Zhaikmunai LLP

Interim condensed financial statements (unaudited)

For the six months ended 30 June 2017

CONTENTS

EY
Building a better working world

«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

Report on review of Interim Financial Information

To the participant and management of Zhaikmunai LLP

Introduction

We have reviewed the accompanying interim condensed financial statements of Zhaikmunai LLP, which comprise the interim statement of financial position as at 30 June 2017 and the related interim statements of comprehensive income for the three and six months then ended, changes in equity and cash flows for the six-month period then ended and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*, (IAS 34). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information of Zhaikmunai LLP is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting.

Ernst & Young LLP

Paul Cohn
Audit Partner

Aigerim Nurkenova
Auditor

Auditor Qualification Certificate No. 0000115 dated 21 September 2012

Gulmira Turmagambetova
General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

28 August 2017

INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

In thousands of US dollars	**Notes**	**30 June 2017 (unaudited)**	31 December 2016 (audited)
Assets			
Non-current assets			
Exploration and evaluation assets	3	**45,401**	44,271
Property, plant and equipment, net	4	**1,858,931**	1,809,431
Restricted cash	8	**6,303**	5,980
Advances for non-current assets	5	**21,849**	28,676
		1,932,484	1,888,358
Current assets			
Inventories		**28,607**	28,326
Trade receivables	7	**20,846**	29,052
Prepayments and other current assets	6	**20,082**	19,668
Derivative financial instruments	19	**6,966**	6,658
Income tax prepayment		**–**	1,062
Cash and cash equivalents	8	**88,267**	85,498
		164,768	170,264
Total assets		**2,097,252**	2,058,622
Equity and liabilities			
Partnership capital and reserves			
Partnership capital	9	**4,112**	4,112
Other reserves		**32,586**	32,586
Retained earnings		**576,251**	556,126
		612,949	592,824
Non-current liabilities			
Long-term borrowings	10	**1,007,128**	1,003,893
Abandonment and site restoration provision		**20,509**	19,635
Due to Government of Kazakhstan		**5,466**	5,631
Deferred tax liability		**338,470**	344,684
		1,371,573	1,373,843
Current liabilities			
Current portion of long-term borrowings	10	**15,098**	15,518
Trade payables	11	**46,745**	43,517
Advances received		**2,056**	1,810
Income tax payable		**16,687**	–
Current portion of due to Government of Kazakhstan		**1,031**	1,289
Other current liabilities	12	**31,113**	29,821
		112,730	91,955
Total equity and liabilities		**2,097,252**	2,058,622

General Director of Zhaikmunai LLP *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 through 18 are an integral part of these interim condensed financial statements

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

In thousands of US dollars	Notes	Three months ended 30 June 2017 (unaudited)	Three months ended 30 June 2016 (unaudited)	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
Revenue					
Revenue from export sales		**63,238**	88,188	**142,405**	136,869
Revenue from domestic sales		**34,915**	1,353	**67,618**	26,590
	13	**98,153**	89,541	**210,023**	163,459
Cost of sales	14	**(48,546)**	(49,103)	**(99,525)**	(96,209)
Gross profit		**49,607**	40,438	**110,498**	67,250
General and administrative expenses	15	**(4,961)**	(4,915)	**(10,116)**	(10,176)
Selling and transportation expenses	16	**(21,586)**	(21,111)	**(37,115)**	(37,264)
Finance costs	17	**(11,714)**	(11,822)	**(23,768)**	(23,508)
Foreign exchange gain/(loss), net		**1,042**	(2,292)	**3,003**	(6,420)
Gain/(loss) on derivative financial instruments	19	**1,098**	(44,287)	**308**	(40,729)
Interest income		**79**	122	**159**	221
Other income		**3,423**	2,340	**5,422**	3,995
Other expenses		**(5,647)**	(3,440)	**(8,132)**	(6,296)
Profit/(loss) before income tax		**11,341**	(44,967)	**40,259**	(52,927)
Current income tax expense		**(10,641)**	(14,118)	**(26,348)**	(14,866)
Deferred income tax benefit		**2,552**	19,112	**6,214**	16,267
Income tax expense	18	**(8,089)**	4,994	**(20,134)**	1,401
Profit/(loss) for the period		**3,252**	(39,973)	**20,125**	(51,526)
Other comprehensive income for the period		**–**	–	**–**	–
Total comprehensive income/(loss) for the period		**3,252**	(39,973)	**20,125**	(51,526)

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 through 18 are an integral part of these interim condensed financial statements.

INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

In thousands of US dollars	Notes	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
Cash flow from operating activities			
Profit/(loss) before income tax		**40,259**	(52,927)
Adjustments for:			
Depreciation, depletion and amortisation	14, 15	**63,556**	63,786
Finance costs	17	**23,768**	23,508
Interest income		**(159)**	(221)
Foreign exchange gain on investing and financing activities		**(565)**	(1,211)
Loss on disposal of property, plant and equipment		**396**	53
Proceeds from derivative financial instruments	19	**–**	24,783
(Gain)/loss on derivative financial instruments	19	**(308)**	40,729
Accrued liabilities		**1,444**	–
Provision for doubtful debts		**1,751**	–
Operating profit before working capital changes		**130,142**	98,500
Changes in working capital			
Change in inventories		**(233)**	2,323
Change in trade receivables		**8,206**	(8,164)
Change in prepayments and other current assets		**(2,128)**	5,324
Change in trade payables		**2,230**	3,565
Change in advances received		**246**	183
Change in due to Government of Kazakhstan		**(774)**	(516)
Change in other current liabilities		**(152)**	(4,907)
Cash generated from operations		**137,537**	96,308
Income tax paid		**(8,422)**	(7,088)
Net cash flows from operating activities		**129,115**	89,220
Cash flow from investing activities			
Interest received		**159**	221
Purchase of property, plant and equipment		**(89,943)**	(98,594)
Exploration and evaluation works		**(1,156)**	(754)
Net cash used in investing activities		**(90,940)**	(99,127)
Cash flow from financing activities			
Finance costs paid		**(35,096)**	(35,393)
Payment of finance lease liabilities		**(379)**	(221)
Transfer to restricted cash		**(323)**	(376)
Consideration paid for repurchased interests		**–**	(494)
Net cash used in financing activities		**(35,798)**	(36,484)
Effects of exchange rate changes on cash and cash equivalents		**392**	1
Net increase/(decrease) in cash and cash equivalents		**2,769**	(46,390)
Cash and cash equivalents at the beginning of the year		**85,498**	134,928
Cash and cash equivalents at the end of the period	8	**88,267**	88,538

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 through 18 are an integral part of these interim condensed financial statements

INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

In thousands of US dollars	Notes	Partnership capital	Other reserves	Retained earnings	Total
As at 31 December 2015 (audited)		4,112	32,440	622,763	659,315
Loss for the period		–	–	(51,526)	(51,526)
Total comprehensive loss for the period		–	–	(51,526)	(51,526)
Surplus on the repurchased and reissued interests		–	146	–	146
As at 30 June 2016 (unaudited)		4,112	32,586	571,237	607,935
As at 31 December 2016 (audited)		4,112	32,586	556,126	592,824
Profit for the period		–	–	**20,125**	**20,125**
Total comprehensive income for the period		–	–	**20,125**	**20,125**
As at 30 June 2017 (unaudited)		**4,112**	**32,586**	**576,251**	**612,949**

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 through 18 are an integral part of these interim condensed financial statements

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL

Overview

Zhaikmunai, a Limited Liability Partnership (the "Partnership" or "Zhaikmunai LLP") was established under the laws of the Republic of Kazakhstan in 1997.

