2018 ANNUAL REPORT

ESTABLISHING AN INFRASTRUCTURE HUB

We are an independent multi-field oil and gas company engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin

For more details please visit www.nog.co.uk

STRATEGICALLY POSITIONED AT THE CROSSROADS OF MAJOR CENTRAL ASIAN PIPELINES...

Our advantageous location allows the Group to access multiple export markets to support our operations, including three export pipelines and one rail loading terminal.

2018 Overview

GTU3 MECHANICALLY COMPLETE

Commissioning on track for 2019

BINDING DEAL WITH URAL OIL & GAS LLP

Terms agreed for the processing of third-party hydrocarbons in our state-of-the-art facilities

CONTINUED IMPROVEMENT IN COST REDUCTION

Improved efficiencies leading to a 11.8% reduction in gross operating expenditure

STRONG EBITDA MARGIN

Improved at 59.3%

CONTINUED CASH GENERATION

Low operating costs and a stringent focus on return on capital

PRODUCTION UPDATE

During 2018 we faced a number of issues relating to our reservoirs and drilling, with sales volumes of 29,516 boepd and a 78 mmboe decline in 2P reserves

What sets us apart

A UNIQUE INFRASTRUCTURE FOOTPRINT

We have invested more than US$2 billion since 2004 to create a world-class top-to-tail infrastructure hub in North-western Kazakhstan, which is advantageously placed in proximity to major export routes.

Please read more on page 2.

RESOURCE-RICH SURROUNDINGS

Our licence areas are located in the pre-Caspian basin, an area rich in hydrocarbons. New discoveries in the Northern Area of our Chinarevskoye field and stranded gas assets in the region could provide additional growth potential.

Please read more on page 4.

POTENTIAL FOR FUTURE GROWTH

Low operating costs and more than US$100 million of cash on our balance sheet ensures the Group is in a stable position to execute its drilling programme over the next two years.

Please read more on page 6.

LONG TRACK RECORD OF OPERATING IN KAZAKHSTAN

Our management team has extensive experience in delivering large and complex projects in-country, supported by decades of collective technical, operational and sector knowledge.

Please read more on page 8.

OUR STORY

Nostrum Oil & Gas is an independent oil and gas exploration company based in North-western Kazakhstan, with substantial infrastructure assets and connections to major export destinations.

OUR VISION

To sustainably and responsibly grow our operations to become a leading independent oil and gas exploration and production company in the Former Soviet Union.

