year ended 31 December	
In thousands of US dollars	**2017**	2016
Oil and gas condensate	**261,069**	226,357
Gas and LPG	**144,464**	121,626
	405,533	347,983

During the year ended 31 December 2017 the revenue from sales to three major customers amounted to US$200,438 thousand, US$102,813 thousand and US$30,052 thousand respectively (FY 2016: US$109,499 thousand, US$92,885 thousand and US$38,053 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.

21. Cost of sales

	For the year ended 31 December	
In thousands of US dollars	**2017**	2016
Depreciation, depletion and amortisation	**120,692**	129,425
Repair, maintenance and other services	**18,960**	18,932
Payroll and related taxes	**17,652**	13,290
Other transportation services	**8,335**	6,843
Materials and supplies	**6,333**	4,649
Well workover costs	**4,159**	3,928
Environmental levies	**375**	1,071
Change in stock	**297**	2,047
Other	**443**	1,995
	177,246	182,180

22. General and administrative expenses

In thousands of US dollars	For the year ended 31 December 2017	2016
Payroll and related taxes	**13,578**	13,313
Professional services	**11,095**	11,868
Depreciation and amortisation	**2,294**	2,160
Insurance fees	**1,640**	1,129
Business travel	**1,487**	3,695
Lease payments	**797**	694
Communication	**411**	484
Materials and supplies	**363**	353
Bank charges	**221**	346
Transportation services	**242**	153
Other	**1,175**	563
	33,303	34,758

23. Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December 2017	2016
Loading and storage costs	**26,940**	33,219
Transportation costs	**20,160**	24,861
Marketing services	**14,363**	14,138
Payroll and related taxes	**2,033**	1,234
Other	**2,945**	2,229
	66,441	75,681

24. Taxes other than income tax

In thousands of US dollars	For the year ended 31 December 2017	2016
Royalties	**15,724**	11,910
Export customs duty	**3,864**	5,533
Government profit share	**248**	2,582
Other taxes	**131**	150
	19,967	20,175

25. Finance costs

In thousands of US dollars	For the year ended 31 December 2017	2016
Interest expense on borrowings	**42,756**	39,446
Transaction costs	**15,709**	-
Unwinding of discount on amounts due to Government of Kazakhstan	**866**	885
Unwinding of discount on abandonment and site restoration provision	**225**	327
Unwinding of discount on social obligations liability	**40**	850
Finance charges under finance leases	**156**	201
	59,752	41,709

For more information on the transaction costs please see Note 15.

Notes to the consolidated financial statements continued

26. Employees' remuneration

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

	2017	2016
Management and administrative	**246**	294
Technical and operational	**731**	664
	977	958

Their aggregate remuneration comprised:

In thousands of US dollars	2017	2016
Wages and salaries	**34,573**	27,789
Social security costs	**5,229**	4,452
Share-based payments	**1,008**	–
	40,810	32,241

Part of the Group's staff costs shown above is capitalised into the cost of intangible and tangible oil and gas assets under the Group's accounting policy for exploration, evaluation and oil and gas assets.

The amount ultimately remaining in the income statement was US$34,927 thousand (FY 2016: US$28,486 thousand).

Key management personnel remuneration

In thousands of US dollars	2017	2016
Short-term employee benefits	**4,304**	4,742
Share-based payments	**1,008**	–
	5,312	4,742

Directors' remuneration

In thousands of US dollars	2017	2016
Short-term employees benefits	**2,594**	3,234
	2,594	3,234

Employee share option plan

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

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

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

The equity-based payment plan is described below.

During 2008-2015, 4,297,958 equity appreciation rights (SARs) which can only be settled in cash were granted to senior employees and executive directors of members of the Group or their associates. These generally vest over a five year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a trinomial lattice valuation option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting till the end of the contractual life and gives its holder a right to a difference between the market value of the Group's ordinary shares at the date of exercise and a stated base value. The services received and a liability to pay for those services are recognised over the expected vesting period.

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

The carrying value of the liability relating to 2,199,153 of SARs at 31 December 2017 is US$2,086 thousand (31 December 2016: 2,536,478 SARs with carrying value of US$4,339 thousand). During the year ended 31 December 2017 205,000 SARs were vested (FY 2016:252,000).

