

Simple Sustainable Successful

Nostrum Oil & Gas PLC Annual Report 2015



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

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

Our track record demonstrates that we have successfully achieved our strategic goals to date.

In order to establish Nostrum as one of the leading independent E&P companies in the FSU, we have developed a simple and sustainable strategy that will allow us to successfully deliver near-term growth combined with long-term value creation.

Corporate structure

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



See the report online:

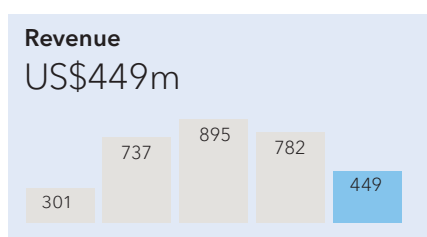
<http://annualreport2015.nostrumoilandgas.com>

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Subsidiary companies

The Company currently has a number of intermediary companies between the Company and its operating entity in Kazakhstan, Zhaikmunai LLP. The corporate structure of the Group is continually reviewed and simplifications to the structure are made from time to time, if considered in the best interests of the Group. The structure of the Group as at 31 December 2015 can be found in the Additional disclosures.

Nostrum at a glance

Overview

Who we are

Nostrum Oil & Gas PLC is an independent multi-field oil and gas company engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin.

We are a simple, sustainable and successful company and, by employing these core values, we aim to become one of the leading independent oil and gas exploration and production companies in the Former Soviet Union (FSU).

We pursue our financial and operational targets in a responsible way, maintaining a track record that clearly

demonstrates the successful achievement of our strategic goals.

Whilst we continue to make progress towards our financial and operational goals, we have developed a simple strategy that will allow us to successfully deliver the near-term growth we have targeted, combined with long-term, sustainable value creation.

Nostrum is listed on the London Stock Exchange, with operations in Kazakhstan as well as offices in Amsterdam, London, Brussels and St. Petersburg.



What we do

We focus on creating long-term shareholder value through the development and discovery of oil and gas reserves, as well as the production and sale of crude oil, stabilised condensate, LPG and dry gas. Our experienced management team has overseen the investment of more than US\$1.5 billion in our licence area since 2004, delivering on a number of infrastructure projects, as well as significantly expanding the reserve base over the last ten years through our own appraisal work combined with successful M&A activity.

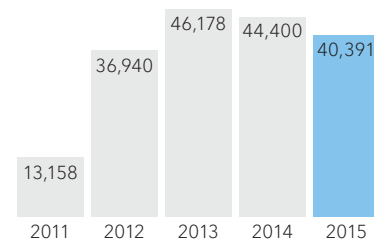
Our commercial products

Our range of products at Nostrum are crude oil, stabilised liquid condensate, LPG and dry gas. Currently all our production comes from the Chinarevskoye licence. We have invested in developing our own infrastructure to control the transportation of our products until they reach the final off-taker, serving a wide network of destinations and off-takers and helping to ensure we always obtain the best possible prices.

Key statistics

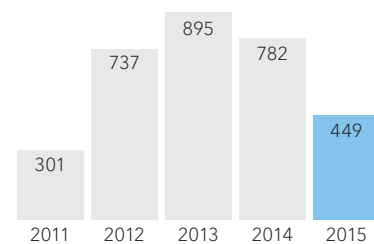
Production

40,391 boepd



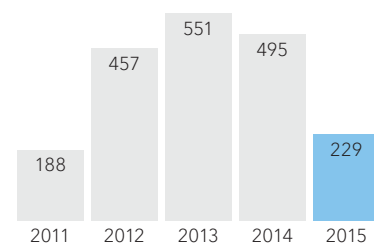
Revenue

US\$449m



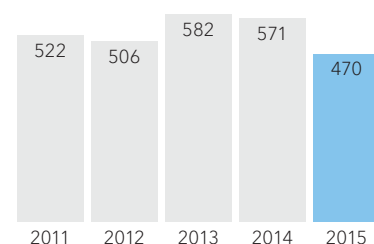
EBITDA

US\$229m

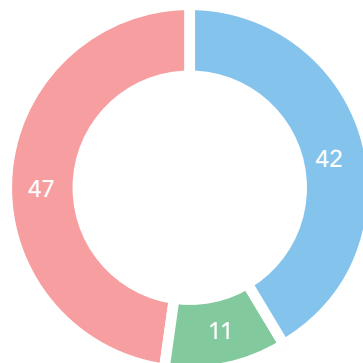


2P reserves

470 mboe



FY 2015 product mix %



- Crude oil and condensate
- LPG
- Dry gas

Average daily production rates

We have successfully grown our production every year from 2004-2013 when full capacity of our processing facilities was achieved. We have since targeted an average daily production of 45,000 boepd and expect to double our production capacity in 2017 to 100,000 boepd. With this increased nameplate capacity we will fortify our competitive advantage in the market and deliver substantial value to our shareholders.

Market positioning

We are in a unique position in the market, with our front-loaded investment programme meaning we are now a leader in terms of infrastructure in the region. Our location in the north-west of Kazakhstan places us close to our final off-take destinations, including the Black Sea ports and Finland. We are able to process and export both liquids and gas using our wholly-owned treatment facilities and transport links.

Operational structure

Nostrum has a simple and effective operating structure. It has a board of directors led by the chairman and an Executive Committee led by the CEO. The Executive Committee manages all major units involved in operations according to the interaction charts and key management principles described

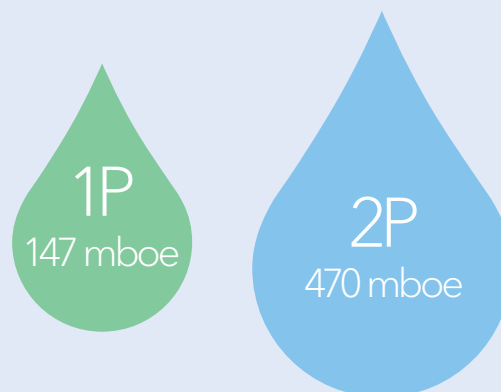
on pages 70 to 80. The team has a breadth of expertise as well as deep sector experience, which has led to the successful oversight of Nostrum's operations throughout the challenging oil price environment seen over the last year.

Reserves

Ryder Scott completed an update of Nostrum's reserves report in December 2015. This report included the reserves at Chinarevskoye and the three additional licences acquired in 2013.



For more information on reserves, please see our website: www.nog.co.uk



Our investment case

A simple investment case

Nostrum has developed a world-class portfolio of assets in the reserve rich area of north-west Kazakhstan. The front-loaded investment programme has been the foundation upon which strong production growth has been built.



Stable financial platform with strong cash flows and flexibility

Nostrum generated US\$153.26m of operating cash flow in 2015. In addition, the Group ended the year with over US\$165.56m of cash¹ on its balance sheet. Nostrum announced in January that it had signed a new hedge of 15,000 bopd for US\$49.16 per barrel, with a 24 month tenor. The hedge and cash position give Nostrum the financial flexibility to actively manage the pursuit of our operational goals accordingly as the oil price environment fluctuates. We believe that the prudent management of our liquidity has given us a competitive advantage and leaves us in a strong position despite the challenging oil price environment seen over the last year, reflecting our core values of simplicity and sustainability.



Over 450 million of 2P reserves

With 470 mboe of 2P reserves and production of more than 14 million barrels of oil equivalent per year, we provide a unique combination of significant production and reserve upside along with consistent operational cash flow.



Targeting steady levels of production

2015's average daily production was 40,391 boe, down marginally on last year due to one-off repair work on the pipeline used to transport Nostrum's gas. We will target an average daily production of over 40,000 boe in 2016 as we continue the construction of our new Gas Treatment Facility.

¹ Cash on the balance sheet is defined as cash and cash equivalents including current and non-current investments.

With low operating costs, we have been able to maintain an average daily production of over 40,000 boe throughout the challenging conditions of 2015, sustaining positive cash flow and progressing towards our operational target of doubling production capacity.



World-class assets

We have four licence areas, all located in the Pre-Caspian Basin towards the north of Uralsk. Nostrum's current producing asset is the Chinarevskoye field and the three additional licences are all located within 60-120km of the field.



Strong governance and responsibility

We are committed to achieving an excellent standard of corporate governance and social responsibility and are aiming for a positive and lasting contribution to the areas in which we operate, with a focus on delivering long-term shareholder value for a sustainable future.

Experienced management team

We are confident in the ability of our experienced and dedicated management team, who have expertise in operating in Kazakhstan, to deliver on our clear strategy.

Simple business case, successful model and sustainable strategy

We have a clear strategy, based on a solid financial foundation and compelling business case. We will deliver near-term production growth, with preparations to double production upon completion of the new Gas Treatment Facility.

In addition, with our continued appraisal of the existing Chinarevskoye field and our three additional licences we are continually transferring reserves to the 1P category, aiming for 700 mboe of proved reserves over the longer-term. This will allow us to maintain production above 100,000 boepd up until the end of the Chinarevskoye licence (2031-2033).

We monitor all opportunities for acquisitions both within our operating region of north-west Kazakhstan as well as further afield within the FSU that would enable us to expand our reserve base and facilitate sustained production through to the end of our licence.

Where we operate

Advantageous location of assets

Our main operational facilities are located at the 274 square kilometre Chinarevskoye field in north-west Kazakhstan. We now have three additional licences, all within a 120km radius of this location. This advantageous location is core to our business case, allowing us to leverage our existing infrastructure and experienced operating and development teams.

Key
 Current destinations
 — Oil/condensate



Transportation dynamics and routes

Crude
 Crude oil is transported through our own liquids pipeline directly from the field site. 15% is sold domestically and the remainder is sold through for export to two main buyers, Neste Oil in Finland and SOCAR in Azerbaijan.

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

LPG
 LPG is transported on trucks from the field site to the rail terminal where it is loaded on to special trains and then transported to the off-taker. The majority of our LPG is sold at Black Sea ports and distributed by traders to Eastern Europe and Turkey.



Dry gas

Dry gas is transported from the Chinarevskoye field through the Company's own 17km gas pipeline, which connects to the InterGas Central Asia pipeline. 25% of gas produced is sold domestically at this connection point and the remaining 75% is exported.

Expanding for the future

With the preparatory work to double production capacity nearing completion, all of the related infrastructure, upon completion of GTU3, will be able to accommodate increased levels of production. This will further improve our efficiencies and effective use of existing infrastructure.

Nostrum is continually evaluating the destinations to which we sell in order to achieve the best possible netbacks for the company. At present, however, transportation routes and destinations are expected to remain unchanged.

Key performance indicators

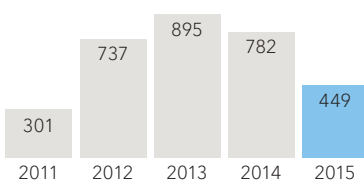
Resilient financial performance

Financial KPIs

Nostrum has maintained high operational margins and positive cash flows for the year from our processing facilities despite the volatile oil price environment of 2015. We come to the end of the year in a strong financial position, fully funded to complete GTU3 on schedule, and with US\$165.56m in cash and cash equivalents on our balance sheet.

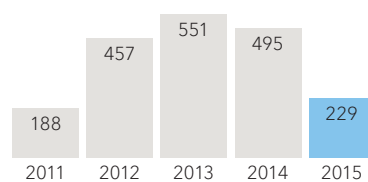
Revenue

US\$449m -42.6%



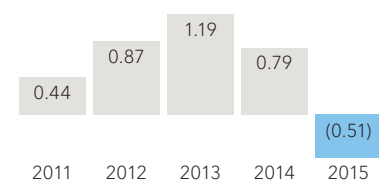
EBITDA

US\$229m -53.7%



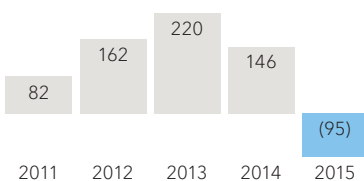
EPS

US\$-0.51 -164.6%



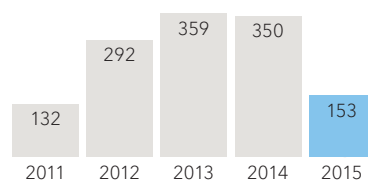
Net income

US\$-95m -165.0%



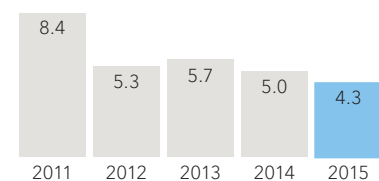
Operating cash flow

US\$153m -56.3%



Opex per barrel

US\$4.3 -14.0%



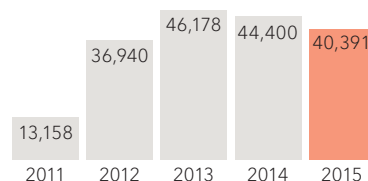
The main factors contributing to the variance between forecast and actual results were the drop in the average Brent oil price by 46% in 2015 and the unforeseen repair work on the third party pipeline used to transport Nostrum's dry gas.

Non-financial KPIs

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

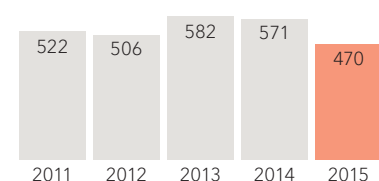
Production

40,391 boepd -9.0%



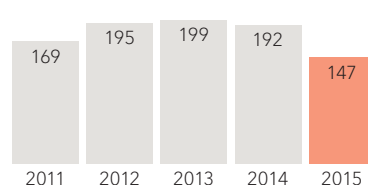
2P reserves

470 mboe -17.7%



Proven reserves

147 mboe -23.5%



Number of man-hours without loss of working hours (in millions)

1.91m +1.1%



2015 milestones

Principal developments in the reporting period

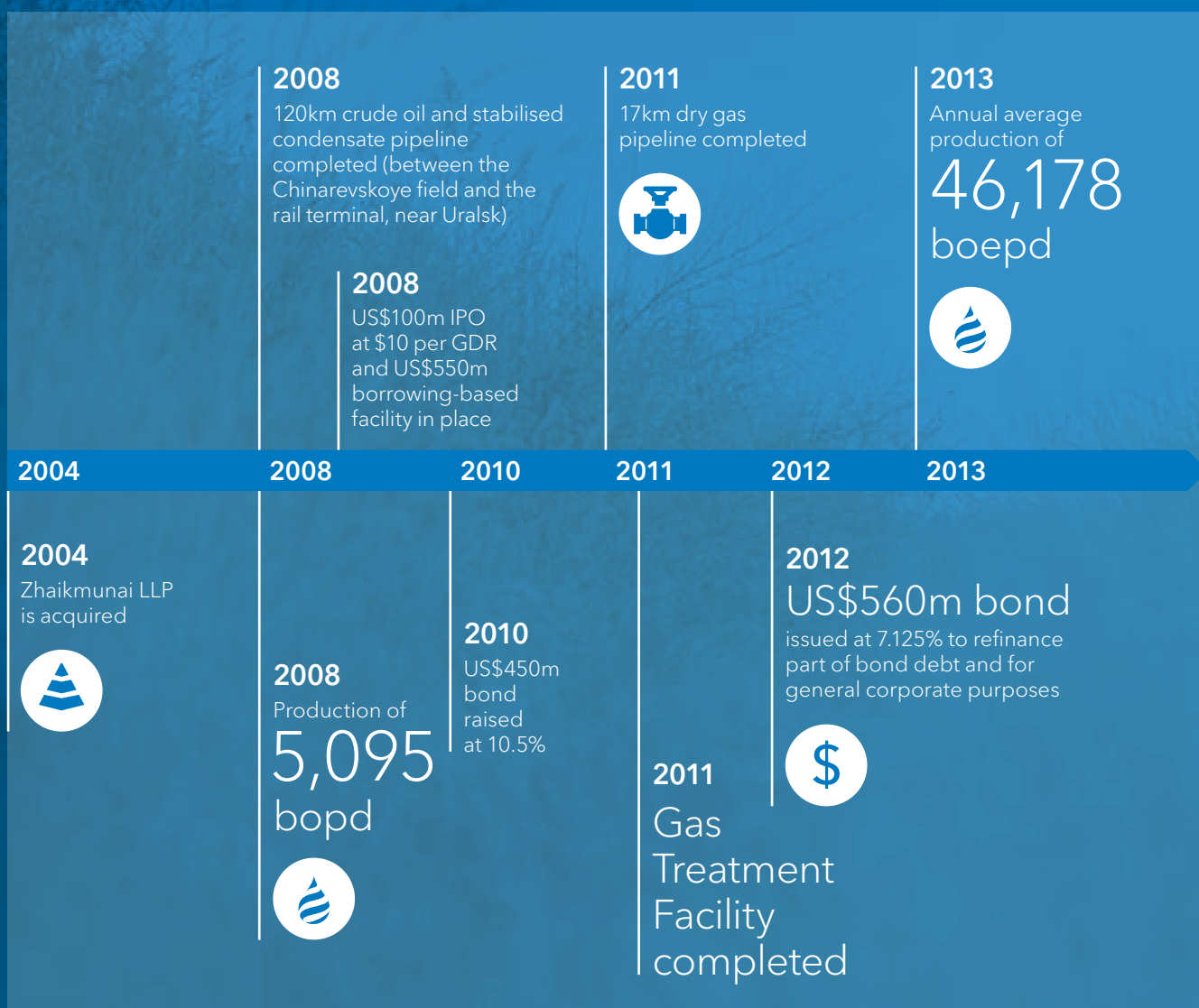
Strategic	Financial	Operational
<p>GTU3 – following the continued fall in the oil price Nostrum has taken the decision to phase the payments of GTU3 over 2016 and 2017. Completion will now be during 2017. The phasing of payments will involve no additional cost for Nostrum and the total budget remains at US\$500m. The phasing of the payments will now match the new hedge and will allow for a continued preservation of cash on Nostrum’s balance sheet over the next 24 months.</p>	<p>Hedging – 15,000 barrels of oil per day hedged at US\$49.16 until December 2017. The previous hedge value of US\$92m was used to purchase put options with a strike price of US\$49.16 per barrel in December 2015. The put options are settled in cash on a quarterly basis and mature in December 2017. The options mean that Nostrum is receiving US\$49.16 per barrel on at least 1.35m barrels of oil each quarter. This represents over two thirds of its liquids production. There is no cost to Nostrum if the oil price goes above US\$49.16 as Nostrum has only bought put options and has not given away any upside with this hedge.</p>	<p>Unexpected repair work on export gas pipeline – during October the pipeline Nostrum uses for the sale of export gas was closed by its operator for unforeseen repair work. The result of this unexpected repair work was that the annual average production was lower than initially expected, at 40,391 boepd.</p>
<p>Production ramp up – as a result of completion of GTU3 being moved back in to 2017 production guidance has been revised down from 70,000 to a range between 40,000 boepd and 60,000 boepd for 2017.</p>	<p>Export gas paid in US Dollars – at the start of 2015 Nostrum entered in to an agreement to sell 75% of its dry gas for export at prices denominated in US\$.</p>	<p>Successful GTU1&2 maintenance – the semi-annual scheduled shutdowns for maintenance were completed within the expected timeframe budgeted for the year. Total shut down time for planned maintenance did not exceed 15 days over 2015.</p>
<p>First appraisal well on Rostoshinskoye field – the first appraisal well on Rostoshinskoye has been started and will be completed during 2016. Rostoshinskoye is the largest of the three fields adjacent to Chinarevskoye. Together, the three fields contain an estimated 87m 2P barrels.</p>	<p>Dividend – a dividend of US\$0.27 per ordinary share was paid in June 2015.</p>	<p>Producing wells – 21 oil wells and 18 gas wells were producing at the Chinarevskoye field. In 2015 Nostrum had three rigs working at Chinarevskoye and in the second half of 2015 this was reduced to one rig. At the start of 2016 this is scheduled to increase to three rigs.</p>
<p>Offer for Tethys Petroleum – Nostrum made an all share offer for Tethys Petroleum during 2015. The offer was later withdrawn by Nostrum and subsequently no further offer has been made.</p>		<p>Eight wells completed – during 2015 eight wells were completed at Chinarevskoye. During 2016 four wells are scheduled at Chinarevskoye plus one to be completed at Rostoshinskoye.</p>

Key historical developments

Successful development

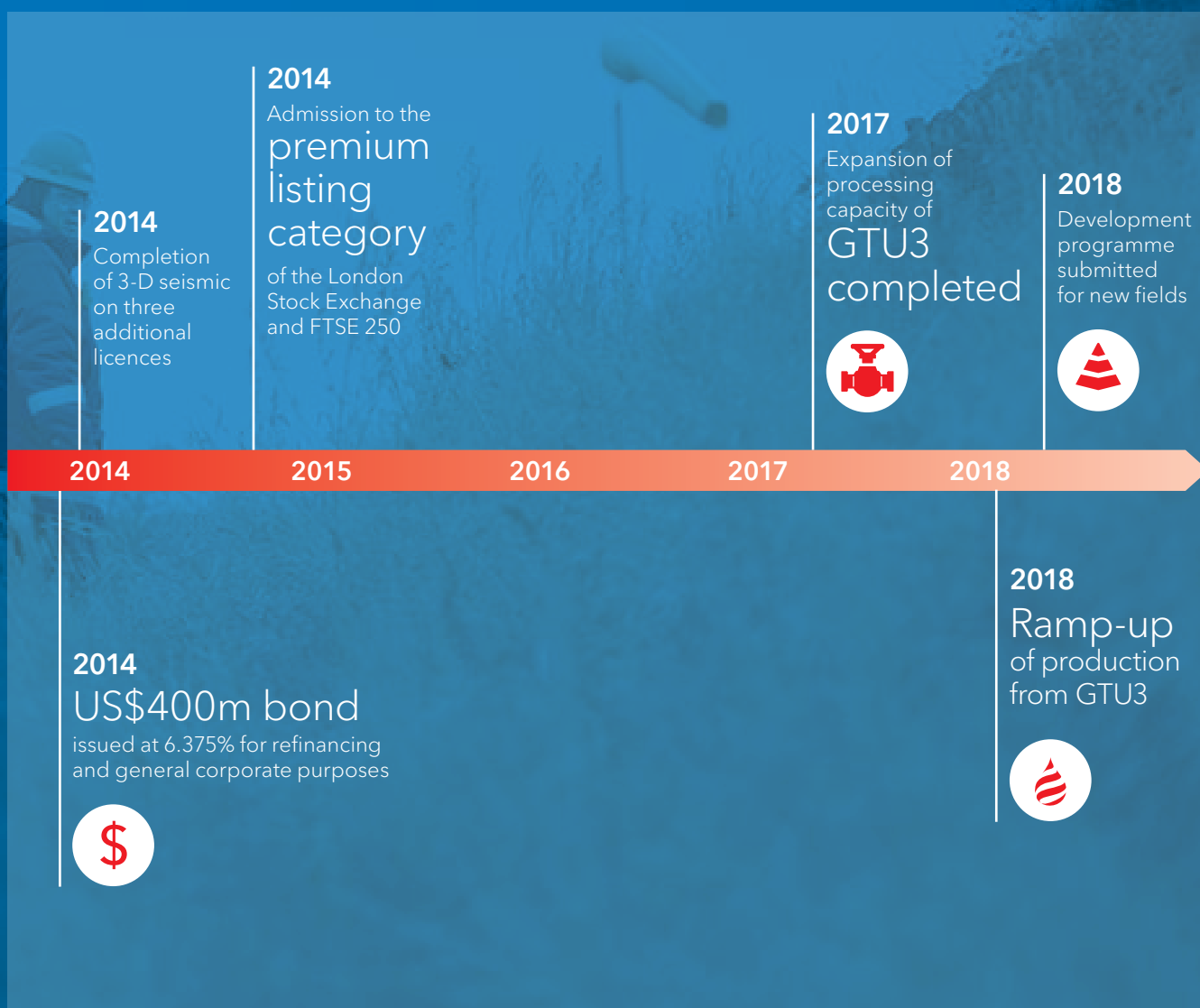
First phase of development 2004-2013

Total capex:
US\$1.5 billion



Second phase of development 2014-2018

Total expected capex approximately:
US\$1.2 billion



Chairman's statement

Steady progress amidst falling oil prices



Our vision

Nostrum's vision is to grow production to over 100,000 boepd and to build a reserve base that allows the Company to continue to produce at this level far into the future. This goal is now less than 24 months away from being realised, with the new gas plant due for delivery in 2017. Our target remains to become one of the leading companies in the FSU.

Nostrum intends to realise its vision through a clearly defined strategy, balancing organic development with carefully considered expansion through acquisitions. Its main priority remains, as always, to continue to deliver growth and shareholder value in a responsible and efficient way.

Resilient financial and operational performance

Nostrum delivered a steady performance in 2015 with production averaging over 40,000 boepd for the entire year. The falling oil price meant that the Group's financial results for the year were not as strong as in 2014, but with the continuation of our cost reduction programme and an increase in gas revenue from our new export contract for 75% of our gas, we maintained a resilient EBITDA margin of over 50%. We made good progress this year on our new gas plant and look

forward to its completion next year, enabling us to double our production capacity to 100,000 boepd. I believe that Nostrum is uniquely placed to not only survive the current fall in oil prices but also to prosper once we have completed our new gas plant. Our ambitions to build one of the leading independent E&P companies in the FSU remain as strong as ever and I believe the current environment can provide us with growth opportunities, rather than limitations.

Flexible financial position

We continue to manage our cash position prudently and have ended the year with over US\$160m of cash on our balance sheet. Given the volatile oil price, we also took steps to further protect the liquidity position of the Company. A new hedge was entered into that covers the Company over 2016 and 2017 and locks in US\$49.16 per barrel on 15,000 boepd. The cost of the new hedge was paid for entirely by the proceeds of the previous hedge. In addition we have decided to phase the payments for the construction of our gas plant over the next 24 months to match the cash we will receive under our hedge. This ensures that the Company can execute its business plan under any oil price over the next 24 months.

With oil prices falling to around US\$30 and the devaluation of the Tenge in 2015 we are focusing our efforts to further reduce operating costs as part of our cost reduction programme. Given the low operating costs of our field we can continue to generate positive cashflow even at the current low oil prices. Whilst cost cutting and liquidity management are the short-term focus, we remain committed to creating value through the construction of our new gas plant, the doubling of production capacity and expanding our reserves base.

2016 dividend

As a result of the falling oil prices in 2015, we are not proposing a dividend payment for 2016. We believe that in the current environment maintaining short-term liquidity will ultimately lead to greater shareholder value in the longer term. This is a tough decision to make as we had established a track record of distributing a small portion of cash to shareholders. However the Board believes that cash preservation is paramount in these uncertain times.

Stable production levels

The financial performance of the Company was built on another steady year of operational results. Production of 40,391 boepd was below our guidance due to unforeseen repair works to the pipeline through which gas is exported. Excluding the period of maintenance we would have met our target guidance figure for production for the year. Along with our new hedge, this steady production and associated cash flow continues to allow Nostrum to fully finance its investment in further infrastructure to double our production capacity.

“Nostrum’s ability to navigate this period of low oil prices centres on the quality of its asset base and the commitment of our people.”

Multi-field asset base established

Nostrum has started the appraisal programme on the three additional licences acquired in 2013 which are estimated by Ryder Scott to hold 87 mboe equivalent. We have adopted the same approach with our additional fields that we undertook with Chinarevskoye. The first step is to fully understand the geology and de-risk the development programme as much as possible. We have carried out new 3-D seismic on each field and have now interpreted it, allowing us to have a much better understanding of where to position our first appraisal wells. We started drilling the first appraisal well in the largest field, Rostoshinskoye, in 2015, and its initial results are looking promising. We look forward to developing these fields and to bringing them into production to utilise our infrastructure development.

Governance and the Board

The Board understands the importance of providing effective and clear leadership and direction on all matters relating to corporate governance and places great significance on achieving high standards of governance to underpin the Group’s good business conduct and strong ethical culture. With this in mind I am very pleased with how the Company has handled its first full year since its regulatory obligations were increased as a result of the Company’s admission to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange PLC’s main market for listed securities in June 2014. I believe the Company has handled this transition very well. During 2015 the Board continued to work closely with management to maintain high standards of corporate governance and to ensure the Company’s continued compliance with the rules imposed by the Financial Conduct Authority and associated guidance under the UK Corporate Governance Code.

Our commitment to corporate responsibility

At Nostrum we strive to be a responsible and transparent business. Our corporate responsibility approach covers the relationships we have with all our stakeholders including shareholders, employees, contractors, local communities and host governments, as well as the environments in which we work. Nostrum’s strategy on Corporate Responsibility focuses around three key areas – people, planet, and profit – and includes the following initiatives:

- Nostrum has made it a priority to communicate its approach to its various stakeholders, emphasising its stringent corporate governance provisions and business ethics;
- Nostrum monitors and reports on the wellbeing of its employees, health and safety measures, working environment specifics and overall benefits. Nostrum also reports on its direct involvement in the community through programmes providing social infrastructure, sponsoring activities and charitable work; and
- Nostrum manages its environmental footprint carefully and adheres fully to relevant legislation. The Company is also proactive in linking its environmental objectives to the highest possible standards and ensuring stringent compliance and progress monitoring.

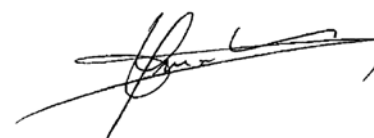
In 2015, we believe Nostrum’s actions have had a positive impact on its wide range of stakeholders, including investors, business partners, regulators, employees, customers, local communities, the environment and society more generally.

Our people

Nostrum’s growth and success revolves around the quality and commitment of our people and we believe we have an excellent team that can deliver our strategy notwithstanding a lower oil price. Our global workforce now totals more than 1,000 people. We remain committed to developing local content and 98% of the people employed in our activities in Kazakhstan are Kazakh nationals as at the end of 2015. We will continue to develop our employment practices and policies to ensure we can attract and retain the best talent. At the same time we are implementing a cost reduction programme to adapt to the new low oil price environment which will ensure we do not carry unnecessary excess costs into 2016.

The future

2015 was a challenging year for Nostrum as we adapted to the falling oil price. We reacted quickly in cutting costs and took steps to protect the financial stability of the Company whilst not deviating from our strategy to double our processing capacity and reach a production level in excess of 100,000 boepd in the near future. In 2016 we need to remain vigilant on cost cutting and ensure that each dollar we invest will deliver future returns for shareholders in the new oil price environment. Whilst the industry is still adapting to the low oil prices I believe at Nostrum we have made quick decisive decisions that will protect our stakeholders under all possible oil price scenarios. With these solid foundations I look forward to completing our near-term initiatives and seeing Nostrum prosper under any recovery in the oil price in the future.



Frank Monstrey
Chairman

Chief Executive's review

Maintaining financial stability to secure future production growth



How we performed in 2015

2015 was a stable year from an operational perspective. It saw the gas treatment facility continue to operate at full capacity with a complete range of hydrocarbon products being delivered to a range of customers and destinations outside Kazakhstan. We suffered an unexpected downtime in October due to unforeseen repair work made to the pipeline through which we export our gas. Outside of this downtime production was stable. Nostrum is now deep into its second development phase, which will entail the construction and commissioning of the new gas plant in combination with a scalable drilling programme in order to ramp up the plant as quickly as possible.

Our performance against the three key objectives for the Company in 2015 was as follows:

1. Ensure that the financial position of the Company remains stable:

The financial position of the Company remained stable despite the challenging oil price environment and we have ended the year with over US\$160m of cash on our balance sheet. Given the severity of the oil price fall we have ensured that Nostrum has the financial security to survive any fall in the oil price during the next 24 months and still complete all its committed capex without the need for additional funding.

2. Ensure construction of the new gas plant remains on track for 2016:

Significant steps have been made in the construction of our next GTU, which will allow us to double our production capacity during 2017. We have spent over US\$250m and expect the total cost to be below US\$500m. Due to the falling oil price environment we decided in 2015 to phase the remaining payments on GTU3 across 2016 and 2017. This means the scheduled completion date has been pushed back into 2017 as it allows us to preserve the liquidity position of the Company and match the hedging payment profile we have put in place.

The phasing of payments on GTU3 in this way allows the Company to remain fully financed for the next 24 months whilst it completes the gas plant.

3. Optimise the drilling programme to ensure that we can fill the GTU3 as quickly as possible whilst not jeopardising the Company's financial position:

We have closely monitored the drilling schedule during 2015 to ensure it is kept in balance with the falling oil price and corresponding reduction in operating cash flow. We reduced the number of rigs on the Chinarevskoye field in the second half of 2015 to one rig before increasing this to start 2016 with three rigs. We are continually analysing and adjusting the drilling programme to optimise the current drilling capex as well as to maximise the speed of the ramp up once GTU3 is complete. The main driver for the speed of ramp up is the oil price during 2017. The oil price will dictate how many additional wells we can drill over our base case of simply maintaining production during 2017.

Steady production levels

The Chinarevskoye field is now in stable production with all facilities running smoothly. Nostrum expects a daily total production average of at least 40,000 boepd for 2016 and 2017. All products - crude oil, stabilised condensate, LPG and dry gas - are sold at the best possible prices on the world markets, and our operations are running at stable levels. We are targeting the doubling of production capacity during 2017.

Future drilling programme at Chinarevskoye

In 2015, we completed eight wells, in line with the number we set out to complete at the start of the year. Our drilling programme has always been designed to be scalable and the falling oil prices have resulted in us scaling down the proposed drilling schedule for 2016 as we will only drill three production wells and one appraisal well at Chinarevskoye in addition to

“During 2015 we have ensured that Nostrum has the financial security to survive any fall in the oil price during the next 24 months and still complete all its committed capex without the need for additional funding.”

completing the appraisal well at Rostoshinskoye. Our current drilling programme allows us to maintain production above 40,000 boepd without jeopardising our liquidity position. We plan to increase drilling as we get closer to GTU3 completion in 2017 so that we can start to ramp up production as we increase our production capacity. The speed of the ramp up will be contingent on oil prices – the higher the oil price the quicker the ramp up.

Construction of second Gas Plant

During 2015 we have made significant steps towards the construction of our new gas plant. The rationale behind the plant is that it will allow faster monetisation of reserves, by increasing treatment capacity by an additional 2.5 bcm of raw gas per year, bringing total capacity to 4.2 bcm of raw gas per annum. Over US\$250m has already been invested in the plant. We have revised the targeted completion date to 2017 as we have decided to phase construction payments to match the proceeds of our hedge position, which protects us against the current low oil prices. We are now on track to deliver the plant on time and on budget, below US\$500m, during 2017.

Building up further reserves

As a result of the falling oil price we have seen a reduction in the amount of proved and probable reserves over and above the amount produced during the year 2015. I am confident that we will recover these reserves under a higher oil price environment as the field remains in good condition and hydrocarbons in place remain broadly unchanged. I am therefore optimistic that any recovery in oil price can drive an increase in 2P reserves without having to undertake any additional exploration work on Chinarevskoye.

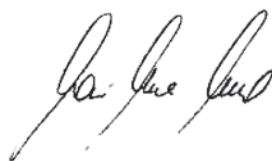
By virtue of its size, development stage and production track record, Nostrum has acquired high visibility both locally and internationally. As a result it regularly monitors further M&A opportunities. Its approach is to remain both pragmatic and prudent as it considers these options. Nostrum’s core focus remains on north-west Kazakhstan, where it knows the landscape and is already operating successfully.

Key priority tasks for 2016

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

1. Ensure that the financial position of the Company remains stable
2. Ensure construction of the next gas plant remains on track for 2017
3. Optimise the drilling programme to ensure that we can fill the GTU3 as quickly as possible whilst not jeopardising the Company’s financial position
4. Implement the cost reduction programme

I believe that these objectives, if successfully achieved, will provide the platform to enhance shareholder value in the future. We have demonstrated in the past that we can deliver on all these objectives and I am therefore confident as we enter 2016 that we are well placed to achieve our goals. I believe that we are well positioned to successfully execute the next phase of infrastructure, whilst also ensuring that we can maximise the value of our processing facilities by adding reserves over the coming years.



Kai-Uwe Kessel

Chief Executive Officer

Market overview

The oil and gas market in Kazakhstan¹

Kazakhstan is a vast country, the size of western Europe. Its substantial reserves of natural resources ensure its enormous economic potential.



Kazakhstan's oil reserves
3.9 billion MT

Kazakhstan's gas reserves
1.5 trillion m³



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

Since 2000, Kazakhstan has experienced significant economic growth mainly through economic reform and foreign investment. Exports of crude oil have grown significantly and, due to Kazakhstan being landlocked, most of the oil from Kazakhstan is currently delivered to international markets using pipelines, which run through Russia, to shipping points on the Black Sea.

International investment into the Kazakh oil and gas sector has largely taken the form of joint ventures, including cooperation with the state-owned oil and gas company NC KazMunayGas JSC ("NC KMG"), as well as production sharing agreements and direct grants of exploration/production rights to subsoil users. Major projects in Kazakhstan include the Tengiz, Karachaganak and Kashagan fields.

Oil supply and demand

According to BP's Statistical Review of World Energy 2015, as at 31 December 2014 Kazakhstan ranked twelfth in the world by oil reserves and twentieth in the world by gas reserves. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet Republics and has the Caspian region's largest recoverable oil reserves. Kazakhstan's proved oil and gas reserves were 3.9 billion tonnes and 1.5 trillion cubic metres respectively, as at 31 December 2014.

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

There are three major refineries in Kazakhstan supplying the northern region (at Pavlodar), the western region (at Atyrau) and the southern region (at Shymkent). All three major refineries are either under the control or joint control of NC KMG.

Oil price outlook

The continued volatility and decline in oil prices throughout 2015 has led to the Group taking a number of strategic decisions to mitigate the impact of continued volatility and depressed prices. As such, Nostrum is well positioned to withstand continued low oil prices over the short to medium term and to deliver growth at a US\$50.0/bbl long-term oil price.

Overview – The larger Caspian Region

To date, Kazakhstan and Azerbaijan are the two significant crude oil producing countries in the Caspian region. It is expected that these countries will continue to lead the region in crude oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields. Turkmenistan and Uzbekistan are the predominant gas producers in the region. Russia plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea, however this part of Russia is not a source of substantial crude.

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

Some of the market and competitive position data has been obtained from US government publications and other third-party sources, including publicly available data from the World Bank, the Economist Intelligence Unit, the annual BP Statistical Review of World Energy for 2015, as well as from Kazakh press reports and publications, and edicts and resolutions of the Kazakh government. In the case of statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

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

Market overview continued

The oil and gas market in Kazakhstan

Gas supply and demand

Increases in Kazakhstan's gas production are expected to come primarily from associated gas at the Tengiz, Karachaganak and Kashagan fields. Most of Kazakhstan's gas reserves are located in the west of the country and over half are located in the Karachaganak field.

Gas production has increased significantly since 2004 when the Parliament passed a law prohibiting the industrial production of oil and gas deposits without the utilization of natural and associated gas.

Transportation

An important aspect of increasing hydrocarbon production in Kazakhstan has been the development of transportation infrastructure, as this in turn has raised Kazakhstan's export capacity.

Crude oil

Currently over 7,920km of Kazakhstan's 20,238km of pipeline are used in oil transportation. The three main pipelines are the Uzen-Atyrau-Samara ("UAS") pipeline, the CPC pipeline, and the Kazakhstan-China pipeline.

Other pipeline routes from Kazakhstan are being considered, such as routes through the Caucasus region to Turkey and routes through Iran and Afghanistan.

Natural gas

Most of the gas pipelines in western Kazakhstan, with the exception of Makat-Atyrau-Astrakhan, are designed to provide gas to CAC. The pipeline has two branches that meet in the south-western Kazakh city of Beyneu before crossing into Russia and connecting with the Russian pipeline system.

The construction of the Beineu-Bozoi-Shymkent gas pipeline designed to transport gas from west Kazakhstan for use in the southern regions of Kazakhstan and export to China, started in 2010.

The Bukhara Urals gas pipeline was initially built to supply gas from Uzbekistan to north-east Kazakhstan and Russia's southeast Urals region.

Bukhara-Tashkent-Bishkek-Almaty is a transit pipeline that provides gas from Uzbekistan to Kazakhstan's main southern population centre.

Macro economic and micro economic changes

Macro economic and micro economic changes that occurred in the reporting period and their impact on results:

- With effect from 1 January 2016, Kazakhstan reduced export duties for crude oil from US\$60 to US\$40 per tonne
- With effect from 1 February 2016, Kazakhstan introduced floating rates of export duties for crude oil based on average market prices
- The average price of Brent crude oil for the year ended 31 December 2015 fell to US\$53.6 per barrel, 46% lower than the average price the previous year
- In August 2015 the Kazakh Tenge abandoned its peg against the US Dollar allowing the market to set the price. In initial response to the change in policy the Tenge devalued by c.25%. Throughout the remainder of 2015 the currency continued to devalue with the exchange rate at year end being 345.0 per US Dollar (a devaluation since the de-pegging of c.45%)

- The major part of the Group's tax bases of non-monetary assets and liabilities is determined in Kazakh Tenge. Therefore, any change in the US Dollar/Tenge exchange rate results in a change in the temporary difference between the tax bases of non-current assets and their carrying amounts in the financial statements. During the twelve months to 31 December 2015, the devaluation of the Tenge resulted in an increase of the temporary differences on non-current assets which was recognised as a deferred tax expense for the period
- A large proportion of the Company's operating expenses in Kazakhstan are denominated in Tenge, whereas only a small proportion of the Company's revenues are received in Tenge. As such, the Tenge devaluation has brought about some cost savings in US Dollar terms
- Overall, the net cash impact of the Tenge devaluation was broadly neutral

Major oil and gas projects in Kazakhstan

TCO

The TCO joint venture was created in 1993 with the aim of developing the Tengiz and Korolev fields that have estimated recoverable reserves of between 5.5 billion barrels and 8.1 billion barrels of oil. The participants in the joint venture are Chevron Overseas Company, ExxonMobil, NC KMG and LukArco.