OUR STRATEGY

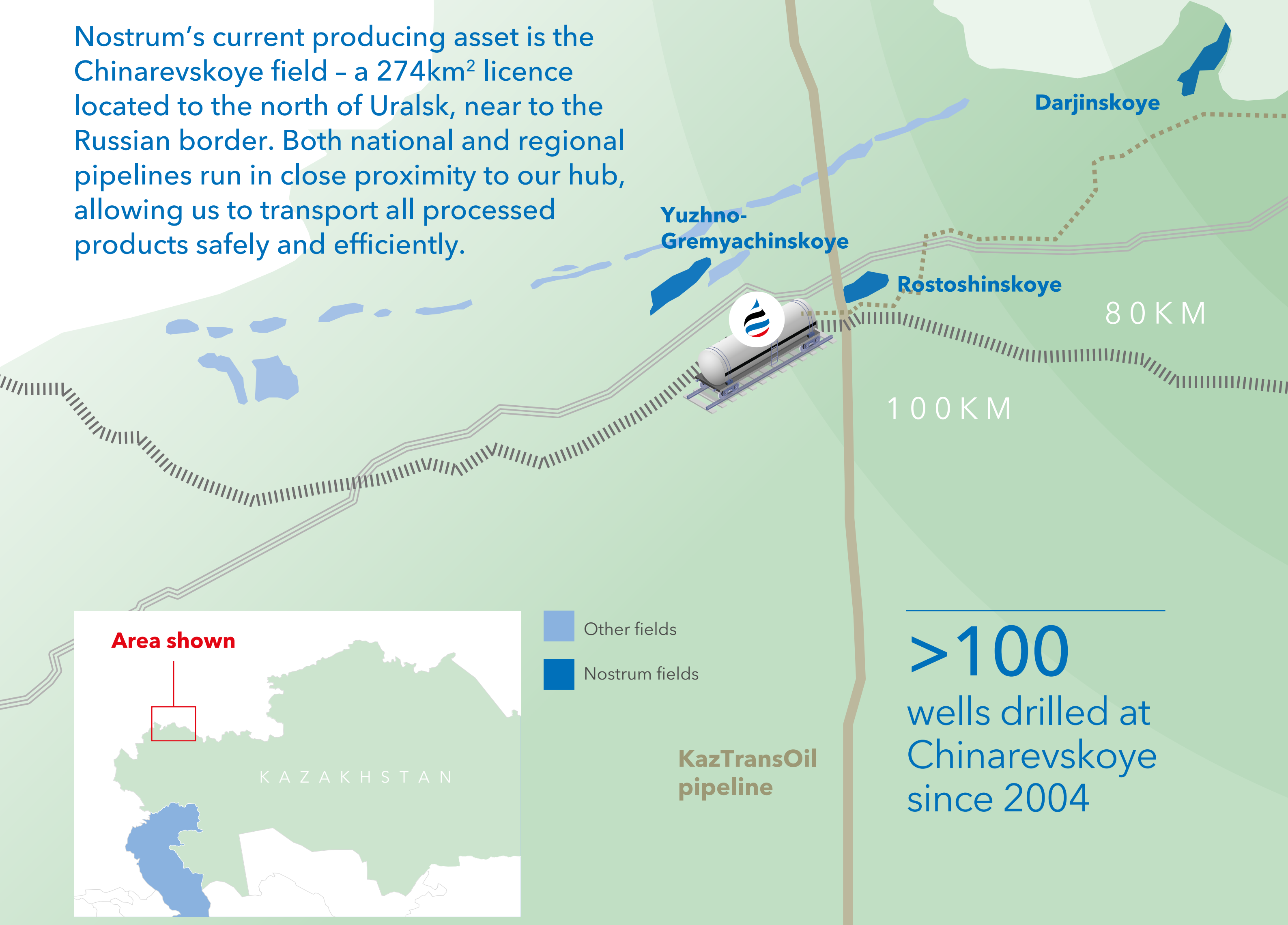
To leverage our unique infrastructure footprint to fully develop the Group's reserve base and the hydrocarbon resources in the region.