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

	2017		2016	
	No.	**EP,US$**	No.	EP,US$
Total outstanding at the beginning of the year (with EP of US$ 4)	**1,276,478**	**4**	1,351,413	4
Total outstanding at the beginning of the year (with EP of US$ 10)	**1,260,000**	**10**	1,260,000	10
Total outstanding at the beginning of the year	**2,536,478**		2,611,413	
Share options exercised	**(330,325)**	**4**	(74,935)	4
Share options lapsed	**(7,000)**	**10**	–	10
Total outstanding at the end of the year	**2,199,153**		2,536,478	
Total exercisable at the end of the year	**2,169,153**		2,294,478	

There were no SARs granted during the years ended 31 December 2017 and 2016. The weighted average price at the date of exercise for SARs exercised during the year ended 31 December 2016 amounted to US$3.05 per SAR.

The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for the plan for the years ended 31 December 2017 and 2016:

	2017	2016
Price at the reporting date (US$)	**4.4**	4.7
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**41.4%**	45%
Risk-free interest rate (%)	**0.7%**	1.2%
Expected life (years)	**10**	10
Option turnover (%)	**10%**	10%
Price trigger	**2.0**	2.0

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

2017 Long-term incentive plan

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

Employees (including senior executives and executive directors) of members of the Group or their associates may receive an award, which is a "nominal cost option" over a specified number of ordinary shares in the capital of the Company. The option has an exercise price of 1p per share (but the Company has the discretion to waive this prior to exercise). In addition, under the Rules of the LTIP the Company has discretion to settle awards other than by transfer of shares such as by way of cash settlement. Generally, the awards are classified as equity-settled transactions. The share options are treated as equity-settled since there are no legal limitations expected on issue of shares for these upon vesting, the Group has a choice of settlement and the intention is to settle them in equity. However, in certain jurisdictions due to regulatory requirements the Company may not be able to settle the awards other than by transfer of cash, in which case the awards are classified as cash-settled transactions, and accounted for similar to SARs.

The award ordinarily vests and becomes exercisable as from later of the third anniversary of grant or two years after the date on which the Company determines whether the performance condition has been satisfied, subject to employee's continued service and to the extent to which the performance condition is satisfied, till the end of the contractual life. The contractual life of the share options is ten years.

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

The cost of equity-settled transactions are measured at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element of "shares to be issued under LTIP", which is not remeasured subsequently until the settlement date.

Notes to the consolidated financial statements continued

26. Employees' remuneration / continued

The following table summarizes the movement in the number of share options during 2017:

	Equity-settled awards	Cash-settled awards	**Total awards**
Total outstanding at 31 December 2016	–	–	**–**
Share options awarded during the year	1,139,146	69,697	**1,208,843**
Share options forfeited	(5,721)	–	**(5,721)**
Share options lapsed	(11,838)	–	**(11,838)**
Total outstanding as at 31 December 2017	1,121,587	69,697	**1,191,284**

As at 31 December 2017 there were no share options vested in accordance with the management's best estimate.

The fair value of the equity-settled share options at the grant date of 10 October 2017 amounted to US$ 4.8 per share option and at the grant date of 11 December 2017 amounted to US$ 3.9 per share. The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for valuation of the share options at the grant date:

	10 October 2017	11 December 2017
Price at the reporting date (US$)	5.3	4.4
Distribution yield (%)	0%	0%
Expected volatility (%)	40.8%	41.9%
Risk-free interest rate (%)	1.36%	1.20%
Expected life (years)	10	10
Option turnover (%)	10%	10%
Price trigger	2.0	2.0

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

27. Other expenses

	For the year ended 31 December	
In thousands of US dollars	**2017**	2016
Business development	**9,295**	-
Other accruals	**3,024**	-
Training expenses	**2,752**	2,185
Sale and write-off of fixed assets	**1,810**	189
Accruals under subsoil use agreements	**587**	(9,808)
Sponsorship	**256**	574
Social program	**316**	315
Inventory write-offs and provisions	**201**	1,429
Compensation	**-**	571
Other	**3,814**	2,681
	22,055	(1,864)

Business Development expenses incurred in relation to potential acquisitions of oil and gas exploration and appraisal assets in Kazakhstan.