Karachaganak project

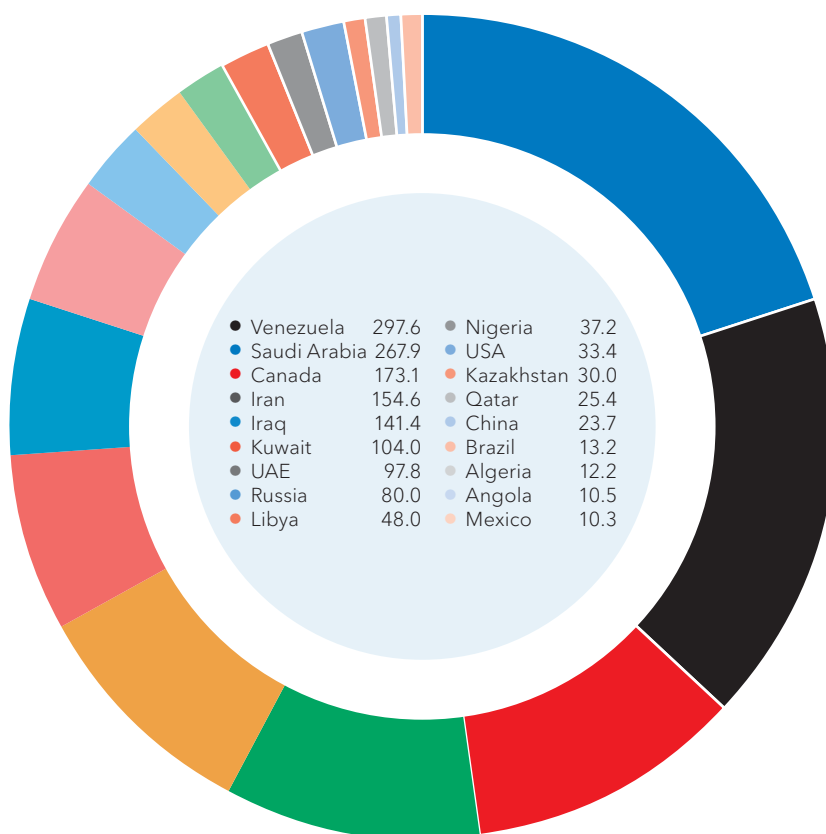
The Karachaganak field is a 280 square kilometre gas condensate field located in north-west Kazakhstan which was discovered in 1979. BG Group and ENI are joint operators and each hold a 29.25% interest in the venture. The Karachaganak field is Kazakhstan's main gas field, holding an estimated 9 billion barrels of gas condensate and 48 trillion cubic feet of gas.

North Caspian project

The Kashagan field is located off the northern shore of the Caspian Sea, near the city of Atyrau. In 1997, a consortium of companies signed a 40-year production sharing agreement covering five structures. The structures consist of 11 offshore blocks over an area of 5,600 square kilometres. The North Caspian Operating Company (NCOC), a consortium that includes ENI S.p.A., ExxonMobil, Shell, Total S.A., INPEX Corporation and NC KMG owns the project.

Proven reserves

(billion barrels)



Source: EIA May 2015

Benchmarking of our business against peers

Strengths

- Advantageous location gives access to multiple transportation routes
- Investment in infrastructure gives the Company complete control of its liquids transportation
- Investment in gas plant allows Nostrum to produce raw gas in north-west Kazakhstan where there is a shortage of processing capacity
- High-quality light sweet crude and condensate

Weaknesses

- Nostrum is subject to fluctuations in the market prices for its products, however we do have hedges in place
- Geological risks are unavoidable in the oil and gas business
- The harsh operating environment means temperatures fluctuate significantly between summer and winter
- Lack of significant population reduces size of skilled workforce

Our business model

A simple, sustainable and successful business model

Our track record of successfully building and financing large infrastructure while developing reserves into commercial production puts us in a unique position.

With our management team's outstanding technical and regional expertise in both oil and gas we can use this platform to deliver future growth to our shareholders.

World-class assets



Over 450 mboe 2P reserves

A strong and growing reserve base in north-west Kazakhstan

State-of-the-art infrastructure

High standards of corporate governance



Experienced team

Outstanding technical and regional expertise

Social and economic development

Continued financial stability of the Company

Production, development & exploration



Expand processing capacity

Continue to grow the proven reserve base through the appraisal of Chinarevskoye and the three new fields

Analysis of new 3-D seismic data for the three additional licences



How we run our business is equally important in enabling us to successfully deliver our business plan and map our growth strategy. Protecting our business, sustaining our good reputation,

maintaining our entrepreneurial culture and contributing to social and economic development are the cornerstones on which we continue to build the Company.

Fully funded



Access to capital markets

US\$1.2 billion investment programme in place

Resilient financial performance

M&A



Creating economies of scale through the value chain

Investing in strategic acquisitions

Established business development team in the region



Our business strategy

A sustainable strategy for growth

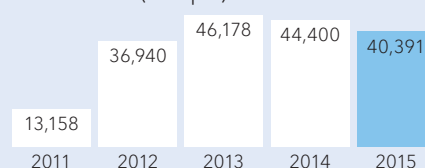
Strategic priorities

Delivering near-term production growth

- GTU3 construction has continued on budget. Payments have been phased into 2017 in order to preserve liquidity in the current oil price environment
- Production for the full year was 40,391 boepd, down on 2014 as a result of unforeseen repair work carried out in Q4 on third party pipelines used to transport Nostrum's dry gas. Production in the first three quarters of the year was steady, at around 44,000 boepd

KPIs aligned to our strategic objectives

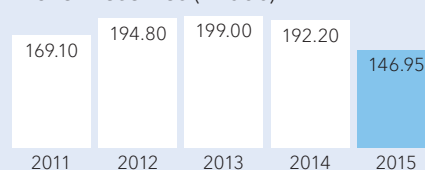
Production (boepd)



Appraising and developing near-term projects

- Continued to target growth of proven reserve base through appraisal of Chinarevskoye and three new fields
- Eight wells drilled during 2015, comprising six production wells and two appraisal wells

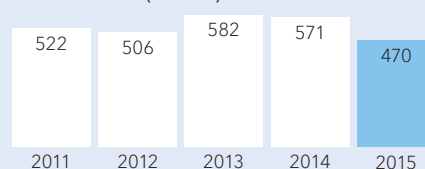
Proven reserves (m boe)



Exploration upside through M&A

- Continuously monitored M&A opportunities in and around the Chinarevskoye field, as well as in other strategic areas of Kazakhstan
- Our strong cash flow, in combination with the challenges posed to the sector by the volatile oil price environment, allows the Group to look for compelling acquisitions

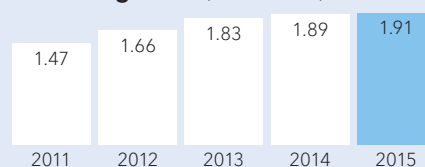
2P reserves (mboe)



Linking corporate responsibility to the growth of the Company

- Increased presence in local communities, and reported on well-being of employees and working environment
- Benefits to all stakeholders through creation of economic growth

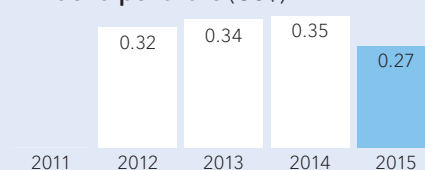
Number of man-hours without loss of working hours (in millions)



Focusing on delivering shareholder value

- Paid dividend of US\$0.27 per ordinary share in 2015, recognising the business's growth and cash generation.

Dividend per share (US\$)



Risks associated with our strategy

- GTU3 development project is subject to risks related to delay, non-completion and cost overruns

- Inaccurate assessments or unsuccessful exploration of the new fields could result in the overstatement of the Group's oil and gas reserves

- Future earnings may be adversely impacted by changes in the market

- Legal framework for environmental protection and operational safety still being developed in Kazakhstan

- The Group's activities in the Chinarevskoye field are currently the Group's sole source of revenue

Forecasts, objectives and prospects for 2016-2018

- GTU3 scheduled for completion in 2017
- Production target of 40,000 boepd in 2016, 40,000-60,000 boepd in 2017 and 60,000-90,000 boepd in 2018

- Completion of Rostoshinskoye appraisal well expected during 2016
- Dynamic drilling programme in order to maintain production and ramp-up in line with oil price movements

- Opportunities for acquisitive growth will be evaluated on an ongoing and opportunistic basis

- Focus on expanding QHSE policy to include initiatives that go beyond day-to-day activities, such as contractor HSE management and environmental reporting

- The Group aims to strike a balance between reinvesting in future growth and returning cash to our shareholders
- The dividend policy will be progressively reviewed by the Board of directors in line with the achievement of the Group's strategic milestones

Strategic objective

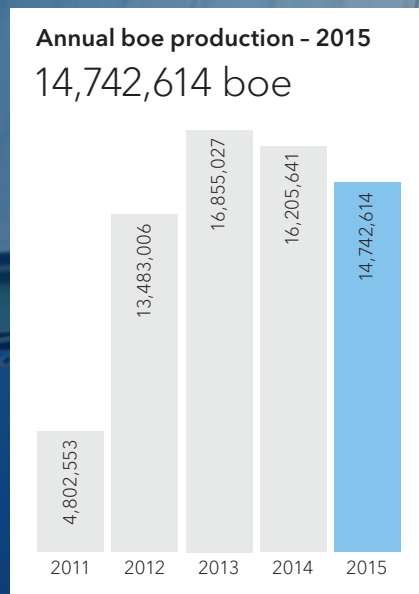
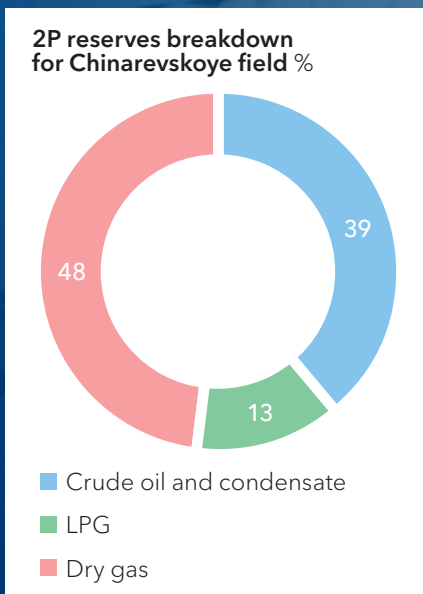
To become one of the leading independent oil and gas companies in the FSU

Performance review

Building a world-class portfolio of assets

Chinarevskoye field

The 274 square kilometre Chinarevskoye licence is located in the Batys province of northwestern Kazakhstan, approximately 100 kilometres north-east of Uralsk and near to the Russian border.





Performance review continued

Building a world-class portfolio of assets

Chinarevskoye field

Stable business environment

Exploration and production licence

We were granted an exploration and production licence for the Chinarevskoye field in May 1997, which was extended in 2008, to 2033 for all oil and gas bearing reservoirs and horizons covering 185 square kilometres of the licence area. The licence for the north-eastern Tournaisian reservoir is valid until 2031.

Production Sharing Agreement (PSA)

Nostrum operates under a grandfathered PSA with the Government of Kazakhstan, which sets the parameters for the exploration and

development of the Chinarevskoye field, and the respective royalties, profit share and tax liabilities payable to the government.

Outlook

The licence and the PSA are currently valid until 2031 (with respect to the north-eastern Tournaisian reservoir) and 2033 (for the rest of the Chinarevskoye field), and we must comply with the terms of the exploration permit, the production permit and the development plans during this period. To date, Nostrum has met all of its capital investment obligations under the PSA.

Geology, reserves and drilling

Geology

The Chinarevskoye field is a multi-layer structure with ten reservoirs and 44 compartments spread over three areas: the western area contains 16 compartments; the northern area has 24 compartments and the southern area has four compartments. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian, Famennian, Mulinski, Ardatovski, and Biski-Afoninski reservoirs.

Reserves

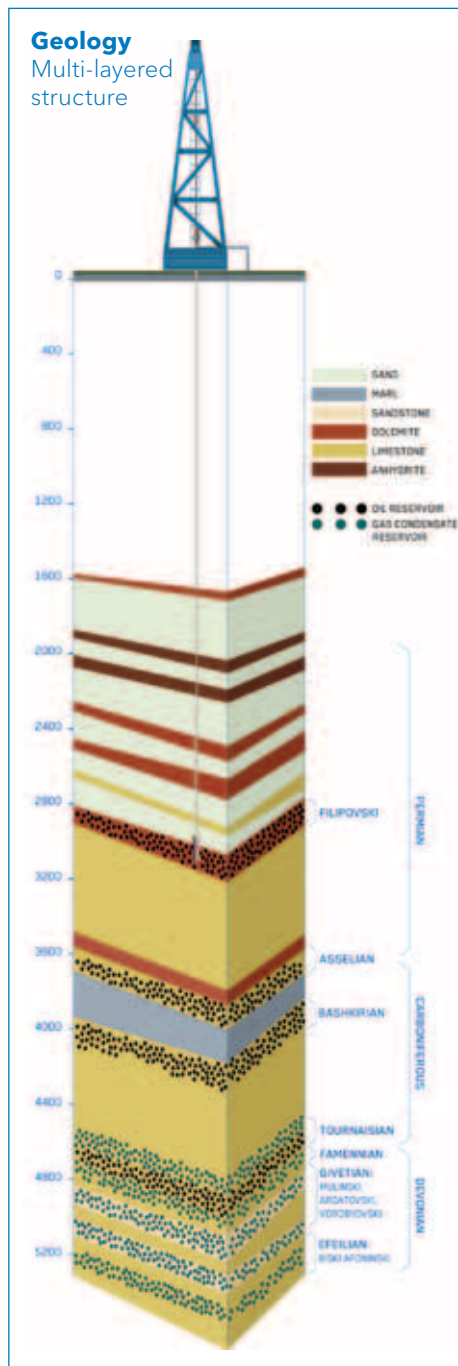
Based on the Ryder Scott report, dated December 2015, the proved and probable reserves for the Chinarevskoye field amount to 383 mboe (2014: 473 mboe). Proven reserves amount to 147 mboe (2014: 192 mboe) and probable reserves to 236 mboe (2014: 281 mboe). Oil and condensate amount to 148 mbbl of proven and probable reserves (2014: 198mbbl), LPG to 51 mbbl (2014: 68mbbl) and gas to 184 mboe (207 mboe). The decrease in reserves from 2014 was primarily a result of the fall in oil price, but was also impacted by a number of other factors, including production in 2015, the deferral of development projects.

Drilling

Hydrocarbons were first discovered in the Chinarevskoye reservoirs during the drilling of nine wells in the Soviet era. Between 2004-2015, 72 wells and side-tracks have been drilled under the PSA.

We completed our drilling 2015 programme, successfully completing six production wells and two appraisal wells.

Our 2016 drilling programme will initially be set targeting the addition of three new production wells and the completion of an appraisal well on the Rostoshinskoye field. This will allow production to be maintained at approximately 40,000 boepd during 2016. The drilling programme is reviewed on a quarterly basis and can be scaled up at short notice.





On-site facilities

Location

All our facilities are close to major international railway lines, as well as several major oil and gas pipelines. This advantageous location provides access to flexible transportation links for the off-takers of our products. Our on-site facilities have grown substantially, with our second US\$1.2 billion capital investment phase currently underway.

Crude oil infrastructure

Our oil infrastructure consists of an oil treatment and gathering facility (OTF), capable of processing 400,000 tonnes of crude oil per year; a 120km oil pipeline; oil gathering and transportation lines; an oil-loading facility at the rail terminal; oil storage facilities for up to 30,000 cubic metres of oil and railway cars for the associated crude oil and stabilised liquid condensate.

Oil and stabilised condensate pipeline and railway loading terminal

Our 120km oil pipeline and railway-loading terminal, at Rostoshi near Uralsk, were successfully completed in 2008. Since 2009, our crude oil has been transported via the pipeline from the Chinarevskoye field site to the railway-loading terminal where it is stored and transported by rail car to final off-takers.

Our stabilised liquid condensate is also transported through the same pipeline using a "PIG" system, which separates the crude oil from the stabilised condensate. This protects the product's quality from being reduced as it would in a multi-purpose pipeline and ensures the ability to command higher export prices.

Our oil pipeline has a maximum throughput of 3 million tonnes per year. The rail-loading terminal, which receives the crude oil and condensate, has a capacity of 3-4 million tonnes per year.

Our infrastructure also includes crude oil storage tanks on site and at the rail terminal; condensate tanks on site and at the terminal and a loading facility at the railway terminal. The loading terminal allows for 32 railcars to be loaded simultaneously. The facility is also equipped with a vapour recovery unit - the first in Kazakhstan's history.

All of our infrastructure has the capacity to accommodate the planned increase in throughput, in line with our strategy to double production.

Performance review continued

Assessing the potential of our adjacent fields

Rostoshinskoye, Darjinskoye & Yuzhno- Gremyachenskoye fields

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



60-120km

from Chinarevskoye
license area

US\$10m

appraisal programme
planned for 2016

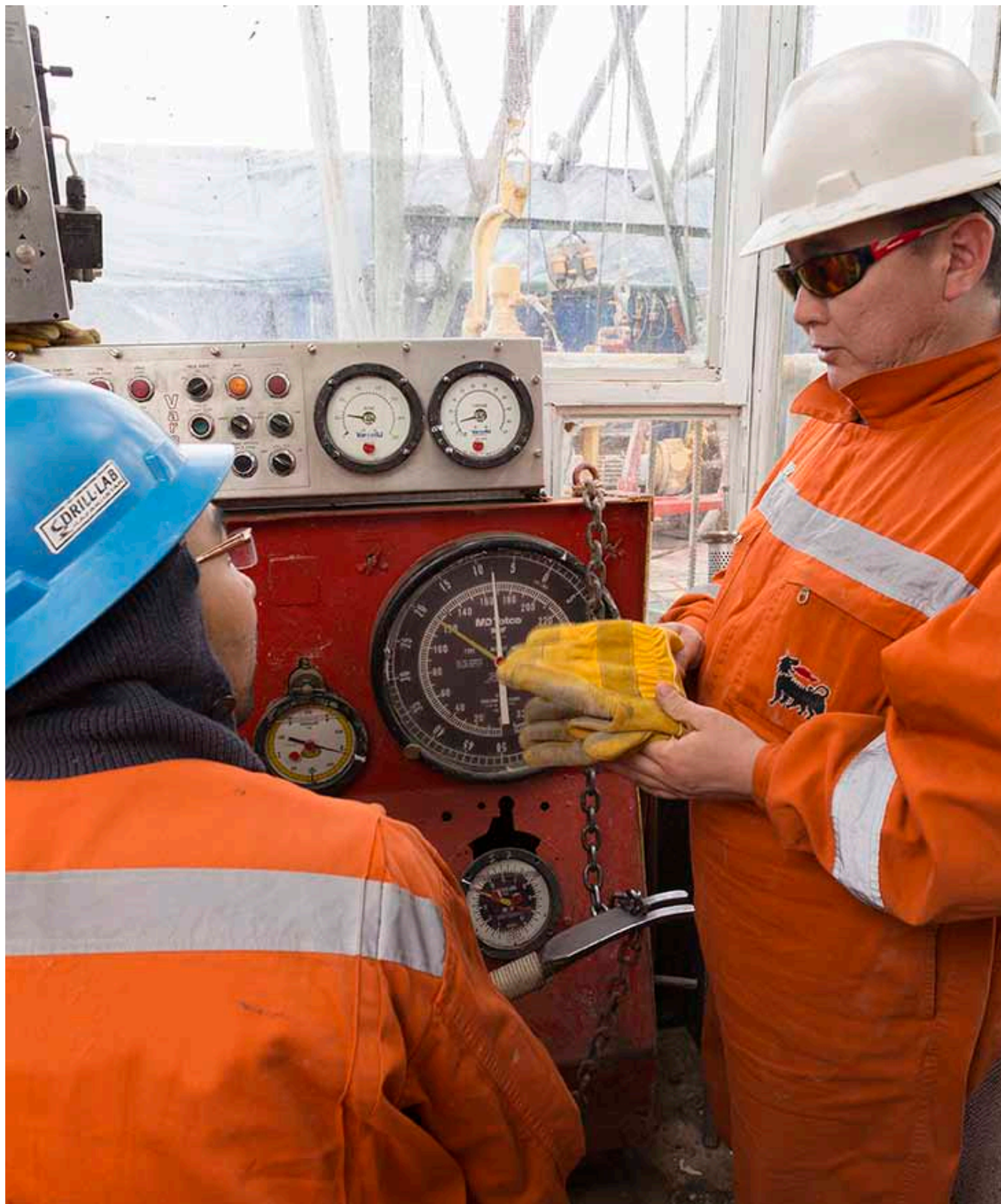
2P reserves of

87 mboe

Performance review continued

Assessing the potential of our adjacent fields

Rostoshinskoye, Darjinskoye & Yuzhno-Gremyachenskoye fields





Rostoshinskoye, Darjinskoye & Yuzhno-Gremyachenskoye fields

Subsoil rights acquisition completed

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

Geology

Exploration activities over the past decades have successfully shown that the three fields contain hydrocarbons suitable for commercial production in several reservoirs of Permo-Carboniferous age. More specifically, the bulk of the hydrocarbons are located in the Bashkirian stage of the Carboniferous. Significant appraisal of the existing accumulations and exploration of deeper intervals is still required prior to their development.

Appraisal programme

The cost of the appraisal programme for the next 2-3 years is expected to be approximately US\$85 million. During 2014, we processed and interpreted the 3-D seismic survey of Rostoshinskoye, and completed the re-processing and re-interpretation of the Darjinskoye 3-D and Yuzhno-Gremyachenskoye 3-D seismic surveys. A new reserves report will be prepared after drilling of new appraisal wells. The results of the reserves report will determine the development programme as well as provide greater detail on reservoir size and fluid composition.

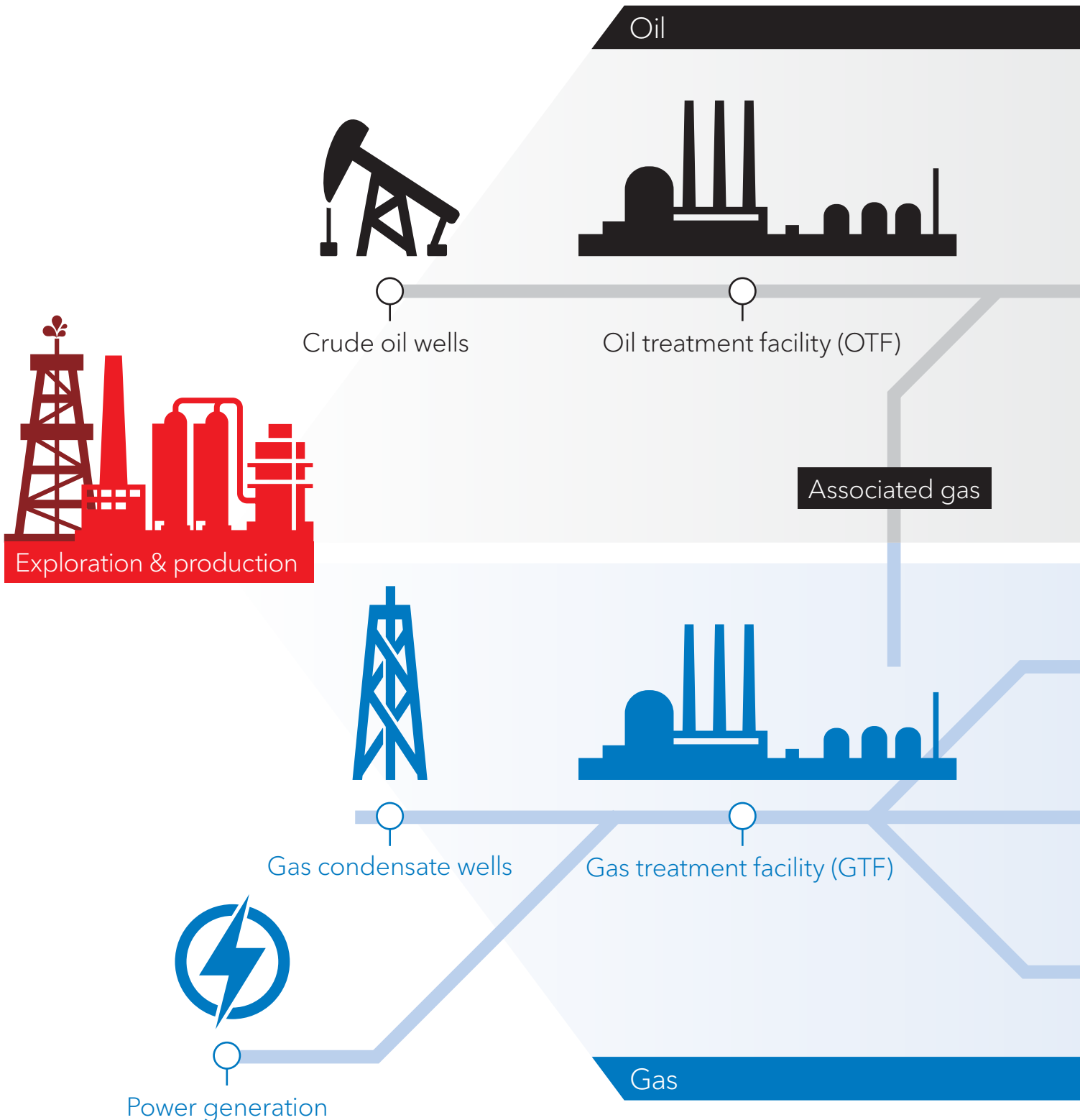
Total combined reserves

At Nostrum, we have an outstanding track record of converting reserves. An updated reserve report by Ryder Scott, as at December 2015, has shown 470 mboe of proved and probable reserves for the Chinarevskoye and adjacent fields.

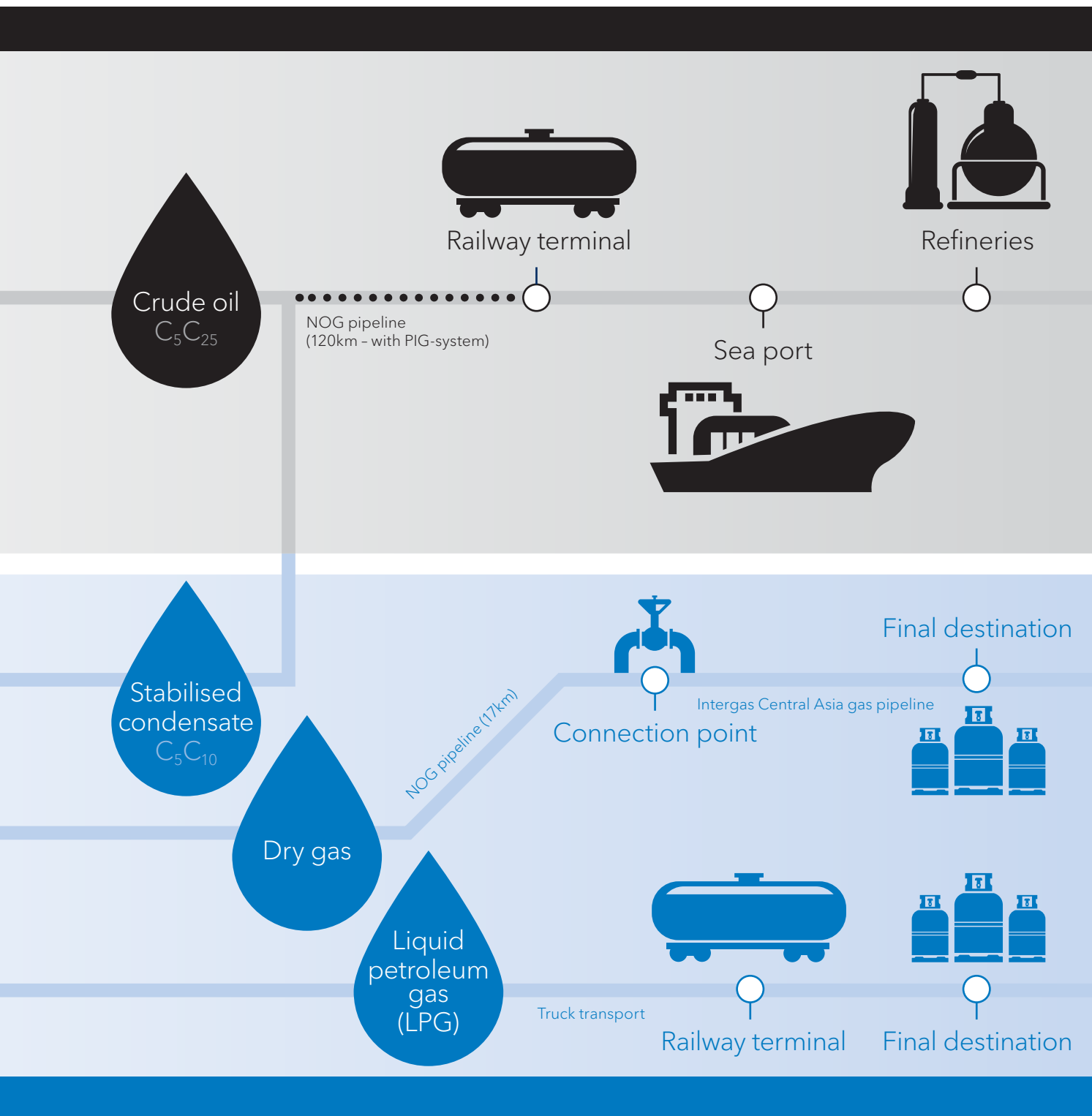
In line with our strategy, we will continue to look to increase our reserve base and secure production growth.

Performance review continued

Products and processes



Leveraging our competitive advantage through our products and processes.



Performance review continued

Products and processes

Products	Quality	Sales	Pricing	Transportation
Crude oil	<ul style="list-style-type: none"> • Density - 0.815g/cm³ • 42-43 degrees API • Average sulphur - 0.4% • Superior in quality to other primary benchmark crude oils produced in Kazakhstan 	<ul style="list-style-type: none"> • 85% exported in accordance with the PSA, 15% sold domestically. Destinations include Neste's refinery in Finland and SOCAR in Azerbaijan 	<ul style="list-style-type: none"> • Brent-based pricing for exports • Domestic sales at 50% discount 	<ul style="list-style-type: none"> • Shipped through our own 120km pipeline from the field site to our own rail terminal in Uralsk, from where it is shipped in railcars to off-takers at various destinations
Stabilised condensate	<ul style="list-style-type: none"> • Density - 0.750-0.790g/cm³ • Average sulphur - <0.2% • 56 degrees API 	<ul style="list-style-type: none"> • 100% exported, 30,000 tonnes per month are sold to Trafigura. Destinations include the Russian Black Sea port of Taman 	<ul style="list-style-type: none"> • Brent-based pricing 	<ul style="list-style-type: none"> • Shipped through the same 120km pipeline to the rail terminal in Uralsk, from where it is shipped in railcars to various destinations
LPG	<ul style="list-style-type: none"> • Field grade quality. No olefins and low sulphur content 	<ul style="list-style-type: none"> • 85%-100% exported. Destinations include the Russian Black Sea ports 	<ul style="list-style-type: none"> • International Mediterranean LPG price Sonatrach for Black Sea deliveries, or the Brest quotation for Eastern European deliveries 	<ul style="list-style-type: none"> • Shipped in special LPG trucks from the field to the rail terminal in Uralsk. From here it is shipped in railcars to end consumers and traders
Dry gas		<ul style="list-style-type: none"> • 75% exported 	<ul style="list-style-type: none"> • Export supply agreement negotiated annually. • Local supply agreements (negotiated annually with the off-takers in a long-term framework agreement) 	<ul style="list-style-type: none"> • Shipped through our own 17km pipeline from the field to the connection point with the Intergas Central Asia gas pipeline, from where it is distributed by the off-taker

Market share, sales and pricing policy

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

The commercial production of dry gas adds significant benefits through the easy off-take of dry gas volumes using straightforward pipeline logistics, the generation of our own power supply, and the partially sponsored supply of dry gas to neighbouring communities.

Marketing and sales

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

Development of infrastructure

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

GTU1&2

This included the construction of two gas treatment units, each with the capacity to treat approximately 850 million cubic metres of raw gas. The gas treatment facility is now producing at capacity with an average annual production of 40,391 boepd for 2015.

GTU3

The third unit of the gas treatment facility will add 2.5 billion cubic metres of processing capacity, bringing the total to 4.2 billion cubic metres and consequently more than doubling production capacity. GTU3 is due to be completed in 2017.

Power generation plant

The gas-fired power generation plant is linked to the gas treatment facility with an output of 15 megawatts and provides the field site with the electricity it requires.

Gas pipeline

Nostrum has its own 17km gas pipeline that was completed in 2011 and is linked to the Orenburg-Novoposkov gas pipeline. The maximum annual throughput of this pipeline is several billion cubic metres.

Changes in production

Production %

Crude and condensate

2015	42
2014	42
2013	42

LPG

2015	11
2014	10
2013	9

Dry gas

2015	47
2014	48
2013	49

Production boepd

Crude and condensate

2015	16,877
2014	18,624
2013	19,384

LPG

2015	4,323
2014	4,496
2013	4,259

Dry gas

2015	19,191
2014	21,280
2013	22,535



Corporate social responsibility

A sustainable business

Our continuing development as a successful and sustainable E&P company, in Kazakhstan, has created economic growth and increased our presence in both the local and regional communities. Our approach to corporate social responsibility (CSR) is based on our commitment to make a positive impact on all our stakeholders through our business activities.

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

The sustainability of our business is made possible through the active management of our people, programmes, and our specific focus on environmental issues such as greenhouse gas (GHG) emissions.

Increase in liquidation fund deposit

US\$352,000

Total number of training days

12,891

Total workforce growth

6.3%

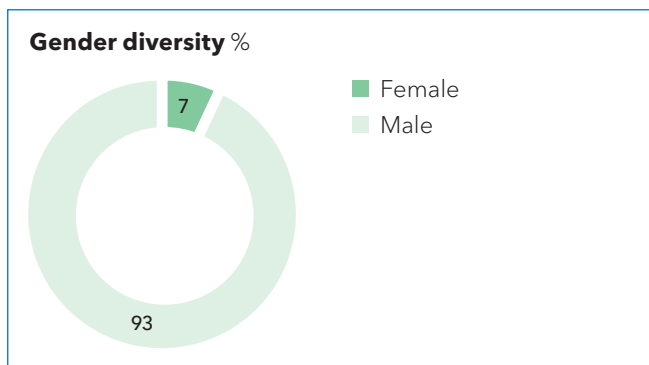
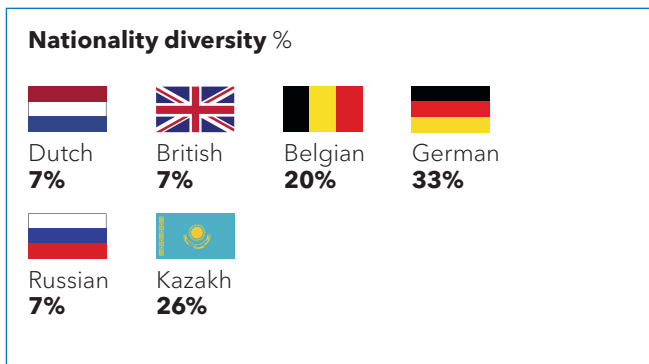
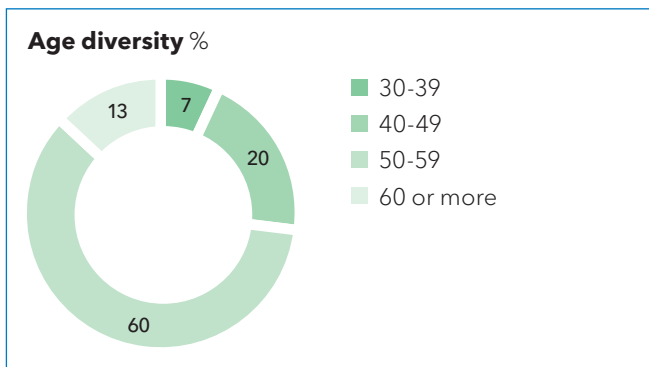
Corporate social responsibility continued

Our people

A diverse management team

Nostrum has a dedicated management team with specialised teams in strategic locations as well as operational personnel in Kazakhstan.

The Nostrum and Zhaikmunai LLP management team has 15 members and is composed as follows:



A large team of dedicated employees

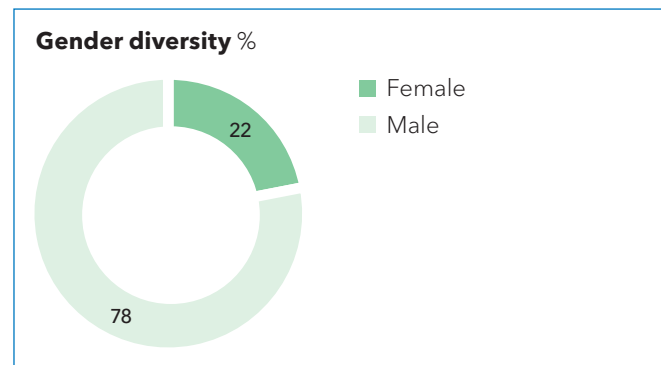
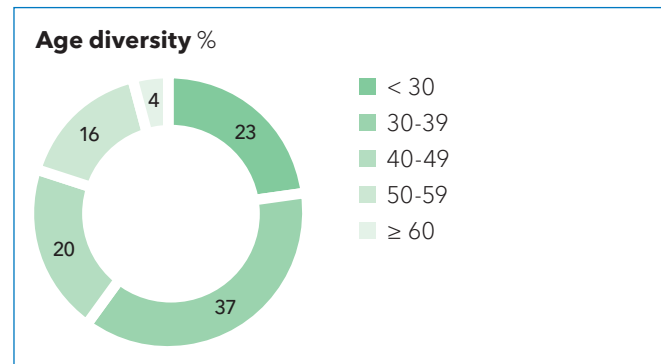
One of our most significant contributions to Kazakhstan is the wealth generated by hundreds of employees working in our fields and in Uralsk. The number of employees at our operations has more than doubled since 2005, making us one of the largest employers in Batys province.

In addition to our assets and representative offices in Kazakhstan, we have offices in Amsterdam, London, St. Petersburg and Brussels.

Number of employees

Location	2011	2012	2013	2014	2015
Chinarevskoye	552	631	633	686	710
Uralsk	170	207	274	268	305
Other	36	46	56	51	53
Total	758	884	963	1,005	1,068

In 2015, the total workforce grew by 6.3%.



Salary package and growth rates

Nostrum offers competitive remuneration packages to its employees and is in full compliance with all labour regulations, guidelines and requirements.

Effective social guarantees

We offer effective social guarantees in the following areas:

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

Training

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

Total training cost in 2015:

US\$1,584,369

Total number of training days in 2015:

12,891 days

Number of employees benefitting from education and training programmes in 2015:

920 employees

Case study 1: Specialised training abroad

a. Brussels, Belgium

In 2015, ten employees were trained in the repair and maintenance service of "Mycom" compressors and oil pumps at the company's plant in Brussels, Belgium. Employees have mastered skills of disassembly, repair and assembly of the turbine compressor class 3225S and of the Mycom oil pump. Training was held under the guidance of experienced instructors with real equipment and professional tools.

b. Ufa State Oil Technical University, Russia

In October 2015, five employees were trained in device diagnostics of PROBE-SCAN pipelines at the Ufa State Oil Technical University, Russia. The training focused on the examination of pipelines and advanced methods for detecting unauthorised tie-in through contactless magnetometric methods.

c. Dubai, United Arab Emirates

In October 2015, two employees received training in project management in Dubai, United Arab Emirates. The training focused on understanding the principles of project management and improving the tendering process in terms of contracts and supplies.

Case study 2: Higher professional education

Twelve employees currently receive higher professional education in universities in:

- Kazakhstan: five employees
- Russia: five employees
- Italy/USA: two workers are majoring in Petroleum Engineering at the Turin Polytechnic University, Italy and at Tulsa University, USA.

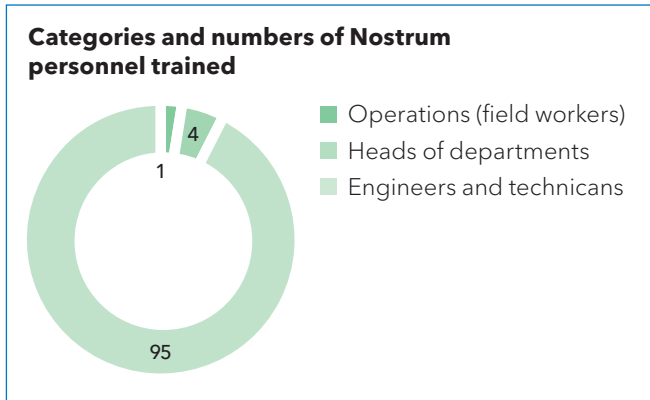
In addition, three heads of departments have begun a Master's in Business Administration (MBA) programme in:

- KNOW Almaty Management University, Almaty, Kazakhstan: one employee
- Russian Academy of National Economy and Public Administration, Moscow, Russia: two employees

Corporate social responsibility continued

Our people

The following local personnel training programme has been achieved in 2015:



Labour relations

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

Human rights policy and diversity

The *Group Code of Conduct* sets out certain principles that guide business conduct and provides a non-exhaustive outline of what Nostrum considers permissible conduct by its employees. These principles include provisions relating to human rights and diversity in the workplace. Violations of this Code of Conduct may result in disciplinary action, including dismissal from employment, or criminal prosecution.

Our community

Our community approach

Nostrum's approach to community relations places great emphasis on creating an integrated, caring and secure community for its personnel and subcontractors.

Our social infrastructure

Under the terms of the PSA linked to the Chinarevskoye field and the subsoil use contracts for the Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye fields, we have continued to finance social infrastructure.

New offices in Uralsk, Kazakhstan

Following the completion of the construction of a new six-storey building in 2015 in Uralsk, Kazakhstan, Zhaikmunai LLP will move into its new offices in the course of 2016. Located in the heart of Uralsk, the new offices will house all main administrative and technical support services over an area of some 4,900 square metres.

Liquidation fund

Under the terms of the PSA and the subsoil use agreements for Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye, US\$5,375,000 is held on restricted cash accounts as liquidation fund deposit (2014: US\$5,023,000), an increase of US\$352,000.



Corporate social responsibility continued

QHSE

Our QHSE approach and organisation

QHSE policy and priorities

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

Leadership & Commitment

Management will provide visible and active leadership in developing and maintaining an HSE culture



Organisation

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



People, Competency & Behaviour

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



Hazards & Effects

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



Engineering

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



Operations

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



Contractor Management

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



Planing & Performance Monitoring

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



Emergency & Crisis Control

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



Stakeholder Dialogue & Documentation

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



Audit & Review

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



Centralised function

Our QHSE strategy is demonstrable throughout our organisation thanks to a centralised function with a flexible organisational structure.