On 28 February 2014 the Partnership acquired in a transaction under common control 1,000 ordinary shares of Nostrum Oil & Gas Finance B.V., representing 100% of its charter capital, from Nostrum Oil & Gas B.V. (formerly known as Zhaikmunai Netherlands B.V.), an entity under control of a common parent. In 2014 the Partnership sold 100% interest in its dormant subsidiaries Zhaikmunai Finance B.V., Zhaikmunai International B.V. and Nostrum Oil & Gas Finance B.V. to Nostrum Oil & Gas B.V.

The Partnership's operations comprise of a single operating segment and 3 (three) additional exploration concessions located in Kazakhstan.

The participants of the Partnership, their shares and changes in the participants' structure are disclosed in *Note 9*. The Partnership does not have an ultimate controlling party.

The registered legal address of the Partnership is: 43/1, Aleksandr Karev street, Uralsk, the Republic of Kazakhstan.

These interim condensed financial statements were authorised for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on 28 August 2017.

Subsoil use rights terms

The Partnership 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 the Partnership 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 the Partnership 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 the Partnership acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the authority now known as the Ministry of Energy (the "MOE") of the Republic of Kazakhstan.

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

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

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2017.

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

Royalty payments

The Partnership 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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

Government "profit share"

The Partnership 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.

Seasonality of operations

The Partnership's operating expenses are subject to seasonal fluctuations, with higher expenses for various maintenance and other oil field services usually performed in the warmer months.

2. BASIS OF PREPARATION

Basis of preparation

These interim condensed financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Partnership's annual financial statements for the year ended 31 December 2016.

New standards, interpretations and amendments adopted by the Partnership

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Partnership's annual financial statements for the year ended 31 December 2016, except for the adoption of the new standards and interpretations effective as of 1 January 2017. None of the amendments that are effective as of 1 January 2017 had significant impact on the Partnership's condensed interim financial statements.

Standards issued, but not yet effective, as at 1 January 2017, have not been adopted early by the Partnership.

3. EXPLORATION AND EVALUATION ASSETS

During the six months ended 30 June 2017 the Partnership had additions to exploration and evaluation assets of US$ 1,130 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (six months ended 30 June 2016: US$ 579 thousand). Interest was not capitalised on exploration and evaluation assets.

4. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Partnership had additions of property, plant and equipment of US$ 113,357 thousand (six months ended 30 June 2016: US$ 188,377 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US$ 15,059 thousand (six months ended 30 June 2016: US$ 15,336 thousand).

As at 30 June 2017 the Partnership's property, plant and equipment of US$ 241,981 thousand are pledged as security for the loans due to Nostrum Oil & Gas B.V. (formerly known as Zhaikmunai Netherlands B.V.) (31 December 2016: US$ 253,570 thousand) *(Note 10).*

See *Note 21* for capital commitments.

5. ADVANCES FOR NON-CURRENT ASSETS

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

In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)
Advances for construction services	**19,607**	20,801
Advances for pipes and construction materials	**2,242**	7,875
	21,849	28,676

Notes to the interim condensed financial statements (continued)

6. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 30 June 2017 and 31 December 2016 prepayments and other current assets comprised the following:

In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)
VAT receivable	**11,466**	10,321
Advances paid	**5,422**	6,085
Other taxes receivable	**2,606**	2,312
Other	**588**	950
	20,082	19,668

Advances paid consist primarily of prepayments made to service providers.

7. TRADE RECEIVABLES

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

As at 30 June 2017 there were neither past due nor impaired trade receivables.

8. CASH AND CASH EQUIVALENTS

In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)
Current accounts in US dollars	**73,155**	68,489
Current accounts in tenge	**11,042**	16,726
Current accounts in other currencies	**4,063**	267
Petty cash	**7**	16
	88,267	85,498

In addition to the cash and cash equivalents in the table above, the Partnership has restricted cash accounts as liquidation fund deposit in the amount of US$ 598 thousand with Sberbank in Kazakhstan and US$ 5,705 thousand with Halyk bank (31 December 2016: US$ 5,980 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Partnership.