Export customs duty is comprised of customs duties for export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc.

Accruals under subsoil use agreements mainly include net amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields. The changes in the supplements to the subsoil use agreements and the adjusted work programs led to a reversal of the liability in amount of US$ 10,698 thousand during the year ended 31 December 2016.

28. Income tax

The income tax expense comprised the following:

In thousands of US dollars	For the year ended 31 December 2017	2016
Corporate income tax	**12,992**	21,348
Withholding tax	**424**	482
Deferred income tax (benefit) / expense	**35,966**	(3,021)
Adjustment in respect of the current income tax for the prior periods	**467**	(1,328)
Total income tax expense	**49,849**	17,481

The Group's profits are assessed for income taxes mainly in the Republic of Kazakhstan. A reconciliation between tax expense and the product of accounting profit multiplied by the Kazakhstani tax rate applicable to the Chinarevskoye subsoil use rights is as follows:

In thousands of US dollars	For the year ended 31 December 2017	2016
Profit/(loss) before income tax	**25,966**	(65,537)
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**7,790**	(19,661)
Effect of exchange rate on the tax base	**(194)**	(2,423)
Adjustments in respect of current income tax of previous years	**467**	(1,308)
Effect of loss / (income) taxed at different rate[1]	**1,551**	8,219
Non-deductible interest expense on borrowings	**19,755**	22,864
Deferred tax asset not recognised	**9,498**	3,537
Non-deductible business development costs	**2,787**	–
Non-deductible penalties	**3,222**	(1,343)
Non-deductible compensation for gas	**-**	36
Net foreign exchange loss	**-**	2,828
Non-deductible social expenditures	**232**	–
Non-deductible cost of technological loss	**103**	–
Non-deductible training expenditures	**100**	181
Other non-deductible expenses	**4,538**	4,551
Income tax expenses reported in the consolidated financial statements	**49,849**	17,481

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

The Group's effective tax rate for the year ended 31 December 2017 is negative 192.0% (2016: 26.7%). The Group's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2017 is 116.6% (2016: 8.8%).

In addition, the effective tax rate was impacted by the effect of losses and gains taxed at different rates mainly including loss and gain on derivative financial instruments taxed at the underlying tax rate of 20% which increased effective tax rate by 6.0% for the year ended 31 December 2017 (2016: decreased by 12.5%).

As at 31 December 2017 the Group has tax losses of US$90,210 thousand (2016: US$71,051 thousand) that are available to offset against future taxable profits in the companies in which the losses arose within 9 years after generation and will expire in the period 2023-2026. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group.

Notes to the consolidated financial statements continued

28. Income tax / continued

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

In thousands of US dollars	31 December 2017	31 December 2016
Deferred tax asset		
Accounts payable and provisions	**4,960**	4,953
Deferred tax liability		
Property, plant and equipment	**(386,555)**	(349,228)
Derivative financial instruments	**-**	(1,332)
Net deferred tax liability	**(381,595)**	(345,607)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	2017	2016
Balance as at 1 January	**345,607**	347,769
Current period charge to statement of income	**35,988**	(2,162)
Balance as at 31 December	**381,595**	345,607

29. Derivative financial instruments

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

In thousands of US dollars		Derivative financial instruments
As at 1 January 2016	**current**	**54,095**
	non-current	**43,005**
Proceeds from sale of hedging contract		(27,198)
Loss on derivative financial instruments		(63,244)
As at 31 December 2016	**current**	**6,658**
	non-current	**-**
Loss on derivative financial instruments		(6,658)
As at 31 December 2017	**current**	**-**
	non-current	**-**

On 3 March 2014, in accordance with its hedging policy, Zhaikmunai LLP entered, at nil upfront cost, into a long-term hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through to 29 February 2016, which was sold before expiration for US$92,256 thousand on 14 December 2015.

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 33.