This organisational structure encompasses such activities as health & safety (production facilities, drilling, camp and roads), occupational health & hygiene (including environmental and greenhouse gases monitoring), civil defence and emergency response, as well as overarching safety and engineering best practice implementation.

QHSE policy

Priorities for 2016

Building on the progress made in 2015, the focus for 2016 goes beyond our day-to-day activities. Specifically:

- HSE leadership and supervision;
- Contractor HSE management;
- Hazard awareness and risk control;
- Driving and transportation safety; and
- Environmental performance reporting.

Health and safety

A safe working environment

Health and safety at Kazakh oil and gas companies is subject to state legislation and regulation. Our PSA and other subsoil use contracts also require that our operations meet applicable health and safety requirements.

HSE Code of Conduct

Nostrum's QHSE Policy and associated Code of Conduct stipulate that we must comply with all applicable laws and regulations, as well as best practice with regard to health, safety and environmental issues.

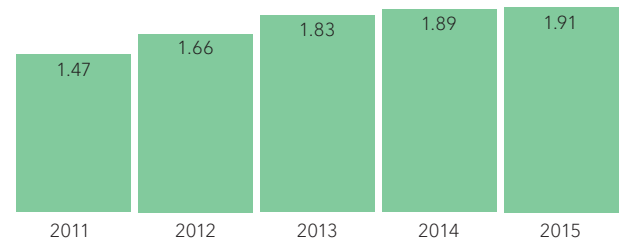
To ensure the well-being of employees the Company frequently undertakes the following practices:

- Safety training;
- Implementing a proactive prevention culture; and
- Written plans and policies with regard to the mandatory supply of personal protective equipment including protective clothes, adapted footwear and special tools.

Standards reached

In 2015, standards have been established around indicators such as lost time injuries and total recordable injuries as well as established HSE milestones. Ongoing monitoring is done against these standards and reported monthly.

Number of man-hours without loss of working hours (in millions)*



* Total number of man-hours worked by the Company and contractors' personnel without any injuries resulting in a lost working day, while performing activities on Company premises or non-Company premises subject to Company management controls applied through contractual terms, if they are executed on behalf of the Company.

Corporate social responsibility continued

Our environment

Managing our environmental footprint through our Site Environmental Monitoring Programme

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

- Air pollution controls;
- Water resources protection and rational use;
- Land protection;
- Control and sustainable subsurface use;
- Flora and fauna protection;
- Radiological, biological and chemical safety;
- Ecological education and information; and
- Research and development, exploration development and other works.

In 2015, specific monitoring activities were carried out in these areas in order to establish benchmarks which are/will be integrated into our environmental targets. These include the monitoring of the atmosphere, surface water, soil and the control of pollutant emissions sources and sewage works.

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

Programme aims:

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

- Increasing compliance with environmental requirements;
- Increasing the efficiency of the QHSE management system; and
- Taking account of environmental risks in investment and finance decisions.

Programme methods and controls:

- Compulsory criteria to be followed in site monitoring;
- Time, duration and frequency of site monitoring activities and measurements;
- Detailed site monitoring methodologies;
- Sampling points and places of measurement;
- Methods and frequency of data accounting, analysis and reporting;
- Schedule of internal checks and procedures for rectifying violations of national environmental laws, including the internal response to any violations;
- Monitoring quality assurance procedures;
- Emergency action plans;
- Organisational and functional structure of internal employee responsibilities for carrying out site environmental monitoring; and
- Other data on organising and carrying out site environmental monitoring.

Compliance with legislation

The "Health, Safety and Environmental Compliance Audit (2015)" submitted by AMEC, an independent auditor, is a comprehensive document detailing the content, methodology and results of the environmental efforts at Nostrum. It shows that the environmental monitoring programme activities were carried out according to the established scope.

Based on the results of the audit the following main conclusions were:

- Production activities of the Company generally comply with high standards of environmental, industrial and occupational safety;
- During 2015 conversion to full self-sufficiency in electric energy supply has been prepared, a gaslift system was introduced, a unit for processing of drilling cuttings into construction materials was installed and main camps were relocated outside the sanitary protection zone of ChOGF. All these greatly improve economic, environmental and safety performance of the Company and accord with the sustainability principles;

- At the audited facilities of the Company no serious violations of the requirements of legal, regulatory acts and international standards have been observed;
- Recommendations of the previous audit have been largely fulfilled, including improvement of the environmental, health and safety management system;
- At the same time a number of shortcomings have been noted. Their correction will allow even greater improvement of the Company's achievements in this area.

Industrial waste management and contaminated soil reclamation

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

Our greenhouse gas (GHG) reporting

Nostrum has been monitoring and reporting its GHG emissions since 2011 in accordance with Kazakh regulatory requirements. Starting in 2013, the Company has also developed its GHG reporting in line with the new regulations amending company law requirements in the UK.

The data is reported from all emission sources, as required under the Companies Act 2006 (Strategic Report and Directors' Report) – Regulations 2013. The period for which the Company is reporting the information matches the periods in respect of which the Directors' Report is prepared. No responsibility is taken for any emission sources, which are not included in the consolidated financial statements. The results of the GHG emissions inventory are presented in the format recommended by the GHG Protocol.

Direct GHG emissions (Scope 1)

The baseline in the GHG emissions allocation plan was set as the mean value of the total emissions for the years 2011–2012 (in carbon dioxide emissions equivalent.) The quota allocated for 2015 is calculated based on commitments to reduce carbon dioxide emissions by 1.5% from this baseline.

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

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

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

Table 1: Scope 1 GHG emissions subdivided by gas types

GHG emissions (mtCO ₂ e)	2011	2012	2013	2014	2015
Carbon dioxide (CO ₂)	420,992.8	256,050.4	188,604.0	236,556.0	208,466.2
Methane (CH ₄)	15,419.7	805.2	28,693.6	27,424.8	13,919.8
Nitrous oxide (N ₂ O)	1,188.4	283.1	165.7	124.3	126.2
Hydrofluorocarbons (HFCs)	3.0	16.1	16.1	16.1	34.0
Total	437,603.9	257,154.8	217,479.4	264,121.2	222,546.2

Table 2: Scope 1 GHG emissions subdivided by source types

GHG emissions (mtCO ₂ e)	2011	2012	2013	2014	2015
Stationary combustion	433,132.5	252,138.9	212,612.3	260,124.4	205,701.9
Mobile combustion	2,086.7	2,312.1	2,876.3	2,135.2	1,498.2
Fugitive sources	2,384.7	2,703.8	1,990.8	1,861.6	15,346.1*
Total	437,603.9	257,154.8	217,479.4	264,121.2	222,546.2

* The reported figure is the result of a new calculation methodology introduced in the rules for reporting greenhouse gas inventories as per the Republic of Kazakhstan's Ministry of Energy Decree No. 502 28.07.2015, in line with "IPCC Guidelines for National Greenhouse Gas Inventories, 2006". Calculations of previous years were based on the RoK methodology of standards for maximum permissible emissions. The main driver in fugitive sources is associated gas (methane).

Corporate social responsibility continued

Our environment

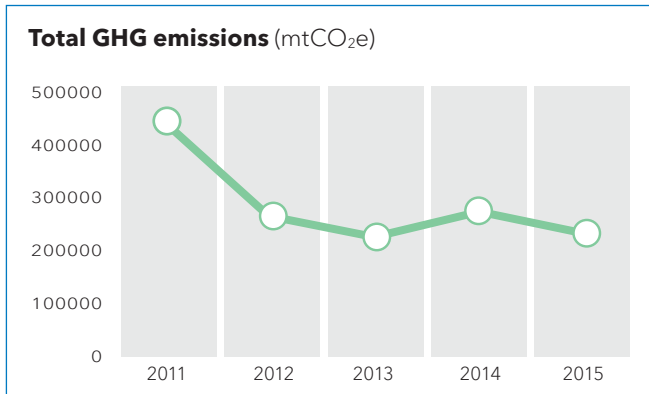
Indirect GHG emissions (Scope 2)

Nostrum does not use purchased steam, heating or cooling. The only purchased power related to indirect GHG emissions is electrical power, which is supplied to Nostrum facilities via the Zelenovskaya distribution network (ZapKazREK JSC), through its subsidiary Batys Energoresursy LLC. The regional emission factor (0.27086 tCO₂/MWh) was calculated using Methodological Guidelines for the Calculation of GHG Emissions from Electrical Power Stations and Boiler Houses (Astana, 2010) and regional net thermal efficiency of Urals Natural Gas Fired Power Plants (73.3%).

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

Table 3: Scope 1, Scope 2, and total GHG

GHG emissions (mtCO ₂ e)	2011	2012	2013	2014	2015
Direct (Scope 1)	437,603.9	257,154.8	217,479.4	264,121.2	222,546.2
Indirect Energy (Scope 2)	3,766.5	4,094.5	4,058.4	5,278.6	5,482.3
Total emissions (mtCO₂e)	441,370.4	261,249.3	221,537.8	269,399.8	228,028.5



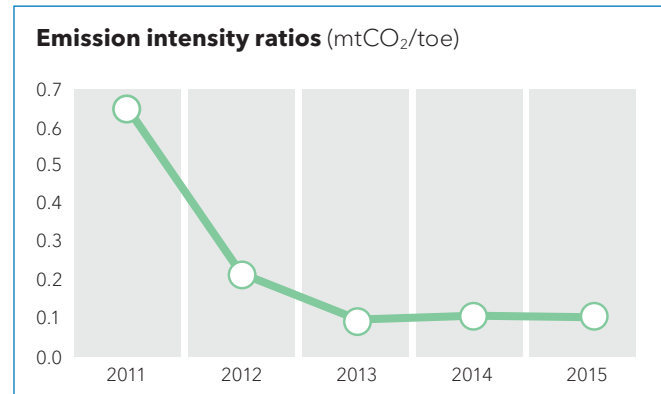
Emissions intensity ratio

Tonnes of CO₂ per tonne of output is a recommended intensity ratio for the oil and gas sector, as per Appendix F of the Defra Environmental Reporting Guidelines (2013). Taking into account the variety of products of Nostrum Oil & Gas – crude oil, stabilised condensate, LPG and dry gas – the chosen intensity ratio is expressed in metric tonnes of CO₂e (mtCO₂e) per tonne of oil equivalent (mboe).

Table 4 shows intensity ratios for total (Scope 1 and Scope 2) emissions in the period 2011 to 2015.

Table 4: Emissions intensity ratios for total GHG emissions (Scope 1 and Scope 2) in the period 2010-2015

Production - intensity ratio	2011	2012	2013	2014	2015
Production, toe	672,000	1,189,841	2,307,748	2,369,823	2,152,423
mtCO ₂ /toe	0.66	0.22	0.1	0.11	0.106
Production, mboe	4.8	13.5	16.48	16.23	14.74
mtCO ₂ /mboe	91,952.17	19,351.80	13,065.07	16,598.88	15,467.3





Developing a GHG reduction capacity

According to its GHG emissions reduction strategy, Nostrum evaluates the potential for GHG emissions reductions yearly to plan for the subsequent introduction of energy and resource saving measures. To establish this reduction potential we go through the following steps:

- Create a conceptual framework for our greenhouse gas emissions enterprise management system (GHG EMS);
- Create a consistent information system for GHG emissions monitoring;
- Perform an energy audit at the Company's production facilities;
- Develop an action plan to improve energy efficiency at industrial sites;
- Develop the concept of transition to low-carbon development;
- Consider the participation of the Company in carbon finance activities; and
- Demonstrate the efficiency of the Company's GHG emissions reduction measures.

To meet these ambitious targets, Nostrum has developed the commitment of its managers and contractors to provide effective assistance in improving energy efficiency and reducing GHG emissions.

Financial review

Maintaining strong margins and building financial flexibility in response to adverse macroeconomic circumstances



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

The loss realised is appropriated to equity. The loss does not impair the Group's ability to finance its ongoing investment in oil & gas assets. The Group at all times maintains an adequate level of liquidity and net debt is kept at defined levels. As a result of the realised loss the Group will not pay a dividend in 2016. Reference is made to KPIs on page 8.

Results of operations for the years ended 31 December 2015 and 2014

The table below sets forth the line items of the Group's interim condensed consolidated statement of comprehensive income for the years ended 31 December 2015 and 2014 in US Dollars and as a percentage of revenue.

In thousands of US Dollars	2015	% of revenue	2014	% of revenue
Revenue	448,902	100.0%	781,878	100.0%
Cost of sales	(186,567)	41.6%	(221,921)	28.4%
Gross profit	262,335	58.4%	559,957	71.6%
General and administrative expenses	(49,309)	11.0%	(54,878)	7.0%
Selling and transportation expenses	(92,970)	20.7%	(122,254)	15.6%
Finance costs	(45,998)	10.2%	(61,939)	7.9%
Finance costs - reorganisation	(1,053)	0.2%	(29,572)	3.8%
Employee share option plan fair value adjustment	2,165	0.5%	3,092	0.4%
Foreign exchange loss, net	(21,200)	4.7%	(4,235)	0.5%
Gain on derivative financial instruments	37,055	8.3%	60,301	7.7%
Interest income	515	0.1%	986	0.1%
Other income	11,296	2.5%	10,086	1.3%
Other expenses	(30,560)	6.8%	(49,844)	6.4%
Profit before income tax	72,276	16.1%	311,700	39.9%
Income tax expense	(166,641)	37.1%	(165,275)	21.1%
(Loss)/profit for the year	(94,365)	21.0%	146,425	18.7%
Currency translation difference	(456)	0.1%	-	0%
Other comprehensive income	(456)	0.1%	-	0%
Total comprehensive (loss)/income for the year	(94,821)	21.1%	146,425	18.7%

General note

For the year ended 31 December 2015 (the 'reporting period') realised profit decreased by US\$241.2 million to US\$94.8 million loss (FY 2014: US\$146.4 million), which was mainly driven by decrease in the Group's revenue.

Revenue

The Group's revenue decreased by 42.6% to US\$448.9 million for the reporting period (FY 2014: US\$781.9 million). This is mainly explained by the decrease in the average Brent crude oil price from 99.7 US\$/bbl during 2014 to 53.6 US\$/bbl on average during the reporting period. The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil.

Revenues from sales to the Group's largest three customers amounted to US\$141.4 million, US\$105.0 million and US\$86.0 million respectively (FY 2014: US\$321.8 million, US\$124.8 million and US\$77.0 million).

The Group's revenue breakdown by products and sales volumes for the reporting period and FY 2014 is presented below:

In thousands of US Dollars	2015	2014	Variance	Variance, %
Oil and gas condensate	297,777	620,164	(322,387)	(52.0)%
Gas and LPG	151,125	161,714	(10,589)	(6.5)%
Total revenue	448,902	781,878	(332,976)	(42.6)%
Sales volumes (boe)	14,080,339	16,205,641	(2,125,302)	(13.1)%
Average Brent crude oil price (US\$/bbl)	53.6	99.7		

The following table shows the Group's revenue breakdown by export/domestic sales for the reporting period and FY 2014:

In thousands of US Dollars	2015	2014	Variance	Variance, %
Revenue from export sales	426,764	676,064	(249,300)	(36.9)%
Revenue from domestic sales	22,138	105,814	(83,676)	(79.1)%
Total	448,902	781,878	(332,976)	(42.6)%

Cost of sales

In thousands of US Dollars	2015	2014	Variance	Variance, %
Depreciation, depletion and amortisation	107,678	110,460	(2,782)	(2.5)%
Repair, maintenance and other services	26,557	35,818	(9,261)	(25.9)%
Payroll and related taxes	18,682	21,560	(2,878)	(13.3)%
Royalties	14,364	24,330	(9,966)	(41.0)%
Materials and supplies	7,838	10,929	(3,091)	(28.3)%
Well workover costs	5,182	6,296	(1,114)	(17.7)%
Other transportation services	3,049	2,929	120	4.1%
Government profit share	1,880	4,594	(2,714)	(59.1)%
Environmental levies	1,391	1,098	293	26.7%
Change in stock	(3,613)	376	(3,989)	(1,060.9)%
Other	3,559	3,531	28	0.8%
Total	186,567	221,921	(35,354)	(15.9)%

Financial review continued

Cost of sales decreased by 15.9% to US\$186.6 million for the reporting period (FY 2014: US\$221.9 million). The decrease is primarily explained by the change in royalties, repair, maintenance and other services and depreciation, depletion and amortization, referred to below. On a boe basis, cost of sales decreased marginally by US\$1.0 or 7.6% to US\$12.7 for the reporting period (FY 2014: US\$13.7) and cost of sales net of depreciation per boe decreased by US\$1.5, or 22.2%, to US\$5.4 (FY 2014: US\$6.9).

Depreciation, depletion and amortisation for the reporting period is in line with prior year. Depreciation is calculated with units of production method. The fact that depreciation is lower in the reporting period when compared to FY 2014 is a consequence of the ratio between the volume produced and the proven developed reserves decrease in the reporting period when compared to prior year.

Repair, maintenance and other services decreased by 25.9% to US\$26.6 million for the reporting period (FY 2014: US\$35.8 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of the Group, engineering and geophysical study expenses. These costs fluctuate depending on the planned works on certain objects.

Royalties, which are calculated on the basis of production and market prices for the different products, decreased by 41.0% to US\$14.4 million for the reporting period (FY 2014: US\$24.3 million). This decrease follows the decline of revenues for sold products.

Materials and supplies expenses decreased by 28.3% to US\$7.8 million for the reporting period (FY 2014: US\$10.9 million). This decrease resulted from less need for spare parts and other materials for repairs and maintenance of the facilities, specifically for the gas treatment facility and wells.

Well workover costs decreased by 17.7% to US\$5.2 million for the reporting period (FY 2014: US\$6.3 million). The decrease resulted from adjustments to the drilling and workover programme.

Costs for government profit share decreased by US\$2.7 million to US\$1.9 million for the reporting period (FY 2014: US\$4.6 million). This decrease follows the decline of revenues for sold products.

General and administrative expenses

In thousands of US Dollars	2015	2014	Variance	Variance, %
Payroll and related taxes	16,636	15,668	968	6.2%
Professional services	13,997	19,776	(5,779)	(29.2)%
Business travel	6,091	4,786	1,305	27.3%
Training	3,110	2,535	575	22.7%
Insurance fees	1,715	1,768	(53)	(3.0)%
Depreciation and amortisation	1,673	1,409	264	18.7%
Sponsorship	1,314	1,826	(512)	(28.0)%
Lease payments	1,012	895	117	13.1%
Communication	766	1,195	(429)	(35.9)%
Materials and supplies	635	626	9	1.4%
Bank charges	607	813	(206)	(25.3)%
Other taxes	339	1,006	(667)	(66.3)%
Social program	302	300	2	0.7%
Management fees	-	605	(605)	(100.0)%
Other	1,112	1,670	(558)	(33.4)%
Total	49,309	54,878	(5,569)	(10.1)%

General and administrative expenses decreased by 10.1% to US\$49.3 million for the reporting period (FY 2014: US\$54.9 million). This was primarily due to decrease in professional services, in particular audit fees, legal services and other consultancy fees, offset by an increase in payroll and related taxes driven partly by the agreement on 19 May 2014 to acquire Nostrum Services BVBA (formerly Prolag BVBA) and Nostrum Services Central Asia LLP (formerly Amersham Oil LLP), which led to the elimination of intercompany management fees, decrease in consultancy fees and recognition of those expenses as payroll and related taxes.

Selling and transportation expenses

In thousands of US Dollars	2015	2014	Variance	Variance, %
Transportation costs	45,071	54,878	(9,807)	(17.9)%
Loading and storage costs	41,229	56,351	(15,122)	(26.8)%
Payroll and related taxes	1,901	2,211	(310)	(14.0)%
Management fees	159	183	(24)	(13.1)%
Other	4,610	8,631	(4,021)	(46.6)%
Total	92,970	122,254	(29,284)	(24.0)%

Selling and transportation expenses decreased by 24.0% to US\$93.0 million for the reporting period (FY 2014: US\$122.3 million) being combination of lower sales quantities of liquid products in the reporting period, lower rail tariffs and rail tank car (RTC) leasing costs offset, however, by transportation costs incurred in relation to export gas sales in the reporting period under new sales contract.

Finance costs

In thousands of US Dollars	2015	2014	Variance	Variance, %
Interest expense on borrowings	44,670	60,825	(16,155)	(26.6)%
Unwinding of discount on amounts due to Government of Kazakhstan	902	917	(15)	(1.6)%
Unwinding of discount on abandonment and site restoration provision	426	197	229	116.2%
Total	45,998	61,939	(15,941)	(25.7)%

Finance costs decreased by 25.7% to US\$46.0 million for the reporting period (FY 2014: US\$61.9 million). These costs were higher in H1 2014 due primarily to the expenses relating to the early redemption of the Notes issued in 2010 and the amortisation of the remainder of transaction cost, incurred for the issuance of these Notes.

Finance costs - reorganisation

The 'finance costs - reorganisation' are represented by the costs associated with the introduction of Nostrum Oil & Gas PLC as the new holding company of the Group and respective reorganisation that took place in June 2014.

Other

Foreign exchange losses amounted to US\$21.2 million for the reporting period (FY 2014: US\$4.2 million). Higher losses in 2015 are explained by the fact that on 20 August 2015 the Tenge was devalued against the US Dollar and other major currencies due to decision of Kazakhstan to switch to free-float, triggering a 23% slide in the Tenge to a record 257,21 Tenge for 1 US Dollar. As per 31 December 2015 the exchange rate made up 340,6 Tenge for 1 US Dollar. Since the Group had a net asset position of Tenge denominated accounts around this date, the devaluation of the Tenge resulted in a significant foreign exchange loss recognised in the reporting period.

Gain on derivative financial instruments amounted to US\$37.1 million for the reporting period. Movement in the fair value of the derivative financial instruments is disclosed in the Note 29 of the Consolidated financial statements included in this report.

Other expenses decreased marginally by 38.7% to US\$30.6 million for the reporting period (FY 2014: US\$49.8 million) mainly due to lower export custom duties, compensation for social gas and expenses for accruals under subsoil use agreement.

Income tax expense increased by 0.8% to US\$166.6 million for the reporting period (FY 2014: US\$165.3 million). The decrease in income tax expense was primarily driven by lower taxable profit offset by additional deferred tax expenses due to decrease of the tax base due to effect of exchange rates changes.

Financial review continued

Results of operations for the years ended 31 December 2014 and 2013

The table below sets forth the line items of the Group's consolidated statements of comprehensive income for the year ended 2014 and 2013 in US Dollars and as a percentage of revenue.

In thousands of US Dollars	2014	% of revenue	2013	% of revenue
Revenue	781,878	100.0	895,014	100.0
Cost of sales	(221,921)	28.4	(286,222)	32.0
Gross profit	559,957	71.6	608,792	68.0
General and administrative expenses	(54,878)	7.0	(56,019)	6.3
Selling and transportation expenses	(122,254)	15.6	(121,674)	13.6
Finance costs	(61,939)	7.9	(43,615)	4.9
Finance costs - reorganisation	(29,572)	3.8	-	0.0
Employee share option plan fair value adjustment	3,092	0.4	(4,430)	0.5
Foreign exchange loss	(4,235)	0.5	(636)	0.1
Gain on derivative financial instruments	60,301	7.7	-	0.0
Interest income	986	0.1	764	0.1
Other expenses	(49,844)	6.4	(25,593)	2.9
Other income	10,086	1.3	4,426	0.5
Profit before income tax	311,700	39.9	362,015	40.4
Income tax expense	(165,275)	21.1	(142,496)	15.9
Profit for the year	146,425	18.7	219,519	24.5

For the year ended 31 December 2014 (the "reporting period") realised profit of the Group decreased by US\$73.1 million to US\$146.4 million (FY 2013: US\$219.5 million). The decrease in realised profit is mainly driven by a decrease in the oil prices during the second half year of 2014, resulting in a decrease in revenue combined with an increase in other operating costs and income tax expenses, partially offset by a gain on derivative financial instruments.

Revenue

The Group's revenue decreased by 12.6% to US\$781.9 million for the reporting period (FY 2013: US\$895.0 million). The decrease in Group revenue was driven primarily by a significant decrease in the overall oil prices during the second half of 2014.

The Group's revenue breakdown by products, sales volumes and the commodity price of Brent crude oil for the years ended 31 December 2014 and 2013 is presented below.

In thousands of US Dollars	2014	2013	Variance	Variance, %
Oil and gas condensate	620,164	709,107	(88,943)	(12.5)
Gas and LPG	161,714	185,907	(24,193)	(13.0)
Total revenue	781,878	895,014	(113,136)	(12.6)
Sales volumes (boe)	16,205,641	16,854,970	(649,329)	(3.9)
Average Brent crude oil price on which Nostrum Oil & Gas based its sales (US\$/bbl)	99.6	108.4		

The following table shows the Group's revenue breakdown by export/domestic sales for the years ended 31 December 2014 and 2013.

In thousands of US Dollars	2014	2013	Variance	Variance, %
Revenue from export sales	676,064	765,029	(88,965)	(11.6)
Revenue from domestic sales	105,814	129,985	(24,171)	(18.6)
Total	781,878	895,014	(113,136)	(12.6)

Cost of sales

Cost of sales decreased by 22.5% to US\$221.9 million for the reporting period (FY 2013: US\$286.2 million). The decrease is primarily explained by a decrease in depreciation, depletion and amortisation, royalties, government profit share, repair, maintenance and other services, materials and supplies expenses, although this is partially offset by an increase in payroll and related taxes, well workover costs and other expenses. On a boe basis, cost of sales decreased by US\$3.29 or 19.4% to US\$13.69 for the reporting period (FY 2013: US\$16.98) and cost of sales net of depreciation per boe decreased by US\$3.05, or 30.7%, to US\$6.88 (FY 2013: US\$9.92).

Depreciation, depletion and amortisation decreased by 7.1% to US\$110.5 million for the reporting period (FY 2013: US\$119.0 million). The decrease is mainly due to an increase in proved developed reserves starting from 31 August 2013, which was partially offset by an increase of production volumes.

Repair, maintenance and other services decreased by 31.6% to US\$35.8 million for the reporting period (FY 2013: US\$52.4 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of the Group, and engineering and geophysical study expenses. These costs fluctuate depending on the planned works on certain objects.

Royalties, which are calculated on the basis of production and market prices for the different products, decreased by 38.2% to US\$24.3 million for the reporting period (FY 2013: US\$39.4 million). This decrease resulted from the reversal of royalty expenses from prior periods amounting to US\$5.5 million. The reversal was due to the adoption of a new work programme for oilfield operations and a change in the coefficients used for converting condensate, sales gas and LPG volumes into natural gas equivalent volumes.

Costs for government profit share decreased by US\$26.2 million to a credit of US\$4.6 million for the reporting period (FY 2013: US\$30.7 million). The decrease resulted from the adoption of a new work programme for oilfield operations and a change in the coefficient of natural gas equivalent which resulted in a reversal of the government profit share expense from prior periods amounting to US\$17.8 million.

Materials and supplies expenses decreased by 10.9% to US\$10.9 million for the reporting period (FY 2013: US\$12.3 million). This decrease resulted from less need for spare parts and other materials for repairs and maintenance of the facilities, specifically for the gas treatment facility and wells.

Well workover costs increased by 125.3% to US\$6.3 million for the reporting period (FY 2013: US\$2.8 million). The increase resulted from the scheduled work on several wells.

Management fees are absent in cost of sales for the reporting period (FY 2013: US\$3.6 million). The fees incurred by the Group relate to the services provided by Probel Capital Management N.V., which was acquired by the Group on 30 December 2013 and is now being consolidated. The related costs of this entity are included in general and administrative expenses for the reporting period as professional services (related to the rendering of geological, geophysical, drilling, technical and other consultancy services) and payroll and related taxes.

General and administrative expenses

General and administrative expenses decreased by 2.0% to US\$54.9 million for the reporting period (FY 2013: US\$56.0 million). This was primarily due to an increase in expenses for professional services, payroll and related taxes, which was partially offset by decreased management fees, other taxes and training. The change in the structure of general and administrative expenses can be explained by the acquisition of Probel Capital Management N.V. on 30 December 2013, which led to the elimination of intercompany management fees, and the recognition of its expenses as professional services and payroll and related taxes.

Selling and transportation expenses

Selling and transportation expenses increased by 0.5% to US\$122.3 million for the reporting period (FY 2013: US\$121.7 million). The significant decrease in transportation costs and increase in loading and storage costs is primarily due to transportation costs including certain loading and storage costs for the prior year. Part of the increase in loading and storage costs was driven by a rise in sales volumes for LPG and condensate.

Financial review continued

Finance costs

Finance costs increased by US\$18.3 million to US\$61.9 million for the reporting period (FY 2013: US\$43.6 million). The increase in these costs was primarily driven by the expenses relating to the early redemption of the 2010 Notes and the amortisation of the remainder of the transaction cost, incurred for the issuance of 2010 Notes.

Finance costs - reorganisation

The "finance costs - reorganisation" represent the costs associated with the introduction of Nostrum Oil & Gas PLC as the new holding company of the Group and respective reorganisation.

Derivative financial instruments

The "gain on derivative financial instruments" represents the fair value of the hedge that the Group entered into on 3 March 2014 and which runs through 29 February 2016.

Other

Foreign exchange losses amounted to US\$4.2 million for the reporting period (FY 2013: US\$0.6 million). This is explained by the fact that on 11 February 2014 the Tenge was devalued against the US Dollar and other major currencies. The exchange rates before and after devaluation were 155 Tenge/US Dollar and 185 Tenge/US Dollar respectively. Since the Group had a net asset position of Tenge denominated accounts around this date, the devaluation of the Tenge resulted in a significant foreign exchange loss recognised in the reporting period.

Other expenses increased by 94.8% to US\$49.8 million for the reporting period (FY 2013: US\$25.6 million). Other expenses mainly represent export duties paid by the Group. The export duties represent custom duties for the export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc. Other expenses for the reporting period also include fines and penalties amounting to US\$2.6 million, which were the result of court decisions.

Income tax expense increased by 16.0% to US\$165.3 million for the reporting period (FY 2013: US\$142.5 million).

The increase in income tax expense is primarily due to an increased deferred tax for the reporting period. This was driven by the Tenge devaluation in February 2014, which led to a significant decrease in the tax base of property, plant and equipment, which is denominated in Tenge.

The following table shows the Group's total corporate income tax split between current income tax, adjustments and deferred income tax for the years ended 31 December 2014 and 2013.

In thousands of US Dollars	2014	2013	Variance	Variance, %
Current income tax	117,827	138,883	(21,056)	(15.2)
Adjustment in respect of the current income tax for the prior periods	(6,785)	-	(6,785)	n/a
Deferred income tax expense/ (benefit)	54,233	3,613	50,620	1401.1
Total	165,275	142,496	22,779	16.0

Liquidity and capital resources - 2015/2014 comparison

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

Cash flows

The following table sets forth the Group's consolidated cash flow statement data for the reporting period and FY 2014:

In thousands of US dollars	2015	2014
Cash and equivalents at the beginning of the period	375,443	184,914
Net cash flows from operating activities	153,257	349,122
Net cash used in investing activities	(245,317)	(304,549)
Net cash from/(used in) financing activities	(115,864)	147,462
Effects of exchange rate changes on cash and cash equivalents	(1,959)	(1,506)
Cash and equivalents at the end of the period	165,560	375,443

Net cash flows from operating activities

Net cash flow from operating activities was US\$153.3 million for the reporting period (FY 2014: US\$349.1 million) and was primarily attributable to:

- profit before income tax for the reporting period of US\$72.3 million (FY 2014: US\$311.7 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US\$109.4 million (FY 2014: US\$111.9 million), finance costs of US\$46.0 million (FY 2014: US\$61.9 million) and gain on derivative financial instruments of US\$ 37.1 million (FY 2014: US\$60.3 million).
- a US\$9.3 million change in working capital (FY 2014: US\$19.5 million) primarily attributable to an increase in trade receivables of US\$1.2 million (FY 2014: a decrease of US\$36.5 million), a decrease in prepayments and other current assets of US\$12.2 million (FY 2014: an increase of US\$7.7 million), a decrease in trade payables of US\$7.3 million (FY 2014: a decrease of US\$5.6 million) and a decrease in other current liabilities of US\$2.1 million (FY 2014: an increase of US\$0.3 million).
- income tax paid of US\$41.2 million (FY 2014: US\$118.2 million).

Net cash used in investing activities

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

Net cash used in investing activities for the reporting period was US\$245.3 million (FY 2014: US\$304.5 million) due primarily to costs associated with the drilling of new wells of US\$58.7 million for the reporting period (FY 2014: US\$126.8 million), costs associated with the third gas treatment unit of US\$112.4 million (FY 2014: US\$142.8 million), costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachenskoye fields of US\$7.6 million (FY 2014: US\$10.4 million) and placement of US\$17.0 million of bank deposits, partially offset by the redemption of US\$42.0 million of cash deposits (FY 2014: redemption of US\$55.0 million and placement of US\$25.0 million of bank deposits).

Net cash (used in)/provided by financing activities

Net cash used in financing activities during the reporting period was US\$115.9 million, and was mainly represented by the payment of US\$49.1 million in distributions and the finance costs paid on the Group's 2012 Notes and 2014 Notes. Net cash provided by financing activities during FY 2014 was US\$147.5 million, which was primarily attributable to the issue of the 2014 Notes amounting to US\$400.0 million, offset by an early redemption of the 2010 Notes amounting to US\$92.5 million, payment of US\$64.6 million in distributions and the finance costs paid on the Group's 2010 Notes, 2012 Notes and 2014 Notes.

Financial review continued

Commitments

Liquidity risk is the risk that the Group will encounter difficulty raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management seeks to ensure that sufficient funds are available to meet any commitments as they arise. The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2015 based on contractual undiscounted payments:

	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	-	12,750	52,650	1,156,200	-	1,221,600
Trade payables	37,934	-	3,529	-	-	41,463
Other current financial liabilities	17,554	-	-	-	-	17,554
Due to the government of Kazakhstan	-	258	773	4,124	10,567	15,772
Total	55,488	13,008	56,952	1,160,324	10,567	1,296,339

Capital commitments

During the reporting period, Nostrum's cash used in capital expenditures for purchase of property, plant and equipment (excluding VAT) was approximately US\$256.1 million (FY 2014: US\$325.5 million). This reflects drilling costs, field infrastructure development projects and development costs for the oil treatment unit and the gas treatment facility.

Drilling

Drilling expenditures amounted to US\$58.7 million for the reporting period (FY 2014: US\$126.8 million).

Gas Treatment Facility

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, the Group is constructing a third unit for it. The construction of GTU3 is important for implementing the Group's strategy to increase operating capacity and production of liquid hydrocarbons. Management estimates, based on the production profile of both proved and probable reserves reported in the 2015 Ryder Scott Report and assuming the successful completion of the gas treatment facility in 2017, that the Company's annual production will more than double from the 2015 annual production (with an average of 40,391 boepd in 2015) by the end of 2018.

Total costs for the completion of GTU3 are estimated to be not more than US\$500 million, of which US\$250 million have been spent as of the end of the reporting period.

Liquidity and capital resources - 2014/2013 comparison

General

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

The following table sets forth the Group's consolidated cash flow statement data for the years ended 31 December 2014 and 2013.

In thousands of US Dollars	2014	2013
Cash and equivalents at the beginning of the period	184,914	197,730
Net cash flows from operating activities	349,636	358,554
Net cash used in investing activities ¹	(305,063)	(239,020)
Net cash from/(used in) financing activities	147,462	(132,350)
Effects of exchange rate changes on cash and cash equivalents	(1,506)	-
Cash and equivalents at the end of the period*	375,443	184,914

* Excluding deposits and restricted cash.

Net cash flows from operating activities

Net cash flow from operating activities was US\$349.6 million for the reporting period (FY 2013: US\$358.6 million) and was primarily attributable to:

- profit before income tax for the reporting period of US\$311.7 million (FY 2013: US\$362.0 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US\$111.9 million (FY 2013: US\$120.4 million), and finance costs of US\$61.9 million (FY 2013: US\$43.6 million)
- a US\$19.5 million change in working capital (FY 2013: US\$16.7 million) primarily attributable to a decrease in trade receivables of US\$36.5 million (FY 2013: US\$12.6 million), an increase in prepayments and other current assets of US\$7.7 million (FY 2013: a decrease of US\$6.8 million), a decrease in trade payables of US\$5.6 million (FY 2013: a decrease of US\$5.7 million) and an increase in other current liabilities of US\$0.3 million (FY 2013: US\$8.8 million)
- income tax paid of US\$118.2 million (FY 2013: US\$154.5 million)

Net cash used in investing activities

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

Net cash used in investing activities for the reporting period was US\$305.1 million (FY 2013: US\$239.0 million) due primarily to the drilling of new wells resulting in cash spent of approximately US\$126.8 million (FY 2013: US\$108.1 million), costs associated with the third gas treatment unit of approximately US\$142.8 million (FY 2013: US\$12.4 million) and costs associated with the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US\$10.4 million (FY 2013: US\$5.0 million), partially offset by the redemption of US\$30.0 million of cash deposits (FY 2013: redemption of US\$25 million and placement of US\$30.0 million of bank deposits).

Net cash (used in)/provided by financing activities

Net cash provided from financing activities during the reporting period was US\$147.5 million, primarily attributable to the issue of the 2014 Notes amounting to US\$400.0 million, offset by an early redemption of the 2010 Notes amounting to US\$92.5 million, payment of US\$64.6 million in distributions and the finance costs paid on the Group's 2010 Notes, 2012 Notes and 2014 Notes. Net cash used in financing activities during the FY 2013 was US\$132.4 million, which was mainly represented by the finance costs paid on the Group's 2010 Notes and 2012 Notes.

Five-year summary

In millions of US Dollars unless stated otherwise	2015 Audited	2014 Audited	2013 Audited	2012 Audited	2011 Audited
Revenue	448.9	781.9	895.0	737.0	300.8
Cost of sales	(186.6)	(221.9)	(286.2)	(238.2)	(70.8)
Gross profit	262.3	560.0	608.8	498.8	230.0
General and administrative expenses	(49.3)	(54.9)	(56.0)	(62.4)	(36.0)
Selling and transportation expenses	(93.0)	(122.3)	(121.7)	(103.6)	(35.4)
Finance costs	(46.0)	(61.9)	(43.6)	(46.8)	(1.7)
Finance costs - reorganisation	(1.1)	(29.6)	-	-	-
Employee share option plan fair value adjustment	2.2	3.1	(4.4)	(2.5)	(3.5)
Foreign exchange (loss)/gain, net	(21.2)	(4.2)	(0.6)	(0.8)	(0.4)
Gain on derivative financial instruments	37.1	60.3	-	-	-
Interest income	0.5	1.0	0.8	-	-
Other income	11.3	10.1	4.4	4.0	3.4
Other expenses	(30.6)	(49.8)	(25.6)	(6.6)	(7.9)
Profit before income tax	72.3	311.7	362.0	282.4	149.0
Income tax expense	(166.4)	(165.3)	(142.5)	(120.4)	(67.4)
(Loss)/profit for the year	(94.3)	146.4	219.5	162.0	81.6
Other comprehensive loss	(0.5)	-	-	-	-
Total comprehensive (loss)/income for the year	(94.8)	146.4	219.5	162.0	81.6
Non-current assets	1,854.1	1,698.6	1,426.0	1,251.6	1,126.9
Current assets	334.3	509.6	334.8	351.1	179.3
Total assets	2,188.4	2,208.2	1,760.8	1,602.7	1,306.2
Equity	773.8	917.7	832.5	695.1	585.2
Non-current liabilities	1,305.9	1,163.7	793.6	781.9	599.7
Current liabilities	108.7	126.9	134.7	125.7	121.3
Total equity and liabilities	2,188.4	2,208.2	1,760.8	1,602.7	1,306.2
Net cash flows from operating activities	153.3	349.6	358.6	291.8	132.2
Net cash used in investing activities ¹	(245.3)	(305.1)	(239.0)	(269.7)	(103.7)
Net cash from/(used in) financing activities	(115.9)	147.5	(132.4)	50.4	(47.4)
Profit margin %	(21.0%)	18.7%	24.5%	22.0%	27.1%
Equity/assets ratio %	35.4%	41.6%	47.3%	43.4%	44.8%
Share price at end of period (US\$) ²	5.97	6.56	13.00	10.70	9.70
Shares outstanding ('000s)	188,183	188,183	188,183	188,183	186,762
Options outstanding ('000s)	2,611	2,611	2,912	2,132	2,868
Dividend per share (US\$)	0.27	0.35	0.34	0.32	-

1 IFRS term based on indirect cash flow methodology.

2 Prior to 20 June 2014 the equity of the Group was represented by GDRs, 2015 end of period share price is calculated as 4.05 GBP/share x 1.4747 US\$/GBP = 5.97 US\$/share.

Risk management

Identification and assessment of the Group's key risks

The Board acknowledges its responsibility for determining the significant risks which may potentially affect the Group in achieving its strategic objectives. A Group-wide risk assessment is performed periodically to identify the nature and extent of such risks and determine appropriate mitigating actions.

In 2013 the Group formalised the Director's Risk Register, which identified the risks and associated mitigating control activities and future actions. These identified risks were aggregated and categorised into the following risk categories:

- strategic;
- operational;
- financial; and
- compliance.

Based on this risk register and further analysis and discussions the executive management and the Board periodically review previously identified significant risks, update their likelihood of occurrence and potential impact, and identify potential new significant risks emerging as a

result of the changing environment. These significant risks are discussed in more detail below in the section "Principal risks and uncertainties".