Contents

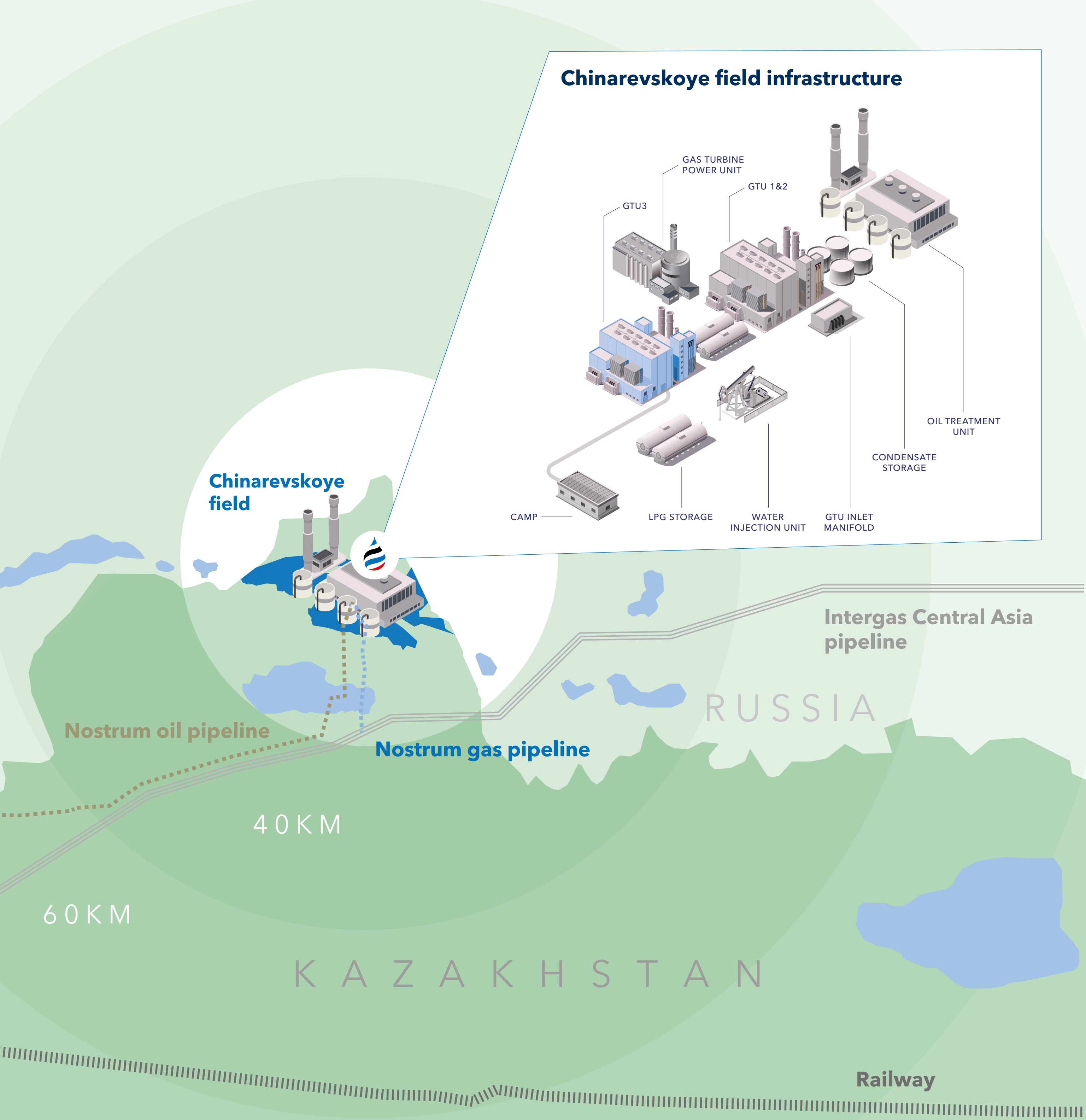
...FORMING AN INFRASTRUCTURE HUB IN NORTH-WESTERN KAZAKHSTAN...

We have invested more than US$2 billion since 2004 to create a world-class top-to-tail infrastructure hub which is ideally positioned to monetise the resources in the region.

Nostrum's current producing asset is the Chinarevskoye field – a 274km² licence located to the north of Uralsk, near to the Russian border. Both national and regional pipelines run in close proximity to our hub, allowing us to transport all processed products safely and efficiently.