30. Related party transactions

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

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group
as at 31 December 2017 and 31 December 2016 consisted of the following:

In thousands of US dollars	**31 December 2017**	31 December 2016
Trade receivables and advances paid		
JSC OGCC KazStroyService	**7,573**	18,063

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2017 and 31 December 2016 consisted of the following:

In thousands of US dollars	**31 December 2017**	31 December 2016
Trade payables		
JSC OGCC KazStroyService	**10,063**	6,291

During the years ended 31 December 2017 and 2016 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

	For the year ended 31 December	
In thousands of US dollars	**2017**	2016
Purchases		
JSC OGCC KazStroyService	**50,350**	40,746
Management fees and consulting services		
Cervus Business Services	**948**	1,341
VWEW Advocaten VOF	**5**	7

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2017 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

During the year ended 31 December 2017 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA and VWEW Advocaten VOF. Starting from April 2017 these entities ceased to be considered related parties in accordance with IAS 24 definitions.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$3,891 thousand for the year ended 31 December 2017 (FY 2016: US$4,742 thousand). Payments to key management personnel under ESOP for the year ended 31 December 2017 amounted to US$531 thousand (FY 2016: no payments under ESOP were made).

Notes to the consolidated financial statements continued

31. Audit and non-audit fees

During the years ended 31 December 2017 and 2016 audit and non-audit fees comprise the following:

In thousands of US dollars	2017	2016
Audit of the financial statements	312	309
Total audit services	312	309
Audit-related assurance services	155	149
Services relating to corporate finance transactions	250	–
Other non-audit services	–	19
Total non-audit services	405	168
Total fees	717	477

The audit fees in the table above include the audit fees of US$10 thousand in relation to the Parent.

32. Contingent liabilities and commitments

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2017. As at 31 December 2017 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

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

Capital commitments

As at 31 December 2017 the Group had contractual capital commitments in the amount of US$139,462 thousand (31 December 2016: US$96,990 thousand) mainly in respect to the Group's oil field exploration and development activities.

Operating lease

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

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

In thousands of US dollars	31 December 2017	31 December 2016
No later than one year	7,019	9,589
Later than one year and no later than five years	14,057	28,795

Lease expenses of railway tank wagons for the year ended 31 December 2017 amounted to US$7,394 thousand (FY 2016: US$12,285 thousand).

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement No. 14), the Group is obliged to:

- spend US$300 thousand per annum to finance social infrastructure;
- make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and
- adhere to a spending schedule on education which lasts until (and including) 2020.

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno Gremyachinskoye fields require fulfilment of several social and other obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 26 December 2016) require the subsurface user to:

- spend US$1,000 thousand for funding of development of Astana city;
- reimburse historical costs of US$383 thousand to the Government upon commencement of production stage;
- fund liquidation expenses equal to US$ 96 thousand; and
- spend US$1,250 thousand to finance social infrastructure.

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

- invest at least US$19,413 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 112 thousand;

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

- invest at least US$26,142 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$183 thousand;

Domestic oil sales

In accordance with Supplement # 7 to the Contract, Zhaikmunai LLP is required to deliver at least 15% of produced oil to the domestic market on a monthly basis for which prices are materially lower than export prices.

33. Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations as well as exploration of the three new oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye. The Group's financial assets consist of trade and other receivables, non-current investments, current investments and cash and cash equivalents.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, credit risk and commodity price risk. The Group's management reviews and agrees policies for managing each of these risks, which are summarised below.

Commodity price risk

The Group is exposed to the effect of fluctuations in price of crude oil, which is quoted in US dollar on the international markets. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Interest rate risk

The Group is not exposed to interest rate risk in 2017 and 2016 as the Group had no financial instruments with floating rates as at years ended 31 December 2017 and 2016.

Foreign currency risk

As a significant portion of the Group's operation is tenge denominated, the Group's statement of financial position can be affected by movements in the US dollar/tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

Notes to the consolidated financial statements continued

33. Financial risk management objectives and policies / continued

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax. The impact on equity is the same as the impact on profit before tax.