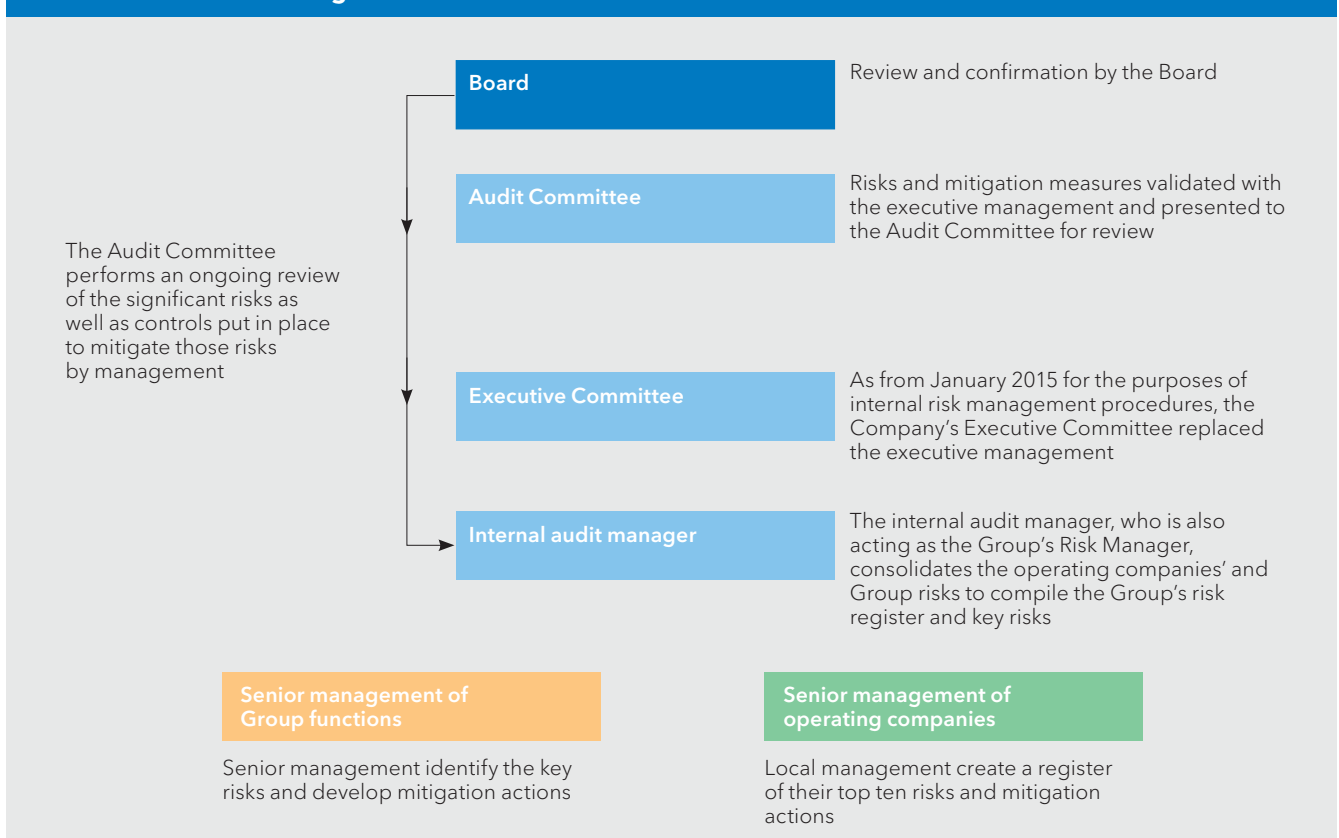
Risk assessment and management

The Group has in place risk management processes and procedures which are formalised in the Risk Management Policy, reflecting the following process:

The Risk Management Policy contains a description of the risk management process consisting of the following cycle of coordinated activities:

- recognition or identification of risks;
- ranking or evaluation of risks;
- responding to significant risks:
 - tolerate, when it is outside the Group's ability to mitigate;
 - treat by reducing its impact or likelihood of occurrence;
 - transfer to a third party;
 - terminate the activity creating them;

Risk assessment and management



Risk management continued

- resourcing controls;
- reaction planning;
- reporting and monitoring risk performance;
- reviewing the risk management framework.

In 2015, the processes related to risk management and internal control systems were consistent with the UK Corporate Governance Code and the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014.

Changes from prior year risk assessment

During 2015 the Board and senior management remained conscious of the same principal risks and uncertainties which were identified and disclosed in the 2014 Annual Report and the related risk assessments did not significantly change. However, particular attention was paid to the following areas:

- commodity price risk in view of the current market oil price environment and related impact on future performance and investments of the Group;
- risks related to GTU3 construction and drilling programme;
- risks related to repair works on gas pipelines used by the Group (similar to the instance which occurred in 2015), which is considered as part of the principal risk of “single revenue source and business interruption”;
- the effect of devaluation of the Kazakh Tenge against US Dollar on income taxes and related future cash flows;

The principal risks and uncertainties are presented on the following pages grouped into the four above-mentioned categories.

In addition, in line with the requirements of the 2014 UK Corporate Governance Code the Board made a robust assessment of the principal risks and uncertainties faced by the Group, including those that would threaten its business model and future performance, also included as part of a longer-term viability assessment.

Viability statement

The Group’s corporate planning process includes medium- and long-term financial projections and analysis as well as annual budgeting and forecasting. The long-term financial model extends through 2032, i.e. the licence term of the Chinarevskoye field, currently the main production source of the Group. The long-term model supports the Board’s activities described on pages 71 to 72, including annual strategic planning and decision-making processes. For the purpose of monitoring the Group’s performance in terms of strategic objectives, related KPIs and risks, as well

as medium-term development plans (as described on pages 22-23) the Board assesses its five-year financial projections. In addition, such financial projections are supported by the five-year drilling program (mentioned in the Chief Executive’s review on page 14). Finally, these medium- and long-term planning processes are cascaded down to a budgeting and forecasting process, which incorporates preparation of the draft annual budget for next year in the fourth quarter of every calendar year, which is reviewed and approved by the Board, and preparation of quarterly forecasts during the year for the Board’s review.

The Board has chosen a five-year period to December 2020 as a reasonable time-frame, over which it is possible to form a reasonable expectation as to the Group’s longer-term viability, given the inherent uncertainty involved. This period representing the period used for the Group’s mid-term business plans has been selected because it provides the Board and therefore readers of the annual report with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

The corporate planning process is closely linked with the risk management process described on pages 58-59. For the purpose of the Group’s viability assessment various scenarios are considered on the basis of the five-year cash flow model for the purpose of testing its sensitivity to the significant risks listed on pages 60-61 (to the extent such assessment of the risks is practicable), also including a severe but plausible scenario, resulting from a combination of those risks. The scenarios take into account the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks and that realistically would be open to the Group in the circumstances. In considering the likely effectiveness of such actions, the conclusions of the Board’s regular monitoring and review of risk and internal control systems are taken into account. The assumptions used for the purpose of the assessment of longer-term viability are consistent with the assumptions used in the budgeting & forecasting process and include assumptions about the results of the drilling program, the completion of GTU3, the subsequent uptake of production, the ability to refinance debt as it falls due and consistent sales performance.

The directors paid particular attention to the risks associated with development projects as well as commodity price risk, which may impact the Group’s ability to meet its liabilities, including the repayment of its Notes due in 2019.

Based on these assessments and other matters considered by the Board during the year, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2020.

Principal risks and uncertainties

Strategic risks	Description of risk	Risk management
<p>Development projects</p>	<p>The Group's planned development projects, in particular GTU3 and well drilling, are subject to customary risks related to delay, non-completion and cost overruns, which could impact future production and the Group's performance.</p>	<p>The Group has formed an experienced project management team and expects to benefit from the technical expertise and significant experience gained from the construction of GTU-1 and GTU-2 in the construction of GTU-3. The project management team reports on a monthly basis to senior management and the Board on the progress of engineering, procurement and construction.</p> <p>The Group has concluded the majority of the procurement process in relation to GTU3 and monitors logistics, engineering, expedition of materials and equipment on an ongoing basis. JSC "OGCC KazStroyService" has been engaged to construct GTU-3, having gained experience on similar projects including GTU-1 and GTU-2 and other large projects in Kazakhstan.</p> <p>Senior management and the Board constantly monitor the timing, scope and performance of the drilling programme and tailor it taking into account the status of the GTU3 project and current oil prices. For each well a detailed drilling programme is approved by senior management, which is the basis against which the progress of works and costs are reported.</p>
<p>Commodity price risk</p>	<p>The Group is exposed to the risk that its future earnings will be adversely impacted by changes in the market price of crude oil, given that all sales prices of crude oil and condensate are based on market prices. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals.</p> <p>The Group could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve.</p>	<p>The Group's hedging policy is that, upon entering into longer-term non-scalable capital expenditure commitments, it will hedge its liquids production.</p> <p>In January 2016, Nostrum announced that it had rolled its pre-existing hedge into a new hedge of 15,000 bopd with a strike price of US\$49.16 per barrel. The cost of the hedge was paid entirely from the sale of the Company's previous hedge for US\$92m. The new hedge has 24-month tenor, maturing in December 2017, with cash settlement on a quarterly basis.</p> <p>Senior management and the Board continuously monitor the timing, scope and performance of the drilling programme taking into account the oil price environment.</p> <p>Additionally, in 2015 the Group started exporting the majority of its dry gas under a new contract. The export prices are usually substantially higher than domestic prices.</p>

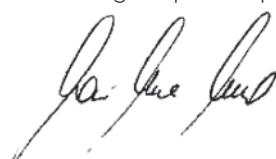
Principal risks and uncertainties continued

Operational risks	Description of risk	Risk management
<p>Single revenue source and business interruption</p>	<p>The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue.</p>	<p>The Group has a team of dedicated specialists who assess possible acquisitions of oil and gas fields and assets. In 2013 the Group acquired subsoil use rights for three oil and gas fields near the Chinarevskoye field. In 2016, the drilling programme will initially be set targeting the addition of three new production wells at Chinarevskoye as well as the completion of an appraisal well on the Rostoshinskoye field. The drilling programme is reviewed on a quarterly basis and can be scaled up at short notice. A supplementary agreement for the Rostoshinskoye field has been signed extending the exploration period until February 2017.</p> <p>In addition, Nostrum's approach made during 2015 to the board of Tethys Petroleum Limited regarding a possible offer to acquire the company represents an example of the Group's further efforts towards diversification of the Group's portfolio of assets. This offer was subsequently withdrawn by Nostrum.</p>
<p>Estimation of oil and gas reserves</p>	<p>The Group is subject to the risk that if there are inaccurate assessments and overstatement of the oil and gas reserves the Group's non-current assets and goodwill may be overstated or impaired. This may also be a consequence of unsuccessful exploration of the new fields and may also result in inappropriate decision-making.</p>	<p>The Group has a department of highly skilled geologists, who perform periodic assessments of the oil and gas reserves in accordance with international standards on reserve estimations. The results of the assessments are reviewed by the Group's independent reserve consultant, Ryder Scott.</p>
Compliance risks	Description of risk	Risk management
<p>Subsoil use agreements</p>	<p>The Group may have disagreements with the Kazakh government regarding its subsoil operations or compliance with the terms of its subsoil use agreements.</p>	<p>The Group believes that it is in full compliance with the terms of its PSA for the Chinarevskoye field and maintains an open dialogue with Kazakh governmental authorities regarding all of its subsoil use agreements. In the event of non-compliance with a provision of any such agreement the Group endeavours to have such terms modified and pays any penalties and fines that may apply.</p>

Compliance risks	Description of risk	Risk management
Environmental compliance	The legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times.	The Group has further strengthened its QHSE department during 2015. The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Key indicators such as GHG emissions, lost-time injuries, waste management, etc., as well as progress of work is reported to senior management on a monthly basis. Periodic training on the requirements of policies and regulations are held for employees. The Group is working towards obtaining ISO 14001 Environmental Management Systems and ISO 50001 Energy Management Systems certification. The Group also regularly commissions independent environmental audits to monitor its compliance and best practice in this area.
Perceived risk of non-compliance with anti-bribery legislation	There is a risk that the Group's employees will unintentionally or deliberately take actions prohibited by anti-bribery legislation given the perceived heightened risk in the jurisdiction in which the Group operates.	The Group has adopted an anti-bribery and corruption policy, and has included a provision on this subject in the Group's Code of Conduct and conducted training for employees in relation to their obligations in this area.
Financial risks	Description of risk	Risk management
Tax law uncertainty	The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create a risk of additional payments of tax from assessments which the Group believes are inapplicable to it.	The Group regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.
Going concern and liquidity risk	The Group is subject to the risk of encountering difficulties in raising funds to meet commitments associated with its financial liabilities and respective inappropriateness of going concern assumptions.	Liquidity requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise. The treasury policy provides for the Group to maintain a minimum level of cash of US\$50 million.

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

This strategic report is approved by the Board.



Kai-Uwe Kessel
Chief Executive Officer
29 March 2016



Jan-Ru Muller
Chief Financial Officer
29 March 2016

Corporate governance

Committed to excellence in our governance

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Chairman's overview

"We strive to govern the business in a manner that is both straightforward and effective, and which promotes the long-term success of the Group."



Dear shareholder

Nostrum is a simple, sustainable and successful business – these are our values and we apply them not only to our operational and financial goals, but also to our corporate governance. Adopting and implementing good corporate governance is a core principle of the Group's relations with each and all of our stakeholders. We strive to govern the business in a manner that is both straightforward and effective, and which promotes the long-term success of the Group.

The Group continues to embrace and address the demands of the additional regulatory obligations that are applicable to the Group as a result of Nostrum moving to a premium listing on the LSE in 2014. We highlight on our website the few areas where the Group does not fully comply with the UK Corporate Governance Code and explain the reasons behind such non-compliance. For further information, please see page 76 and the governance section of Nostrum's website <http://www.nostrumoilandgas.com/en/corporate-governance>.

While our Company evolves in the short and the long term, both organically and through potential M&A activity, we will seek to place issues of corporate governance at the core of our decision-making processes. We also continue to review and develop our corporate governance practices to ensure full compliance with regulatory requirements and to promote the success and sustainability of our business.

One of the products of our continuous efforts to excel in corporate governance is the new Executive Committee, which was established earlier this year. The Executive Committee is comprised of all of the executive directors together with Thomas Hartnett, Gudrun Wykrota and Heinz Wendel and was formed in order to better align the goals and objectives of each business function and to simplify the way in which we manage our business. The biographies of each member of the Executive Committee can be found on pages 66 to 69.

We also look to achieve a better balance in the gender diversity of our Board. Together with the Nomination and Governance Committee, I have been working to recruit a suitable female Board member to replace one of the Company's current non-executive directors. I hope to be able to report on this shortly.

Alongside this, we will continue to foster Board diversity in all regards in order that Nostrum's directors have the appropriate mix of skills, experience, independence and knowledge to enable them to discharge their duties and responsibilities effectively.

During the coming year we will conduct an externally-facilitated Board evaluation and we look forward to deriving concrete benefits from that evaluation process.

I look forward to updating you on the progress of our ongoing efforts to achieve excellence in corporate governance during the year ahead.

Frank Monstrey
Chairman

Board of directors

Frank Monstrey Executive Chairman

- DOB: 22 April 1965
- Nationality: Belgian



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

Other current appointments

Claremont Holdings C.V., RusPetro plc, Crest Capital Management N.V.

The Chairman has no other significant commitments.

Other positions¹

- Previously served as chairman of the board of Nostrum's predecessor entities since 2004.
- From 1991-2015, Chief Executive Officer of Probel Capital Management N.V. (now called Nostrum Services N.V.), a private equity and asset management firm based in Belgium specialising in long-term capital management in emerging markets.
- Holds a degree in Business Economics from the University of Leuven (KUL), Belgium.

Board Committees

- Nomination and Governance

Jan-Ru Muller Chief Financial Officer

- DOB: 20 May 1964
- Nationality: Dutch



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

Other current appointments

Telco B.V. – Director

Other positions¹

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

- 1988-1990, Andersen Consulting.
- Holds a BEng degree from Utrecht Municipal Institute of Technology and an MBA degree from the University of Leuven (KUL).

Board Committees

- None

Kai-Uwe Kessel Chief Executive Officer

- DOB: 17 December 1961
- Nationality: German



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

Other current appointments

BelGerAs S.A. – Director, Gervanca Investments Sarl – Director, Cavendish Affiliates Limited

Other positions¹

- 2002-2005, director of Gaz de France's North African E&P division.

- 1992-2001, Managing Director of Erdas Erdöl GmbH, an oil and gas company owned by Gaz de France, and director and chairman of the board of KazGermanai.
- Graduate of the Gubkin Russian State University of Oil and Gas.

Board Committees

- None

Eike von der Linden Senior independent non-executive director

- DOB: 7 July 1941
- Nationality: German



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

Other current appointments

Linden Advisory & Consulting Services – managing director, Jordan Energy and Mining Ltd. – technical director, Schullermann und Partner AG – member of supervisory board, Financial Auditor and Tax Consultant Group – member of supervisory board

Other positions¹

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

Board Committees

- Audit (Chairman)
- Remuneration
- Nomination and Governance

¹ Chronological order.

Atul Gupta

Independent non-executive director

- DOB: 15 December 1959
- Nationality: British



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

Other current appointments

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

Other positions¹

- Chief Executive Officer (2006-2008) and Chief Operating Officer (1999-2006) of Burren Energy.

- 30 years' board experience in international upstream oil and gas businesses: Charterhouse Petroleum, Petrofina, Monument and Burren Energy.

- Graduate in chemical engineering (Cambridge University) and Masters in petroleum engineering (Heriot Watt University, Edinburgh).

Board committees

- Audit

Sir Christopher Codrington, Bt.

Independent non-executive director

- DOB: 20 February 1960
- Nationality: British



Appointed as a director on 19 May 2014.

Other current appointments

Navarino Services Limited – director, Capital Marketing Investments Ltd – director

Other positions

- More than 28 years' executive board and senior management experience in the oil and gas sector and the hospitality and other industries.

- Spent eight years living in Houston, Texas, developing prospects in various oil and gas fields for COG, Inc., Texas General Resources, Inc., TexBrit Corporation, Inc. and Whitehall Energy Limited.

- Royal Agricultural University – DipAFM.

Board committees

- Nomination and Governance (Chairman)
- Remuneration
- Audit

Piet Everaert

Non-executive director

- DOB: 28 March 1961
- Nationality: Belgian



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

Other current appointments

BVBA Piet Everaert – director, VVEW Advocaten VOF – partner

Other positions¹

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

Board committees

- Remuneration²

Mark Martin

Independent non-executive director

- DOB: 17 February 1969
- Nationality: British



Appointed as a director on 19 May 2014.

Other current appointments

None

Other positions

- 20 years of investment banking experience with Barclays, Baring Securities and ING where he was Global Head of Equity Capital Markets from 2003-2011.

- 2011-2014 served as Chief Executive Officer of Exillon Energy PLC in Moscow.

- Graduate of Cambridge University with a degree in Social and Political Sciences.

Board committees

- Remuneration (Chairman)

Pankaj Jain

Non-executive director

- DOB: 14 June 1967
- Nationality: Indian



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

Other current appointments

KazStroyService Global B.V. – Chief Executive Officer, ABN Heritage Developers Private Limited – director, RMG Properties Private Limited – director

Other positions¹

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

Board committees

- None

² Mr Everaert resigned as a member of the Remuneration Committee on 22 March 2016.

Nostrum Oil & Gas PLC management team

(See biographies of executive directors Frank Monstrey, Kai-Uwe Kessel and Jan-Ru Muller on page 66).

Thomas Hartnett

General Counsel and
Company Secretary

- Year of birth: 1964
- Nationality: U.S./Belgian



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

Skills and experience

- More than 16 years' experience with the law firm White & Case LLP where he was a Partner and specialised in cross-border corporate and M&A transactions based in the firm's New York, Istanbul, London, Brussels and Bangkok offices.

- 1996-1998 served as Senior Corporate Counsel for Intercontinental Hotels Group (formerly Bass Hotels & Resorts).
- Holds a Bachelor of Arts degree in Comparative and Developmental Politics from the University of Pennsylvania and a Juris Doctor degree from New York University School of Law.
- Member of the New York Bar.

Tom Richardson

Group Head of
Corporate Finance

- Year of birth: 1981
- Nationality: British



Appointed as Group Head of Corporate Finance on 31 August 2011.

Skills and experience

- Over seven years' experience in banking covering the emerging markets and has been involved in raising over US\$5 billion for emerging markets companies in the capital markets.

- Two years of experience in consultancy work across the emerging markets, being involved in over US\$1.25 billion of financings.

Jan Laga

Head of M&A

- Year of birth: 1963
- Nationality: Belgian



Appointed Deputy CEO of Nostrum on 1 January 2010.

Skills and experience

- Wide experience in industrial group management: Picanol, Berry Group, Ackermans & van Haaren and Koramic.

- Holds a Masters degree in electro-mechanical engineering (University of Leuven) and an MBA (INSEAD).

Alexei Erber

Head of Business
Development

- Year of birth: 1959
- Nationality: German



Appointed as Director of Geology and Reservoir Management of Zhaikmunai LLP in October 2007.

Skills and experience

- More than 20 years' experience with the geological and exploration departments of Erdas Erdöl GmbH and Gaz de France.

- Graduate of the Gubkin Russian State University of Oil and Gas (Geology and Geology Engineering) and the Ernst Moritz Arndt University of Greiswald (Mathematical Methods in Geology).

Zhaikmunai LLP management team

Heinz Wendel

General Director,
Zhaikmunai LLP

- Year of birth: 1953
- Nationality: German



Appointed as Chief Operating Officer of Zhaikmunai LLP in January 2012, and as General Director of Zhaikmunai LLP in August 2013.

Skills and experience

- 30 years' experience in oil & gas exploration and production, primarily as an oil and gas engineer.

- Served in various managerial and technical capacities in Germany, Poland, Russia and Kazakhstan with GDF Suez E&P, East German Erdas Erdöl GmbH and others.
- Graduate of the Oil & Gas Institute of Baku, Azerbaijan.

Gudrun Wykrota

Chief Financial Officer,
Zhaikmunai LLP

- Year of birth: 1960
- Nationality: German



Appointed as Chief Financial Officer of Zhaikmunai LLP in April 2010.

Skills and experience

- Prior experience in the energy field: Head of Asset Management Upstream (Gazprom Germania GmbH), Finance and Administration Manager (Gaz de France Production Exploration Deutschland GmbH).

- Holds an MSc (Mining Engineering and Economy) from Moscow Geological Exploration University, and a Certificate in International Accounting from the German Chamber of Industry and Commerce in Berlin, Germany.

Zhaikmunai LLP management team

Berik Brekeshev

Commercial Director,
Zhaikmunai LLP

- Year of birth: 1975
- Nationality: Kazakh



Appointed as Commercial Director of Zhaikmunai LLP in January 2010.

Skills and experience

- More than 10 years' extensive experience in the oil and gas industry in Kazakhstan.

- Previously held senior positions with Starleigh Ltd, Tallahassee Holdings Limited and JSC NNGRE and commercial roles at Nelson Resources, Kazakhoil Aktobe, Buzachi Operating, Atlas Global Investment and Western-Siberian Drilling Company.
- Holds an MBA (International Marketing) from the Maastricht School of Management.

Amankeldy Sanatov

Acting Operations Director,
Zhaikmunai LLP

- Year of birth: 1975
- Nationality: Kazakh



Appointed as Acting Operations Director in 2013.

Skills and experience

- Diplomas in Operation of Oil and Gas Fields and Oil and Gas Geology from Saraov Chernyshevsky State University.

- Has previously worked in other positions within the Company including as Site Manager, Manager of the Oil and Gas Production department and Field Superintendent for Zhaikmunai LLP.

Zhomart Darkeev

Administrative Director,
Zhaikmunai LLP

- Year of birth: 1966
- Nationality: Kazakh



Skills and experience

- Previously worked for Derku Oil & Gas Drilling as assistant driller and Kazakhgas State Holding Company as a leading reservoir engineer. At Zhaikmunai LLP, he has held the positions of Assistant General Director, Chief Administrative Manager, Engineer Manager and Deputy General Manager.

- Graduate of Furmanov Secondary School with further education completed at the Ivano-Frankivsk Institute of Oil and Gas with a specialisation in drilling of oil and gas wells.

Gernot Voigtländer

Director of Geology and
Reservoir Management,
Zhaikmunai LLP

- Year of birth: 1968
- Nationality: German



Appointed as Director of Geology and Reservoir Management in 2013.

Skills and experience

- Previously worked at GDF Suez Exploration & Production Deutschland GmbH and gained experience in petroleum geology from 1984.

- Extensive subsurface experience in the exploration, appraisal, development and production of hydrocarbons.
- Diploma of Geology from the Technical University of Berlin and degree in Exploration Geology from Moscow Institute of Exploration Geology, Russia.

Vyacheslav Druzhinin

Government Authorities
Relations Director,
Zhaikmunai LLP

- Year of birth: 1954
- Nationality: Russian



Skills and experience

- Qualified mining engineer from the Polytechnical Institute, Tomsk (Russia) and the USSR Ministry of Geology.
- Completed drilling engineer training at the Hughes Christensen Company, Houston, Texas.

- Previous experience includes various positions in the Field Development Department of KazakhGaz State Holding Company, State Holding Company "Zharyk" and Volkovgeologia KGGP.

Serik Sultanov

Acting Drilling Director,
Zhaikmunai LLP

- Year of birth: 1961
- Nationality: Kazakh



Skills and experience

- Previously worked for ELF Neftegas Kazakhstan, JV Aktobe Preussag Munay Ltd, Ural Oil & Gas LLP, North Caspian Oil Development LLP and other companies, has experience in drilling since 1986.

- Holds a qualification from the Kazakh Politechnical Institute with a specialisation in drilling of oil and gas wells.

Corporate governance approach

Corporate governance is very important to Nostrum and the Board promotes high standards of corporate governance as a key component of its activities. The Company is now subject to the provisions of the September 2014 version of the UK Corporate Governance Code (the **"Code"**). The Code is publicly available on the website of the UK Financial Reporting Council (www.frc.co.uk).

Please refer to pages 77 to 80 for a detailed explanation of the ways in which the Company complies with each provision of the Code. The Company fully complies with all provisions of the Code with the exception of those matters set out on page 76, in respect of which the reasons for a divergence from the Code position is explained.

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

The Code recommends that the Board should appoint one of its independent non-executive directors to act in the capacity of senior independent director. Eike von der Linden serves in such capacity as the Board's senior independent director.

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

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

Changes in the operating structure: the Executive Committee

In February 2015 the Group established an executive committee comprised of all of the executive directors, whose details are provided on page 66, together with Thomas Hartnett, Heinz Wendel and Gudrun Wykrota, whose details are provided on page 68.

Subject to Kai-Uwe Kessel's overall responsibility as Chief Executive for executive management, each member of the Executive Committee has oversight responsibility for particular functional areas as follows:

Executive Committee Member(s)	Functional Area
Frank Monstrey/ Kai-Uwe Kessel	Strategy
Frank Monstrey	Corporate Finance and Communications, including: <ul style="list-style-type: none"> • Corporate Finance • Economic Analysis • Investor Relations • External Communications • Public Relations
Jan-Ru Muller	Finance, including: <ul style="list-style-type: none"> • Budget & Control • Treasury & Cash Management • Risk Management • Liaison with Internal Audit • Information & Communication Technology (ICT)
Gudrun Wykrota	Accounting and Tax, including: <ul style="list-style-type: none"> • Accounting and Reporting • Tax Matters
Kai-Uwe Kessel/ Frank Monstrey	Business Development, including: <ul style="list-style-type: none"> • Exploration • Appraisal • Governmental Interaction • Transaction Management • Peer Analysis & Market Intelligence
Heinz Wendel	Operations, including: <ul style="list-style-type: none"> • Development • Production • Abandonment • QHSE • Relations with Government Authorities • Procurement • Research & Development • Security • Administration • Licensing

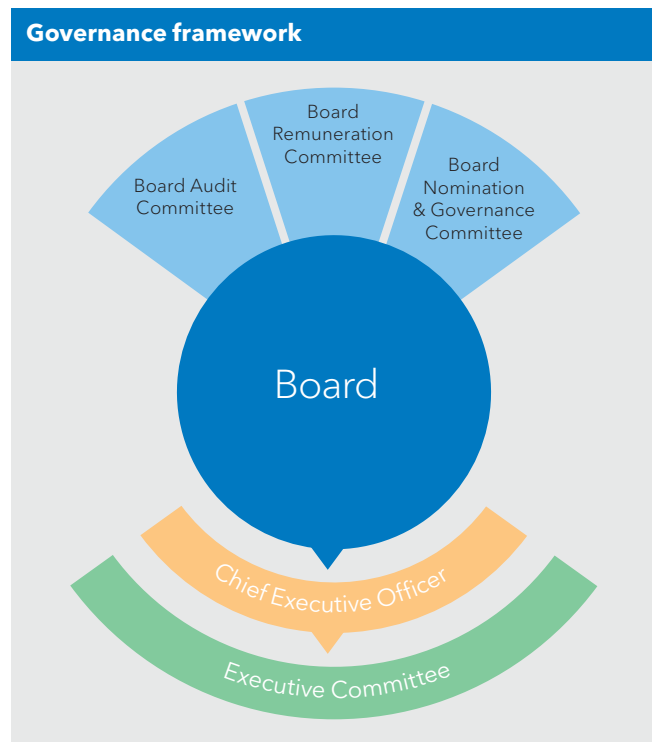
Executive Committee Member(s)	Functional Area
Kai-Uwe Kessel	Sales & Marketing, including: <ul style="list-style-type: none"> • Sales Oil & Gas Products • Marketing • Logistics & Transportation
Thomas Hartnett	Legal, HR and Company Administration, including: <ul style="list-style-type: none"> • Legal Matters • Compliance • Corporate Governance • Company Administration • Oversight of Service Companies • Human Resources

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

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

The Executive Committee meet on a weekly basis to discuss and approve matters affecting or required for the day-to-day ordinary operation of the Group.

Governance framework



How the Board works

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

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

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

The schedule is reviewed annually and is available on our website. Other specific responsibilities are delegated to Board committees.

Corporate governance approach continued

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

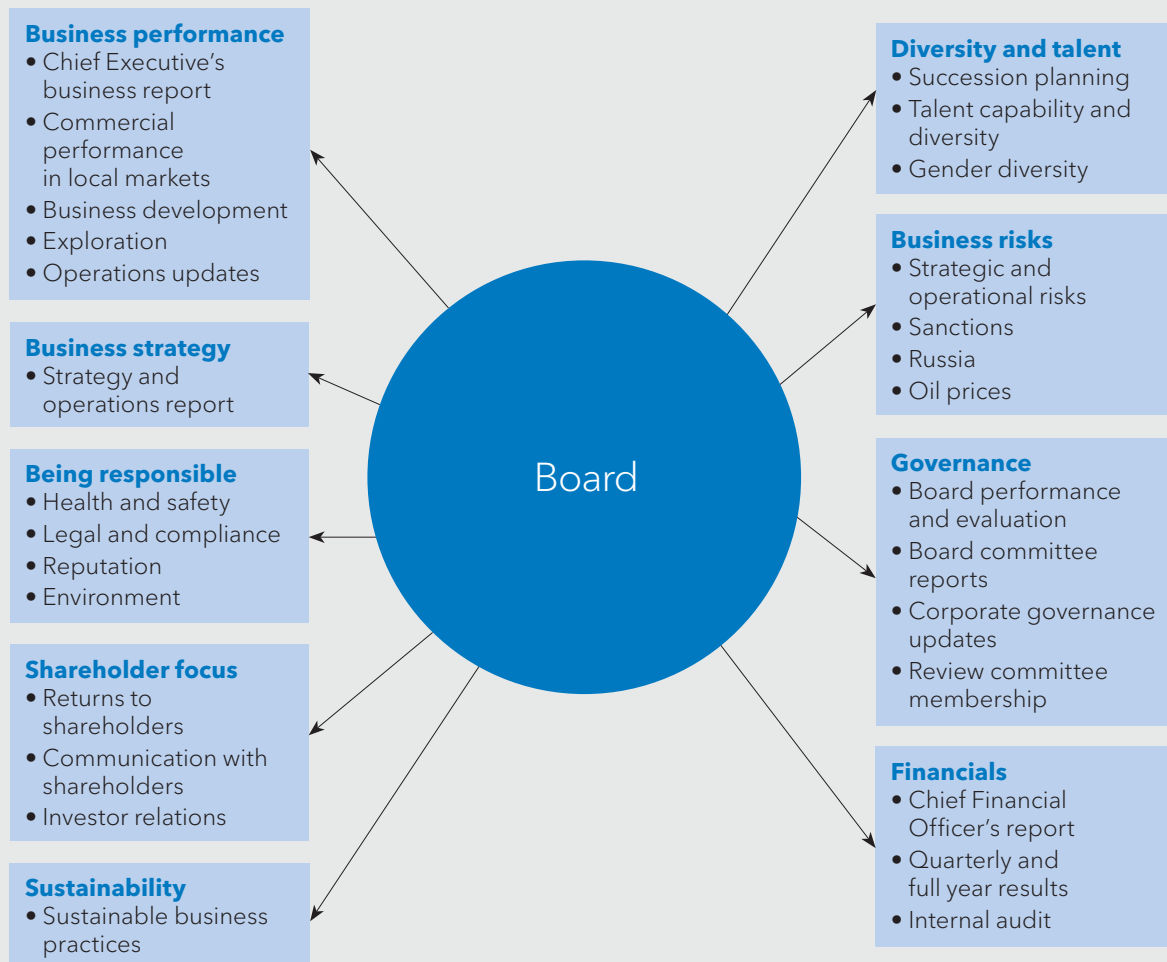
The key responsibilities of the Board include:

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

Board activities in the 2015 financial year

Board activities are structured to assist the Board in achieving its goal to support and advise executive management on the delivery of the Group's strategy within a transparent governance framework.

The diagram below shows the main areas of focus of the Board during 2015.



Board composition

The Board consists of nine directors. As at 31 December 2015, in addition to the Chairman, Frank Monstrey, there were two executive directors and six non-executive directors.

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

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

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

Board diversity

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

Whilst there are currently no women on Nostrum's Board, gender diversity is important to us and the Nomination and Governance Committee is currently working together with the chairman to source a suitable female Board member to replace one of the Company's current non-executive directors in 2016.

Appointment and tenure

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

The appointment of each of the non-executive directors commenced on 19 May 2014. Each appointment is for an initial term of three years, subject to being re-elected as a director at each subsequent Annual General Meeting of the Company. The letters of appointment for non-executive directors do not set a fixed time commitment as it is anticipated that the time required of directors may fluctuate depending on the demands of the Company's business and other events. It is expected that directors will allocate sufficient time to the Company in order to discharge their duties effectively.

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

Company Secretary

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

Corporate governance approach continued

Board evaluation

In line with the requirements of the Code, the Company aims to review Board effectiveness annually, with Board effectiveness also being reviewed through an external performance evaluation every three years.

In 2015 a detailed questionnaire was prepared by the Company Secretary and distributed to each director for their feedback regarding the Board's performance and effectiveness. The directors were asked to provide their views on a range of subjects, including multiple questions in four principal areas: leadership, effectiveness, accountability and engagement.

Key findings and action items coming out of the self-evaluation include the following:

- Several directors noted that the implementation of a board portal across the Group designed to improve the efficiency of information sharing and the distribution of Board and committee materials has improved communications between the executive and non-executive directors and the timeliness of the dissemination of information to the Board.
- One director suggested that the gender balance of the Board be addressed when appropriate. This has been adopted as an action item for the Nomination and Governance Committee which is currently in the process of identifying a suitable female Board candidate to replace one of the non-executive directors in 2016.
- Certain directors suggested that the Board's dialogue with shareholders and shareholder representative groups could be developed further and feedback from management to the non-executive directors regarding any shareholder concerns could be improved. Whilst the Company regularly engages with shareholders it does so mainly via its investor relations team and executive directors. Going forward the aim is to expand this engagement to the non-executive directors by arranging meetings with shareholders and/or shareholder representative groups as and when requested or appropriate.
- One director suggested that strategic issues should be discussed at Board level at an earlier stage and this suggestion is being considered further by the Board and senior management.

- One director suggested that additional Board training should be considered to keep the Board up-to-date on values and standards. In addition to training that the Company organises for directors, all directors are regularly encouraged to discuss any training and development needs at Board meetings and to make recommendations to the chairman outside of such meetings. However, to ensure that all directors feel able to make such suggestions going forward consideration will be given to adding the discussion of director training as a fixed agenda item at all quarterly Board meetings of the Company.

Director induction and training

Each individual joining the Board receives a full, formal induction package with materials on the Group's business and operational, financial and legal matters. They also participate in discussions with members of the Board and representatives of major shareholders in order to obtain a good understanding of the challenges and opportunities faced by the Group. Directors are often given the opportunity to discuss their training and development needs and to make recommendations to the chairman regarding topics on which they would like to receive training.

In response to requests from directors, a site visit for the Board to the Group's Chinarevskoye field operations in Kazakhstan was arranged in 2015. Geology and reservoir training was given as part of the site visit and covered topics such as certain regional field studies, production forecasts and exploration and appraisal activities.

The directors regularly attend training events organised by third parties and the Company actively encourages directors to attend such events. During 2015, members of the Audit Committee have been attending various workshops hosted by third parties regarding the new requirement under provision C.2.2 of the Code for the Company to include a viability statement in its Annual Report and the Audit Committee has regularly reported to the Board on such matters and requested additional meetings with the chairman to discuss this new requirement.

Shareholder engagement

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

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

Nostrum attends investor conferences and industry forums throughout the year and we publish a list of these in advance on the investor relations section of our website. We are available for ad hoc shareholder meetings with management and welcome enquiries. Over the year, the Investor Relations team and management met with over 100 institutions internationally.

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

Policies

The Company has adopted a share dealing code, which incorporates the Model Code as published in the Listing Rules and applies to the directors, senior management and other relevant employees of the Group. The Company's share dealing code will be updated to take account of the new market abuse rules which come into force in July 2016.

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

In addition, the Company has adopted a whistle-blowing policy that takes account of the Whistle-blowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work.

Board Committees

The Board has established a nomination and governance committee, an audit committee and a remuneration committee. Further details on each of these committees can be found in their reports on pages 88 to 97. The terms of reference of each of these committees can be found on our website at www.nog.co.uk.

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

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

Attendance at meetings of the Board and its committees in the 2015 financial year

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

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

¹ Chairman of the Audit Committee.

² Chairman of the Remuneration Committee.

³ Chairman of the Nomination and Governance Committee.

Corporate governance approach continued

Compliance with the 2014 UK Corporate Governance Code

Nostrum fully complied throughout 2015 with the provisions of the 2014 version of the UK Corporate Governance Code (the "Code") except in the following respects:

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

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

D.2.1 The Company's Remuneration Committee consists of three independent non-executive directors (Mark Martin, Eike von der Linden and Sir Christopher Codrington, Bt.) and one non-independent non-executive director (Piet Everaert).

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

In order to ensure there would be no conflict of interest, the committee decided in 2015 that Mr Everaert would not participate in any discussions, or vote on any resolutions, regarding Frank Monstrey's remuneration. In addition, on 22 March 2016 Mr Everaert resigned from the Remuneration Committee so that the composition of the committee would comply with Provisions D.2.1 of the Code.

E.2.3 All directors did not attend the 2015 Annual General Meeting, however those directors who did not attend were available by teleconference to answer questions from shareholders.

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

A. Leadership

A.1 The role of the Board

The Board's responsibilities are set out in the section entitled "How the Board Works" on page 71 of the Annual Report.

The Board met formally seven times during 2015. All directors are, where possible, expected to attend all Board and relevant Committee meetings. Details of Board meeting attendance for the year are set out on page 75 of the Annual Report.

The Board has approved certain policies including a formal schedule of matters reserved for the Board, a delegation of signature authority policy and an internal approvals policy which delegates the approval of certain matters to the Executive Committee and/or certain of its members. Further information can be found on page 75 of the Annual Report.

A.3 The chairman

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

As explained in more detail on page 76 of the Annual Report the chairman does not meet the independence criteria set out in provision B.1.1 of the Code.

A.2 Division of responsibilities

Frank Monstrey, the chairman, is responsible for leading the Board while Kai-Uwe Kessel, the chief executive, is responsible for the day-to-day management of the Group. Further details of the roles of chairman and chief executive can be found on page 73 of the Annual Report.

A.4 Non-executive directors

The Board has appointed Eike von der Linden as senior independent non-executive director. Mr von der Linden provides a communication channel between the chairman and the non-executive directors. Further information regarding Mr von der Linden's role can be found on page 73 of the Annual Report.

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

The Nomination and Governance Committee Report can be found on pages 88 of the Annual Report.

B. Effectiveness

B.1 The composition of the Board

The Board consists of nine directors; three executive directors, four independent non-executive directors and two non-executive directors who are not considered independent for the purposes of the Code. Therefore, as explained in further detail on page 76 of the Annual Report, the current composition of the Board does not comply with provision B.1.1 of the Code as five of the nine directors on the Board are not considered independent.

The Nomination and Governance Committee is responsible for regularly reviewing the composition of the Board. No changes were made to the composition of the Board during 2015.

B.2 Appointments to the Board

The Nomination and Governance Committee leads the appointment of new directors. The report of the Nomination and Governance Committee can be found on pages 88 of the Annual Report and provides an overview of what the committee has done during the year. The Nomination and Governance Committee terms of reference can be found at: <http://www.nostrumoilandgas.com/en/nomination-committee>.

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

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

Corporate governance approach continued

B. Effectiveness

B.3 Commitment

Details of each directors' other significant commitments are set out in their biographies on pages 66 to 67 of the Annual Report. Directors' are required to report any changes to their commitments to the Board.

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

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

B.5 Information and support

The Company has an agreed procedure for directors to take independent professional advice at the expense of the Company which is managed by the company secretary. No such independent advice was sought in the 2015 financial year.

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

B.7 Re-election

All directors were subject to shareholder election at the 2015 Annual General Meeting, as will be the case at the 2016 Annual General Meeting. The biographies for all of the Company's directors can be found on pages 66 to 67 of the Annual Report.

B.4 Development

Details of director induction and training are provided on page 74 of the Annual Report.

B.6 Evaluation

The Board and its committees undertook an internal evaluation during 2015. In accordance with provision B.6.2 and as the Board has conducted internal evaluations for the past two years, the Board will arrange for an externally facilitated evaluation of the Board during 2016.

The outcomes of the 2015 Board evaluation exercise can be found on page 74 of the Annual Report.

C. Accountability

C.1 Financial and business reporting

The directors' statement of responsibility regarding the financial statements is set out on page 111 of the Annual Report. The directors' going concern statement is given on page 120 of the Annual Report.

The statement from the Company's auditor regarding its reporting responsibilities is set out on page 114 of the Annual Report.

C.2 Risk management and internal control

An overview of the Company's principal risks and uncertainties can be found on pages 61 to 63 of the Annual Report.

The Board has overall responsibility for determining the significant risks that may affect the Group in achieving its strategic objectives. More details on this matter together with details of how the Audit Committee, internal audit manager and senior management of the Group assist the Board with its responsibilities in relation to risk can be found in the Risk Management section of the Annual Report on pages 59 to 60.