>100
wells drilled at Chinarevskoye since 2004



4.2 bcm
raw gas processing capacity

>3mt
annual throughput capacity

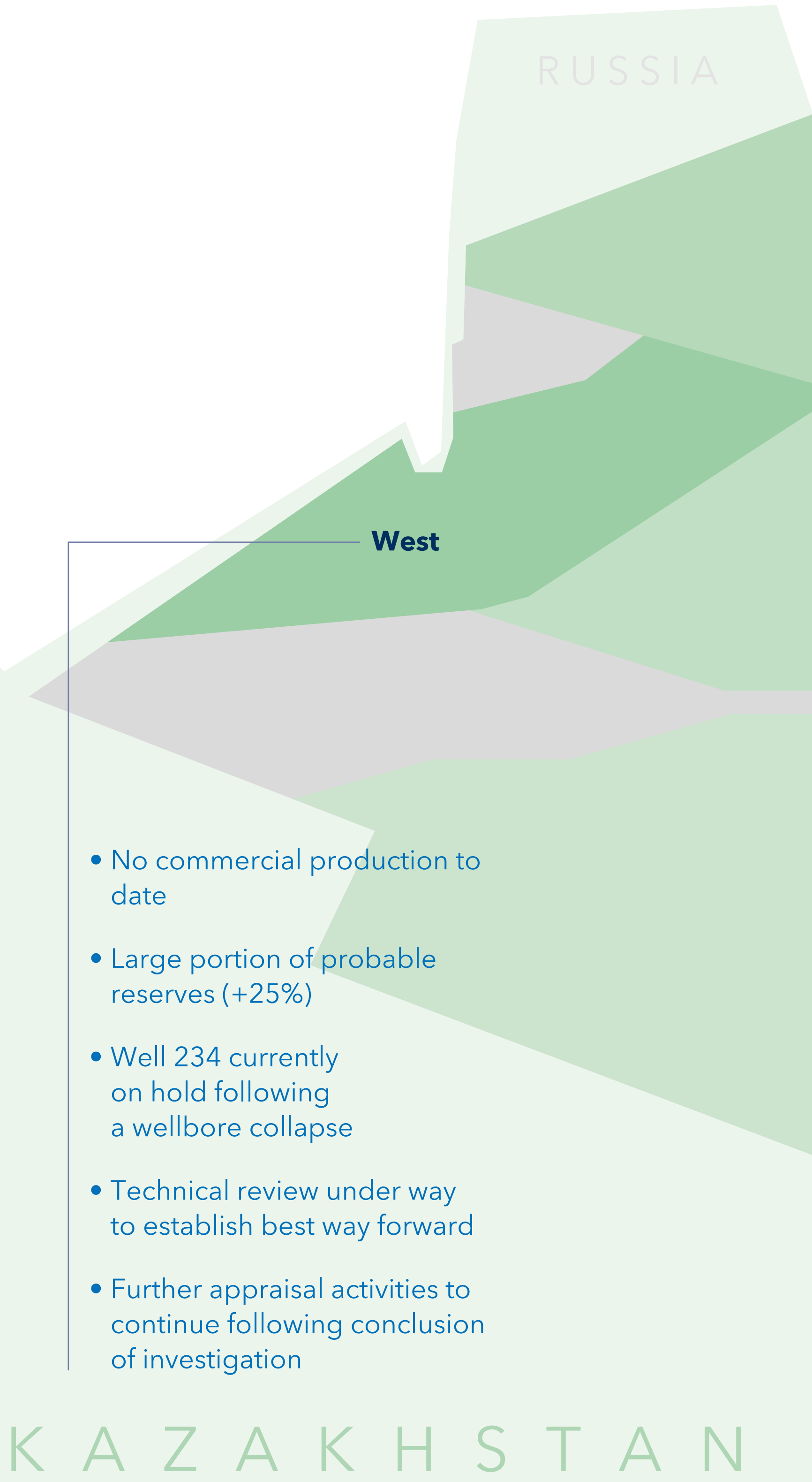
1,790
bed accommodation capacity onsite at field camp

2
rigs onsite for 2019

...IN A RESOURCE-RICH REGION...

The Chinarevskoye field has produced more than 100 million boe since 2007. It is positioned in the pre-Caspian basin, which is the location of numerous gas discoveries. These include the Karachaganak and Rozhkovskoye fields (Ural Oil & Gas LLP) and our neighbouring three licences.

These three licence areas can provide additional growth potential, as well as the Northern Area of Chinarevskoye and other stranded gas assets in the region.