	Change in tenge to US dollar exchange rate	Effect on profit before tax
2017		
US dollar thousand	**+ 20.00%**	**4,288**
US dollar thousand	**- 20.00%**	**(4,288)**
2016		
US dollar thousand	+ 60.00%	1,523
US dollar thousand	- 20.00%	(508)

The Group's foreign currency denominated monetary assets and liabilities were as follows:

As at 31 December 2017	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	17,350	23	2,727	364	20,464
Trade receivables	9,228	–	–	–	9,228
Trade payables	(27,153)	(1,098)	(5,394)	(348)	(33,993)
Other current liabilities	(20,864)	(379)	(519)	(2,095)	(23,857)
	(21,439)	**(1,454)**	**(3,186)**	**(2,079)**	**(28,158)**

As at 31 December 2016	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	17,223	212	5,368	795	23,598
Trade receivables	11,540	–	1,668	–	13,208
Trade payables	(22,315)	(1,347)	(7,471)	(342)	(31,475)
Other current liabilities	(8,986)	(241)	(1,100)	(1,432)	(11,759)
	(2,538)	**(1,376)**	**(1,535)**	**(979)**	**(6,428)**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group monitors its risk to a shortage of funds using a liquidity planning tool. The tool allows selecting severe stress test scenarios. To ensure an adequate level of liquidity a minimum cash balance has been defined as a cushion of liquid assets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, loans, hedges, export financing and financial leases.

The Group's policy is that, while it has an investment programme ongoing: a) not more than 25% of borrowings should mature in the next twelve-month period and b) a minimum balance of US$50 million is retained on the balance sheet post repayment or refinancing of any debt due in the next twelve-month period.

The Group's total outstanding debt consists of three notes: US$169 million issued in 2012 and maturing in 2019, US$184 million issued in 2014 and maturing in 2019 and US$725 million issued in 2017 and maturing in 2022. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted payments:

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

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

Credit risk

Financial instruments, which potentially subject the Group to credit risk, consist primarily of derivative financial instruments, accounts receivable and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Group considers that its maximum exposure is reflected by the amount of trade accounts receivable, cash and cash equivalents and derivative financial instruments.

The Group places its tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba3 (negative) from Moody's rating agency and ING with a credit rating of Aa3 (stable) from Moody's rating agency at 31 December 2017. The Group does not guarantee obligations of other parties.

The Group sells its products and makes advance payments only to recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored.

An impairment analysis is performed at each reporting date on an individual basis for major clients. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Fair values of financial instruments

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

	Carrying amount		**Fair value**	
In thousands of US dollars	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
Financial assets measured at fair value				
Derivative financial instruments	**-**	6,658	**-**	6,658
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(1,087,068)**	(957,874)	**(1,141,803)**	(955,924)
Finance lease liabilities	**(810)**	(1,178)	**(1,267)**	(1,799)
Total	**(1,087,878)**	(952,394)	**(1,143,070)**	(951,065)

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

Notes to the consolidated financial statements continued

33. Financial risk management objectives and policies / continued

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until December 2017.

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 31 December 2016:

	31 December 2016
Future price at the reporting date (US$)	56.82–58.84
Expected volatility (%)	27.33
Risk-free interest rate (%)	0.84
Maturity (months)	1–11

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

Movement in the derivative financial instruments is disclosed in Note 29.

During the years ended 31 December 2017 and 2016 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Capital management

For the purpose of the Group's capital management, capital includes issued capital, additional paid-in capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the notes that define capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to immediately call borrowings. There have been no breaches in the financial covenants of the notes in the current period nor the prior period.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or increase share capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

	For the year ended 31 December	
In thousands of US dollars	**2017**	2016
Interest bearing borrowings	**1,087,878**	959,052
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(133,614)**	(107,115)
Net debt	**954,264**	851,937
Equity	**669,553**	691,812
Total capital	**669,553**	691,812
Capital and net debt	**1,623,817**	1,543,749
Gearing ratio	**59%**	55%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

34. Events after the reporting period

Derivative financial instrument

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

Call of the 2012 Notes and the 2014 Notes

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

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

2018 Notes

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

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

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

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

The covenants contained in the 2018 Notes match the covenants contained in the 2012 Notes, the 2014 Notes and the 2017 Notes.

Parent company financial statements

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The accounting policies and explanatory notes on pages 148 through 154 are an integral part of these financial statements.