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

C.3 Audit committee and auditors

The Board has delegated a number of functions to the Audit Committee which are explained in more detail in the Audit Committee report which can be found on pages 82 to 87 of the Annual Report and in the terms of reference for the Audit Committee which can be found at: <http://www.nostrumoilandgas.com/en/2012fy>.

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

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

Corporate governance approach continued

D. Remuneration

D.1 The level and components of remuneration

The Remuneration Committee is responsible for setting the Group's remuneration policy. For further information see the Remuneration Committee report on pages 89 to 97 of the Annual Report and the directors' remuneration policy which was approved by shareholders at the 2015 Annual General Meeting on pages 98 to 103 of the Annual Report.

D.2 Procedure

The Remuneration Committee consists of at least three independent non-executive directors, however, Mr Everaert, a non-independent non-executive director, is also a member of the Remuneration Committee and the Company understands that the common interpretation of provision D.2.1 of the Code is that any additional director appointed as a member of the Remuneration Committee must also be an independent non-executive director and therefore the Company does not fully comply with provision D.2.1 of the Code¹. Further details can be found on page 76 of the Annual Report.

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

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

E. Relations with shareholders

E.1 Dialogue with shareholders

The Board seeks to engage with shareholders regularly and the chairman seeks to ensure that the Board is kept apprised of shareholder views.

Further information regarding shareholder engagement can be found on pages 74 to 75 of the Annual Report.

E.2 Constructive use of General Meetings

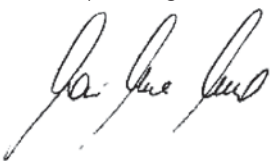
The Company's Annual General Meeting provides shareholders with the opportunity to vote on certain aspects of the Group's business and to speak with the directors.

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

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

¹ Mr Everaert resigned as a member of the Remuneration Committee on 22 March 2016.

The corporate governance approach has been approved by the Board.



Kai-Uwe Kessel
Chief Executive Officer
29 March 2016



Jan-Ru Muller
Chief Financial Officer
29 March 2016



Audit Committee Report

Letter from the Chairman



It is paramount that the duties of the Audit Committee are performed effectively in market conditions such as these, with the last year punctuated by the continued decline in oil prices. I am pleased to say that throughout 2015 the Audit Committee has remained focused on its responsibilities to Nostrum's shareholders and has continued to deliver oversight and control successfully.

In addition, the Committee has embraced the new regulatory requirement of the viability statement and looks forward to building this firmly into Nostrum's corporate governance practices from now on.

Since its last reporting date, the Audit Committee has held eight formal meetings, of which four were held in preparation and connection with Board meetings and three in anticipation of the viability statement. In addition, eight Audit Committee conference calls were conducted, the last four in connection with tendering of external audit services for the year 2016.

My private meetings with Nostrum's external audit partner gave the Audit Committee an opportunity to share our views on the Group's potential risk areas and discuss the areas of concern raised by the committee members. In addition, we were periodically updated by the Group's internal audit manager on the audits of internal controls, development of the risk management function and other assignments given to internal audit.

When the committee members had questions or comments on the monthly management reports, those were immediately discussed with the Group's CFO and, when considered necessary, recommendations were made to the executive management team.

Quarterly meetings of the committee usually take place a few days or just prior to a Board meeting to maximise the efficiency of the committee's interaction with the Board. As chairman of the committee, it is my responsibility to report to the Board on key topics discussed at committee meetings to ensure that all directors are informed of the committee's work.

I believe that the committee consists of members with an excellent balance of skills and experience, allowing the committee to perform its tasks effectively whilst being supported by the management, the external auditor and the Group's internal audit manager.

Eike von der Linden

Chairman, Audit Committee

Senior independent non-executive director

Role and responsibilities of the Audit Committee

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

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

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

The members of the committee during 2015 were:

Name	Membership start date
Eike von der Linden	19 May 2014
Atul Gupta	19 May 2014
Sir Christopher Codrington, Bt.	19 May 2014

The members of the Audit Committee were selected with the aim of providing a wide range of financial and commercial expertise necessary to meet the responsibilities of the Committee. All members of the Committee are considered to have the required recent and relevant financial experience.

The committee meets on a quarterly basis or additionally as and when required. The chief financial officer and the internal audit manager are also invited to the meetings if regarded necessary together with the external auditor.

In addition to these activities, on a monthly basis the members of the committee are updated by management and the internal audit manager on key issues and developments including the status of the Group's strategic initiatives, financial performance, risk management and internal controls.

Activities of the Audit Committee during the year

The committee held eight meetings in 2015 and below is a summary of the major activities of the committee during the year, which include: compliance with corporate governance standards, financial reporting, external audit, internal audit, internal controls and risk management, significant issues and related actions and the committee review.

Compliance with corporate governance standards

Nostrum's approach to corporate governance is primarily based on the UK Corporate Governance Code published by the Financial Reporting Council (FRC) and the Listing Rules of the UK Listing Authority.

As of 31 December 2015, Nostrum complied with all the principles and provisions of the UK Corporate Governance Code in relation to the work of the committee.

The committee held several meetings with the external auditor to discuss the new requirements of the 2014 UK Corporate Governance Code relating to the viability statement. In addition, the committee gave appropriate attention to the recently emerging risks related to cyber security and participated in the 2015 Cyber Governance Health Check conducted by the UK authorities.

Nostrum has also established a Group Whistle-blowing Policy and has appointed two compliance liaison officers; one Russian-speaking compliance liaison officer based in Kazakhstan and a further Dutch- and English-speaking compliance liaison officer based in Brussels, to ensure that all Group employees have access to someone who can provide them with support and guidance on their rights and obligations regarding whistle-blowing. The Audit Committee maintains close contact with the compliance liaison officers.

Financial reporting

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

- the compliance of the accounting policies applied and disclosures made with financial reporting standards and relevant corporate governance requirements;
- the significant judgements and estimates applied by the management, which are discussed in more detail in the section entitled "Significant issues and related actions" below; and
- whether the Annual Report, 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.

Audit Committee Report continued

Any questions and comments arising from the Committee and from the external auditor were discussed with Nostrum's management at meetings of the committee. Subsequently, based on its overall assessment the committee recommended that the Board approve the financial statements and the Annual Report.

The committee continuously provides feedback to management on ways to improve the effectiveness and clarity of the Group's corporate reporting and has encouraged management to support and adopt regulatory initiatives that would enhance the Group's reporting.

External audit

During Q4 2015 the Audit Committee reviewed and discussed the detailed audit plan prepared by Ernst & Young LLP (UK) which identifies the audit scope and its assessment of key risks. The key risks monitored by the committee correspond with those identified and assessed by management and the external auditor. These risks and remedial actions are explained in detail in the section entitled "Significant issues and related actions" below. All members of the committee support the application of professional scepticism by the Group's external auditor.

During 2015 and 2016 the members of the committee held private meetings with the external auditor, which provided a mutual opportunity for open dialogue and feedback without management being present. Topics covered at such meetings include: the external auditor's assessment of significant risks and related management actions, confirmation that there has been no restriction in the scope placed on it by management, the adequacy of the audit fees, the independence of its audit and how it has exercised professional scepticism.

The effectiveness of the external auditor is evaluated by the committee each year and takes into account the quality of the work and communication undertaken by the external auditor and the level of audit fees. The committee reviewed the 2015 H1 interim and 2015 annual auditor's reports giving particular consideration to the audit procedures and findings in the areas of significant judgements and estimates. The committee also reviewed and discussed the Group's significant risks identified by the external auditor, and reviewed the effectiveness of the Group's risk management framework related to such risks.

The committee also reviewed the letter of representation to be signed by management in respect of both the interim review and the annual audit.

Appointment of external auditor

Ernst & Young LLP (Kazakhstan) was the auditor of the predecessor group of companies since 2007, and continued auditing Zhaikmunai LLP in 2015, while Ernst & Young LLP (UK) was first appointed as an auditor of the Group on

19 May 2014 based on the recommendation of the committee and upon approval by the Company's shareholders and re-appointed as an auditor of the Group on 19 May 2015. Mr Richard Addison was appointed as lead audit engagement partner on 19 May 2014 and continued in this role for the 2015 Group audit.

Given guidance contained under provision C.3.7 of the UK Corporate Governance Code that provides that companies should put their external audit contract out to tender at least once every ten years together with sustained low oil prices the committee decided to initiate a tender process for the external audit arrangements for the year ending 31 December 2016 to ensure that the Group is receiving high quality audit services at the best available price. Several Big4 audit firms as well as one Tier2 audit firm participated in the tender process as a result of which it was concluded that it would be in the best interests of shareholders to continue engaging Ernst & Young LLP (UK) as the Group's external auditor and on that basis the Board, on the recommendation of the committee, will ask shareholders to approve the re-appointment of Ernst & Young LLP (UK) as the Group's auditor at the Company's 2016 annual general meeting.

Non-audit services

The committee monitors the external auditor to ensure that it does not provide non-audit services that are prohibited by the UK Auditing Practices Board (APB), and limits such services to due diligence services, other assurance services and tax compliance and advisory services.

In 2015, non-audit fees totalled US\$203 thousand (2014: US\$1,089 thousand, including US\$730 thousand for services relating to corporate finance transactions and US\$40 thousand for tax compliance services) including US\$180 thousand (2014: US\$319 thousand) for quarterly reviews of the interim financial statements and US\$23 thousand for other non-audit services. The Audit Committee is satisfied that adequate safeguards to ensure Ernst & Young's independence are in place. The committee concurred with the external auditor's position that the non-audit services do not impair the external auditor's independence.

The Group's "Policy on the provision of non-audit services by the external auditor" was developed on the basis of the requirements of the UK Corporate Governance Code and Auditing Practices Board's (APB) Ethical Standards. The main principle of the policy is that non-audit services may only be provided by the external auditor where the external auditor maintains the necessary degree of independence and objectivity and standard supplier selection procedures are carried out. The following are the main areas covered by the policy:

- the Group's main principles in relation to non-audit services,

- prohibited services – the services which must not be provided by the Group's external auditor;
- permissible non-audit services – the services which may be provided by the Group's external auditor to the extent that they are allowed by the APB Ethical Standards and provided that all necessary safeguards are applied;
- procedures for the approval of services to be provided by the Group's external auditor, including thresholds for such approvals;
- safeguards that must be considered for non-audit services;
- independence requirements, including requirements related to hiring employees of the external auditor, requirements related to external auditor's partner rotation; and
- reporting requirements related to non-audit services.

The policy is available on the Group's website at www.nog.co.uk. and will be reviewed and amended as and when required.

Internal audit

The committee periodically receives reports from the Group's internal audit manager throughout the year. The reports summarise internal audit findings and any action to be taken by management as a result.

In 2014 the Group developed its internal audit function and hired an internal audit manager. In connection with this an internal audit charter has been adopted, which sets out the responsibilities of the internal audit function, and a three-year internal audit plan has been developed. The primary role of the internal audit function is to help the Board and executive management to protect the assets, reputation and sustainability of the organisation. This is intended to be achieved through:

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

The Group aims to further develop its ongoing process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the FRC's Internal Control: Revised Guidance for Directors on the Combined Code (formerly, the "Turnbull Guidance"). The system is intended to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group plans to enhance the internal audit function by assigning internal resources to support the function (provided that all necessary safeguards are considered) and refining the terms of the internal audit charter in consultation with the committee to ensure that it is effective and meets the requirements of the business.

Internal controls and risk management

The committee has been focusing on the Group's risk assessment and management systems. A comprehensive financial procedures report (dated 20 May 2014) was developed by the Group during the process of its move to a premium listing and was reviewed by the committee. The committee established a director's risk register and actively participates in further enhancing it. In 2015 the Group's risk management policy has been drafted and considerable progress has been made towards further development of a comprehensive risk matrix, and a dedicated software solution is in process of deployment, which is expected to support the risk management at various levels and locations within the Group.

Particular attention is also paid by the committee to the areas of risk management related to ensuring adequate maintenance of accounting records and accurate recording of transactions, which permit the preparation of financial statements in accordance with IFRS. In view of the oil price fluctuation, the committee focused on the review of impairment testing, going concern and viability statement.

The Group's system of internal controls is aimed at mitigating risks and improving efficiency, and includes but is not limited to the following:

- corporate governance approach, segregation of authorities and duties at various levels;
- policies and procedures covering various areas, including director's remuneration, compliance, accounting and reporting, health, safety and environment, and others as mentioned in the relevant sections of the Annual Report;
- periodic revision of policies and procedures, and related trainings and internal communications;
- constant monitoring by senior management and the Board of short-term, medium-term and long-term planning and decision-making processes;
- internal audit work and the remedial actions taken by management in response to findings

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

Audit Committee Report continued

The Committee review

The committee undertakes an annual evaluation of its performance and effectiveness.

In August 2015 the committee used a survey which examined governance processes such as the mix of experience and skills amongst members, meeting content,

information, training and resources. Areas of focus for 2015 arising from the evaluation include monitoring the length of committee membership and suggestions for further committee training. Aside from this observation, the committee concluded that its mandate and oversight performance were appropriate.

Significant issues and related actions

The following are the key risks and issues that the committee focused on during 2015:

Significant issues	Committee actions
Recoverability of non-current assets' carrying values The Group performs impairment testing of goodwill on an annual basis as required by IFRS. Moreover, the continuing fall in market oil prices since Q4 2014 was considered an impairment trigger event for oil & gas assets and exploration & evaluation assets. The impairment testing is subject to application of management judgement and various assumptions, underlying the calculation of the value in the use of this single cash generating unit, being the achievability of the long-term business plan and the macroeconomic and related modelling assumptions underlying the valuation process.	The committee reviewed the detailed reports on impairment testing prepared by management and challenged the appropriateness of the assumptions made. Areas of focus were the achievability of the business plans, as well as assumptions in relation to oil prices and discount rates, which have been subject to volatility given the current macroeconomic conditions. Special consideration was also given to the sensitivity analysis in relation to these assumptions. In addition, these assumptions and sensitivity analysis were considered as part of the viability assessment. This has also been one of the main areas of audit focus and Ernst & Young LLP provided detailed reporting on these matters to the committee.
Oil & gas reserves estimation and accounting Oil & gas reserves, which are estimated by the Group's reserve engineers and audited by the independent reserve engineers, are used to calculate the depletion of oil & gas assets, and also used as input data for impairment testing models. Judgements and estimates are used when estimating the oil & gas reserves.	The committee reviewed judgemental aspects of the reserve estimation report as part of the Group's annual due diligence process. In addition, it reviewed the reserves analysis paper prepared by the internal audit in cooperation with the business development team. The committee also examined the governance framework for the oil & gas reserves process, training for staff and developments in regulations and controls.
Revenue recognition The timing of revenue recognition in accordance with Incoterms, the recognition of revenue on a gross or net basis, and the treatment of discounts are complex areas of accounting.	The committee has reviewed the Company's policy and controls in relation to revenue recognition and specifically compliance with the PSA.
Related party transactions and disclosures This has been assessed as a significant risk area due to the inherent complexity of identifying related parties and the extensive disclosure requirements of IAS 24 regarding related party disclosures as well as the past history of significant related party transactions carried out by the Group.	The committee has been monitoring the procedures in place for the identification of related parties and ensures that pre-approvals are obtained before entering into contracts with them. Also the committee considered any observations made by the auditor as part of its reporting to the committee.
GTU3 construction and well drilling There are internal and external factors threatening the ability of the Group to achieve its strategic objectives such as the construction of GTU3 and the drilling programme. These include, but are not limited to, inadequate project management, supplier delays, availability of financial and other resources and cost overruns.	The construction of GTU3 and the drilling programme continued to be one of the key areas of focus for the committee in 2015, particularly in light of the decline in oil prices. The committee has been reviewing reports prepared by management and meeting regularly to review and discuss potential problems and to provide advice on future steps to be taken by the Group.
Other areas of committee risk focus In addition to the abovementioned significant risks, the committee also paid attention to the following risks areas during 2015:	
Tax contingencies and compliance with PSA The Group is subject to risks associated with uncertainties surrounding the application of tax laws in Kazakhstan as well as the uncertainties and complexities of the calculation of taxes and other obligatory contributions under its production sharing agreement. As a result, management is required to make judgements and estimates in relation to provisioning for related taxes and contributions.	The committee considered management reports setting out the results of assessments in relation to significant taxes and other contributions to the government. Having received input from the external auditor and challenging decisions made, the committee agreed with management's assessment of the provision to be recognised in respect of taxes and uncertain tax positions (transfer pricing and social commitments) and the associated disclosures. In addition, the committee continuously monitored that the Group's projected liquidity position accounts for any potential claims.

Significant issues

Provisions and contingencies

The recognition of provisions for the future decommissioning of oil & gas assets at the end of their economic lives requires management's judgement when estimating settlement dates, the scope of work, technology and legal requirements. Also the level of provisioning for contingent and other liabilities is an issue where management and legal judgements are important.

Commercial tests: going concern, viability statement, impairment test

The determination that the Group will continue on a going concern basis for the foreseeable future requires management to exercise judgement.

This obligation also applies for the medium term viability statement and for the long term impairment test.

Derivative financial instruments

The estimation of the fair value of derivative financial instruments involves the use of judgement and estimations in relation to oil price volatilities by both external service providers and management. In addition, there are risks associated with the complexity of accounting and disclosures related to derivative financial instruments.

Information security risks

Given its public nature the Group needs to ensure that its environment is sufficiently secure to protect it against the risk of loss or corruption of sensitive information. Failure to adequately protect such information could have a material adverse effect on the Group's reputation and may lead to legal action against the Group.

Environmental compliance

Given the changing nature of environmental regulations in Kazakhstan, there is a risk that the Group will not be in full compliance with all regulations at all times.

On behalf of the Board



Eike von der Linden

Chairman, Audit Committee

Senior independent non-executive director

29 March 2016

Committee actions

The committee reviewed management's reports on the Group's decommissioning, environmental remediation and litigation provisioning, including key assumptions used, the governance framework applied, discount rates and the movement in provisions over time.

The committee considered the reports prepared by management and their assumptions and concluded that management's recommendation to prepare the accounts on a going concern basis was appropriate. The viability statement approves the company's robustness under conservative oil price assumptions and the impairment test evidences the companies sound long term perspectives. The committee also considered the external auditor's findings on these reports and assumptions.

The committee reviewed management's report on the valuation of derivative financial instruments and the respective disclosures made in the notes to the financial statements. The external auditor's conclusions on the valuation models were also discussed at committee meetings.

At its quarterly meetings, the Committee pays attention to information security related matters and discusses with the management past and planned actions directed at addressing the recommendations from external consultants. Also, the Chairman of the committee received timely updates on the risks and responses in the context of the Cyber Governance Health Check carried out by the UK authorities.

As part of the monthly management reports the committee reviewed the Group's activities to ensure an appropriate level of protection for health, safety and the environment. The committee has also reviewed the annual report prepared by the independent environmental auditor outlining the Group's compliance and the environmental auditor's recommendations for improvement.

Nomination and Governance Committee Report

Letter from the Chairman



Chairman's introduction

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

The Nomination and Governance Committee has met four times this year. The attendance of each committee member at committee meetings held during 2015 is shown on page 75.

Membership

The committee consists of three members: Frank Monstrey, Eike von der Linden and myself who have all been members since 19 May 2014. The primary responsibilities of the committee are set out in its terms of reference which are reviewed and updated annually and which are available for download on the Company's website. Alternatively, copies can be obtained on request from the company secretary.

Role of the Nomination and Governance Committee

The key responsibilities of the committee are to:

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

Committee meetings

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

Main activities of the committee during the year

During 2015 the committee has continued to focus on succession planning by assessing the current balance of skills, experience, independence and knowledge on the Board and those required of future appointments to the Board. The committee is satisfied that the mix of skills, experience and knowledge on the Board and, in particular, those of the chairman and chief executive remain appropriate. The committee has focused its attention on developing profiles for future Board candidates.

The committee discussed executive succession planning and, in relation to the chairman, it was agreed that in the event the chairman became unable to continue in that role for any reason, the senior independent director would replace him on an interim basis until a new chairman is selected.

Diversity is an important issue for the Board and it recognises that steps should be taken to meet the voluntary Board gender diversity targets set by Lord Davies. Therefore, the committee has spent much of 2015 focusing on the subject resulting in the engagement of two search firms to assist with identifying suitable female Board candidates. When a suitable female Board candidate is identified and agrees to join the Board a member of the Board will step down to allow for the appointment of a female Board member.

The committee discussed Mr Everaert's position on the Remuneration Committee during 2015 and it was agreed that Mr Everaert should remain as a member of the Remuneration Committee but that given his non-independent status he should not be involved in any discussions or decisions regarding Mr Monstrey's remuneration. However, on 22 March 2016 Mr Everaert resigned from the Remuneration Committee so that the Company would comply unquestionably with the UK Corporate Governance Code on this point.

The committee has also kept the training needs of the directors under review throughout the year, especially in relation to operational, environmental and social matters.

During the year ahead the committee intends to continue to build on the progress it has made in terms of succession planning and gender diversity, to keep the composition of the Board and its committees under constant review and to assess how talent is developed internally to create a pipeline to the Board to ensure that good governance practices are being achieved.

Sir Christopher Codrington, Bt.

On behalf of the Nomination and Governance Committee
29 March 2016

Remuneration Committee Report

Letter from the Chairman

“No bonuses will be payable to the executive directors in 2016.”



Dear shareholder

2015 was a challenging year for the Group given the substantial drop in the oil price, but as regards performance by senior executives against KPIs:

- stable production of 40,391 boepd was achieved, despite a prolonged shutdown of a customer's gas pipeline in October that severely disrupted production during that month;
- significant progress was made on GTU3 construction and the project was expected to be completed on time and on budget until a slowdown in works and payments was announced by the Company in 2016 due to the precipitous fall in the oil price;
- preparatory work for exploration of the Rostoshinskoye field progressed in 2015;
- the Company established a full business development team and pursued various M&A opportunities; and
- an Executive Committee was established for the Group and the project for the establishment of a functional (rather than entity-based) organisation is proceeding.

Notwithstanding these achievements, given (i) the precipitous drop in the oil price in the second half of 2015, with the resulting effect on the Group's revenues (ii) the need for the Group to maintain liquidity and ensure sufficient funding is available to complete GTU-3 and its other capex requirements (iii) management's decision to cut operating expenditures in 2016 by 25% from the level of actual 2015 expenditures management proposed and the committee accepted, that no bonuses will be payable to the executive directors in 2016 for 2015 performance. Bonuses and salary increases awarded to executive directors remain extremely low in comparison to the Company's peer group.

In addition, the committee has discussed the 40% maximum annual bonus opportunity referenced in the remuneration policy and would like to assure investors that, notwithstanding any flexibility afforded by the current remuneration policy, the committee considers the 40% maximum bonus opportunity to be a firm maximum that will not be exceeded under any circumstances.

The committee has also been reviewing the effectiveness of the Group's phantom share option plan in incentivising and retaining key employees of the Group and is currently considering alternative long-term incentive plan options.

On 22 March 2016, Piet Everaert resigned as a member of the committee to ensure the Company fully complies with Provision D.2.1 of the UK Corporate Governance Code and I would like to take this opportunity to thank Piet for his hard work and contribution to the committee.

At the 2015 Annual General Meeting, shareholders approved the remuneration policy. The Remuneration Committee believes that the remuneration policy continues to support the Company's strategy and will not propose any changes to the policy at the 2016 Annual General Meeting. Although the committee does not propose to make any changes to the remuneration policy, in line with guidance, the existing policy has been included in this year's Directors' remuneration report for the information of shareholders.

This report has been prepared in accordance with the UK's regulations on remuneration reporting and will be subject to an advisory shareholder vote at the forthcoming Annual General Meeting.

Mark Martin

Remuneration Committee Chair
29 March 2016

Remuneration Committee Report continued

2015 annual report on remuneration

In this section we give details of the composition of the Remuneration Committee and activities undertaken in the 2015 financial year. We will seek an advisory vote on the remuneration report at the 2016 Annual General Meeting.

Remuneration Committee

The remuneration of the chairman, the chief executive, the chief financial officer, the company secretary and all other senior members of executive management is determined by the committee under delegated powers from the Board and in accordance with the committee's terms of reference. The chairman and the executive members of the Board determine the remuneration of all non-executive directors, including members of the committees.

In accordance with the terms of reference, members of the committee shall be appointed by the Board on the recommendation of the Nomination and Governance Committee in consultation with Mr Martin as chairman of the committee. The committee must always include at least three independent non-executive directors who comprise a majority of the committee. The members of the committee during 2015 were:

Name	Membership start date
Mark Martin (Chairman)	19 May 2014
Eike von der Linden	19 May 2014
Piet Everaert	19 May 2014 ¹
Sir Christopher Codrington, Bt.	19 May 2014

¹ Mr Everaert resigned as a member of the committee on 22 March 2016.

Given Mr Everaert's non-independent status in light of the common interpretation of Provision D.2.1 of the UK Corporate Governance Code, Mr Everaert resigned as a member of the Remuneration Committee with effect from 22 March 2016 so that the Company will comply with the Code on this point.

None of the committee members have day-to-day involvement with the business. Their biographies are given on pages 66 to 67. The company secretary acts as secretary to the committee.

The primary responsibilities of the committee are set out in its terms of reference which are reviewed and updated annually and which are available for download on the Company's website. Alternatively, copies can be obtained on request from the company secretary.

In summary, the committee's key responsibilities include:

- making recommendations to the Board on the Company's overall framework for remuneration and its cost and, in consultation with the chairman and chief executive, determining the remuneration packages of each of the executive directors;

- reviewing the scale and structure of executive directors' remuneration and the terms of their service or employment contracts, including share based schemes, other employee incentive schemes adopted by the Company from time to time and pension contributions;
- demonstrating to the shareholders of the Company that the remuneration of the executive directors of the Company and other senior members of executive management of the Company and its subsidiaries is set by a committee of the Board whose members have no personal interest in the outcomes of the decisions of the committee and who will have due regard to the interests of the shareholders; and
- ensuring payments made on termination comply with the relevant provisions of the Company's remuneration policy.

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

The committee held four meetings in 2015 and the attendance of each committee member at such meetings is shown on page 75. The principal agenda items at the formal meetings were as follows:

Meeting	Agenda item
March 2015	<ul style="list-style-type: none"> • Review and approve the remuneration policy and remuneration report.
May 2015	<ul style="list-style-type: none"> • Approval of senior management compensation and bonuses. • Review and discuss proxy adviser reports regarding the resolutions to approve the Company's remuneration report and remuneration policy to be put to a vote at the Company's Annual General Meeting.
August 2015	<ul style="list-style-type: none"> • Review and discuss Mr Everaert's position on the Remuneration Committee. • Review current incentive compensation procedures. • Discuss proposed principles for a future long-term incentive plan and/or employee share option plan.
November 2015	<ul style="list-style-type: none"> • Discuss and develop Group wide key performance indicators. • Discuss options for a new long-term incentive plan.

With the exception of the chairman of the Board and the chief executive, no other executive directors participated in the committee meetings during 2015.

During the year the committee received advice internally from Frank Monstrey (Chairman of the Board), Kai-Uwe Kessel (Chief Executive) and Thomas Hartnett (Company Secretary). The chairman and the chief executive were consulted on the remuneration of the other executive directors and senior members of executive management and on matters relating to the performance of the Company and the company secretary was consulted on regulatory requirements; none of the chairman of the Board, the chief executive nor the company secretary participated in decisions on their own remuneration. Members of the Group's human resources team may attend relevant portions of committee meetings to ensure appropriate input on matters related to senior members of the executive management team below board level.

During 2015 the Company did not engage any external advisers to advise on remuneration.

Voting on remuneration matters

At the Annual General Meeting held on 26 May 2015, two resolutions were put to shareholders relating to directors' remuneration. The first resolution related to the remuneration policy and was subject to a binding vote. The second resolution related to the directors' annual report on remuneration and was subject to an advisory vote. The votes received were as follows:

Resolution	Votes FOR and % of votes cast		Votes AGAINST and % of votes cast		Votes WITHHELD
Approval of Directors' Remuneration Policy	86,069,341	83.68%	16,785,416	16.32%	1,827,934
Approval of Directors' Annual Report on Remuneration	89,688,471	88.41%	11,752,424	11.59%	3,241,796

At the 2016 Annual General Meeting the directors' remuneration report will be put to shareholders for approval by way of an advisory vote. No changes are proposed to the remuneration policy and this will not be put to shareholders at the 2016 Annual General Meeting.

Single total figure of remuneration for executive directors

The table below shows the single total figure of remuneration for each of the executive directors.

The executive directors are remunerated in euros and to avoid any anomalies in the figures reported due to fluctuations in the EUR/USD exchange rate the Company has decided not to convert amounts paid to executive directors into USD, the Group's functional currency, but instead to report all figures in relation to executive director remuneration in euros throughout this report.

Director ¹ Amounts in EUR	Period	Salary and fees	Benefits in kind	Annual bonus ²	Option exercise	Total (audited)
Frank Monstrey (Chairman)	2015	691,976	-	204,019	-	895,995
	2014	680,063	-	236,250	-	916,313
Kai-Uwe Kessel (Chief Executive Officer)	2015	729,031	5,931	236,262	-	971,224
	2014	705,176	5,115	253,624	1,086,408	2,050,323
Jan-Ru Muller (Chief Financial Officer)	2015	435,845	-	108,028	-	543,873
	2014	432,112	-	125,430	-	557,542

¹ Mr Muller is remunerated for his services in part through a director's fee under his service agreement with Nostrum Oil & Gas PLC and in part as a Group executive through fees payable under a service agreement with Nostrum Services NV. Mr Monstrey and Mr Kessel are remunerated entirely as Group executives under separate service agreements with Nostrum Services NV.

² Bonus figures relate to bonuses paid in 2015 and 2014 in respect of the prior year performance period. No bonuses will be paid to executive directors in 2016 for 2015 performance.

Given the significant drop in the oil price in 2015 and the resulting effect on the Group's revenues, the Company has decided that no annual bonuses will be paid to executive directors in 2016 for 2015 performance.

Remuneration Committee Report continued

2015 annual report on remuneration

Single total figure of remuneration for non-executive directors

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

Director	Period	Fees	Total (audited)
Amounts in USD			
Eike von der Linden ¹	2015	130,000	130,000
	2014	115,000	115,000
Piet Everaert	2015	100,000	100,000
	2014	100,000	100,000
Sir Christopher Codrington, Bt. ²	2015	110,000	110,000
	2014	55,000	55,000
Mark Martin ³	2015	110,000	110,000
	2014	55,000	55,000
Pankaj Jain	2015	100,000	100,000
	2014	100,000	100,000
Atul Gupta	2015	100,000	100,000
	2014	100,000	100,000

¹ Mr Von der Linden receives an additional fee being both the senior independent director and the chairman of the Audit Committee.

² Sir Codrington receives an additional fee being the chairman of the Nomination and Governance Committee.

³ Mr Martin receives an additional fee being the chairman of the Remuneration Committee.

Notes on the single total figure remuneration table

Base salaries

In the past salaries have been reviewed annually in July of each year. In July 2015 salaries were increased by 2% for the chairman of the Board and the chief financial officer and by 3.38% for the chief executive, effective July 2015.

Going forward the committee intends to review salaries at the end of each year with increases taking effect on 1 July. Therefore, the next review of executive director salaries will be in December 2016. In making salary determinations, the committee will consider the provisions of the remuneration policy.

Annual bonus

In the last financial year all executive directors were eligible for a bonus. Currently, the bonus year runs from 1 January to 31 December each year with bonus amounts being determined in July of each year. Going forward and in order to facilitate better reporting and transparency in relation to the remuneration of executive directors, the committee intends to review performance and determine annual bonus entitlements at the end of each year.

In accordance with the Company's remuneration policy the maximum annual bonus opportunity is 40% of base compensation and is assessed against financial and operational objectives. Refer to page 99 of the remuneration policy for more information in relation to the Company's bonus policy.

All bonuses are discretionary and can be reduced from the maximum annual bonus opportunity level for reasons such as poor performance by the employee or due to disappointing financial performance of the Group as a whole. For the bonus year which ran from 1 January 2014 to 31 December 2014, the key performance indicators for annual cash bonuses for executive directors were as follows:

2014 bonus performance measures	Weight	Actual	% of base salary
Operational and financial	35%	30%	12%
Hydrocarbon production of 46,500 boe/day	15%	10%	4%
Issue \$400m bond to secure medium-term financial needs of the Group	10%	10%	4%
GTU3 construction on time and on budget	10%	10%	4%
Strategic objectives	20%	20%	8%
Premium listing on the LSE and KASE	10%	10%	4%
Creation of business development team	10%	10%	4%
HSE, social and governance	5%	5%	2%
Sub-total: Corporate KPIs	60%	55%	22%

2014 bonus performance measures	Weight	Actual	% of base salary
Personal objectives	40%		
Frank Monstrey – a selection of specific targets supporting the corporate KPIs and Board functions	40%	20%	8%
Kai-Uwe Kessel – a combination of specific targets supporting the corporate KPIs and including production, development, exploration and strategic targets	40%	20%	8%
Jan-Ru Muller – a combination of specific targets supporting the corporate KPIs including maintaining financial strength, financial reporting and risk assessment	40%	7.5%	3%
Total	100%	Between 25% and 30%	

As the Group did not meet its full targeted average production during 2014 and based on its assessment of Company and individual performance of the executive directors the committee awarded bonuses of between 25 and 30 per cent of salary to the executive directors. Annual bonuses were paid in cash and are summarised in the following table:

Director	Bonus as % of salary	Cash (EUR)
Frank Monstrey	30%	204,019
Kai-Uwe Kessel	30%	236,262
Jan-Ru Muller	25%	108,028

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

Long-term incentive awards

In 2015 the Company did not operate a performance based long-term incentive scheme.

Pension entitlements

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

Payments to past directors

No payments were made to past directors of the Company during the year ended 31 December 2015.

Payments for loss of office

No payments were made in respect of loss of office during the year ended 31 December 2015.

Non-executive director fees

A review of non-executive director fees was conducted in 2015 and it was decided that the annual fees for non-executive directors will remain the same for 2016 as those for 2015, being \$100,000 per annum. The next review of non-executive director fees will be conducted in 2016.

Directors' shareholdings

The beneficial interests of the directors in the share capital of the Company as at 31 December 2015 were as follows:

Director	Total (audited)
Frank Monstrey	32,599,586
Kai-Uwe Kessel	10,000
Jan-Ru Muller	-
Eike von der Linden	13,160
Atul Gupta	-
Sir Christopher Codrington, Bt.	3,312
Mark Martin	10,000
Piet Everaert	22,000
Pankaj Jain	119,700

On 22 January 2016, Eike von der Linden purchased an additional 2,000 ordinary shares bringing his total shareholding in the Company to 15,160 ordinary shares.

Remuneration Committee Report continued

2015 annual report on remuneration

Phantom share option plan

The Company currently operates one non-performance related share option plan (the "Plan"). As at 31 December 2015, the executive directors each held the following options over ordinary shares of the Company, generally vesting over a five-year period, exercisable at either US\$4.00 or US\$10.00 per ordinary share and expiring ten years from the date of grant, pursuant to the Plan:

(Audited) Director	Date of grant	Options held at 31 December 2014	Face value (in USD)	Options exercised during the financial year 2015	Options lapsed during the financial year 2015	Options held at 31 December 2015	Option exercise price (US\$ per option)	Expiry date
Frank Monstrey	-	-	-	-	-	-	-	-
Kai-Uwe Kessel	27.03.08	700,974	- ¹	-	-	700,974	4.0	26.03.18
	26.03.13	200,000	18,000 ²	-	-	200,000	10.0	25.03.23
Jan-Ru Muller ³	27.03.08	120,130	- ¹	-	-	120,130	4.0	26.03.18
	26.03.13	70,000	6,300 ²	-	-	70,000	10.0	25.03.23

¹ The options do not have a face value at the date of the grant, since the grant date was before the GDR listing on the London Stock Exchange on 1 April 2008.

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

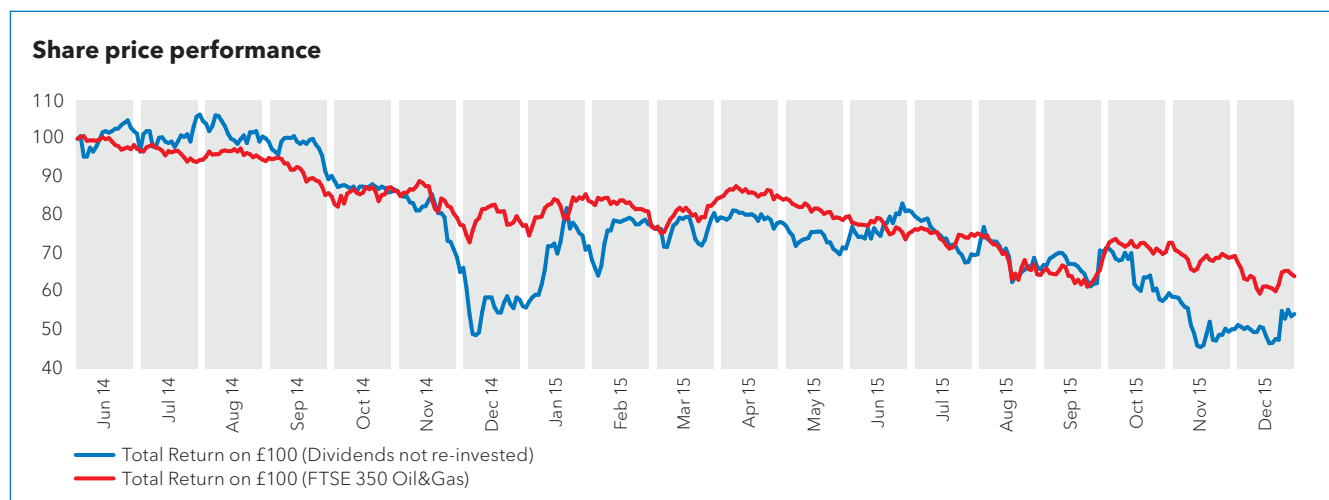
³ Such options are held by a company associated with Mr Muller, Tenggara Capital B.V.

There have been no changes in the interests in the Plan between the end of the financial year 2015 and the date of this annual report.

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

Remuneration statistics and comparisons

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



History of CEO remuneration

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

Year	Total CEO remuneration (EUR)	Annual bonus as % of maximum opportunity ¹
2011	687,344	100%
2012	792,812	100%
2013	889,217	100%
2014	2,050,323 ²	100%
2015	971,224	80%

¹ For the period 2010 until 2014 the bonus scenarios were either 0% or 100%. For the bonus scenarios as of 2015 refer to the remuneration policy on pages 98 to 103.

² Total CEO remuneration for 2014 includes remuneration from the exercise of share options.

Percentage change in chief executive's remuneration

The table below shows the percentage change in the chief executive's 2015 salary, annual bonus and benefits compared to a comparative group comprised of the Group's European based employee population. The committee has chosen this comparator group as it feels it is employed on more readily comparable terms.

(EUR) ¹	Chief Executive			Comparator Group
	2015	2014	% change	% change
Salaries ²	729,031	705,176	3.38%	2%
Benefits	5,931	5,115	16%	5,527.59 ³
Annual bonus	236,262	253,624	-7%	-3.75%

¹ Mr Kessel is remunerated in euros and to avoid any anomalies in the figures reported due to fluctuations in the EUR/USD exchange rate the amounts shown in the table have not been converted into USD, the Group's functional currency.

² Salary increases are determined and awarded during the course of the calendar year.

³ This figure represents the total amount of benefits paid per employee in the comparator group. As the majority of employee benefits have only been established since 2014 and most of the employees in the comparator group only started work for the Group in 2014 or later, a meaningful comparator percentage change amount could not be generated.

Relative importance of spend on pay

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

Key expenditure areas (in thousands of US\$)	2015	2014	% Change
Remuneration paid to all employees ¹	40,850	40,358	1.2%
Dividends to shareholders (total) ²	49,060	64,615	-24.1%
- Dividends	49,060	64,615	-24.1%
- Share buy-backs	0	0	-

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

² In 2014, the Group was reorganised and the parent company of the group became a PLC, replacing the prior LP parent. Dividends are now paid per ordinary share but prior to 2015, distributions were paid per common unit.

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

Remuneration Committee Report continued

2015 annual report on remuneration

Service contracts

Details of the executive directors' service contracts and the non-executive directors' letters of appointment can be found in the Company's remuneration policy on page 101 of this annual report. All directors are subject to annual re-appointment and accordingly all executive and non-executive directors will stand for re-election at the Annual General Meeting.

Statement of 2016 remuneration policy implementation

The Company's remuneration policy was put to a shareholder vote at the 2015 Annual General Meeting and was approved by 83.68% of shareholders. There is no requirement for a vote on the policy in 2016 unless any changes to the policy are proposed and as the committee feels that the policy continues to remain both appropriate and effective no changes are proposed for the coming year.

Salaries and bonuses of the executive directors are reviewed and determined annually to ensure they remain appropriate. The Company's bonus year runs from 1 January to 31 December each year with bonus amounts being determined in July of each year. Going forward and in order to permit the Company to report on annual bonuses awarded for the achievement of performance measures and targets for the reported year, annual bonus entitlements will be determined before publication of the Company's annual report so that annual bonus amounts payable to executive directors in respect of performance in the reported year can be reported in the relevant annual report. To allow for this transition bonuses for executive directors based upon 2014 performance were awarded in June 2015 but bonuses for executive directors based upon 2015 performance were assessed in March 2016. As a result of such assessment it was decided that as a result of the significant drop in the oil price in 2015 and the resulting effect on the Group's revenues, the Company will not pay any discretionary bonuses to the executive directors based upon 2015 performance.

Remuneration in 2016 will be consistent with the policy described on pages 98 to 103.

Salaries and service fees

Salaries and service fees of the executive directors were reviewed by the committee in May 2015 and were increased effective as of 1 July 2015. The average salary increase across the Group is 2%.

The table below shows the impact of the salary review on the monthly salary of the executive directors.

Director	Position	Salary/ service fee from 1 July 2014 (EUR)	Salary/ service fee from 1 July 2015 (EUR)	Percentage increase
Frank Monstrey	Chairman	57,093.75	58,235.63	2%
Kai-Uwe Kessel ¹	Chief Executive	50,659.18	52,372.91	3.38%
Jan-Ru Muller	Chief Financial Officer	35,364.03	36,071.28	2%

¹ Since Mr Kessel is remunerated on a net guarantee basis, the 2% increase applied to remuneration was applied on the net amount paid to him, resulting in the figure shown.