- No commercial production to date
- Large portion of probable reserves (+25%)
- Well 234 currently on hold following a wellbore collapse
- Technical review under way to establish best way forward
- Further appraisal activities to continue following conclusion of investigation

410 mmboe
2P reserves

98 mmboe
1P reserves

Source: Ryder Scott – 1 January 2019

Chinarevskoye field overview: fields within a field

North

- No current reserves booked
- Successful discovery with well 40
- Successful open hole production test during 2018
- +2,000 boepd test production with c. 1,500 boepd condensate
- Well 40 currently shut-in pending licence extension
- Area to be focus of H1 2019 drilling campaign

North-West

- Small amount of production
- Small amount of probable reserves

North-East

- 75 wells drilled since 2007 with no dry holes
- More than 100 mmboe sold over this period
- Overall, the North-east area currently contributes more than 90% of Group sales volumes
- Majority of current proven reserves (+95%)
- Further development following technical study (H2 2019)

South

- Very small proportion of production and reserves

RUSSIA

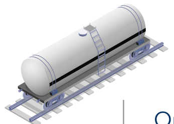
...WITH POTENTIAL FOR FUTURE GROWTH...

Infrastructure developments

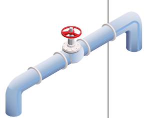
Gas Treatment Facility completed

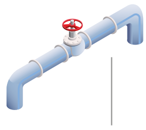
17km dry gas pipeline completed

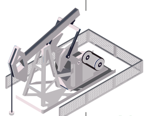
Water injection facilities



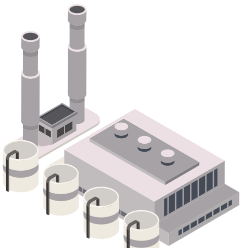
Opening of fully automated rail loading terminal







Nostrum begins reporting on GHG emissions



Oil treatment unit

GTU1&2 project commenced

Independent HSE Compliance Report first undertaken by AMEC

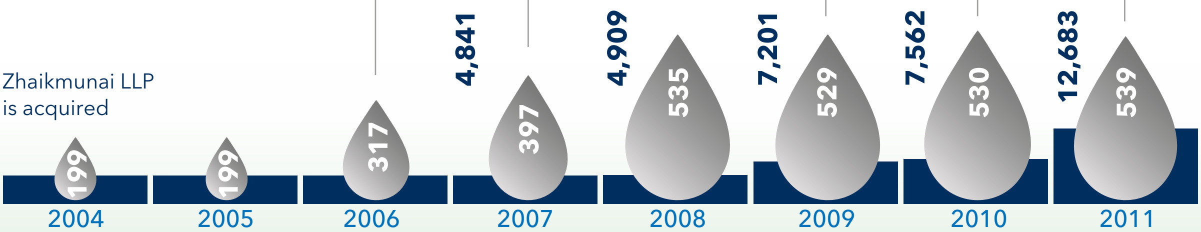
120km crude oil and stabilised condensate pipeline completed between the Chinarevskoye field and the rail terminal, near Uralsk

Gas pipeline

Zhaikmunai LLP is acquired

Sales volumes (boepd)

2P reserves* (mmboe)



Geological developments

Acquisition of Chinarevskoye

Major discovery of condensate reservoirs at Chinarevskoye

Financial developments

US$100m IPO

at $10 per GDR and US$550m borrowing-based facility in place

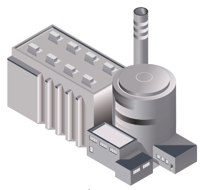
US$450m

bond raised at 10.5%

US$300m

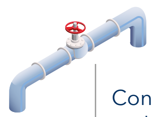
placing at $4 per GDR

Low operating costs and more than US$100 million of cash on our balance sheet ensure the Group is in a stable position to execute its drilling programme over the next two years.