Parent company statement of financial position

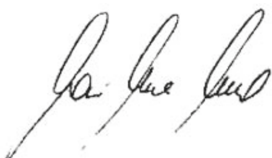
As at 31 December 2017

In thousands of US dollars	Notes	**31 December 2017**	31 December 2016
ASSETS			
Non-current assets			
Investments in subsidiaries	5	**106,222**	106,222
		106,222	106,222
Current assets			
Advances paid		**23**	23
Receivables from related parties	6	**26,633**	27,659
Cash and cash equivalents	7	**88**	761
		26,744	28,443
TOTAL ASSETS		**132,966**	134,665
EQUITY AND LIABILITIES			
Share capital and reserves			
Issued share capital	8	**3,203**	3,203
Retained earnings		**105,262**	105,266
		108,465	108,469
Current liabilities			
Trade payables		**124**	243
Payables to related parties	9	**23,817**	25,331
Accrued liabilities		**560**	622
		24,501	26,196
TOTAL EQUITY AND LIABILITIES		**132,966**	134,665

As permitted by section 408(3) of the Companies Act 2006, the profit and loss account of the Company is not presented in the Company's financial statements.

The Company reported a loss of US$ 4 thousand for the financial year ended 31 December 2017 (2016: profit of US$1,456 thousand). During the reporting periods there were no transactions impacting the statement of other comprehensive income.

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



Kai-Uwe Kessel
Chief Executive Officer

Tom Richardson
Chief Financial Officer

The accounting policies and explanatory notes on pages 148 – 154 are an integral part of these financial statements.

Parent company statement of cash flows

For the year ended 31 December 2017

In thousands of US dollars	Notes	For the year ended 31 December 2017	2016
Cash flow from operating activities:			
Profit before income tax		**11**	1,456
Adjustments for:			
Foreign exchange (gain)/loss on investing and financing activities		**(77)**	39
Accrued expenses		**(63)**	(352)
Investment income		**-**	(1,400)
Operating profit before working capital changes		**(129)**	(257)
Changes in working capital:			
Change in receivables from related parties		**(493)**	(240)
Change in trade payables		**(118)**	73
Change in other current liabilities		**5**	(5)
Cash generated from operations		**(735)**	(429)
Income tax paid		**(15)**	-
Net cash used in operating activities		**(750)**	(429)
Cash flow from investing activities:			
Acquisition of subsidiaries		**-**	(222)
Dividend received		**-**	400
Net cash from investing activities		**-**	178
Cash flow from financing activities:			
Net cash used in financing activities		**-**	-
Effects of exchange rate changes on cash and cash equivalents		**77**	(39)
Net decrease in cash and cash equivalents		**(673)**	(290)
Cash and cash equivalents at the beginning of the year	7	**761**	1,052
Cash and cash equivalents at the end of the year	7	**88**	761

The accounting policies and explanatory notes on pages 148 through 154 are an integral part of these financial statements.

Parent company statement of changes in equity

As at 31 December 2017

In thousands of US dollars	Notes	Share capital	Retained earnings	Total
As at 1 January 2016		**3,203**	**103,810**	**107,013**
Profit for the year		–	1,456	1,456
Total comprehensive income for the year		**-**	**1,456**	**1,456**
As at 31 December 2016		**3,203**	**105,266**	**108,469**
Loss for the year		–	(4)	(4)
Total comprehensive loss for the year		**-**	**(4)**	**(4)**
As at 31 December 2017		**3,203**	**105,262**	**108,465**

The accounting policies and explanatory notes on pages 148 through 154 are an integral part of these financial statements.

Notes to the Parent company financial statements

1. General

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

The subsidiary undertakings of the Company as at 31 December 2017 and the percentage holding of their capital are set out below:

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

1. Merged with Nostrum Services CIS BVBA during 2016

Grandstil LLC was liquidated as of 6 December 2017.

Nostrum Oil & Gas PLC and its wholly-owned subsidiaries are hereinafter referred to as "the Group".

As part of the reorganisation the Company became the holding company of the Group through its direct subsidiaries. Notes 8 of the financial statements of the Company provides more information on the reorganisation.

2. Basis of preparation

The Company financial statements for the year ended 31 December 2017 have been prepared on a going concern basis and in accordance with the Companies Act 2006 and International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") as adopted by the European Union.

The Company financial statements have been prepared based on a historical cost basis. The Company financial statements are presented in US dollars and all values are rounded to the nearest thousands, except when otherwise indicated.