Annual bonus

Details of the key performance indicators used to determine annual bonus amounts paid to the executive directors in 2015 for performance in 2014 can be found in the table on pages 92 to 93.

The key performance indicators used to determine that executive directors would not be paid a bonus in 2016 for 2015 performance are as follows:

2015 bonus performance measures	Weight	Actual	% of base salary
Operational and Financial	40%		
Hydrocarbon production above 42,000 boe/day	20%		
GTU3 construction on time and on budget	20%		
Strategic Objectives	15%		
Adjacent fields exploration	5%		
Deliver growth through business development	5%		
Pursue Group internal reorganisation	5%		
HSE, social and governance	5%		
Sub-total: Corporate KPIs	60%		
Personal Objectives	40%		
Frank Monstrey	40%		
Kai-Uwe Kessel	40%		
Jan-Ru Muller	40%		
Total	100%	0%¹	0%

¹ As a result of the significant drop in oil price in 2015 and the resulting effect on the Group's revenues, the Company decided not to pay any discretionary bonuses to the executive directors and the other members of Group executive management in 2016 based on 2015 performance.

In addition, the Remuneration Committee has compiled a list of suitable key performance indicators against which the performance of the executive directors will be measured at the end of 2016 to determine the annual bonus amounts payable to executive directors in 2017. Details of any non-commercially sensitive KPI's are set out below. 2016 performance will be measured against these key performance indicators and the committee will consider such performance together with the Company's financial position, in deciding whether and at what level to award bonuses for that year.

2016 bonus performance measures	Weight
Operational and Financial	40%
Stabilise production at the specific target level set by the Remuneration Committee ¹	20%
Progress GTU3 construction to achieve mechanical completion by a specific target date set by the Remuneration Committee ²	10%
Implement cost-reduction programme targeting reduction in operational and G&A expenses by at least 25% and specific transport and sales expenses by at least 15%, compared to 2015 actuals	10%
Strategic Objectives	15%
Renegotiate PSA terms to allow full cost recoverability and with the goal of restoring the PSA balance of economic interests	10%
Develop and implement functional organisation within the Group and delegate authority to budget owners to improve efficiency	5%
HSE, social and governance	5%
Including reduction in lost time injuries per 1 million man hours worked below 2	
Sub-total: Corporate KPIs	60%
Personal Objectives	40%
Frank Monstrey - a selection of specific targets supporting the corporate KPIs and Board functions	40%
Kai-Uwe Kessel - a combination of specific targets supporting the corporate KPIs and including production, development, exploration and strategic targets	40%
Jan-Ru Muller - a combination of specific targets supporting the corporate KPIs including maintaining financial strength, financial reporting and risk assessment	40%
Total	100%

¹ The Group regards this production target as commercially sensitive information and will disclose the target in next year's annual report.

² The Group regards details of the target date as commercially sensitive information and will disclose the target date in next year's annual report.

Phantom share option plan

The committee does not envisage the award of any additional phantom share options to executive directors in 2016.

The committee is currently reviewing the effectiveness of the phantom share option plan for the executive directors and wider employee population and is considering alternative long-term incentive plan options. Discussions will continue in 2016 and should any change occur, shareholders will be consulted and approval sought, as appropriate.

Non-executive directors

Non-executive director fees were last reviewed in 2015. The next review of non-executive director fees will be conducted in 2016.

Approval of the Directors' remuneration report

The Directors' remuneration report was approved by the Board on 22 March 2016.

On behalf of the Board



Mark Martin
Remuneration Committee Chair
29 March 2016

Remuneration Committee Report continued

Directors' remuneration policy

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

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

Policy coverage

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

Policy objectives

This policy is designed to:

1. Provide a structure and level of pay that attracts and retains high calibre directors, managers and employees capable of delivering the Company's strategic objectives.
2. Provide clear and transparent performance incentives in a manner that is consistent with best practice and aligned with the interests of the Company's shareholders.
3. Align the remuneration of executives and senior managers with the interests of the Company's shareholders, and ensure that rewards are justified by performance.
4. Ensure that the pay of the executive directors and senior members of the executive management takes into account: (i) pay and conditions throughout the Company; and (ii) corporate governance best practice including health & safety, environmental, social and governance risks.

Peer group

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

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

Risk management

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

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

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

Ongoing review of policy

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

The remuneration policy table

The table on page 99 sets out the key components of the reward package for executive directors.

Executive directors' remuneration policy table

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

Remuneration Committee Report continued

Directors' remuneration policy

Phantom share option plan

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

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

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

Treatment of existing arrangement

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

Remuneration scenarios for executive directors

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

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

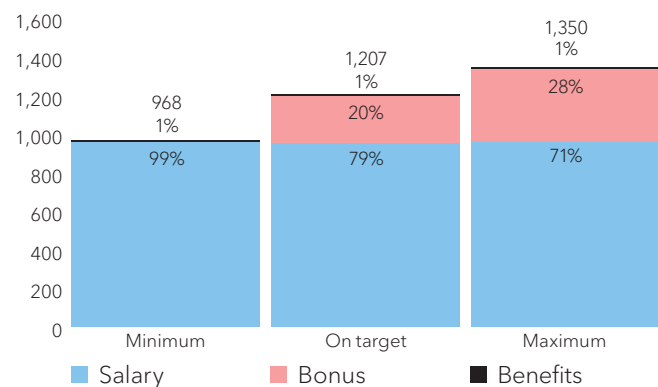
The bar charts below do not include any amounts in relation to the Phantom share option plan because:

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

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

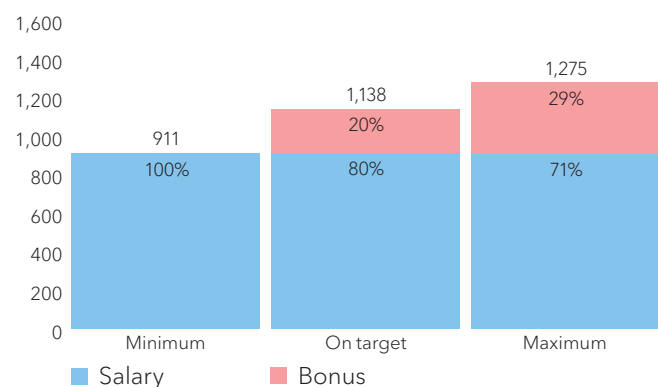
Kai-Uwe Kessel, Chief Executive Officer

amounts in USD thousand



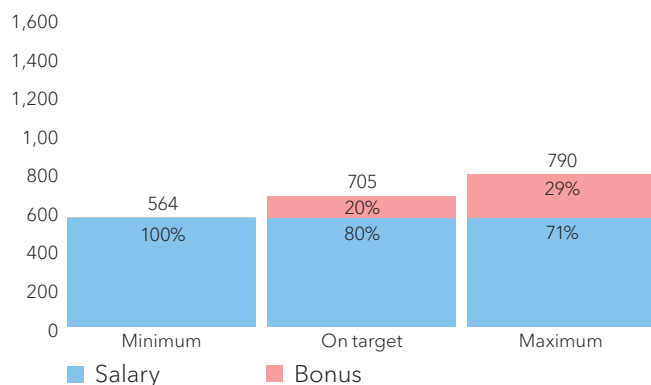
Frank Monstrey, Chairman of the Board

amounts in USD thousand



Jan-Ru Muller, Chief Financial Officer

amounts in USD thousand



Recruitment

The committee expects any new executive directors to be engaged on terms that are consistent with this Policy but the committee acknowledges that it cannot always predict the circumstances under which any new executive director may be recruited and so accordingly, in each case, the committee will consider:

- The objective of attracting, motivating and retaining the highest calibre directors in a manner that is consistent with best practice and aligned with the interests of the Company's shareholders.
- Salary, benefits, annual bonus and long-term incentives will be determined within the framework of the remuneration policy table on page 99.
- Where an individual would be forfeiting valuable remuneration in order to join the Company, the need to retain flexibility should be considered in order for the committee to be able to set base salary at a level necessary to facilitate the hiring of the highest calibre candidates including awards or payments to compensate for remuneration arrangements forfeited on leaving a previous employer. The committee would require reasonable evidence of the nature and value of any forfeited compensation and would, to the extent practicable, ensure any compensation awarded was no more valuable than the forfeited award.
- Judgement will be exercised to determine the appropriate measure of compensation for any forfeited award by taking account of relevant factors such as the value of any lost award, performance conditions and the time over which they would have vested or been paid.
- Where an existing employee of the Company is promoted to the Board, the Company will honour any commitment to remuneration made in respect of a prior role including any outstanding awards of options under the Plan.

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

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

Service agreements

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

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

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

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

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

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

Remuneration Committee Report continued

Directors' remuneration policy

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

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

Payments for departing executive directors

Provision	Policy
Notice period and compensation for loss of office in service contracts	<ul style="list-style-type: none"> • 12 months' notice from the Company to the executive director. • Up to 12 months' base salary (in line with notice period). Notice period payments will either be made as normal (if the executive director continues to work during the notice period or is on gardening leave) or they will be made as monthly payments in lieu of notice (subject to mitigation if alternative employment is found).
Treatment of annual bonus on termination	<ul style="list-style-type: none"> • No entitlement.
Treatment of unvested share option awards	<ul style="list-style-type: none"> • An executive director's awards will generally lapse to the extent they have not vested on the date of voluntary cessation of employment and any portion that remains outstanding but unexercised after 12 months following such cessation will lapse.

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

Non-executive directors' remuneration policy table

Fee structure	Approach to setting fees	Other remuneration
<ul style="list-style-type: none"> • Non-executive directors receive a fixed annual fee for their directorship. • Additional annual fees are payable to any director who serves as senior independent director or as a Board committee chairman. 	<ul style="list-style-type: none"> • The Chairman of the Board and the executive directors determine the remuneration of all non-executive directors, including members of the committees. 	<ul style="list-style-type: none"> • Business expenses incurred in respect of the performance of a non-executive director's duties will be reimbursed by the Company. Such expenses could include travel between the home and office or between the home and the location of a Board or committee meeting. • Non-executive directors are not eligible to participate in the Plan.

Non-executive directors

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

Non-executive director appointment letters

All non-executive directors of the Company were appointed on 19 May 2014. The Company intends to comply with provision B.7.1 of the UK Corporate Governance Code and accordingly all directors will stand for re-election by shareholders at future Annual General Meetings until the Board determines otherwise.

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

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

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

Statement of consideration of employment conditions elsewhere in the Company

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

Statement of consideration of shareholder views

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

Directors' Report

The directors submit their report and the consolidated audited financial statements of the Group and the audited parent financial statements of the Company for the year ended 31 December 2015.

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

Directors and their interests

Full biographical details of the individuals who were directors of the Company during the financial year ended 31 December 2015 are set out on pages 66 to 67 of this annual report.

Details of each director's interests in the Company's ordinary shares and options held over ordinary shares are set out in full in the directors' remuneration report on pages 93 and 94 respectively.

Dividends

Details of the dividend paid during the year are disclosed in the notes to the consolidated audited financial statements for the year ended 31 December 2015.

No dividend is proposed to be paid for the year ended 31 December 2015 due to lower revenues as a result of declining oil prices.

Auditor

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

Directors' liabilities and indemnities

The Company maintains liability insurance for its directors. All directors are also in receipt of an indemnity from the Company under the Company's Articles in respect of (a) liability incurred by any director due to the negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, or any subsidiary undertaking or (b) any liability incurred by any director in connection with the activities of the Company, or any subsidiary undertaking, in its capacity as a trustee of an occupational pension scheme,

in both instances to the extent permitted under the Companies Act 2006. Copies of the Company's articles of association (the "Articles") are available on the Company's website or at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

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

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

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

Political donations

The Group has made no political donations during the year 2015.

Contributions to non-EU political parties

No contributions to non-EU political parties were made during the year 2015.

Financial risk management objectives and policies

Disclosures relating to financial risk management objectives and policies, including our policy for hedging are set out in Principal risks and uncertainties on page 61.

Future developments within the Group

The strategic report on pages 2 to 61 contains details of likely future developments in the business of the Group.

Research and development

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

Branches

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

Share capital

As of 31 December 2015 the Company's issued share capital was £1,881,829.58 divided into 188,182,958 ordinary shares each having a nominal value of £0.01, all of which are in free circulation¹. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Articles. The Elian Employee Benefit Trustee Limited holds shares in the Company in trust (the "Trust") for the purposes of the Company's phantom share option plan, and the rights attaching to them are exercised by independent trustees. As at 31 December 2015 the Trust held 3,354,139 ordinary shares in the Company.

Share rights

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

Voting rights

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

Transfer of shares

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

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

Directors, articles and purchase of shares

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

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

The Company did not repurchase any shares during 2015. The Board has the power conferred on it by shareholders to purchase its own shares and will seek a renewal of that power at the forthcoming Annual General Meeting within the limits set out in the notice of the meeting.

Employment policies and equal opportunities

The Group is an inclusive and equal opportunity employer and complies with all applicable laws governing employment practices. The Group has also adopted and implemented policies and procedures which cover the recruitment, selection, training and development and promotion and retirement of its employees.

Nostrum aims to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind based on race, religion, national origin, age, gender, disability, sexual orientation or political opinion or any other similarly protected characteristic is not tolerated. This principle applies to all aspects of employment from recruitment and promotion through to termination and all other terms and conditions of employment.

It is the Group's aim that all employment policies are fair and equitable and consistent with the skills and abilities of the employee and the needs of the business. Employees are free to join a trade union or participate in collective bargaining arrangements.

Directors' Report continued

Further details are included in "Our People" on pages 38 to 40.

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

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

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

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

Employee communications and involvement

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

The Company also operates an employee share option plan, further details of which can be found in the Directors' remuneration policy on page 100 and the notes to the consolidated audited financial statements for the year ended 31 December 2015.

Substantial shareholders

As of 31 December 2015, the following significant shareholdings of voting rights in the share capital of the Company had been disclosed to the Company under Disclosure and Transparency Rule 5 or otherwise.

Name	Number of Ordinary Shares	% of Issued Ordinary Shares
Mayfair Investments B.V.	48,333,300	25.7
Claremont Holdings C.V.	32,599,586	17.3
Baring Vostok Capital Partners	29,050,054	15.4
M&G Investment Management Limited	10,983,070	5.8
Harding Loevner LP	9,442,565	5.0

There were no major transactions in the share capital of the Company or any change in the structure of shareholders holding 3 or more per cent of the Ordinary Shares in the reporting period apart from the transfer of KazStroyService Global B.V.'s shareholding as described on page 108 of this report, as well as the decrease in the holdings of Claremont Holdings C.V. from 27.2% as at 31 December 2014 to 17.3% as at 31 December 2015. Claremont Holdings C.V. also notified the Company that it holds a call option over 5,191,491 Ordinary Shares which, if exercised, would increase its shareholding by 2.76% to 20.05%. In addition, Nostrum received a TR1 notification from VTB Capital in April 2015 notifying the Company that it had acquired a stake of 3.4484%.

There have been no changes in the interests disclosed to the Company in respect of substantial shareholders in the period between the end of the financial year 2015 and the date of this annual report.

Related party transactions

Refer to note 32 of the consolidated financial statements for a description of related party transactions in the reporting period.

Significant contractual arrangements

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

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

Terms of the Claremont Relationship Agreement

Under the Claremont Relationship Agreement, Claremont has agreed that (a) it will, and will procure its affiliates to, allow the business and affairs of the Company and the Group to be operated in the best interests of the shareholders as a whole (b) it will, and will procure its affiliates will, allow the Company and its affiliates at all times to carry on its business independently of Claremont and its affiliates (c) it will not, and will procure its affiliates will not, act in any way which shall prejudice the ability of the Company and its affiliates to carry on its business independently of Claremont or its affiliates (d) it will, and will procure its affiliates to, allow the Company to be managed in accordance with the Corporate Governance Code to the extent and on such terms as may be determined by the Board and to comply with any further amendments or supplements to the Corporate Governance Code as may be adopted by the Board, and it acknowledges its obligations under, and agrees to comply with, and will procure its affiliates comply with, the Disclosure and Transparency Rules in respect of its interests in the Ordinary Shares (e) it will not, and will procure its affiliates will not, take any action (or omit to take any action) to prejudice the Company's status as a listed company or its suitability for listing under the Listing Rules after Admission has occurred or the Company's ongoing compliance with the Listing Rules and the Disclosure and Transparency Rules or have the effect of preventing the

Company from complying with its obligations under the Listing Rules, provided that this shall not prevent Claremont (or any other person) from: (i) accepting a takeover offer for the Company made in accordance with the City Code (a "**Takeover Offer**") in relation to their respective interests in the Company or, where such Takeover Offer is made by way of a scheme of arrangement under Part 26 of the Companies Act (a "**CA2006 Scheme**"), voting in favour of such CA2006 Scheme at the court and related shareholder meetings or otherwise agreeing to sell their Ordinary Shares in connection with a Takeover Offer; or (ii) making a Takeover Offer by way of a general offer for all the outstanding Ordinary Shares or by way of a CA2006 Scheme and de-listing the Company after such Takeover Offer has become wholly unconditional or, in the case of a CA2006 Scheme, after it has become effective (f) it will not, and will procure that its affiliates will not, influence the day-to-day running of the Company at an operational level or hold or acquire a material shareholding in one or more significant subsidiaries of the Company; and (g) it will exercise its voting rights in such a manner as to procure (to the extent possible): (i) at least half of the Board comprises independent directors (excluding the chairman of the Board); (ii) the Audit Committee shall comprise entirely independent directors and the Remuneration Committee shall comprise not less than three independent directors; and (iii) the Nomination Committee and any other committee of the Board to which significant powers, authorities or discretions are delegated shall at all times consist of a majority of independent directors.

Terms of the KSS Global Relationship Agreement

Under the KSS Global Relationship Agreement, KSS Global has agreed that (a) it will, and will procure its affiliates will, allow the Company and its affiliates at all times to carry on its business independently of KSS Global and its affiliates (b) it will not, and will procure its affiliates will not, act in any way which shall prejudice the ability of the Company and its affiliates to carry on its business independently of KSS Global or its affiliates (c) it will comply with, and will procure its affiliates comply with, the Disclosure and Transparency Rules in respect of its interests in the Ordinary Shares (d) it will not, and will procure its affiliates will not, take any action (or omit to take any action) to prejudice the Company's status as a listed company or its suitability for listing under the Listing Rules after Admission has occurred or the Company's ongoing compliance with the Listing Rules and the Disclosure and Transparency Rules or have the effect of preventing the Company from complying with its obligations under the Listing Rules, provided that this shall not prevent KSS Global (or any other person) from: (i) accepting a Takeover Offer for the Company in relation to their respective interests in the Company or, where such Takeover Offer is made by way of a CA2006 Scheme, voting in favour of such CA2006 Scheme at the court and related

shareholder meetings or otherwise agreeing to sell their Ordinary Shares in connection with a Takeover Offer; or (ii) making a Takeover Offer by way of a general offer for all the outstanding Ordinary Shares or by way of a CA2006 Scheme and de-listing the Company after such Takeover Offer has become wholly unconditional or, in the case of a CA2006 Scheme, after it has become effective (e) it will not, and will procure that its affiliates will not, influence the day-to-day running of the Company at an operational level or hold or acquire a material shareholding in one or more significant subsidiaries of the Company and (f) it will exercise its voting rights in such a manner as to procure (to the extent possible): i) at least half of the Board comprises independent directors (excluding the chairman of the Board); ii) the Audit Committee shall comprise entirely independent directors and the Remuneration Committee shall comprise not less than three independent directors; and iii) the Nomination and Governance Committee and any other committee of the Board to which significant powers, authorities or discretions are delegated shall at all times consist of a majority of independent directors.

Deed of adherence with Mayfair Investments B.V.

On 30 January 2015 KSS Global transferred its 50 million ordinary shares in the Company as follows: (a) 48,333,300 shares to Mayfair Investments B.V. ("**Mayfair**"), a company indirectly owned by KSS Global's three principal shareholders on the date of the transfer, and (b) 1,666,700 shares to KSS Global's other shareholder on such date.

In connection with such transfer, Mayfair entered into a Deed of Adherence with Nostrum pursuant to which Mayfair has undertaken to Nostrum to be bound by the KSS Global Relationship Agreement in all respects and to observe and perform all of the provisions and obligations of such relationship agreement previously applicable to or binding on KSS Global in so far as they fall to be observed or performed on or after the date of the transfer.

Change of control

The following are significant agreements the Company has entered into which would be affected on a change of control of the Company following a takeover:

- In the event of a takeover of the Company all options under the Company's employee share option plan shall be deemed to have vested and the Board shall direct Elian Employee Benefit Trustee Limited to allow each optionholder to exercise his or her options at any time from the date of the change of control up to the tenth anniversary of the date of grant. Any options that have not been exercised will lapse at the end of this period.
- The 2012 Bonds and the 2014 Bonds contain change of control provisions. If a change of control occurs the Company will be required to offer to repurchase the 2019 Bonds and the New 2019 Bonds at 101% of their principal amount, plus accrued and unpaid interest to the date of purchase.

Greenhouse gases

Information regarding the Group's greenhouse gas emissions for activities for which the Group is responsible is set out on pages 45 to 47.

Corporate governance statement

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

Going concern

The financial position and performance of the Company and the Group and its cash flows are set out in the financial review section of this annual report on pages 48 to 57.

The going concern statement required by the Listing Rules and the UK Corporate Governance Code is set out in the notes to the consolidated audited financial statements for the year ended 31 December 2015.

Requirements of the listing rules

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

Listing rule requirement	
A statement of the amount of interest capitalised by the Group during the period under review with an indication of the amount and treatment of any related tax relief.	Please refer to note 8 in the financial statements.
Any information required by LR 9.2.18R (publication of unaudited financial information).	Not applicable.
Details of any long-term incentive schemes as required by LR 9.4.3R.	Not applicable.
Details of any arrangements under which a director of the company has waived or agreed to waive any emoluments from the company or any subsidiary undertaking. Where a director has agreed to waive future emoluments, details of such waiver together with those relating to emoluments which were waived during the period under review.	No such waivers.
Details required in the case of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the company's shareholders.	No such share allotments.
Where a listed company has listed shares in issue and is a subsidiary undertaking of another company, details of the participation by the parent undertaking in any placing made during the period under review.	Not applicable.
Details of any contract of significance subsisting during the period under review: (a) to which the listed company, or one of its subsidiary undertakings, is a party and in which a director of the listed company is or was materially interested; and (b) between the listed company, or one of its subsidiary undertakings, and a controlling shareholder.	Please refer to the Directors' Report.
Details of contracts for the provision of services to the Company or any of its subsidiary undertakings by the controlling shareholder, unless: (a) it is a contract for the provision of services which it is the principal business of the shareholder to provide; and (b) it is not a contract of significance.	Not applicable.
Details of any arrangement under which a shareholder has waived or agreed to waive any dividends, where a shareholder has agreed to waive future dividends, details of such waiver together with those relating to dividends which are payable during the period under review.	Under the trust deed relating to the Phantom share option plan, the trustee has agreed to waive any dividends on shares held under the Phantom share option plan.
Board statement in respect of relationship agreement with the controlling shareholder.	Not applicable as the Company does not have a "controlling shareholder" within the definition under Listing Rule 6.1.2A R, however, please see Directors' Report for details of relationship agreements the Company has entered into with certain shareholders.

Directors' Report continued

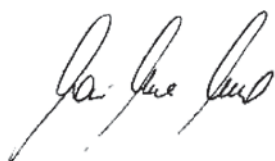
Important events since the end of the financial year

Following a FTSE quarterly market capitalisation review the Company was moved from the FTSE 250 Index to the FTSE Small Cap Index effective as of 21 March 2016.

Major events after 31 December 2015 are disclosed in note 36 to the consolidated audited financial statements.

This report was approved by the Board on 22 March 2016.

On behalf of the Board



Kai-Uwe Kessel
Chief Executive Officer
29 March 2016



Jan-Ru Muller
Chief Financial Officer
29 March 2016

Responsibility statement

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

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

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

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

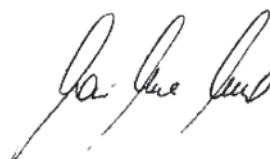
The directors have responsibility for:

- ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the accounts comply with the Companies Act 2006;
- taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities; and
- the maintenance and integrity of the corporate and financial information on the Company's website¹.

To the best of the directors' knowledge

- (a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and
- (b) the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



Kai-Uwe Kessel
Chief Executive Officer
29 March 2016



Jan-Ru Muller
Chief Financial Officer
29 March 2016

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



Consolidated Group financial statements

Consolidated financial statements

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Consolidated financial statements

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

We present our audit report on the Group and Parent company financial statements of Nostrum Oil & Gas PLC (the 'financial statements'), which comprise the Group and Parent primary statements and related notes.

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 2015 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 the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Nostrum Oil & Gas PLC's financial statements comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2015	Statement of financial position as at 31 December 2015
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 14 to the financial statements
Related notes 1 to 36 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.

Consolidated financial statements

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

Overview of our audit approach

Risks of material misstatement	<ul style="list-style-type: none"> ▪ Estimation of oil and gas reserves and its impact on the impairment testing, depreciation, depletion and amortisation and decommissioning provision ▪ Impairment of exploration licenses, goodwill and oil & gas development and production fixed assets ▪ Revenue recognition ▪ Completeness of related party transactions and related disclosures ▪ Risk of management override
Audit scope	<ul style="list-style-type: none"> ▪ We performed an audit of the complete financial information of 3 components across United Kingdom, Kazakhstan and Belgium and audit procedures on specific balances for a further 5 components across United Kingdom, Kazakhstan, Russia and the Netherlands. ▪ The components where we performed full or specific audit procedures accounted for approximately 100% of Profit before tax, Revenue and Total assets.
Materiality	<ul style="list-style-type: none"> ▪ Overall Group materiality of US\$3.6m which represents 5% of Profit before tax.

Consolidated financial statements

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

Our assessment of risk of material misstatement

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

Risk	Our response to the risk	What we concluded to the Audit Committee
<p>Estimation of oil and gas reserves and its impact on the impairment testing, depreciation, depletion and amortisation and decommissioning provision</p> <p><i>Refer to the Audit Committee Report on page 82; the estimates and judgements on page 123 and the disclosures in note 8 of the Consolidated Financial Statements (page 133)</i></p> <p>This was considered to be a significant risk due to the subjective nature of reserves estimates and their pervasive impact on the financial statements through impairment, DD&A calculations and decommissioning provision estimate. Reserves are also considered a fundamental indicator of the future potential of the Group's performance.</p> <p>The estimation of oil and gas reserves is a significant area of judgement due to the technical uncertainty in assessing reserves quantities. Consistent with the previous year, management has engaged a third party specialist in connection with the estimation of reserves volumes.</p>	<p>Our audit procedures have focused on management's estimation process, including whether bias exists in determination of reserves. We challenged management's assumptions including commercial assumptions to ensure that they are based on supportable evidence. We have:</p> <ul style="list-style-type: none"> ▪ carried out procedures to walkthrough and understand the Group's internal process and key controls associated with the oil and gas reserves estimation process. ▪ met with management's third party specialist during the planning and execution of the audit and assessed their competence and objectivity by inquiring their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists, to satisfy ourselves they are appropriately qualified to carry out the volumes estimation and prepare the input data used by the third party specialist. We checked the accuracy of the data transfer to the third party specialist. ▪ corroborated management's commercial assumptions by checking they lie within an acceptable range compared to publicly available benchmarks where appropriate. We compared management's internal assumptions to the latest plans and budgets for consistency; we have also challenged management's capabilities to execute on such plans by comparison to prior performance. ▪ reviewed the final oil and gas reserves estimation report prepared by management's third party specialist in light of our understanding of the business and we confirmed with them that all significant changes in reserves were made in appropriate period, and in compliance with relevant industry standards. ▪ validated that the updated reserves 	<p>Based on our procedures we consider that the reserves estimations are reasonable for use in the impairment testing, calculation of DD&A and the determination of decommissioning dates.</p>

Consolidated financial statements

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

Risk	Our response to the risk	What we concluded to the Audit Committee
	<p>estimates were included appropriately in the Group's consideration of impairment, in accounting for DD&A and determination of decommissioning dates.</p> <p>We performed full scope audit procedures over this risk area in one location (Kazakhstan), which covered 100% of the risk.</p>	
<p>The risk of Impairment of exploration licenses, goodwill and oil & gas development and production fixed assets</p> <p><i>Refer to the Audit Committee Report on page 82; the estimates and judgements on page 123 and the disclosures in notes 6 to 8 of the Consolidated Financial Statements (page 132-134).</i></p> <p><i>At 31 December 2015 the carrying value of goodwill was US\$32,425 thousand (2014: US\$32,425 thousand); exploration licenses: US\$36,917 thousand (2014: US\$24,380 thousand); oil & gas development and production assets, including non-current advances: US\$1,697,363 thousand (2014: US\$1,536,196 thousand).</i></p> <p>The continued decline in worldwide crude oil prices and the prices of related refined products over the current year pose a heightened impairment risk for the Group. Management have identified an impairment trigger with respect to the oil & gas development and production fixed assets in Kazakhstan.</p> <p>We focused on this area due to the significance of the carrying value of the assets being assessed, the current economic environment and the judgement involved in the assessment of the recoverable amount of the Group's Cash Generating Unit ('CGU') around the future prices of oil, natural gas and related products, both in the short and long-term, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes.</p>	<p>For exploration licenses we have evaluated management's assessment of each impairment trigger per IFRS 6 'Exploration for and Evaluation of Mineral Resources'. We have:</p> <ul style="list-style-type: none"> ▪ verified that the Group had the right to explore in the relevant exploration licence which included obtaining and reviewing supporting documentation such as license agreements and signed supplemental agreements and communication with relevant government agencies. In the event of non-compliance the Group can evidence that the terms are modified and any relevant penalties and fines accrued. ▪ inquired 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. ▪ corroborated the commercial viability of the exploration fields to the cash-flow forecast models. <p>In addressing the risk of impairment for</p>	<p>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 a long-term oil and gas prices. The pre-tax discount rate of 14% is within the range of our expectations.</p> <p>Based on our procedures, we believe that the cash flow projections estimated are reasonable, the assumptions are supportable and the range of economic conditions that could exist over the remaining useful lives of the assets have been considered appropriately.</p>

Consolidated financial statements

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

Risk	Our response to the risk	What we concluded to the Audit Committee
	<p>Goodwill and oil & gas development and production fixed assets we utilised our valuation specialists and challenged management's impairment assessment by evaluating the key assumptions. We have:</p> <ul style="list-style-type: none"> ▪ walked through the controls designed by the Group relating to the assessment of the carrying value of goodwill and oil & gas development and production fixed assets. ▪ tested the integrity of models with the assistance of our own specialists. ▪ tested price and discount rate assumptions by comparing forecast oil price assumptions to the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the group. ▪ focused our audit procedures on oil & gas reserves estimates, as described elsewhere in our report. ▪ tested forecast cash flows by comparing the assumptions used within the impairment models to the approved budgets, business plans and other evidence of future intentions. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance. ▪ compared the inflation and exchange rate assumptions to external market data. ▪ evaluated management's sensitivity analysis of goodwill and oil & gas development and production fixed assets impairment testing in order to assess the potential impact of a range of reasonably possible outcomes. These sensitivities included adjustments to the discount rate, prices, future production volumes, opex and capex assumptions. ▪ evaluated the financial statement disclosures for compliance with the requirements of accounting standards. <p>We performed full scope audit procedures over this risk area at the Group level (Goodwill), we also audited the impairment assessment prepared by management for exploration licenses and oil & gas development and production fixed assets in Kazakhstan. By performing these procedures we obtained coverage of 100%</p>	

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

Risk	Our response to the risk	What we concluded to the Audit Committee
	of the risk amount.	
<p>Revenue recognition</p> <p><i>Refer to the Audit Committee Report on page 82; The Summary of significant accounting policies in page 123 and the disclosures in note 22 of the Consolidated Financial Statements (page 141)</i></p> <p>Revenue for the year ended 31 December 2015 amounts to US\$ 448,902 thousand (2014: US\$ 781,878 thousand). Revenue sales include crude oil, gas condensate, dry gas and liquefied petroleum gas ('LPG').</p> <p>There exists a risk of management manipulation to overstate or understate revenue. This could be achieved by potentially recording sales in an incorrect period.</p>	<p>Our component team in Kazakhstan performed procedures to walkthrough and understand the process and test key controls associated with the revenue recognition and accounts receivable process.</p> <p>We made enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with the terms. We have:</p> <ul style="list-style-type: none"> ▪ audited sales agreements to understand the contractual terms and appropriate revenue recognition by inspecting supporting evidence for a sample of revenue transactions and agreeing the period when revenue should be recognised to the contractual terms. ▪ performed substantive test of details on a sample of sales transactions by inspecting delivery documents, delivery terms, volumes and prices. ▪ performed audit procedures on the trade debtors' ageing and collectability to identify any doubtful and or irrecoverable debtors, confirmed the material debtor balances with the relevant counterparties as well as tested that debtor amounts were received subsequent to year-end. ▪ carried out other analytical review procedures on each individual revenue stream using disaggregated volume by product, by customer and by month to assess the respective products' underlying performance and corroborate the appropriateness of the timing of revenue recognition. ▪ evaluated the financial statement disclosures for compliance with the requirements of accounting standards. <p>We performed full scope audit procedures over this risk area in one location (Kazakhstan), which covered 100% of the risk amount.</p>	<p>We believe that Revenue is recognised in accordance with sales agreements. We also consider the disclosures with respect to Revenue included in the financial statements are reasonable and adequate.</p>
<p>Completeness of related party transactions ("RPT") and related disclosures</p> <p><i>Refer to the Audit Committee Report on</i></p>	<p>Our audit procedures have focused on obtaining evidence over the completeness of related party transactions and the related disclosures. We have:</p> <ul style="list-style-type: none"> ▪ obtained an understanding of the 	<p>Based on the procedures performed, we have not noted any undisclosed related party transactions that may result in a material misstatement. We believe that the disclosures of related</p>

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

Risk	Our response to the risk	What we concluded to the Audit Committee
<p><i>page 82 and the disclosures of related party transactions in note 32 of the Group Financial Statements (page 147)</i></p> <p>Transactions with related parties mainly comprise transactions between the subsidiaries of the Company and entities controlled by the shareholders with significant influence of the Group. Given the number of related parties and the significant monetary amounts involved we consider RPTs and related disclosures to be a significant risk.</p>	<p>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.</p> <ul style="list-style-type: none"> ▪ 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. ▪ verified the completeness of disclosures in the financial statements. <p>In addressing this risk, audit procedures were performed by component team in Kazakhstan and the Group engagement team.</p>	<p>party transactions are complete.</p>
<p>Risk of management override</p> <p>We consider the likelihood of management override occurring. We base our consideration on our understanding of the nature and risk of both management's opportunity and incentive to manipulate accounting records and earnings or financial ratios or to misappropriate assets given the sizable shareholdings of senior executives.</p> <p>Specifically we considered the heightened impairment risks, the risk of overstatement of the hedge instruments' valuation, and compliance with bank covenants in the light of the continued decline in worldwide crude oil prices and the prices of related refined products over the current year.</p>	<p>We considered whether there was evidence of bias by the Directors and senior management in significant accounting estimates and judgements relevant to the financial statements. This included performing procedures with a particular focus on those key judgements and estimates which relate to the risks of estimation of oil and gas reserves, impairment of non-current assets, revenue recognition and related parties transactions as highlighted above.</p> <p>We tested manual and automated journal entries and included a selection of journals, with a focus on those journal entries that may impact the carrying value of the long term assets, related to other significant risks identified as part of our audit engagement.</p> <p>As part of our audit procedures to address this fraud risk, we assessed the overall control environment and interviewed senior management and the Group's internal audit function to understand whether there had been any reported actual or alleged instances of fraudulent activity during the year.</p>	<p>We have not identified any instances of management override or bias in significant estimates and judgements.</p>

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

Risk	Our response to the risk	What we concluded to the Audit Committee
	In addressing this risk, audit procedures were performed by component team in Kazakhstan and the Group engagement team. We tested manual and automated journal entries for all 3 components where we performed full scope audit.	

Our audit approach and assessment of the risks of material misstatements change in response to changes in circumstances affecting the Group financial statements. The continued decline in worldwide crude oil prices and the prices of related refined products over the current year has resulted in the deterioration of the recoverable amount of oil & gas development and production fixed assets and an increased potential impact of this risk on the Group's financial statements. This has led us to an increased focus on this area, unlike the 2014 audit where the primary focus of our audit effort was on the risk of impairment of exploration licenses and goodwill.

The scope of our audit

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 under International Standards on Auditing (UK and Ireland). 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.

Tailoring the scope

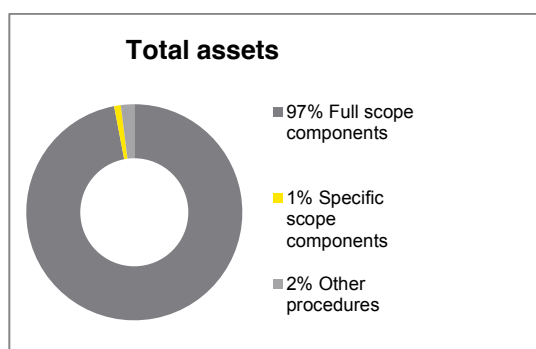
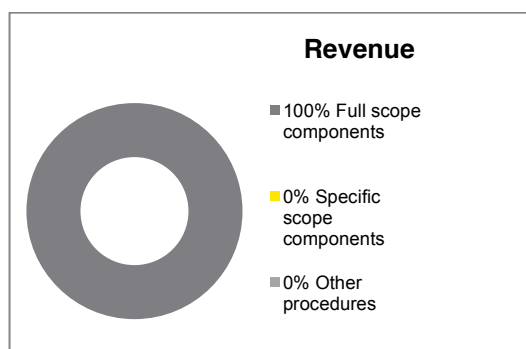
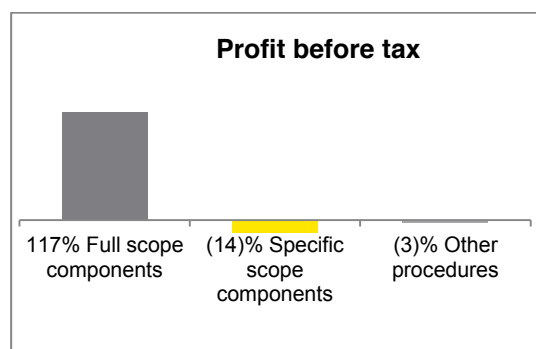
In establishing our overall approach to the Group audit we determined the type of work that needed to be undertaken at each of the components by us, as the Group engagement team, or by component auditors from another EY global network firm operating under our instructions. The Group engagement team performed the audit of the consolidation in the United Kingdom. In assessing the risk of material misstatement to the Group financial statements, our Group audit scope focused on the Group's main operating locations. Of the 16 reporting components of the Group, we selected eight components covering entities within the Netherlands, Belgium, Russia, United Kingdom and Kazakhstan, which represent the principal business units within the Group and account for approximately 100% of the Group's profit before tax. Of the eight 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 the remaining five components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The three full scope components account for 85% of the Group net assets, 100% of the Group's revenue and 117% of the Group's profit before tax. The profit before tax coverage of 117% represents one full scope components having a positive contribution of 133% offset by two full scope components having a negative contribution of 16%. The specific scope locations do not have income generating activities and we audited cash, payroll, general and administrative costs, the employee share option plan and other current liabilities.

Of the remaining 8 components having together a negative contribution of 3% of the Group's Profit before tax, none are individually greater than 1% of the Group's Profit before tax. For these components, we performed other procedures, including analytical review, inquiry procedures and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

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



Changes from the prior year

Our scope allocation in the current year is broadly consistent with 2014 in terms of overall coverage of the Group. However we have made some changes in the number of components subject to full and specific scope procedures. In particular, we changed our scope to include three service entities which are now considered significant based on materiality of payroll and general and administrative costs.

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 one full scope component in Kazakhstan, where the work was performed by the component auditor, 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. The work on the Group consolidation and remaining 7 full and specific scope components in Russia, the Netherland and Belgium was performed by the primary audit team.

During the 2015 audit cycle the primary audit team continued to have close interactions with the component audit team in Kazakhstan. The primary audit team held a global audit team event in the year led by the Senior Statutory Auditor, where both teams came together in Almaty, Kazakhstan, to consider the audit risk and strategy. The primary team visited the component team in Kazakhstan to attend the component closing meeting with local management, visited the operating field, reviewed key working papers and was responsible for the scope and direction of the audit process. Video and telephone conference meetings were also held with the component team in Kazakhstan throughout the current year's audit cycle. 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.