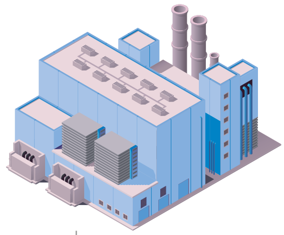
Power plant

Gas lift facilities



Connection to the KazTransOil pipeline completed

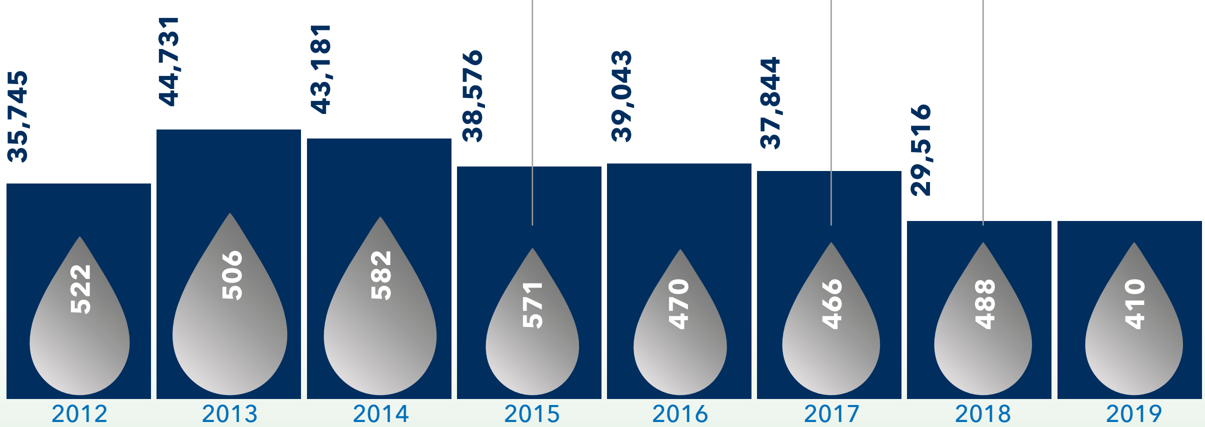
KazTransOil



GTU3 completed

Low Pressure System

Working to better understand and respond to climate change risk



Acquisition of three adjacent licences

Realised target depth on the Company's first exploration well at Rostoshinskoye

URAL OIL & GAS

Ural Oil & Gas offtake agreement

London Stock Exchange

US$560m

bond issued at 7.125% to refinance part of bond debt and for general corporate purposes

Admission to the premium listing category of the London Stock Exchange and FTSE 250

US$725m

of 8.000% senior Notes due 2022 with proceeds used in part to refinance existing Notes

US$400m

bond issued at 7.000% to fully refinance the remainder of the Company's bond debt due 2019

...LED BY A HIGHLY EXPERIENCED SENIOR MANAGEMENT TEAM

Our management team has extensive experience in delivering large and complex projects in Kazakhstan, supported by decades of collective technical, operational and sector knowledge.

We possess world-class infrastructure with the capability to develop our substantial asset base.

Kai-Uwe Kessel
Chief Executive Officer

Efficient operations, a long track record of exports and an acute focus on costs allow the Group to generate cash flow to develop our assets.

Tom Richardson
Chief Financial Officer

With GTU3 complete we will have 4.2 bcm raw gas processing capacity and exceptional regional capability.

Heinz Wendel
Chief Operating Officer

We are utilising our location by consistently assessing the best transportation options and terms available to us at the crossroads of national and international infrastructure.

Arkadi Epifanov
Chief Commercial Officer

We have established an excellent reputation through operating in a responsible and socially conscious manner for the benefit of our stakeholders and the local community.

Daulet Tulegenov
Group QHSE Manager

Nostrum's binding deal with Ural Oil & Gas LLP demonstrates the value of our infrastructure in North-western Kazakhstan.

Sergey Khafizov
Chief Business Development Officer

We are focused on engaging and supporting diverse and skilled employees throughout the business.

Marina Grinevskaya
Chief HR Officer

ENSURING STABILITY AND DELIVERY

> Ensuring operational delivery and meeting our stated targets is the Company's and my number one priority.
>
> Atul Gupta
> Executive Chairman

Q: What has been the biggest challenge for Nostrum during 2018?