9. PARTNERSHIP CAPITAL

The charter capital of the Partnership was formed in tenge and amounted to tenge 600 thousand, equivalent to US$ 4 thousand as at 31 December 2013. As at 31 December 2013, the shares of Nostrum Associated Investments LLP and Claydon Industrial Ltd in the charter capital of the Partnership constituted 55% and 45%, respectively, equivalent to US$ 2.2 thousand and US$ 1.8 thousand, respectively.

On 23 May 2014, Nostrum Oil & Gas Coöperatief U.A. made a contribution to the charter capital of the Partnership in the amount of 749,400 thousand tenge, equivalent to US$ 4,108 thousand.

On 21 April 2016 Zhaikmunai LLP bought back the 0.036% interest in the Partnership formerly held by Claydon Industrial Limited for US$ 220 thousand and the 0.044% interest formerly held by Nostrum Associated Investments LLP for KZT 92,526 thousand (equivalent to US$ 274 thousand).

On 30 June 2016 the Partnership sold the repurchased interest of 0.08% to Nostrum Oil & Gas Coöperatief U.A. for US$ 640 thousand. The surplus on the sale was recorded in other reserves. As the result of the transactions Nostrum Oil & Gas Coöperatief U.A. became the sole participant of the Partnership.

Notes to the interim condensed financial statements (continued)

10. BORROWINGS

Borrowings comprise the following as at 30 June 2017 and 31 December 2016:

In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)
Notes issued in 2012 and maturing in 2019	**552,983**	550,518
Notes issued in 2014 and maturing in 2019	**407,374**	406,715
Nostrum Oil & Gas B.V.	**61,000**	61,000
Finance lease liability *(Note 21)*	**869**	1,178
	1,022,226	1,019,411
Less amounts due within 12 months	**(15,098)**	(15,518)
Amounts due after 12 months	**1,007,128**	1,003,893

2012 Notes

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

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

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

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

Period	**Redemption price**
2016	103.56250%
2017	101.78125%
2018 and thereafter	100.00000%

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

2014 Notes

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

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

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

Notes to the interim condensed financial statements (continued)

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

Period	Redemption price
2017	103.1875%
2018 and thereafter	100.0000%

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

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

Covenants contained in the 2012 Notes and the 2014 Notes

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

(i) Incur or guarantee additional indebtedness and issue certain preferred stock;

(ii) Create or incur certain liens;

(iii) Make certain payments, including dividends or other distributions;

(iv) Prepay or redeem subordinated debt or equity;

(v) Make certain investments;

(vi) Create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to Nostrum Oil & Gas plc or any of its restricted subsidiaries;

(vii) Sell, lease or transfer certain assets including shares of restricted subsidiaries;

(viii) Engage in certain transactions with affiliates;

(ix) Enter into unrelated businesses; and

(x) 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.

Loans due to Nostrum Oil & Gas B.V.

On 1 July 2008 the Partnership signed a loan agreement with Frans van der Schoot B.V. under which the latter provided the Partnership with a US$ 90,276 thousand loan at an annual interest rate of two times LIBOR.

On 15 September 2009 Frans van der Schoot B.V. provided an additional loan of US$ 261,650 thousand at then prevailing interest rate of 2.6% per year. On 22 December 2010, a portion of this loan amounting to US$ 51,926 thousand was repaid.

On 19 October 2010, amendments to the loan agreement were made according to which the interest rate was increased from 2.6% to 10% and the maturity date was moved to 31 December 2015.

On 1 January 2013, amendments to the loan agreement were made according to which the interest rate was decreased from 10% to 6.625% and the maturity date was moved to 31 December 2019.

The outstanding balance of the loan as at 30 June 2017 has an interest rate of 6.625% (31 December 2016: 6.625%).

Notes to the interim condensed financial statements (continued)

In accordance with the decisions of the Annual General Meeting of the Partnership on 28 June 2013 the Partnership on 3 July 2013 made an early repayment of the part of the loan in the amount of US$ 60,000 thousand to Nostrum Oil & Gas B.V. On 23 December 2013 the Partnership made another early repayment of US$ 30,000 thousand to Nostrum Oil & Gas B.V. On 19 May 2014 the Partnership made an early repayment of US$ 104,000 thousand. On 13 May 2015 the Partnership made an early repayment of US$ 45,000 thousand.