Consolidated financial statements

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

Materiality

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

We determined materiality for the Group to be US\$3.6 million (2014: US\$17 million), which is approximately 5% (2014: 5%) of Profit before tax (2014: adjusted Profit before tax. In 2014 profit before tax was adjusted by US\$29 million mainly relating to the costs associated with the reorganisation of the Group that we concluded are non-recurring and therefore added back when calculating materiality. We believe this provides us with a consistent year on year basis for determining planning materiality and the most relevant performance measure for the stakeholders of the group. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

Performance materiality

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% (2014: 50%) of our planning materiality, namely US\$1.8m (2014: US\$8.5m). 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\$0.2m to US\$1.4m (2014: US\$1.7m to US\$6.4m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all audit differences in excess of US\$0.2m (2014: US\$0.85m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Scope of the audit of the financial statements

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 111, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards

Consolidated financial statements

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

on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> ▪ materially inconsistent with the information in the audited financial statements; or ▪ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or ▪ otherwise misleading. <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.</p>	<p>We have no exceptions to report.</p>
Companies Act 2006 reporting	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> ▪ 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. 	<p>We have no exceptions to report.</p>
Listing Rules review requirements	<ul style="list-style-type: none"> ▪ We are required to review: ▪ the directors' statement in relation to going concern, set out on page 108, and longer-term viability, set out on page 60; and ▪ the part of the Corporate Governance Statement relating 	<p>We have no exceptions to report.</p>

Consolidated financial statements

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

	to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	
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Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:</p> <ul style="list-style-type: none"> ▪ the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; ▪ the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; ▪ the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and ▪ the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. 	<p>We have nothing material to add or to draw attention to.</p>
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Signature

Richard Addison (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London

29 March 2016

Notes:

1. The maintenance and integrity of the Nostrum Oil&Gas PLC's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated financial statements

Consolidated statement of financial position

As at 31 December 2015

In thousands of US dollars

	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Exploration and evaluation assets	7	36,917	24,380
Goodwill	6	32,425	32,425
Property, plant and equipment	8	1,605,756	1,442,157
Restricted cash	14	5,375	5,024
Advances for non-current assets	9	130,660	134,355
Derivative financial instruments	29	43,005	60,301
		1,854,138	1,698,642
Current assets			
Inventories	10	28,951	25,443
Trade receivables	11	31,337	30,110
Prepayments and other current assets	12	27,411	39,642
Derivative financial instruments	29	54,095	–
Income tax prepayment		26,926	13,925
Current investments	13	–	25,000
Cash and cash equivalents	14	165,560	375,443
		334,280	509,563
TOTAL ASSETS		2,188,418	2,208,205
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	15	3,203	3,203
Treasury capital		(1,888)	(1,888)
Retained earnings and reserves		772,441	916,365
		773,756	917,680
Non-current liabilities			
Long-term borrowings	17	936,470	930,090
Abandonment and site restoration provision	18	15,928	20,877
Due to Government of Kazakhstan	19	5,777	5,906
Deferred tax liability	31	347,769	206,784
		1,305,944	1,163,657
Current liabilities			
Current portion of long-term borrowings	17	15,024	15,024
Employee share option plan liability	28	4,284	6,449
Trade payables	20	41,463	49,619
Advances received		245	2,670
Income tax payable		1,692	1,459
Current portion of due to Government of Kazakhstan	19	1,031	1,031
Other current liabilities	21	44,979	50,616
		108,718	126,868
TOTAL EQUITY AND LIABILITIES		2,188,418	2,208,205

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

Jan-Ru Muller

Chief Financial Officer

The accounting policies and explanatory notes on pages 130 through 167 are an integral part of these consolidated financial statements

Consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2015

<i>In thousands of US dollars</i>	Notes	2015	2014
Revenue			
Revenue from export sales		426,764	676,064
Revenue from domestic sales		22,138	105,814
	22	448,902	781,878
Cost of sales	23	(186,567)	(221,921)
Gross profit		262,335	559,957
General and administrative expenses	24	(49,309)	(54,878)
Selling and transportation expenses	25	(92,970)	(122,254)
Finance costs	26	(45,998)	(61,939)
Finance costs - reorganisation	27	(1,053)	(29,572)
Employee share option plan fair value adjustment	28	2,165	3,092
Foreign exchange loss, net		(21,200)	(4,235)
Gain on derivative financial instruments	29	37,055	60,301
Interest income		515	986
Other income		11,296	10,086
Other expenses	30	(30,560)	(49,844)
Profit before income tax		72,276	311,700
Current income tax expense		(25,656)	(111,042)
Deferred income tax expense		(140,985)	(54,233)
Income tax expense	31	(166,641)	(165,275)
(Loss)/profit for the year		(94,365)	146,425
Currency translation difference		(456)	–
Other comprehensive loss		(456)	–
Total comprehensive (loss)/income for the year		(94,821)	146,425
(Loss)/profit for the period attributable to the shareholders (in thousands of US dollars)		(94,821)	146,425
Weighted average number of Common Units/shares		184,828,819	184,678,352
Basic and diluted earnings per share (in US dollars)		(0.51)	0.79

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

The accounting policies and explanatory notes on pages 130 through 167 are an integral part of these consolidated financial statements

Consolidated financial statements

Consolidated statement of cash flows

For the year ended 31 December 2015

<i>In thousands of US dollars</i>	Notes	2015	2014
Cash flow from operating activities:			
Profit before income tax		72,276	311,700
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	23,24	109,351	111,869
Finance costs - reorganisation	27	1,053	29,572
Finance costs	26	45,998	61,939
Employee share option plan fair value adjustment		(2,165)	(3,093)
Interest income		(515)	(986)
Foreign exchange gain on investing and financing activities		(3,003)	(574)
Loss on disposal of property, plant and equipment		39	-
Proceeds from derivative financial instruments		92,255	-
Purchase of derivative financial instruments		(92,000)	-
Gain on derivative financial instruments	29	(37,055)	(60,301)
Accrued expenses		(1,098)	(2,296)
Operating profit before working capital changes		185,136	447,830
<i>Changes in working capital:</i>			
Change in inventories		(3,508)	(3,358)
Change in trade receivables		(1,227)	36,455
Change in prepayments and other current assets		12,231	(7,714)
Change in trade payables		7,337	(5,633)
Change in advances received		(2,426)	2,921
Change in due to Government of Kazakhstan		(1,031)	(1,032)
Change in other current liabilities		(2,090)	341
Payments under Employee share option plan		-	(2,475)
Cash generated from operations		194,422	467,335
Income tax paid		(41,165)	(118,213)
Net cash flows from operating activities		153,257	349,122
Cash flow from investing activities:			
Interest received		515	986
Purchase of property, plant and equipment		(256,136)	(325,462)
Sale of property, plant and equipment		543	-
Exploration and evaluation works	7	(12,943)	(10,445)
Acquisition of subsidiaries	5	(2,296)	372
Placement of bank deposits		(17,000)	(25,000)
Redemption of bank deposits		42,000	55,000
Loans granted		(5,000)	-
Repayment of loans granted		5,000	-
Net cash used in investing activities		(245,317)	(304,549)
Cash flow from financing activities:			
Finance costs paid		(65,400)	(62,229)
Issue of notes	17	-	400,000
Expenses paid on arrangement of notes		-	(6,525)
Repayment of notes		-	(92,505)
Transfer to restricted cash		(351)	(807)
Treasury shares sold/(purchased)		-	3,715
Distributions paid	15	(49,060)	(64,615)
Funds borrowed - reorganisation	27	-	2,350,405
Funds repaid - reorganisation		-	(2,350,405)
Finance costs - reorganisation		(1,053)	(29,572)
Net cash (used in)/from financing activities		(115,864)	147,462
Effects of exchange rate changes on cash and cash equivalents		(1,959)	(1,506)
Net (decrease)/increase in cash and cash equivalents		(209,883)	190,529
Cash and cash equivalents at the beginning of the year	14	375,443	184,914
Cash and cash equivalents at the end of the year	14	165,560	375,443

The accounting policies and explanatory notes on pages 130 through 167 are an integral part of these consolidated financial statements

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Consolidated statement of changes in equity

For the year ended 31 December 2015

<i>In thousands of US dollars</i>	Notes	Share capital	Share premium	Partnership capital	Treasury capital	Additional paid-in capital	Other reserves	Retained earnings	Total
As at 1 January 2014		–	–	380,874	(30,751)	8,126	3,437	470,765	832,451
Profit for the year		–	–	–	–	–	–	146,425	146,425
Total comprehensive income for the year		–	–	–	–	–	–	146,425	146,425
Sale of treasury capital (GDRs)		–	–	–	440	769	–	–	1,209
Profit distribution		–	–	–	–	–	–	(64,615)	(64,615)
<i>Group reorganisation:</i>									
Replacement of GDRs		–	–	(380,874)	30,311	(8,895)	255,459	–	(103,999)
Issue of share capital		3,203	102,797	–	(2,001)	–	–	–	103,999
Effect of the Group reorganisation	15	3,203	102,797	(380,874)	28,310	(8,895)	255,459	–	–
Transfer to distributable reserves		–	(102,797)	–	–	–	–	102,797	–
Sale of treasury capital		–	–	–	113	–	2,393	–	2,506
Transaction costs		–	–	–	–	–	–	(296)	(296)
As at 31 December 2014		3,203	–	–	(1,888)	–	261,289	655,076	917,680
Loss for the year		–	–	–	–	–	–	(94,365)	(94,365)
Other comprehensive loss		–	–	–	–	–	(456)	–	(456)
Total comprehensive loss for the year		–	–	–	–	–	(456)	(94,365)	(94,821)
Profit distribution		–	–	–	–	–	–	(49,060)	(49,060)
Transaction costs		–	–	–	–	–	–	(43)	(43)
As at 31 December 2015		3,203	–	–	(1,888)	–	260,833	511,608	773,756

The accounting policies and explanatory notes on pages 130 through 167 are an integral part of these consolidated financial statements

Consolidated financial statements

Notes to the consolidated financial statements

1. GENERAL

Overview

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

The Parent became the holding company of the remainder of the Group (via its subsidiary Nostrum Oil Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange (“LSE”) on 20 June 2014 (Note 15). 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	Country of registration or incorporation	Form of capital	Ownership, %
Claydon Industrial Limited	British Virgin Islands	Ordinary shares	100
Grandstil LLC	Russian Federation	Participatory interests	100
Jubilata Investments Limited	British Virgin Islands	Ordinary shares	100
Nostrum Associated Investments LLP ¹	Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC ²	Russian Federation	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A. ³	Netherlands	Members' interests	100
Nostrum Oil & Gas BV ⁴	Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	England and Wales	Ordinary shares	100
Nostrum Services Central Asia LLP ⁵	Republic of Kazakhstan	Participatory interests	100
Nostrum Services CIS BVBA ⁶	Belgium	Ordinary shares	100
Nostrum Services N.V. ⁷	Belgium	Ordinary shares	100
Zhaikmunai LLP	Republic of Kazakhstan	Participatory interests	100

¹ Formerly Condensate Holding LLP

² Formerly Investprofi LLC

³ Formerly Nostrum Oil Coöperatief U.A.

⁴ Formerly Zhaikmunai Netherlands B.V, which was also merged with Nostrum Oil & Gas Finance BV and Nostrum Oil BV during 2015

⁵ Formerly Amersham Oil LLP

⁶ Formerly Prolag BVBA

⁷ Formerly Probel Capital Management N.V.

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 2015, the Group employed 1,063 employees (2014: 1,010).

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

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the authority now known as the Ministry of Energy (the “MOE”) of the Republic of Kazakhstan.

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. On 28 July 2015 the eleventh supplementary agreement to the Contract was signed extending the exploration period to 26 May 2016. Zhaikmunai LLP’s application for further extension of the Chinarevskoye exploration period is under approval at the MOE.

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

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2017.

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

Royalty payments

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

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

Government “profit share”

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

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by 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.

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

Group reorganisation

The Group has been formed through a reorganisation that took place in June 2014 in which Nostrum Oil & Gas PLC became a new parent entity of the Group (Note 15). 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 2015. 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:

Annual improvements 2010-2012 Cycle

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Group had not

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

granted any awards during 2014 and 2015. Thus, these amendments did not impact the Group's financial statements or accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the financial statements of the Group considering that the Group's property, plant and equipment are stated at historical cost.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. These amendments did not have impact on the Group's consolidated financial statements, since the Group always disclosed the companies providing management services as related parties.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

These amendments did not have any impact on the Group's consolidated financial statements, since the Group has no joint arrangements.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The amendment did not have material effect on the Group's financial position or performance.

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 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 Group's financial assets and the Group's financial liabilities.

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Notes to the consolidated financial statements CONTINUED

IFRS 15 Revenue from Contracts with Customers

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

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

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

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

IFRS 7 Financial Instruments: Disclosures

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

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

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

Amendments to IAS 1 Disclosure Initiative

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group will apply those amendments from the effective date.

IFRS 16 Leases

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

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Notes to the consolidated financial statements CONTINUED

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.

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

The amendments are not yet endorsed for use in the EU, expected endorsement is not yet determined. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material change to the carrying amounts of assets and liabilities are discussed below:

Oil and gas reserves

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

The Group uses the reserve estimates provided by an independent appraiser 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 (Note 6) 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. Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group.

Fair value of financial instruments

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

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Notes to the consolidated financial statements CONTINUED

- Level 1: quoted prices in active markets for identical items (unadjusted)
- Level 2: observable direct or indirect inputs other than Level 1 inputs
- Level 3: unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The financial statements for the years ended 31 December 2015 and 2014 include derivative financial instruments recognised at fair value. For more detailed information in relation to the derivative financial instruments, please refer to Note 29.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 35.

Abandonment and site restoration (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. Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimates of timing of cash flow and discount rate. The management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights.

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 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 provide the best estimates of applicable risk uncorrected discount 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 provision for decommissioning liabilities are disclosed in Note 18.

Other current liabilities

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

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

For more detailed information in relation to the accruals under the subsoil use agreements instruments, please refer to Note 21.

Impairment of Goodwill

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 6.

Taxation

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

Current income tax

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

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

Deferred income tax

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

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

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

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

For more detailed information in current and deferred income tax disclosure as at 31 December 2015 and 2014, please see Note 31.

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Notes to the consolidated financial statements CONTINUED

Significant accounting policies

Property, plant and equipment

Exploration expenditure

Costs directly associated with exploration wells are capitalised within exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration and materials and fuel used, rig costs and payments made to contractors and asset retirement obligation fees. If hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

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

Subsoil use rights acquisition costs are initially capitalised in exploration and evaluation assets. Subsoil use rights acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the subsoil use rights have been relinquished or has expired, the carrying value of the subsoil use rights acquisition costs is written off through profit or loss. 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 7.

Oil and gas properties

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

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

Other properties

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

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

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	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 8.

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:

<i>Company</i>	Functional currency
Claydon Industrial Limited	US dollar
Grandstil LLC	Russian rouble
Jubilata Investments Limited	US dollar
Nostrum Associated Investments LLP	Tenge
Nostrum E&P Services LLC	Russian rouble
Nostrum Oil & Gas Coöperatief U.A.	US dollar
Nostrum Oil & Gas BV	US dollar
Nostrum Oil & Gas UK Ltd.	British Pound
Nostrum Services Central Asia LLP	Tenge
Nostrum Services CIS BVBA	Euro
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 9.

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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 non-financial assets

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Group makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. 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 discount rate that reflects current market assessments of the time value of money.

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Impairment losses of continuing operations, including impairment of inventories, are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

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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 8.

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 2015 and 2014, please see Note 10.

Provisions

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.

Contingent liabilities

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 28*, unless the possibility of an outflow of resources embodying economic benefits is remote.

Financial assets

Initial recognition and measurement

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.

Loans and receivables

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

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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.

Derecognition

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

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.

Financial assets carried at amortised cost

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

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

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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.

Derecognition

A financial liability is derecognised 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 recognised in the profit or loss.

Offsetting of financial instruments

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

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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 2015 and 2015, please see Note 14.

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 risks and rewards of ownership have passed to the customer.

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

Treasury shares

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

Share-based payments

The Group measures the cost of cash-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 28.

5. BUSINESS COMBINATIONS

On 19 May 2014 the Group agreed to acquire 100% of the share capital of Nostrum Services CIS BVBA (formerly Prolog BVBA) and Nostrum Services Central Asia LLP (formerly Amersham Oil LLP), companies providing management and consulting services to the Group, from related parties of the Group, in connection with the premium listing on the London Stock Exchange of the Group's listed entity, so as to comply with certain exchange requirements that listed companies be managed by persons employed by entities within the listed company's group.

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A cash consideration consisting of initial purchase price of US\$1 and a price adjustment of US\$212 thousand was agreed and paid with respect to the acquisition of Nostrum Services CIS BVBA during the year ended 31 December 2014. Historically, it provided consulting services to the Group on certain marketing, transportation and logistics matters.

Nostrum Services Central Asia LLP was acquired in exchange for a cash consideration consisting of initial purchase price of US\$1,915 thousand and a price adjustment of US\$381 thousand which were paid by the Group during the year ended 31 December 2015. Certain managers of the Group historically provided services to the Group pursuant to a service agreement between Nostrum Services Central Asia LLP and the Group.

The goodwill arising on acquisition represents the savings of the Group on management fees and is not expected to be deductible for tax purposes.

There were no significant revenues or profits/losses of the acquired subsidiaries since the respective acquisition dates included in the consolidated statements of comprehensive income for the year ended 31 December 2014.

The fair values of the identifiable assets and liabilities of Nostrum Services CIS BVBA and Nostrum Services Central Asia LLP as at the date of acquisition were:

<i>In thousands of US dollars</i>	Nostrum Services CIS BVBA	Nostrum Services Central Asia LLP	Total
Assets			
Property, plant and equipment	15	2	17
Advances for non-current assets	287	–	287
Prepayments and other current assets	721	15	736
Cash and cash equivalents	219	365	584
	1,242	382	1,624
Liabilities			
Trade payables	496	7	503
Other current liabilities	427	12	439
	923	19	942
Total identifiable net assets at fair value	319	363	682
Goodwill arising on acquisition		2,039	2,039
Gain arising on acquisition	(107)	–	(107)
Total purchase consideration	212	2,402	2,614

The purchase consideration comprised of:

<i>In thousands of US dollars</i>	2015	2014
Consideration satisfied by cash	2,296	212
Working capital adjustment	106	2,402
Total purchase consideration	2,402	2,614
Consideration satisfied by cash	(2,296)	(212)
Cash and cash equivalents acquired	–	584
Purchase of subsidiaries per the cash flow statement	(2,296)	372

6. GOODWILL

As at 31 December 2015 and 31 December 2014, goodwill comprised the following due to business combinations:

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<i>In thousands of US dollars</i>	2015	2014
Balance as at 1 January	32,425	30,386
Goodwill addition	–	2,039
Balance as at 31 December	32,425	32,425

Impairment testing

The goodwill arising from the purchase of Nostrum Services CIS BVBA and Nostrum Services Central Asia LLP (Note 5) relates to a single cash-generating unit. Respectively, goodwill is tested for impairment by comparing the recoverable amount against the carrying value of the underlying cash generating unit.

The 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. Impairment testing is performed by comparing the recoverable amount against the carrying value of the cash generating unit. 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, which formally approved by the management, takes into consideration cashflows, which are expected to arise until 2032, i.e. during the license term of the Chinarevskoye field. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers and respective past history of the Group's ability to transfer probable reserves into proved.

The key assumptions used in the Group's discounted cash flow models reflect past experience and take account of external factors. These assumptions are:

- Oil prices (in real terms): US\$30/bbl for 2016-2017 and US\$60/bbl for 2018-2032;
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;
- Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates and production profiles; and
- Pre-tax discount rate of 14% (2014: 14%).

None of the reasonably possible changes in key assumptions causes the cash generating unit's carrying amount to exceed its recoverable amount.

7. EXPLORATION AND EVALUATION ASSETS

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Subsoil use rights	15,835	15,835
Expenditures on geological and geophysical studies	21,082	8,545
	36,917	24,380

During the year ended 31 December 2015 the Group had additions to exploration and evaluation assets of US\$12,537 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (FY 2014: US\$3,946 thousand). Interest was not capitalised on exploration and evaluation assets. During the year ended 31 December 2014 the Group repaid capitalised contingent consideration under the acquisition agreements for the Darjinskoye and Yuzhno-Gremyachinskoye oil and gas fields in the amount of US\$ 5,300 thousand.

8. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2015 and 31 December 2014 property, plant and equipment comprised the following:

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<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Oil and gas properties	1,566,703	1,401,847
Other property, plant and equipment	39,053	40,310
	1,605,756	1,442,157

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 2015 and 2014 was as follows:

<i>In thousands of US dollars</i>	Working assets	Construction in progress	Total
Balance at 1 January 2014, net of accumulated depreciation and depletion	1,089,822	202,251	1,292,073
Additions	9,730	205,153	214,883
Transfers	38,640	(38,445)	195
Disposals	(666)	–	(666)
Disposals depreciation	214	–	214
Depreciation and depletion charge	(104,852)	–	(104,852)
Balance at 31 December 2014, net of accumulated depreciation and depletion	1,032,888	368,959	1,401,847
Additions	(1,131)	265,569	264,438
Transfers	101,481	(99,369)	2,112
Depreciation and depletion charge	(101,694)	–	(101,694)
Balance at 31 December 2015, net of accumulated depreciation and depletion	1,031,544	535,159	1,566,703
As at 31 December 2013			
Cost	1,411,752	202,251	1,614,003
Accumulated depreciation and depletion	(321,930)	–	(321,930)
Balance, net of accumulated depreciation and depletion	1,089,822	202,251	1,292,073
As at 31 December 2014			
Cost	1,459,457	368,959	1,828,416
Accumulated depreciation and depletion	(426,569)	–	(426,569)
Balance, net of accumulated depreciation and depletion	1,032,888	368,959	1,401,847
As at 31 December 2015			
Cost	1,559,807	535,159	2,094,966
Accumulated depreciation and depletion	(528,263)	–	(528,263)
Balance, net of accumulated depreciation and depletion	1,031,544	535,159	1,566,703

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 10.20% and 10.02% in 2015 and 2014, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2015 and 2014. Starting from 1 October 2015 and 2014 the depletion has been calculated using the unit of production method based on these reserves estimates.

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The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (Note 18) in the year ended 31 December 2015 resulted in the decrease of the oil and gas properties by US\$ 5,622 thousand (31 December 2014: an increase of US\$ 4,306 thousand). The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2015 and 31 December 2014:

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Borrowing costs including amortisation of arrangement fee	71,782	77,959
Capitalisation rate	7.01%	7.28%
Capitalised borrowing costs	27,112	17,134

Other property, plant and equipment

<i>In thousands of US dollars</i>	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2014, net of accumulated depreciation	26,296	6,478	1,395	4,614	47	38,830
Additions	585	1,501	324	6,279	258	8,947
Transfers	24	309	412	(940)	–	(195)
Disposals	(6)	(24)	(159)	(244)	–	(433)
Disposals depreciation	5	16	157	193	–	371
Depreciation	(3,136)	(2,430)	(484)	(1,160)	–	(7,210)
Balance at 31 December 2014, net of accumulated depreciation	23,768	5,850	1,645	8,742	305	40,310
Additions	1,101	1,699	268	6,126	231	9,425
Transfers	270	912	(6)	(3,071)	(217)	(2,112)
Disposals	–	(24)	(1,933)	(285)	–	(2,242)
Disposals depreciation	–	22	1,370	57	–	1,449
Depreciation	(3,213)	(2,535)	(363)	(1,549)	–	(7,660)
Translation difference	–	–	(4)	(113)	–	(117)
Balance at 31 December 2015, net of accumulated depreciation	21,926	5,924	977	9,907	319	39,053
As at 31 December 2013						
Cost	30,887	13,285	3,513	7,166	47	54,898
Accumulated depreciation	(4,591)	(6,807)	(2,118)	(2,552)	–	(16,068)
Balance, net of accumulated depreciation	26,296	6,478	1,395	4,614	47	38,830
As at 31 December 2014						
Cost	31,497	15,068	4,167	12,270	305	63,307
Accumulated depreciation	(7,729)	(9,218)	(2,522)	(3,528)	–	(22,997)
Balance, net of accumulated depreciation	23,768	5,850	1,645	8,742	305	40,310
As at 31 December 2015						
Cost	32,868	17,655	2,461	14,895	319	68,198
Accumulated depreciation	(10,942)	(11,731)	(1,484)	(4,988)	–	(29,145)
Balance, net of accumulated depreciation	21,926	5,924	977	9,907	319	39,053

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Notes to the consolidated financial statements CONTINUED

9. ADVANCES FOR NON-CURRENT ASSETS

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Advances for pipes and construction materials	76,806	67,465
Advances for construction services	53,854	66,884
Advances for purchase of software licenses	–	6
	130,660	134,355

Increase in the advances for non-current assets is mainly driven by an increase in prepayments made to suppliers of services and equipment for construction of a third unit for the Group's gas treatment facility.

10. INVENTORIES

As at 31 December 2015 and 31 December 2014 inventories comprised the following:

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Materials and supplies	20,368	20,472
Gas condensate	5,684	3,383
Crude oil	2,528	1,262
LPG	371	326
	28,951	25,443

As at 31 December 2015 and 31 December 2014 inventories are carried at cost.

11. TRADE RECEIVABLES

As at 31 December 2015 and 31 December 2014 trade receivables were not interest-bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 31 December 2015 and 31 December 2014 there were neither past due nor impaired trade receivables.

12. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December 2015 and 31 December 2014 prepayments and other current assets comprised the following:

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
VAT receivable	18,709	22,581
Other taxes receivable	2,888	5,921
Advances paid	4,254	9,184
Other	1,560	1,956
	27,411	39,642

Advances paid consist primarily of prepayments made to service providers.

13. CURRENT INVESTMENTS

Current investments as at 31 December 2014 were represented by an interest-bearing short-term deposit placed on 30 September 2014 for a six-month period with an interest rate of 0.24% per annum.

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14. CASH AND CASH EQUIVALENTS

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Current accounts in US dollars	114,346	356,316
Current accounts in tenge	2,038	8,709
Current accounts in other currencies	7,167	10,413
Petty cash	9	5
Bank deposits with maturity less than three months	42,000	–
	165,560	375,443

Bank deposits were represented by an interest-bearing deposit placed on 30 December 2015 for a one-month period with an interest rate of 0.25% per annum and an interest-bearing deposit placed on 23 June 2015 for a six-month period with an interest rate of 0.45% per annum.

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as liquidation fund deposit in the amount of US\$5,375 thousand with Sberbank in Kazakhstan (31 December 2014: US\$5,023 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

15. SHARE CAPITAL AND RESERVES

As at 31 December 2015 the ownership interests in the Parent consist of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

<i>Number of GDRs/shares</i>	In circulation	Treasury capital	Total
As at 1 January 2014	184,527,884	3,655,074	188,182,958
Share options exercised	300,935	(300,935)	–
As at 31 December 2014	184,828,819	3,354,139	188,182,958
As at 31 December 2015	184,828,819	3,354,139	188,182,958

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

Other reserves of the Group include foreign currency translation reserve accumulated before 2009, when the functional currency of Zhaikmunai ZLLP 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 year ended 31 December 2015 Nostrum Oil & Gas PLC made a distribution of US\$ 0.27 per share to the shareholders which amounted to a total of US\$ 49,060 thousand and was paid in full on 26 June 2015.

During the year ended 31 December 2014 Nostrum Oil & Gas LP made a distribution of US\$ 0.35 per common unit to the holders of common units representing limited partnership interests which amounted to a total of US\$ 64,615 thousand and was paid in full on 6 June 2014.

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

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the number of outstanding shares as at the reporting date). As at 31 December 2015 the book value per share amounted to US\$3.94 (31 December 2014: US\$4.70).

16. EARNINGS PER SHARE

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of Common Units/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.

<i>In thousands of US dollars</i>	2015	2014
(Loss)/profit for the period attributable to the shareholders (in thousands of US dollars)	(94,821)	146,425
Weighted average number of Common Units/shares	184,828,819	184,678,352
Basic and diluted earnings per share (in US dollars)	(0.51)	0.79

17. BORROWINGS

Borrowings comprise the following as at 31 December 2015 and 31 December 2014:

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Notes issued in 2012 and maturing in 2019	545,868	540,793
Notes issued in 2014 and maturing in 2019	405,626	404,321
	951,494	945,114
Less amounts due within 12 months	(15,024)	(15,024)
Amounts due after 12 months	936,470	930,090

2012 Notes

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

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

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013. Prior to 13 November 2016, the 2012 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2012 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the 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); provided that (1) at least 65% of the original principal amount of the 2012 Notes (including Additional Notes as defined in the indenture relating to the 2012 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2012 Notes may be redeemed, in whole or in part, at any time prior to 13 November 2016 at the option of the 2012 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2012 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2012 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest 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). Applicable Premium means, with respect to any 2012 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2012 Note; and (2) the excess, if any, of: (a) the present value at such

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redemption date of (i) the redemption price of such 2012 Note at 13 November 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through 13 November 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2012 Note.

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 do not have the benefit of first priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

2014 Notes

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

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

The 2014 Notes bear interest at the rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and 14 August of each year, beginning on 14 August 2014. Prior to 14 February 2017, the 2014 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2014 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 106.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the 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); provided that (1) at least 65% of the original principal amount of the 2014 Notes (including Additional Notes as defined in the indenture relating to the 2014 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2014 Notes may be redeemed, in whole or in part, at any time prior to 14 February 2017 at the option of the 2014 Issuer upon not less than 30 nor more than 60 days’ prior notice mailed by first-class mail to each holder of 2014 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2014 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest 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). Applicable Premium means, with respect to any 2014 Notes on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2014 Notes; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2014 Notes at 14 February 2017 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2014 Notes through 14 February 2017 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2014 Notes.

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. Claims of secured creditors of the 2014 Issuer or the 2014 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2014 Notes.

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

Covenants contained in the 2012 Notes and the 2014 Notes

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

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

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- 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.

18. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during years ended 31 December 2015 and 2014 is as follows:

<i>In thousands of US dollars</i>	2015	2014
Abandonment and site restoration provision as at 1 January	20,877	13,874
Unwinding of discount	426	197
Additional provision	247	2,500
Change in estimates	(5,622)	4,306
Abandonment and site restoration provision as at 31 December	15,928	20,877

The 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 2015 were 2.49% and 5.54%, respectively (31 December 2014: 3.75% and 4.88%).

The change in the long-term inflation rate, discount rate and liquidation cost estimates in the year ended 31 December 2015 resulted in the decrease of the abandonment and site restoration provision by US\$ 5,622 thousand (31 December 2014: the increase by US\$ 4,306 thousand).

19. 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 2015 and 31 December 2014 is as follows:

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<i>In thousands of US dollars</i>	2015	2014
Due to Government of Kazakhstan as at 1 January	6,937	7,052
Unwinding of discount	902	917
Paid during the year	(1,031)	(1,032)
	6,808	6,937
Less: current portion of due to Government of Kazakhstan	(1,031)	(1,031)
Due to Government of Kazakhstan as at 31 December	5,777	5,906

20. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2015 and 31 December 2014:

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Tenge denominated trade payables	22,364	27,030
US dollar denominated trade payables	14,032	17,889
Euro denominated trade payables	2,875	3,479
Russian rouble denominated trade payables	1,928	965
Trade payables denominated in other currencies	264	256
	41,463	49,619

21. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 31 December 2015 and 31 December 2014:

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Accruals under the subsoil use agreements	16,902	14,435
Training obligations accrual	11,443	9,686
Due to employees	3,992	4,605
Taxes payable, other than corporate income tax	9,748	17,191
Liability accrued with respect to acquisitions	–	2,402
Other current liabilities	2,894	2,297
	44,979	50,616

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

The changes in the adjusted work programs in the supplements to the subsoil use agreements lead to an overall increase of the accrued liability of US\$ 2,467 thousand compared to the previous year, predominantly due to SUA amendments and the occurred underperformance per license as well as the statute of limitations.

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22. 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 2015 was US\$53.6 (FY 2014: US\$99.7)

<i>In thousands of US dollars</i>	2015	2014
Oil and gas condensate	297,777	620,164
Gas and LPG	151,125	161,714
	448,902	781,878

During the year ended 31 December 2015 the revenue from sales to three major customers amounted to US\$141,359 thousand, US\$104,978 thousand and US\$85,954 thousand respectively (FY 2014: US\$321,755 thousand, US\$124,823 thousand and US\$77,113 thousand respectively). The Group's exports are mainly represented by deliveries to Finland, the Black Sea ports of Russia and the United Arab Emirates.

23. COST OF SALES

<i>In thousands of US dollars</i>	2015	2014
Depreciation, depletion and amortisation	107,678	110,460
Repair, maintenance and other services	26,557	35,818
Payroll and related taxes	18,682	21,560
Royalties	14,364	24,330
Materials and supplies	7,838	10,929
Well workover costs	5,182	6,296
Other transportation services	3,049	2,929
Government profit share	1,880	4,594
Environmental levies	1,391	1,098
Change in stock	(3,613)	376
Other	3,559	3,531
	186,567	221,921

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24. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of US dollars</i>	2015	2014
Payroll and related taxes	16,636	15,668
Professional services	13,997	19,776
Business travel	6,091	4,786
Training	3,110	2,535
Insurance fees	1,715	1,768
Depreciation and amortisation	1,673	1,409
Sponsorship	1,314	1,826
Lease payments	1,012	895
Communication	766	1,195
Materials and supplies	635	626
Bank charges	607	813
Other taxes	339	1,006
Social program	302	300
Management fees	–	605
Other	1,112	1,670
	49,309	54,878

25. SELLING AND TRANSPORTATION EXPENSES

<i>In thousands of US dollars</i>	2015	2014
Transportation costs	45,071	54,878
Loading and storage costs	41,229	56,351
Payroll and related taxes	1,901	2,211
Management fees	159	183
Other	4,610	8,631
	92,970	122,254

26. FINANCE COSTS

<i>In thousands of US dollars</i>	2015	2014
Interest expense on borrowings	44,670	60,825
Unwinding of discount on amounts due to Government of Kazakhstan	902	917
Unwinding of discount on abandonment and site restoration provision	426	197
	45,998	61,939

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27. FINANCE COSTS – REORGANISATION

The “finance costs – reorganisation” are represented by the costs associated with introduction of Nostrum Oil & Gas PLC as the new holding company of the Group and respective reorganisation that took place in June 2014. In 2014 these costs included US\$14,389 thousand under the facility agreements with VTB Capital plc (under which US\$3,000,000 thousand were committed and US\$2,350,405 thousand were lent), US\$7,193 thousand related to the new listing and the cancellation of the GDR program and US\$7,990 thousand financing costs related to advisory and other services incurred in relation to the reorganisation. During the year ended 31 December 2015 additional costs related to advisory and other services in amount of US\$1,053 thousand were incurred by the Group with regard to reorganisation.

28. EMPLOYEES’ REMUNERATION

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

	2015	2014
Management and administrative	303	289
Technical and operational	765	721
	1,068	1,010

Their aggregate remuneration comprised:

<i>In thousands of US dollars</i>	2015	2014
Wages and salaries	35,092	36,025
Social security costs	5,757	4,333
Share-based payments	–	2,475
	40,849	42,833

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\$38,789 thousand (FY 2014: US\$39,440 thousand).

Key management personnel remuneration

<i>In thousands of US dollars</i>	2015	2014
Short-term employee benefits	4,703	5,273
Share-based payments	–	2,475
	4,703	7,748

Directors’ remuneration

<i>In thousands of US dollars</i>	2015	2014
Short-term employees benefits	3,328	3,767
Share-based payments	–	1,750
	3,328	5,517

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Employee share option plan

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

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

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

The equity-based payment plan is described below.

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

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

The carrying value of the liability relating to 2,611,413 of SARs at 31 December 2015 is US\$ 4,284 thousand (31 December 2014: 2,611,413 SARs with carrying value of US\$ 6,449 thousand). During the year ended 31 December 2015 302,000 SARs were fully vested (FY 2014:302,000).

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

	2015		2014	
	No.	EP,US\$	No.	EP,US\$
Total outstanding at the beginning of the year (with EP of US\$ 4)	1,351,413	4	1,646,348	4
Total outstanding at the beginning of the year (with EP of US\$ 10)	1,260,000	10	1,266,000	10
Total outstanding at the beginning of the year	2,611,413		2,912,348	
Share options exercised	–	4	(294,935)	4
Share options exercised	–	10	(6,000)	10
Total outstanding at the end of the year	2,611,413		2,611,413	
Total exercisable at the end of the year	2,117,413		1,815,413	

There were no SARs granted during the years ended 31 December 2015 and 2014. The weighted average price at the date of exercise for SARs exercised during the year ended 31 December 2014 amounted to US\$ 8.22 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 2015 and 2014:

	2015	2014
Price at the reporting date	6.0	6.6
Distribution yield (%)	3.0%	3.0%
Expected volatility (%)	45.0%	85.0%
Risk-free interest rate (%)	2.5%	1.0%
Expected life (years)	10	10
Option turnover (%)	10.0%	10.0%
Price trigger	2.0	2.0

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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.

29. DERIVATIVE FINANCIAL INSTRUMENTS

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 for US\$ 92,256 thousand before expiration 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 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.

During the years ended 31 December 2015 and 2014 the movement in the fair value of derivative financial instruments was presented as follows:

<i>In thousands of US dollars</i>	2015	2014
Derivative financial instruments at fair value at 1 January	60,301	–
Proceeds from sale of hedging contract	(92,256)	–
Purchase of hedging contract	92,000	–
Gain on derivative financial instruments	37,055	60,301
Derivative financial instruments at fair value at 31 December	97,100	60,301
Less current portion of derivative financial instruments	(54,095)	–
Derivative financial instruments at fair value as at 31 December	43,005	60,301

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 35.

30. OTHER EXPENSES

<i>In thousands of US dollars</i>	2015	2014
Export customs duty	14,669	19,733
Compensation	2,531	10,116
Accruals under subsoil use agreements	2,156	16,083
Other expense	11,204	3,912
	30,560	49,844

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

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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.

31. INCOME TAX

The income tax expense comprised the following:

<i>In thousands of US dollars</i>	2015	2014
Deferred income tax expense	140,985	54,233
Corporate income tax	24,219	116,948
Withholding tax	2,821	879
Adjustment in respect of the current income tax for the prior periods	(1,384)	(6,785)
Total income tax expense	166,641	165,275

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:

<i>In thousands of US dollars</i>	2015	2014
Profit before income tax	72,275	311,700
Tax rate applicable to the suboil use rights	30%	30%
Expected tax provision	21,682	93,510
Effect of exchange rate on the tax base	101,043	34,533
Adjustments in respect of current income tax of previous years	(1,384)	(6,785)
Effect of income taxed at different rate ¹	(2,921)	(3,790)
Non-deductible interest expense on borrowings	20,698	23,390
Deferred tax asset not recognised	5,297	10,384
Non-deductible penalties	3,656	4,556
Non-deductible compensation for gas	–	2,813
Net foreign exchange loss	12,086	1,020
Non-deductible social expenditures	1,021	886
Non-deductible cost of technological loss	141	192
Non-deductible training expenditures	561	–
Other non-deductible expenses	4,761	4,566
Income tax expenses reported in the consolidated financial statements	166,641	165,275

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

As at 31 December 2015 the Group has tax losses of US\$21,233 thousand that are available to offset against future taxable profits in the companies in which the losses arose within 9 years after generation and will expire in the period 2023-2024. 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.

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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:

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Deferred tax asset		
Accounts payable and provisions	4,486	3,616
Deferred tax liability		
Property, plant and equipment	(332,835)	(196,855)
Derivative financial instruments	(19,420)	(12,060)
Other	–	(1,485)
Net deferred tax liability	(347,769)	(206,784)

The movements in the deferred tax liability were as follows:

<i>In thousands of US dollars</i>	2015	2014
Balance as at 1 January	206,784	152,545
Current period charge to statement of comprehensive income	140,985	54,239
Balance as at 31 December	347,769	206,784

32. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2015 and 31 December 2014 consisted of the following:

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Trade receivables and advances paid		
KazStroyService JSC	35,832	36,915
Cervus Business Services	132	–
Crest Capital Management N.V.	78	–
Telco B.V.	4	–

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2015 and 31 December 2014 consisted of the following:

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
Trade payables		
KazStroyService JSC	4,144	2,753
Telco B.V.	–	29

During the years ended 31 December 2015 and 2014 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

<i>In thousands of US dollars</i>	2015	2014
Purchases		
KazStroyService JSC	29,906	6,538
Management fees and consulting services		
Cervus Business Services	1,392	1,981
Crest Capital Management N.V.	990	824
Telco B.V.	499	744
Nostrum Services Central Asia LLP	–	455
Nostrum Services CIS BVBA	–	668

On 28 July 2014 the Group entered into a contract with JSC “OGCC KazStroyService” (the “Contractor”) for the construction of the third unit of the Group’s gas treatment facility for a consideration of US\$ 150 million, which was amended with effect from 10 August 2015 by a supplementary agreement increasing that consideration to US\$ 160 million.

With effect from 1 August 2015 the Group entered into a technical support & service agreement with the Contractor for an initial term ending on 31 December 2015 and an initial consideration of US\$ 3,375 thousand.

With effect from 10 September 2015 the Group entered into a service agreement with the Contractor valid until 31 March 2016 for the provision of engineering staff for an aggregate consideration of US\$ 245 thousand.

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2015 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

Management fees are payable in accordance with the Technical Assistance Agreements signed between Zhaikmunai LLP and Nostrum Services Central Asia LLP (formerly Amersham Oil LLP) and Nostrum Services CIS BVBA related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Following the agreement on 19 May 2014 to acquire Nostrum Services Central Asia LLP and Nostrum Services CIS BVBA, these management fees were eliminated as intercompany transactions.

During the year ended 31 December 2015 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, Crest Capital Management N.V. and Telco B.V.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$4,703 thousand for the year ended 31 December 2015 (FY 2014: US\$5,273 thousand). There were no payments made under the ESOP during the year ended 31 December 2015 (FY 2014: US\$2,475).

33. AUDIT AND NON-AUDIT FEES

During the years ended 31 December 2015 and 2014 audit and non-audit fees comprise the following:

<i>In thousands of US dollars</i>	2015	2014
Audit of the financial statements	358	684
Total audit services	358	684
Audit-related assurance services	180	319
Taxation compliance services	–	40
Services relating to corporate finance transactions	–	730
Other non-audit services	23	–
Total non-audit services	203	1,089
Total fees	561	1,773

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

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

34. 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 2015. As at 31 December 2015 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 2015 the Group had contractual capital commitments in the amount of US\$123,529 thousand (31 December 2014: US\$248,644 thousand) mainly in respect to the Group's oil field exploration and development activities.

Operating lease

The Group entered into a cancellable lease agreement for the main administrative office in Uralsk in October 2007 for a period of 20 years for US\$ 15 thousand per month.

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 early terminated 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 leases was represented as follows:

<i>In thousands of US dollars</i>	31 December 2015	31 December 2014
No later than one year	12,471	14,788
Later than one year and no later than five years	4,623	17,671
Later than five years	—	—

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

Lease expenses of railway tank wagons for the year ended 31 December 2015 amounted to US\$15,690 thousand (FY 2014: US\$14,622 thousand).

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement No. 9), the Group is obliged to:

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

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

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 3 July 2015) require the subsurface user to:

- spend US\$ 1,000 thousand for funding of development of Astana city in case of commercial discovery;
- invest at least US\$ 5,888 thousand for exploration of the field during the exploration period;
- reimburse historical costs of US\$ 383 thousand to the Government upon commencement of production stage; and
- fund liquidation expenses equal to US\$ 35 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 30 December 2015) require the subsurface user to:

- invest at least US\$ 18,976 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US\$ 130 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 30 December 2015) require the subsurface user to:

- invest at least US\$ 30,453 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US\$ 154 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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Commodity price risk

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

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

Interest rate risk

The Group is not exposed to interest rate risk in 2015 and 2014 as the Group had no financial instruments with floating rates as at years ended 31 December 2015 and 2014.