Going concern

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

3. Changes in accounting policies and disclosures

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

The accounting policies adopted are consistent with those of the previous financial year.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 is not expected to have an effect on the classification and measurement of the Company's financial assets and the Company's financial liabilities. Overall, the Company expects no significant impact of IFRS 9 on its balance sheet and equity.

4. Summary of significant accounting policies

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The functional currency of the Company is the United States dollar (the US dollar or US $).

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Non-monetary items that are measured at of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Investments

Investments in subsidiaries are recorded at cost. The Company assesses investments for impairment whenever events or changes in the circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies / continued

Financial assets

Initial recognition and measurement

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

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include investments, loans, cash and cash equivalents and receivables.

Subsequent measurement

Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks.

Derecognition

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

The rights to receive cash flows from the asset have expired

The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities

Initial recognition and measurement

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

The Company's financial liabilities include payables and accrued liabilities.

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of comprehensive income.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Share-based payments

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

The cost of equity-settled transactions are measured at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element, which is not remeasured subsequently until the settlement date.

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12.

5. Investments in subsidiaries

Investments of the Company as at 31 December 2017 comprised of:

In thousands of US dollars	**31 December 2017**	31 December 2016
Nostrum Oil & Gas Coöperatief U.A.	**106,000,000**	106,000,000
Nostrum Oil & Gas BV	**222,271**	222,271
	106,222,271	106,222,271

6. Receivables from related parties

As at 31 December 2017 receivables from related parties are represented by a receivable from the Nostrum employee benefit trust in amount of US$ 23,812 thousand (2016: US$ 25,331 thousand) and a receivable from Nostrum Oil & Gas Coöperatief U.A. in amount of US$ 2,821 thousand (2016: US$ 2,328 thousand).

7. Cash and Cash Equivalents

In thousands of US dollars	**31 December 2017**	31 December 2016
Current accounts in US Dollars	**16**	102
Current accounts in Euro	**54**	575
Current accounts in Pounds Sterling	**18**	84
	88	761

Notes to the consolidated financial statements continued

8. Shareholders' equity

Nostrum Oil & Gas PLC became the new holding company for the business of Nostrum Oil & Gas LP based on the resolution passed by its limited partners on 17 June 2014 followed by the Group reorganisation referred to in that resolution.

Share capital of Nostrum Oil & Gas PLC

As at 31 December 2017 the ownership interests in the Company consist of ordinary shares, which are listed on the London Stock Exchange, these shares have been issued and fully paid. As at 1 January 2014 the Company had subscriber shares and redeemable preference shares, all of which were cancelled on 7 August 2014.

The subscriber and redeemable preference shares had a nominal value of GBP 1 and the ordinary shares have a nominal value of GBP 0.01.

9. Payables to related parties

As at 31 December 2017 amounts payable to related parties include US$ 23,817 thousand represented by arrangements with the Company's subsidiary Nostrum Oil & Gas Coöperatief U.A. in respect of the Nostrum employee benefit trust (2016: US$ 25,331 thousand).

10. Auditors' remuneration

The fees for the audit of the Company amount to US$10 thousand (2016: US$10 thousand).

11. Directors' remuneration

The directors of the Company are also directors of the Group. The aggregate amount of remuneration paid to or receivable by executive directors in respect of qualifying services for the financial year ended 31 December 2017 was US$1,824 thousand (2016: US$2,584 thousand) and was paid by other group companies. In addition, US$771 thousand (2016: US$650 thousand) was paid by the Company to the non-executive directors.The directors do not believe that it is practicable to apportion these amounts between their services as directors of the Company and their services as directors of the Group.

For the year ended 31 December 2017 the Company employed an average of 6 non-executive directors (FY 2016: 6 non-executive directors).

Full details of individual directors' remuneration are given in the directors' remuneration report on pages 79-87 of the annual report.

12. Long-term incentive plan

In 2017 the Nostrum Oil&Gas PLC started operating Long-term incentive plan ("the LTIP"), that was approved by the shareholders of the Company on 26 June 2017 and adopted by the board of directors of the Company on 24 August 2017. The LTIP is a discretionary benefit offered by the Company for the benefit of selected employees. Its main purpose is to increase the interest of the employees in the Company's long-term business goals and performance through share ownership. The LTIP is an incentive for the employees' future performance and commitment to the goals of the Company. The remuneration committee of the board of the Company has the right to decide, in its sole discretion, whether or not further awards will be granted in the future and to which employees those awards will be granted.