11. TRADE PAYABLES

Trade payables comprise the following as at 30 June 2017 and 31 December 2016:

In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)
Tenge denominated trade payables	**18,823**	22,516
US dollar denominated trade payables	**17,083**	11,637
Euro denominated trade payables	**8,005**	8,087
Russian rouble denominated trade payables	**2,834**	1,277
	46,745	43,517

12. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 30 June 2017 and 31 December 2016:

In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)
Training obligations accrual	**11,859**	12,018
Taxes payable, other than corporate income tax	**6,002**	6,645
Accruals under the subsoil use agreements	**7,905**	6,462
Due to employees	**3,390**	2,739
Other current liabilities	**1,957**	1,957
	31,113	29,821

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.

13. REVENUE

	Three months ended 30 June		**Six months ended 30 June**	
In thousands of US dollars	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Revenue from oil and gas condensate sales	**63,298**	62,604	**136,119**	106,326
Revenue from gas and LPG sales	**34,855**	26,937	**73,904**	57,133
	98,153	89,541	**210,023**	163,459

During the six months ended 30 June 2017 the revenue from sales to three major customers amounted to US$ 98,826 thousand, US$ 53,557 thousand and US$ 20,996 thousand, respectively (six months ended 30 June 2016: three major customers: US$ 41,347 thousand, US$ 33,816 thousand and US$ 25,167 thousand, respectively).

The Partnership’s exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.

Notes to the interim condensed financial statements (continued)

14. COST OF SALES

	Three months ended 30 June		Six months ended 30 June	
In thousands of US dollars	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Depreciation, depletion and amortisation	**30,735**	32,433	**62,543**	62,916
Repair, maintenance and other services	**4,679**	5,269	**9,923**	10,514
Royalties	**3,664**	2,916	**7,823**	4,169
Payroll and related taxes	**3,053**	2,835	**6,271**	5,467
Other transportation services	**1,903**	1,532	**3,779**	3,356
Management fees	**1,852**	970	**3,493**	1,856
Materials and supplies	**1,563**	859	**2,899**	1,921
Government profit share	**871**	576	**1,890**	899
Well workover costs	**433**	172	**912**	1,337
Environmental levies	**97**	90	**178**	215
Change in stock	**(63)**	1,296	**(202)**	3,160
Other	**(241)**	155	**16**	399
	48,546	49,103	**99,525**	96,209

15. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 June		Six months ended 30 June	
In thousands of US dollars	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Payroll and related taxes	**1,536**	1,643	**3,253**	3,164
Depreciation and amortisation	**498**	479	**1,013**	870
Management fees	**873**	1,067	**1,789**	2,039
Training	**739**	927	**1,336**	1,895
Insurance fees	**337**	174	**583**	447
Professional services	**87**	(470)	**549**	(179)
Sponsorship	**180**	437	**322**	452
Communication	**100**	158	**199**	285
Materials and supplies	**73**	85	**193**	166
Business travel	**83**	86	**159**	149
Social program	**79**	78	**158**	157
Bank charges	**13**	69	**94**	189
Lease payments	**13**	47	**22**	135
Other taxes	**34**	(25)	**28**	116
Other	**316**	160	**418**	291
	4,961	4,915	**10,116**	10,176

16. SELLING AND TRANSPORTATION EXPENSES

	Three months ended 30 June		Six months ended 30 June	
In thousands of US dollars	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Loading and storage costs	**7,331**	8,682	**15,636**	17,759
Transportation costs	**5,505**	8,159	**11,423**	14,333
Marketing services	**7,938**	3,396	**8,009**	3,431
Payroll and related taxes	**398**	317	**749**	612
Other	**414**	557	**1,298**	1,129
	21,586	21,111	**37,115**	37,264