Foreign currency risk

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

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
2015		
US dollar thousand	+ 60.00%	18,250
US dollar thousand	- 20.00%	(6,083)
2014		
US dollar thousand	+ 17.37%	(1,168)
US dollar thousand	- 17.37%	1,168

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

<i>As at 31 December 2015</i>	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	2,047	70	6,472	626	9,215
Trade receivables	1,455	-	-	-	1,455
Trade payables	(22,364)	(1,928)	(2,876)	(264)	(27,432)
Other current liabilities	(11,554)	(159)	(855)	(1,783)	(14,351)
	(30,416)	(2,017)	2,741	(1,421)	(31,113)

<i>As at 31 December 2014</i>	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	8,713	-	10,307	106	19,126
Trade receivables	12,331	-	-	-	12,331
Trade payables	(27,030)	(965)	(3,479)	(256)	(31,730)
Other current liabilities	(19,331)	(115)	(7,010)	(7)	(26,463)
	(25,317)	(1,080)	(182)	(157)	(26,736)

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.

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

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

The Group's total outstanding debt consists of two notes: US\$ 560 million issued in 2012 and maturing in 2019 and US\$ 400 million issued in 2014 and maturing in 2019. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2015 and 31 December 2014 based on contractual undiscounted payments:

<i>As at 31 December 2015</i>	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	12,750	52,650	1,156,200	–	1,221,600
Trade payables	37,934	–	3,529	–	–	41,463
Other current liabilities	17,554	–	–	–	–	17,554
Due to Government of Kazakhstan	–	258	773	4,124	10,567	15,722
	55,488	13,008	56,952	1,160,324	10,567	1,296,339

<i>As at 31 December 2014</i>	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	12,750	52,650	1,221,600	–	1,287,000
Trade payables	48,095	–	1,524	–	–	49,619
Other current liabilities	18,126	–	–	–	–	18,126
Due to Government of Kazakhstan	–	258	773	4,124	11,340	16,495
	66,221	13,008	54,947	1,225,724	11,340	1,371,240

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 (stable) from Moody's rating agency and ING with a credit rating of A1 (stable) from Moody's rating agency at 31 December 2015. The Group does not guarantee obligations of other parties.

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

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

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

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

Fair values of financial instruments

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

<i>In thousands of US dollars</i>	Carrying amount			Fair value
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Derivative financial instruments	97,100	60,301	97,100	60,301
Interest bearing borrowings	(951,494)	(945,114)	(809,824)	(1,037,320)
Total	(854,394)	(884,813)	(712,724)	(977,019)

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

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

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 31 December 2015 and 31 December 2014:

	31 December 2015	31 December 2014
Future price at the reporting date (US\$)	37.19-48.75	59.2-67.9
Historical volatility (%)	30.31	16.02-17.73
Risk-free interest rate (%)	0.32-0.69	0.25-0.67
Maturity (months)	1-23	3-15

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

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

	Increase in the assumption	Decrease in the assumption
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US\$2/bbl)	(12,857)	15,521
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	3,590	(3,561)

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

During the years ended 31 December 2015 and 2014 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Consolidated financial statements

Notes to the consolidated financial statements CONTINUED

Capital management

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

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

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the distribution payment to participants, return capital to participants or increase partnership capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 40%. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

<i>In thousands of US dollars</i>	2015	2014
Interest bearing borrowings	951,494	945,114
Less: cash and cash equivalents, restricted cash and current and non-current investments	(170,935)	(405,467)
Net debt	780,559	539,647
Equity	773,756	917,680
Total capital	773,756	917,680
Capital and net debt	1,554,315	1,457,327
Gearing ratio	50%	37%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

36. EVENTS AFTER THE REPORTING PERIOD

The technical support and service agreement with the Contractor that was originally valid until 31 December 2015 was extended on 24 February 2016 until 30 June 2016.

With effect from 1 January 2016 Kazakhstan reduced export duties for crude oil from US\$60 to US\$40 per tonne.

With effect from 1 February 2016 Kazakhstan introduced floating rates of export duties for crude oil based on average market prices.



Parent Company financial statements

Parent company financial statements

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Parent company financial statements

Parent company statement of financial position

As at 31 December 2015

<i>In thousands of US dollars</i>	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Investments in subsidiaries	5	106,222	106,000
		106,222	106,000
Current assets			
Receivables from related parties	6	26,538	26,367
Cash and cash equivalents	7	1,052	216
		27,590	26,583
TOTAL ASSETS		133,812	132,583
EQUITY AND LIABILITIES			
Share capital and reserves			
Issued share capital	8	3,203	3,203
Retained earnings		103,810	102,391
		107,013	105,594
Current liabilities			
Trade payables		170	238
Payables to related parties	9	25,655	26,333
Accrued liabilities		974	418
		26,799	26,989
TOTAL EQUITY AND LIABILITIES		133,812	132,583

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

Jan-Ru Muller
Chief Financial Officer

The accounting policies and explanatory notes on pages 173 through 180 are an integral part of these financial statements

Parent company financial statements

Parent company statement of cash flows

For the year ended 31 December 2015

<i>In thousands of US dollars</i>	Notes	2015	2014
Cash flow from operating activities:			
Profit/(loss) before income tax		50,479	(406)
<i>Adjustments for:</i>			
Foreign exchange gain on investing and financing activities		(806)	–
Accrued expenses		556	418
Investment income		(50,000)	–
Operating profit before working capital changes		229	12
<i>Changes in working capital:</i>			
Change in trade receivables		–	43
Change in prepayments and other current assets		(171)	–
Change in trade payables		(968)	243
Cash generated from operations		(910)	298
Net cash flows from operating activities		(910)	298
Cash flow from investing activities:			
Contribution in subsidiary - reorganisation		–	(106,000)
Dividend received		50,000	–
Net cash used in investing activities		50,000	(106,000)
Cash flow from financing activities:			
Dividends paid		(49,060)	–
Funds borrowed - reorganisation		–	2,244,405
Funds repaid - reorganisation		–	(2,244,405)
Proceeds from issue of share capital		–	106,000
Redemption of shares		–	(656)
Net cash from / (used in) financing activities		(49,060)	105,344
Effects of exchange rate changes on cash and cash equivalents		806	(2)
Net increase/(decrease) in cash and cash equivalents		836	(360)
Cash and cash equivalents at the beginning of the year	7	216	576
Cash and cash equivalents at the end of the year	7	1,052	216

The accounting policies and explanatory notes on pages 173 through 180 are an integral part of these financial statements

Parent company financial statements

Parent company statement of changes in equity

As at 31 December 2015

<i>In thousands of US dollars</i>	Notes	Share capital	Share premium	Retained earnings	Total
As at 1 January 2014		656	–	–	656
Loss for the year		–	–	(406)	(406)
Total comprehensive loss for the year		–	–	(406)	(406)
Redemption of shares		(656)	–	–	(656)
Issue of share capital		3,203	102,797	–	106,000
Transfer to distributable reserves		–	(102,797)	102,797	–
As at 31 December 2014		3,203	–	102,391	105,594
Profit for the year		–	–	50,479	50,479
Total comprehensive income for the year		–	–	50,479	50,479
Profit distribution		–	–	(49,060)	(49,060)
As at 31 December 2015		3,203	–	103,810	107,013

The accounting policies and explanatory notes on pages 173 through 180 are an integral part of these financial statements

Parent company financial statements

Notes to the Parent company financial statements

1. GENERAL

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

The subsidiary undertakings of the Company as at 31 December 2015 and the percentage holding of their capital are set out below:

Company	Country of registration or incorporation	Form of capital	Ownership, %
Direct subsidiary undertakings:			
Nostrum Oil & Gas Coöperatief U.A. ¹	Netherlands	Members' interests	100
Nostrum Oil & Gas BV ²	Netherlands	Ordinary shares	100
Indirect subsidiary undertakings:			
Claydon Industrial Limited	British Virgin Islands	Ordinary shares	100
Grandstil LLC	Russian Federation	Participatory interests	100
Jubilata Investments Limited	British Virgin Islands	Ordinary shares	100
Nostrum Associated Investments LLP ³	Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC ⁴	Russian Federation	Participatory interests	100
Nostrum Oil & Gas UK Ltd.	England and Wales	Ordinary shares	100
Nostrum Services Central Asia LLP ⁵	Republic of Kazakhstan	Participatory interests	100
Nostrum Services CIS BVBA ⁶	Belgium	Ordinary shares	100
Nostrum Services N.V. ⁷	Belgium	Ordinary shares	100
Zhaikmunai LLP	Republic of Kazakhstan	Participatory interests	100

¹ Formerly Nostrum Oil Coöperatief U.A.

² Formerly Zhaikmunai Netherlands B.V.

³ Formerly Condensate Holding LLP

⁴ Formerly Investprofi LLC

⁵ Formerly Amersham Oil LLP

⁶ Formerly Prolag BVBA

⁷ Formerly Probel Capital Management N.V.

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 2015 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.

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. During the reporting periods there were no transactions impacting the statement of other comprehensive income.

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

Going concern

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2015:

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. These amendments are not expected to have effect on the Company's future financial statements, since the Company always disclosed the companies providing management services as related parties.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). It is not expected that the amendment will have material effect on the Company's financial position or performance.

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.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company's financial statements.

Annual improvements 2012-2014 Cycle

These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Company. They include:

Amendments to IAS 1 Disclosure Initiative

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

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 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.

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

Investments

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

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

Receivables

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

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

Cash and cash equivalents

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

Derecognition

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

The rights to receive cash flows from the asset have expired

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

Impairment of financial assets

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

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Derecognition

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

5. INVESTMENTS IN SUBSIDIARIES

Investments of the Company as at 31 December 2015 comprised of:

<i>In thousands of US Dollars</i>	31 December 2015	31 December 2014
Nostrum Oil & Gas Coöperatief U.A.	106,000,000	106,000,000
Nostrum Oil & Gas BV	222,271	–
Nostrum Oil BV	–	1
	106,222,271	106,000,001

On 22 June 2015 the Company acquired Nostrum Oil & Gas B.V. from its subsidiary Nostrum Oil & Gas Coöperatief U.A. for a consideration of US\$ 222,270. The payment of the consideration was deferred and the Company entered into a loan, reflecting an obligation to pay US\$ 222,270 to Nostrum Oil & Gas Coöperatief U.A.

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

Following the acquisition of Nostrum Oil & Gas B.V., the Company's other investment, Nostrum Oil B.V., was merged with Nostrum Oil & Gas B.V. on 8 August 2015. Nostrum Oil & Gas B.V. is the surviving entity of this merger.

Hence at 31 December 2015 the total investment of the Company in Nostrum Oil & Gas B.V. was US\$ 222,271.

6. RECEIVABLES FROM RELATED PARTIES

As at 31 December 2015 receivables from related parties are represented by a receivable from the Nostrum employee benefit trust in amount of US\$ 25,433 thousand (2014: US\$ 25,433 thousand) and a receivable from Nostrum Oil & Gas Coöperatief U.A. in amount of US\$ 1,105 thousand (2014: US\$ 934 thousand).

7. CASH AND CASH EQUIVALENTS

<i>In thousands of US Dollars</i>	31 December 2015	31 December 2014
Current accounts in US Dollars	130	174
Current accounts in Euro	454	4
Current accounts in Pounds Sterling	468	38
	1,052	216

8. SHAREHOLDERS' EQUITY

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

On 18 June 2014, following the decision of the board of directors, Nostrum Oil & Gas LP commenced the Group's reorganisation. This was implemented by means of an exchange offer made by the Company to the GDR holders of Nostrum Oil & Gas LP, which were entitled to receive 1 share of Nostrum Oil & Gas PLC for each GDR of Nostrum Oil & Gas LP.

On 17 September 2014 US\$102,797,484 were transferred from the share premium account to distributable reserves based on a Special Resolution passed at a general meeting of the Company, which was confirmed by an Order of the High Court of Justice.

As part of the reorganisation scheme the Company received funds in the amount of US\$2,244,405 thousand from VTB Capital plc under the facility agreement and repaid them on the same day.

Share capital of Nostrum Oil & Gas PLC

As at 31 December 2015 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.

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company reported a profit for the financial year ended 31 December 2015 of US\$50,516 thousand, which mainly relates to the dividend income of US\$50,000 thousand received from the Company's subsidiary Nostrum Oil & Gas Coöperatief U.A. (2014: loss of US\$406 thousand).

9. PAYABLES TO RELATED PARTIES

As at 31 December 2015 amounts payable to related parties include US\$25,433 thousand represented by arrangements with the Company's subsidiary Nostrum Oil & Gas Coöperatief U.A. in respect of the Nostrum employee benefit trust (2014: US\$26,333 thousand) and US\$ 222 thousand represented by the loan payable to the Company's subsidiary

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

Nostrum Oil & Gas Coöperatief U.A. in respect of the consideration payable for the acquisition of Nostrum Oil & Gas B.V. (2014: nil).

10. AUDITORS' REMUNERATION

The fees for the audit of the Company amount to US\$10 thousand (2014: US\$12 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 directors in respect of qualifying services for the financial year ended 31 December 2015 was US\$2,678 thousand (2014: US\$4,992 thousand) of which, US\$650 thousand (2014: US\$325 thousand) was paid by the Company to the non-executive directors. The remaining amount was paid by other group companies to the executive directors. The directors do not believe that it is practicable to apportion these amounts between their services as directors of the Company and their services as directors of the Group.

Full details of individual directors' remuneration are given in the directors' remuneration report on pages 90-97 of the annual report.

12. RELATED PARTY TRANSACTIONS

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

During the year ended 31 December 2015 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\$5,984 thousand (2014: US\$2,252).

As at 31 December 2015 receivables from related parties include US\$25,433 thousand from Nostrum employee benefit trust (2014: US\$25,433 thousand), and US\$1,105 thousand from Nostrum Oil & Gas Coöperatief U.A. (2014: US\$ 934 thousand).

As at 31 December 2015 liabilities to related parties include US\$25,655 thousand payable to Nostrum Oil & Gas Coöperatief U.A. (2014: US\$26,333 thousand) .

13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Foreign currency risk

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

Credit risk

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

The Company places its US Dollar and Euro denominated cash with ING with a credit rating of A1 (upper medium grade) from Moody's rating agency at 31 December 2015.

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

Parent company financial statements

Notes to the Parent company financial statements CONTINUED

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.

14. EVENTS AFTER THE REPORTING PERIOD

The loan of US\$ 222 thousand to Nostrum Oil & Gas Coöperatief U.A. in respect of the consideration amount payable for the acquisition of Nostrum Oil & Gas B.V. has been repaid in full on 22 February 2016.

Investor information

Investor information

Investor relations
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Corporate headquarters

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The Amsterdam

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VAT number: NL 85 00 288 B01
Registration number: KvK 59058323

Registered office

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53-54 Grosvenor Street
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United Kingdom

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Tel: +44 20 3740 7430
Fax: +44 20 7493 3606

Registered number: 8717287
Place of registration: England and Wales

Zhaikmunai LLP registered office

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59/2, Eurasia Prospect
Uralsk, 090002
Republic of Kazakhstan

Astana representative office

Zhaikmunai LLP
Office 319, 2/2
Kurman Batyr Prospect
Astana, 010000
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Auditor

Ernst & Young LLP
London
United Kingdom

Legal counsel

White & Case LLP
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United Kingdom

Registrar

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Website and electronic communications details

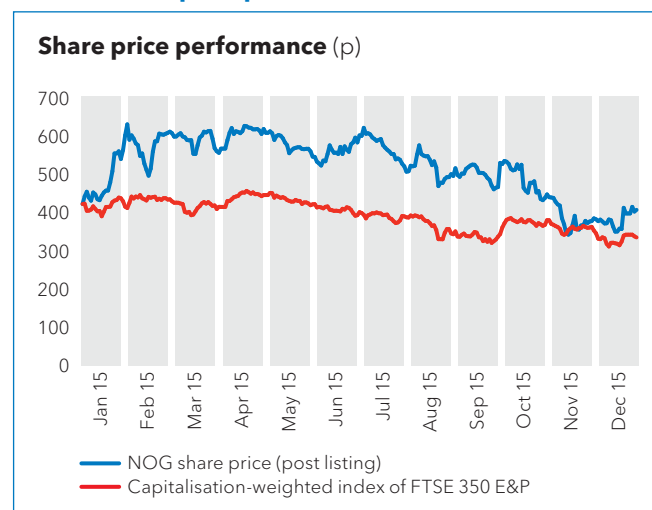
Nostrum's website provides valuable information on the activities of the Company, both regulatory and other, as well as the opportunity to sign up to our mailing list to ensure stakeholders are kept up to date with the most recent information. Please see www.nog.co.uk for more information.

In addition, to reduce the impact on the environment, we encourage all shareholders to receive the shareholder communications (including annual reports and notices of meetings) electronically.

Share price information

Exchange	London Stock Exchange
Ticker	NOG.LN
Reuters code	NOGN.L
ISIN code	GB00BGP6Q951

Historic share price performance



- Earnings per share US\$(0.51)
- Book value per share US\$4.19

Financial calendar - 2016

2016 Q1	Operational update	Wednesday 27 April
2016 Q1	Financial results	Wednesday 25 May
2016 H1	Operational update	Wednesday 27 July
2016 H1	Financial results	Tuesday 30 August
2016 Q3	Operational update	Wednesday 26 October
2016 Q3	Financial results	Wednesday 23 November

Investor information continued

Equity financing

Equity raising	Timing	Amount	Lead manager
IPO	March 2008	US\$100m	ING Bank NV
Secondary equity issue	September 2009	US\$300m	ING Bank NV Mirabaud Securities Renaissance Securities

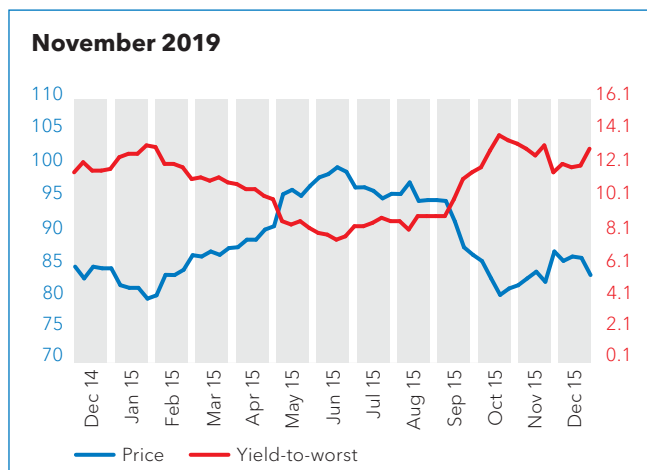
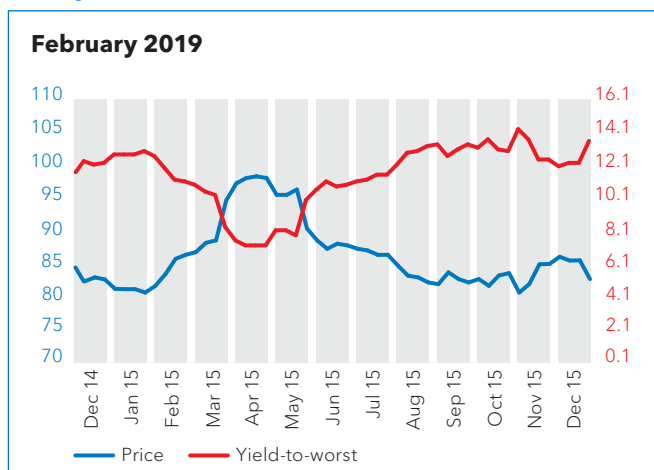
Debt financing

Current outstanding bond issues for Nostrum Oil & Gas are provided in the following table:

Settlement	Maturity	Currency	Amount (m)	Coupon	Listing	RegS	Rule 144A
Feb 2014	Feb 2019	USD	400	6.375%	Dublin/Almaty	CUSIP N964884AA2 ISIN USN64884AA29 Common Code 103302323	66978CAA0 US66978CAA09 103302307
Nov 2012	Nov 2019	USD	560	7.125%	Dublin/Almaty	CUSIP N97716AA7 ISIN USN97716AA72 Common Code 085313177	98953VAA0 US98953VAA08 085259776

For the summary of certain covenants relating to 2012 Notes and 2014 Notes, please see the consolidated financial statements.

Bond yield information



Credit ratings

Nostrum Oil & Gas is currently being rated by two credit rating agencies: Standard and Poor's and Moody's Investor Services:

Agency	Rating	Outlook
Standard and Poor's	B	Stable
Moody's	B2	Negative

Zhaikmunai LLP's equity is not listed and it is a wholly-owned indirect subsidiary of Nostrum. Nostrum's equity is listed on the premium segment of the London Stock Exchange. The Group's investor relations programme aims at developing an open and transparent communication between the Group (including Zhaikmunai LLP) and its shareholders, providing information about the financial and operational performance of the Company. The policy of the investor relations department of the Group is to ensure all questions that any of the Group's stakeholders have are dealt with in a timely manner based on the underlying principles that the Group is viewed as being approachable and responsive to any potential queries.

Glossary

3-D seismic survey	Seismic survey that is acquired, processed and interpreted to yield a three-dimensional picture of the subsurface.
2010 Notes	10.5% notes issued in 2010.
2012 Notes	7.125% notes issued in 2012.
2014 Notes	6.375% notes issued in 2014.

A

Anti-Monopoly Agency	The Republic of Kazakhstan anti-monopoly authority.
API	American Petroleum Institute.
API gravity	The industry standard method of expressing specific density of crude oil or other liquid hydrocarbons as recommended by the American Petroleum Institute. Higher API gravities mean lower specific gravity and lighter oils. When the API gravity is greater than 10, the product is lighter and floats on water; if it is less than 10, it is heavier than water and sinks. Generally speaking, oil with an API gravity between 40 and 45 commands the highest prices.
appraisal well	A well or wells drilled to follow up a discovery and evaluate its commercial potential.
aquifer	Water bearing structure.
associated gas	Gas, which occurs in crude oil reservoirs in a gaseous state.
Authorised Oil and Gas Agency	The State's authorised agency in the area of oil and gas, acting on the instructions of the President and the Government, currently, the MOE.

B

barrel/bbl	The standard unit of volume: 1 barrel = 159 litres or 42 US gallons.
basin	A large area holding a thick accumulation of sedentary rock.
bcf	Billion cubic feet, a billion defined as 1,000,000,000. On average 1 bcf of sales gas = 1.055 petajoules.
boe	Barrels of (crude) oil equivalent, i.e. the factor used by Nostrum to convert volumes of different hydrocarbon production to barrels of oil equivalent.
bopd	Barrels of crude oil per day.
boepd	Barrels of (crude) oil equivalent per day.
bscf/d	Billion standard cubic feet per day.
btu	British Thermal Unit - measurement unit for energy.

C

C₁	Methane.
C₂	Ethane.
C₃	Propane.
C₄	Butane.
C₅	Pentane.
C₆	Hexane.
C₇	Heptane.
CAC	A pipeline with two branches originating in Turkmenistan and meeting in Kazakhstan before crossing into Russia and connecting to the Russian pipeline system, with an annual throughput capacity of 60.2 billion cubic metres.
cash	Cash and cash equivalents including current and non-current investments.
casing	Relatively thin-walled, large diameter steel rods that are screwed together to form a casing string, which is run into a core hole or well and cemented in place.
Caspian region	Parts of countries adjacent to the Caspian Sea.

Glossary continued

Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
CNG	Compressed natural gas.
CO₂	Carbon dioxide.
coal	A sedimentary rock composed primarily of carbonaceous material formed by plant remains transformed by heat and time.
Common Units	Limited partner interests each representing a fractional part of the rights and obligations of all limited partners of Nostrum Oil & Gas LP.
Competent Authority	The State's central executive agency, designated by the Government to act on behalf of the State to exercise rights relating to the execution and performance of subsoil use contracts, except for contracts for exploration and production of commonly occurring minerals. This is the Ministry of Energy of the Republic of Kazakhstan (MOE) with respect to the oil and gas industry.
Competition Law	The Kazakhstan Law "On Competition" (No 112-IV, dated 25 December 2008, which came into effect on 1 January 2009).
condensate	Hydrocarbons which are gaseous in a reservoir, but which condense to form a liquid as they rise to the surface where the pressure is much less.
contingent resources	Deposits that are estimated, on a given date, to be potentially recoverable from known accumulations but that are not currently considered commercially recoverable.
cost oil	Cost oil denotes an amount of crude oil produced in respect of which the market value is equal to Nostrum's monthly expenses that may be deducted pursuant to the PSA (include all operating costs, exploration costs and development costs up to an annual maximum of 90% of the annual gross realised value of hydrocarbon production).
crude oil	A mixture of liquid hydrocarbons of different molecular weights.
cuft	Cubic feet.

D

DAF	Sales made on delivery at frontier terms.
development	During development, engineering teams design the most efficient development options to build wells and associated infrastructure to produce hydrocarbons from a gas field within a proven productive reservoir (as defined by exploration and appraisal activities). The three phases of development are exploration and appraisal, development and production.
Development Plans	The development plans approved by the SCFD in March 2009.
Directors or Board	The directors of the Company.
downstream	Downstream refers to all petroleum operations occurring after delivery of crude oil or gas to refinery or fractionation plant.
downtime	Downtime is all time during which an operation is postponed, usually due to bad weather or mechanical failure.
drilling fluid/mud	A mixture of water and drilling additives used to cool the drill bit, lift cuttings and control swelling clays. Drilling fluid is stored in a sump during drilling.
dry gas	Dry gas is natural gas (methane and ethane) with no significant content of heavier hydrocarbons. It is gaseous at subsurface and surface conditions.

E	
E&P	Exploration and production.
EBIT	Earnings before interest and tax.
EBITDA	Profit Before Tax non recurring expenses + finance costs + foreign exchange loss/(gain) + ESOP + depreciation - interest income + other expenses/(income).
ecological risk	Environmental stressors such as chemicals, land change, disease, invasive species and climate change.
EEA	European Economic Area.
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
ethane	Saturated hydrocarbon (alkane) with two carbon atoms in its molecule (C ₂ H ₆). The second member of the paraffin series. A gas under normal conditions. A basic feedstock for petrochemical industries.
Exploration Permit	The geological allotment (Annex to the Licence) issued by the Competent Authority to Zhaikmunai LLP.
exploration phase	The phase of operations which covers the search for oil or gas by carrying out detailed geological and geophysical surveys followed up where appropriate by exploratory drilling.
exploration well	Well drilled purely for exploratory (information gathering) purposes in a particular area.
F	
farm-in	Transfer of a percentage of an oil or gas permit held by the farmor in return for (partial or complete) delivery of the work program by the farmee(s). Note that this work would normally have had to have been delivered and paid for by the farmor.
farmee	Earns a percentage interest in an oil an gas permit by helping the company that holds the permit to deliver the work program required by permit.
farmor	A farmor holds an oil and gas permit and agrees to work with another company who can deliver the work program required by the permit. In return, the farmee is given a percentage interest in the permit.
farm-out	A contractual agreement with the holder of an oil and gas permit to assign all (or a percentage of) that interest to another party in exchange for delivering the work program required by the permit, or fulfilling other contractually specified conditions.
FCA	Financial Conduct Authority of the United Kingdom.
FCA	Sales made under free carrier terms.
FCA Uralsk	Sales made under free carrier terms according to which Nostrum delivers to the terminal in Uralsk and transportation risk and risk of loss are transferred to the buyer after delivery to the carrier.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition.
FOB	Sales made under free on board terms.
FSMA	The Financial Services and Markets Act 2000 (as amended).
FSU	Former Soviet Union.
G	
gas	Petroleum that consists principally of light hydrocarbons. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.
gas condensate	The mixture of liquid hydrocarbons that results from condensation of petroleum hydrocarbons existing initially in a gaseous phase in an underground reservoir.

Glossary continued

Gas Treatment Facility (GTF)	Facility for the treatment of associated gas and gas condensate resulting in different products (stabilised condensate, LPG and dry gas) for commercial sales. GTU1 refers to the first unit of the Gas Treatment Facility. GTU2 refers to the second unit of the Gas Treatment Facility. GTU3 refers to the third unit of the Gas Treatment Facility.
GDRs geology geophysics	The global depository receipts of Nostrum Oil & Gas LP. The study of rocks. The study of the earth using physics and mathematics. Geophysics uses methods such as seismic surveying, magnetic and gravity imaging to explore the subsurface.
GJ GJ/d Government greenhouse gas	Gigajoule. Gigajoules per day. The government of Kazakhstan. A gas that contributes to the greenhouse effect by absorbing infrared radiation, e.g. carbon dioxide.
gross (oil and gas) wells/acres	Gross oil and gas wells or gross acres are the total number of wells or acres in which the Group has an interest, without regard to the size of that interest.
Group	Nostrum Oil & Gas PLC and, as the context requires, its direct and indirect consolidated subsidiaries.
<hr/>	
H HSE hydrocarbons hydrocarbon reserves	Health, safety and environment. Compounds formed from the elements hydrogen (H) and carbon (C), which may be in solid, liquid or gaseous form. Hydrocarbon reserves have been proved, and are referred to as 3P, 2P and 1P depending on the likelihood of commercial production from that field.
<hr/>	
I IAS IFRS INED Incoterms	International Accounting Standards. International Financial Reporting Standards. Independent Non-Executive Director. A globally accepted set of contractual terms for domestic and international trade (Incoterms 2010), published by the International Chamber of Commerce (ICC).
<hr/>	
J joint venture joule	A joint venture is a set of trading entities who have agreed to act in concert to share the cost and rewards of exploring for and producing oil or gas from a permit. Unit of energy used for measuring gas volumes. <ul style="list-style-type: none"> • megajoules = 10⁶ • gigajoules = 10⁹ • terrajoules = 10¹² • petajoules = 10¹⁵
<hr/>	
K Kazakhstan KASE KazMunaiGas KazMunaiGas Exploration Production (KMG EP) kBOE km Kyoto Protocol	The Republic of Kazakhstan. Kazakhstan Stock Exchange. State-owned oil and gas company of Kazakhstan. Onshore oil and gas exploration production subsidiary of KazMunaiGas. Thousand barrels of oil equivalent. Kilometre(s). The Kyoto Protocol to the United Nations Framework Convention on Climate Change.
<hr/>	

L

Licence	Licence series MG No. 253-D (Oil) issued to Zhaikmunai LLP by the Government on 26 May 1997, including amendments.
Licensing Law	The Kazakhstan Law "On Licensing" (No. 214, dated 11 January 2007, as amended, which came into effect on 9 August 2007).
liquids	A sales product in liquid form produced as a result of further processing by the onshore plant; for example, condensate and LPG.
LNG	Liquefied natural gas. Comprises mainly methane.
Listing Rules	The listing rules made by the Financial Services Authority (FSA) under section 73A of the FSMA.
London Stock Exchange or LSE	London Stock Exchange.
LPG	Liquefied petroleum gas, the name given to the mix of propane and butane in their liquid state.

M

m	Metre(s).
m³	Cubic metre.
m³/d	Cubic metres per day.
man-hours	An hour regarded in terms of the amount of work that can be done by one person within this period.
mbbbls	Thousands of barrels of crude oil.
mmbbls	Millions of barrels of oil.
MJ	Megajoules.
mboe	Thousands of barrels of oil equivalent.
mmboe	Millions of barrels of oil equivalent.
mmcm	Millions of cubic metres.
MEP	The Kazakhstan Ministry of Environmental Protection.
MINT	The Kazakhstan Ministry of Industry and New Technologies.
MOE	The Ministry of Energy of Kazakhstan, the State's central executive agency, acting based upon its Regulations approved by the Resolution of the Government, which is currently the Competent Authority in oil and gas and the Authorised Oil and Gas Agency.
mmscf/d	Million standard cubic feet per day (for dry gas).
mscf	One thousand cubic feet.
mtpa	Million tonnes per annum.
multilateral well	A well with several small branches (laterals) drilled out from the main well.

N

NBK	National Bank of Kazakhstan.
NED	Non-executive director.
Nostrum	Nostrum Oil & Gas PLC, the listed company of the Group.
Nostrum Oil & Gas PLC	Registered Office: Corporate Headquarters: 53-54 Grosvenor St Gustav Mahlerplein 23B London 1082 MS Amsterdam W1K 3HU The Netherlands UK

O	
operator	The individual or company responsible for conducting oil and gas exploration, development and production activities on an oil and gas lease or concession on its own behalf and, if applicable, for other working interest owners, generally pursuant to the terms of a joint operating agreement or comparable agreement.
<hr/>	
P	
P&A	Plugged and abandoned - to place a cement plug into a dry hole or non-economic well and abandon the well.
Partnership	Nostrum Oil & Gas LP, which was the holding company of the Group before the reorganisation.
petroleum	Hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.
PJ	Petajoule.
PJ/a	Petajoules per annum.
PRMS	2007 Petroleum Resources Management System, which are a set of definitions and guidelines designed to provide a common reference for the international petroleum industry, sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers.
processing	processing of saleable product from hydrocarbons sourced from oil wells and gas wells
Production Permit	The mining allotment (Annex to the Licence), issued by the Competent Authority to Zhaikmunai LLP.
production well	A well that has been drilled for producing oil or gas, or one that is capable of production once the producing structure and characteristics are determined.
profit oil	Profit oil is the difference between cost oil and the total amount of crude oil produced each month, which is shared between the State and Zhaikmunai LLP.
prospective resources	Quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.
Proven Reserves (1P)	Proven or proved reserves (1P) are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.
Probable Reserves	Probable reserves are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Probable Reserves. Proven plus probable reserves are referred to as 2P.
Possible Reserves	Possible reserves are those reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves. Proven, probable and possible reserves are referred to as 3P.
PSA or Production Sharing Agreement	The contract for additional exploration, production and production sharing of crude oil hydrocarbons in the Chinarevskoye oil and gas condensate field in the West-Kazakhstan oblast No. 81, dated October 31, 1997, as amended, between Zhaikmunai LLP and the Competent Authority (currently MOE), representing the State.
PSA Law	Kazakhstan Law No. 68-III "On Production Sharing Agreements for Constructing Offshore Petroleum Operations", dated 8 July 2005.

Q

QIB A qualified institutional buyer as defined in Rule 144A under the Securities Act.

R

recovery The second stage of hydrocarbon production during which an external fluid such as water or gas is injected into the reservoir to maintain reservoir pressure and displace hydrocarbons towards the wellbore.

reservoir A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

RoK Republic of Kazakhstan.

royalty An interest in an oil and gas property entitling the owner to a share of oil or gas production free of costs of production.

Ryder Scott Independent petroleum consultants Ryder Scott Company LP, headquartered at 621 Seventeenth Street, Suite 1550, Denver, Colorado, 80293, USA.

S

sales gas Natural gas that has been processed by gas plant facilities and meets the required specifications under gas sales agreements.

scf Standard cubic feet.

scfd Standard cubic feet per day.

SEC The United States Securities and Exchange Commission.

seconded A person who is transferred temporarily to alternative employment, or seconded

Securities Act The United States Securities Act of 1933, as amended.

seismic The use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures.

shut in Cease production from a well.

sidetrack well A well or borehole that runs partly to one side of the original line of drilling.

social infrastructure Assets that accommodate social services, i.e. hospitals, schools, community housing etc.

SPE Society of Petroleum Engineers.

spud The commencement of drilling operations.

stakeholder A person or entity who may affect, be affected by or perceive themselves to be affected by an entity's decisions or activities.

State Republic of Kazakhstan.

State Acceptance Commission A State Acceptance Commission of the Republic of Kazakhstan is the competent body authorised to, among other things, confirm that permanent operations can commence for certain facilities, including the Gas Treatment Facility.

State Share The share of hydrocarbon production due (in cash or kind) to the Republic of Kazakhstan under the PSA.

- Old Subsoil Law The Kazakhstan Law "On Subsoil and Subsoil Use" (No. 2828, dated 27 January 1996, as amended), recently replaced with the New Subsoil Law.

- New Subsoil Law The most recent Kazakhstan Law "On Subsoil and Subsoil Use" (No. 291-IV, dated 24 June 2010 as amended).

Substitution The ability for Zhaikmunai LLP to elect to undertake, upon satisfaction of certain conditions, to be substituted for the Issuer as Issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes.

suspended well A suspended well is not currently used for assessment or production and has been shut in. It will either be returned to assessment or production or plugged and abandoned.

Glossary continued

T

Takeover Code	The UK City Code on Takeovers and Mergers.
tcf	One trillion cubic feet.
Tenge or KZT	The lawful currency of the Republic of Kazakhstan.
titleholder	The titleholder is the party to whom a permit is granted by the government.
TJ	Terajoule.
tonne	Metric tonne.
trillion	10 to the power of 12.

U

UK Corporate Governance Code	Set of principles of good corporate governance for listed companies promulgated by the UK Financial Reporting Council.
UNGG	Uralsk Oil and Gas Explorations Expedition. The Government of the Kazakh Soviet Socialist Republic decided in March 1960 to create a consortium "Uralskneftegazrazvedka" for conducting oil and gas exploration in the Uralsk region. In the 60s, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed "Uralsk Enlarged Oil-Gas Exploration Expedition."
US Dollars or US\$	The lawful currency of the United States of America.

W

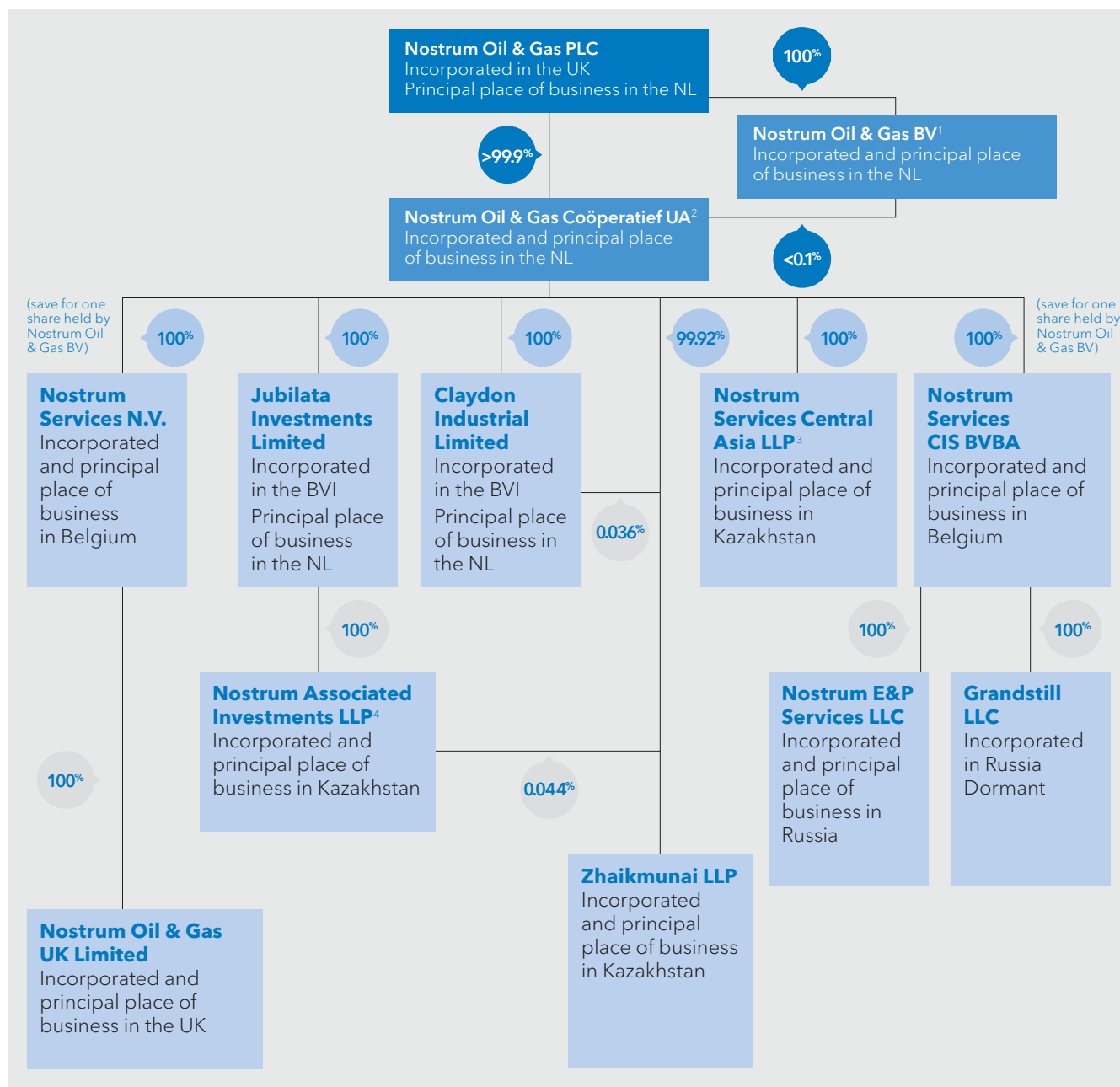
well	A hole drilled to test an unknown reservoir or to produce from a known reservoir.
wellhead	The wellhead includes the forged or cast steel fitting on top of a well (welded or bolted to the top of the surface casing), as well as casingheads, tubingheads, Christmas tree, stuffing box and pressure gauges.
workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
work program	A schedule of works agreed between parties (permit holders, farmees and government) contracted to be delivered in a defined time frame.
Water Code	The Water Code of Kazakhstan (No. 481, dated 9 July 2003, as amended).
WUP or Water Use Permit	The permit granted by the relevant Government authority with respect to water use pursuant to the Water Code.

Z

Zhaikmunai LLP	Principal operating entity of the Group
	Corporate Office: Representative Office:
	59/2, Eurasia Prospect Office 319
	Uralsk, 090002 2/2 Kurman Batyr Prospect
	Republic of Kazakhstan Astana, 010000
	Republic of Kazakhstan

Structure chart

as at 31 December 2015



1 During 2015, Nostrum Oil & Gas Finance BV and Nostrum Oil BV were merged into Nostrum Oil & Gas BV.

2 During 2015, Nostrum Oil Coöperatief UA changed its name to Nostrum Oil & Gas Coöperatief UA.

3 During 2015, Amersham Oil LLP changed its name to Nostrum Services Central Asia LLP.

4 During 2015, Condensate-Holding LLP changed its name to Nostrum Associated Investments LLP.

The above structure chart shows the Group's structure as at 31 December 2015.

The contribution and results of Nostrum Oil & Gas PLC and all its subsidiaries (apart from Zhaikmunai LLP) to the KPIs and results of the Group were insignificant.

Notes



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