Employees (including senior executives and executive directors) of members of the Group or their associates may receive an award, which is a "nominal cost option" over a specified number of ordinary shares in the capital of the Company. The option has an exercise price of 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. However, in certain jursidictions due to regulatory requirements the Company may not be able to settle the awards other than by transfer of cash, in which case the awards are classified as cash-settled transactions, and accounted for similar to SARs.

The award ordinarily vests and becomes exercisable as from later of the third anniversary of grant or two years after the date on which the Company determines whether the performance condition has been satisfied, subject to employee's continued service and to the extent to which the performance condition is satisfied, till the end of the contractual life. The contractual life of the share options is ten years.

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

The cost of equity-settled transactions are measured at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element of "shares to be issued under LTIP", which is not remeasured subsequently until the settlement date.

The following table summarizes the movement in the number of share options during 2017:

	Equity-settled awards	Cash-settled awards	**Total awards**
Total outstanding as at 31 December 2016	–	–	**-**
Share options awarded during the year	1,139,146	69,697	**1,208,843**
Share options forfeited	(5,721)	–	**(5,721)**
Share options lapsed	(11,838)	–	**(11,838)**
Total outstanding as at 31 December 2017	1,121,587	69,697	**1,191,284**

The fair value of the equity-settled share options at the grant date of 10 October 2017 amounted to US$ 4.8 per share option and at the grant date of 11 December 2017 amounted to US$ 3.9 per share. The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for valuation of the share options at the grant date:

	10 October 2017	11 December 2017
Price at the date (US$)	5.3	4.4
Distribution yield (%)	0%	0%
Expected volatility (%)	40.8%	41.9%
Risk-free interest rate (%)	1.36%	1.20%
Expected life (years)	10	10
Option turnover (%)	10%	10%
Price trigger	2.0	2.0

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

13. Related party transactions

Related parties of the Company include its direct and indirect subsidiaries, associates key management personnel and other entities that are under the control or significant influence of the key management personnel.

During the year ended 31 December 2017 based on the service agreement between the Company and its directly owned subsidiary Nostrum Oil & Gas Coöperatief UA, Nostrum Oil & Gas PLC recorded an income of US$2,786 thousand (2016: US$2,624).

As at 31 December 2017 receivables from related parties include US$23,812 thousand from Nostrum employee benefit trust (2016: US$25,331 thousand), and US$1,821 thousand from Nostrum Oil & Gas Coöperatief UA (2016: US$1,327 thousand).

As at 31 December 2017 liabilities to related parties include US$23,817 thousand payable to Nostrum Oil & Gas Coöperatief UA. (2016: US$25,331 thousand)

Notes to the consolidated financial statements continued

14. Financial risk management objectives and policies

The Company's financial assets consist of receivables from shareholders and cash and cash equivalents. The Company's financial liabilities consist of trade and other payables and accrued liabilities.

The main risks arising from the Company's financial instruments are foreign exchange risk and credit risk. The Company's management reviews and agrees policies for managing each of these risks, which are summarized below.

Foreign currency risk

Most of the Company's operation is denominated in USD, therefore the Company's statement of financial position is not significantly affected by exchange rate movements.

Credit risk

Financial instruments, which potentially subject the Company to credit risk, consist primarily of receivables and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Company considers that its maximum exposure is reflected by the amount of receivables from shareholders and cash and cash equivalents.

The Company places its US Dollar and Euro denominated cash with ING which has a credit rating of P1 (upper medium grade) from Moody's rating agency at 31 December 2017.

Receivables are amounts receivable from group companies, thus risk of credit default is low.

Fair values of financial instruments

The fair value of the financial assets represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The management assessed that its assets and liabilities approximate their carrying amounts largely due to their nature or the short-term maturities of these instruments.

Capital management

For the purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Company's capital management is to maximise the shareholder value.

15. Events after the reporting period

There were no significant events between the reporting date and the date of publication.