Notes to the interim condensed financial statements (continued)

17. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
In thousands of US dollars	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Interest expense on borrowings	**11,308**	11,400	**23,122**	22,862
Unwinding of discount on amounts due to Government of Kazakhstan	**258**	258	**351**	370
Unwinding of discount on abandonment and site restoration provision	**107**	113	**167**	225
Unwinding of discount on social obligations liability	**–**	–	**40**	–
Finance charges under finance leases	**41**	51	**88**	51
	11,714	11,822	**23,768**	23,508

18. INCOME TAX EXPENSE

The income tax expense consisted of the following:

	Three months ended 30 June		Six months ended 30 June	
In thousands of US dollars	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Deferred income tax benefit	**(2,552)**	(19,112)	**(6,214)**	(16,267)
Corporate income tax expense	**10,913**	15,387	**26,620**	16,193
Adjustment in respect of the current income tax for the prior periods	**(272)**	(1,269)	**(272)**	(1,327)
Total income tax expense/(benefit)	**8,089**	(4,994)	**20,134**	(1,401)

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the profit or loss before income tax for the six months ended 30 June 2017. Differences between the recognition criteria in IFRS and under the statutory taxation regulations in Kazakhstan give rise to a temporary difference between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the change in temporary differences is recorded at the tax rate of 30% applicable to the Chinarevskoye subsoil use license.

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

19. DERIVATIVE FINANCIAL INSTRUMENTS

During the six months ended 30 June 2017 and the year ended 31 December 2016 the movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)
Derivative financial instruments at fair value as at 1 January	**6,658**	97,100
Proceeds from derivative financial instruments	**–**	(27,198)
Gain/(loss) on derivative financial instruments	**308**	(63,244)
Derivative financial instruments	**6,966**	6,658

Notes to the interim condensed financial statements (continued)

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

Gain 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 22*.

20. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties as at 30 June 2017 and 31 December 2016 consisted of the following:

In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)
Trade receivables and advances paid		
With significant influence over Partnership:		
JSC OGCC KazStroyService	**11,158**	18,063

Accounts payable to related parties as at 30 June 2017 and 31 December 2016 consisted of the following:

In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)
Borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	**61,000**	61,000
Trade payables		
With significant influence over the Partnership:		
JSC OGCC KazStroyService	**8,171**	6,291
Nostrum Services N.V.	**1,398**	1,250
Nostrum Services Central Asia LLP	**57**	201

During the six months ended 30 June 2017 and 2016 the Partnership had the following transactions with related parties:

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

	Three months ended 30 June		**Six months ended 30 June**	
In thousands of US dollars	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Interest paid				
Under common control:				
Nostrum Oil & Gas B.V.	**1,122**	1,122	**2,245**	2,245
Purchases				
With significant influence over the Partnership:				
JSC OGCC KazStroyService	**22,904**	6,663	**29,455**	19,323
Management fees and consulting services				
Under common control:				
Nostrum Services Central Asia LLP	**439**	399	**837**	777
Nostrum Services N.V.	**3,290**	2,356	**6,166**	4,625

The Contractor is an affiliate of Mayfair Investments B.V., which as at 30 June 2017 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 the Partnership and Nostrum Services Central Asia LLP and Nostrum Services N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 262 thousand for the six months ended 30 June 2017 (six months ended 30 June 2016: US$ 195 thousand). Other key management personnel were employed and paid by Nostrum Services Central Asia LLP and Nostrum Services N.V. and their remuneration forms part of management fees and consulting services above.

21. 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, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 June 2017. As at 30 June 2017 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax position will be sustained.

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and clean-up evolve, the Partnership 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 Partnership 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 Partnership 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 Partnership's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at 30 June 2017 the Partnership had contractual capital commitments in the amount of US$ 156,921 thousand (31 December 2016: US$ 96,990 thousand) mainly in respect to the Partnership's oil field exploration and development activities.

Operating lease

In 2010 the Partnership 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.

Notes to the interim condensed financial statements (continued)

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

In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)
No later than one year	**7,581**	9,589
Later than one year and no later than five years	**19,004**	28,795

Lease expenses of railway tank wagons for the six months ended 30 June 2017 amounted to US$ 4,246 thousand (six months ended 30 June 2016: US$ 6,705 thousand).

Finance lease

On 12 April 2016 the Partnership entered into a finance lease agreement for the main administrative office in Uralsk for a period of 20 years for US$ 66 thousand per month. As at 30 June 2017 the finance lease prepayment amounted to US$ 12,151 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	30 June 2017 (unaudited)		**31 December 2016 (audited)**	
In thousands of US dollars	**Minimum payments**	**Present value of payments**	Minimum payments	Present value of payments
No later than one year	**198**	**191**	525	496
Later than one year and no later than five years	**561**	**348**	561	349
Later than five years	**1,968**	**330**	2,039	333
Total minimum lease payments	**2,727**	**869**	3,125	1,178
Less amounts representing finance charges	**1,858**	**–**	1,947	–
Present value of minimum lease payments	**869**	**869**	1,178	1,178

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement No. 9), the Partnership is obliged to:

(i) Spend US$ 300 thousand per annum to finance social infrastructure;

(ii) Make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and

(iii) Adhere to a spending schedule on education which lasts until (and including) 2020.

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

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

(i) Spend US$ 1,000 thousand for funding of development of Astana city;

(ii) Reimburse historical costs of US$ 383 thousand to the Government upon commencement of production stage;

(iii) Fund liquidation expenses equal to US$ 96 thousand; and

(iv) Spend US$ 1,250 thousand to finance social infrastructure.

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

(i) Invest at least US$ 19,643 thousand for exploration of the field during the exploration period;

(ii) Fund liquidation expenses equal to US$ 191 thousand.

Notes to the interim condensed financial statements (continued)

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

(i) Invest at least US$ 26,427 thousand for exploration of the field during the exploration period;

(ii) Fund liquidation expenses equal to US$ 259 thousand.

Domestic oil sales

In accordance with Supplement No. 7 to the Contract, the Partnership 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.

22. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	Carrying amount		**Fair value**	
In thousands of US dollars	**30 June 2017 (unaudited)**	31 December 2016 (audited)	**30 June 2017 (unaudited)**	31 December 2016 (audited)
Financial assets measured at fair value				
Derivative financial instruments	**6,966**	6,658	**6,966**	6,658
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(1,021,357)**	(1,018,233)	**(1,044,081)**	(1,017,418)
Finance lease liability	**(869)**	(1,178)	**(1,516)**	(1,799)
Total	**(1,015,260)**	(1,012,753)	**(1,038,631)**	(1,012,559)

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

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until December 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 30 June 2017 and 31 December 2016:

	30 June 2017 (unaudited)	31 December 2016 (audited)
Future price at the reporting date (US$)	**53.53-54.18**	56.82-58.84
Expected volatility (%)	**24.34**	27.33
Risk-free interest rate (%)	**0.84**	0.84
Maturity (months)	**1-8**	1-11

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

Notes to the interim condensed financial statements (continued)

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

There were no movements between levels of fair value of derivative instrument during six months ended 30 June 2017.

	Increase in the assumption	Decrease in the assumption
(Increase)/decrease in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	(1,705)	2,322
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	935	(909)

23. EVENTS AFTER THE REPORTING DATE

Loans due to Nostrum Oil & Gas B.V.

On 5 July 2017 the Partnership made an early repayment of US$ 7,500 thousand to Nostrum Oil & Gas B.V.

2017 Notes

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

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

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

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

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

Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to USD 14,000 thousand.

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

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

As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders USD 390,884 thousand in principal amount of the outstanding 2012 Notes and USD 215,924 thousand in principal amount of the outstanding 2014 Notes. In addition, both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

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

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;

Notes to the interim condensed financial statements (continued)

- 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.