A: The single biggest challenge we faced in 2018 was the disappointing operational performance of the Biyski North-east reservoir and western area of Chinarevskoye. Therefore, while our long-term vision and growth expectations remain unchanged, we have not made the progress we wanted to make in 2018 owing to these unforeseen operational difficulties within our licence area. The impact of subsurface challenges is a reduction in our 2P reserves by 78 million boe. We are focused on reversing both production decline and reserve decline during 2019.

Q: How has the Board sought to address these challenges?

A: The Board has assumed greater oversight of operational decision making. We now hold technical workshops each quarter where those Board members with a technical background act as a further sounding board for management on decisions related to drilling and reservoir plans. Given improving production is our priority, this is where the Board has specifically sought to support management in its decision making.

In addition to the Board bringing its own technical knowledge, it has requested that we seek leading external advice. Accordingly, we have contracted Schlumberger to conduct a technical study of our main reservoirs to better understand their behaviour. We have also requested Schlumberger to evaluate the best way forward to complete our multi-frac appraisal well 234 in the west of the field. The technical work required to be able to move forward with further drilling activities in both areas is expected to be complete in Q3 2019.

We are also cognisant the cash position of the Company needs to be carefully monitored to avoid any stress on our short-term liquidity position. As a result, the Board requested that we reduce the number of rigs from three to two, which will be focused in the Northern Area, whilst we are working on both Schlumberger studies. In addition, the Board also now approves each well that is drilled to ensure we are all taking responsibility for maximising the best possible chance of success on the investments we make.

From a financial perspective, the Board decided to err on the side of caution and take an impairment against the reduction in our 2P reserves. Whilst we have a significant volume of 2P reserves, we are cognisant of the challenges we faced with 2018 production and therefore have looked to stress the 2P production profile with higher sensitivities, resulting in an impairment being taken.

Q: How has the Board responded to shareholders in 2018?

A: We have always listened and responded to concerns raised by our shareholders. For example, we made improvements to our Remuneration Committee structure and remuneration packages during the year.

Michael Calvey, who continues to serve as a director of the Board, stepped down as a member of the Remuneration Committee in August this year. Following this change the committee is comprised solely of independent non-executive directors, thereby ensuring that the Company is in full compliance with Provision D.2.1 of the UK Corporate Governance Code.

Following consultation with our shareholders over the course of the year regarding independent non-executive director participation in our LTIP scheme, we have since amended the terms of the LTIP to make non-executive directors ineligible to participate and will modify the remuneration policy to prohibit non-executive directors from participating in the LTIP in the future.

We have provided additional information and clarity regarding KPIs for bonuses for executive directors in future in the remuneration report within this Annual Report, which can be found on page 86.

Q: What will you bring as Executive Chairman?

A: At the end of last year, the Board took the decision to appoint me as Executive Chairman. Whilst the Board is mindful of best practice corporate governance regarding the Chairman role, ensuring operational delivery and meeting our stated targets is the Company's and my number one priority in order to deliver value for our shareholders, and I will endeavour to do this to the best of my abilities.

I will be working closely with the management team to ensure this happens. My experience is firmly grounded in petroleum engineering with over thirty years working in the upstream sector, which I'm confident will prove useful for the Company at present.

As a result, I have stepped down from the Board's Nomination and Governance Committee in line with best practice. More information on our Nomination and Governance, Audit, and Remuneration Committees can be found in the corporate governance section of this Annual Report and on our website.

I am now working closely with our CEO, Kai-Uwe Kessel, on how best to turn around the operational issues we have been confronted with and, most importantly, on how we can increase production.

Q: What do you see as the biggest risks to Nostrum in 2019?

A: While the commodity price environment is an ever-present risk in the industry, the key risks to Nostrum in 2019 are encountering poor drilling results in the Northern Area.

We understand that the Company needs to deliver on the guidance it gives to the market and 2019 is about hitting the targets that we set and can control. In 2018 we rebased our production guidance for this year based on current producing wells, which we believe is appropriately conservative given the drilling programme is focusing on the unproven Northern Area.

We are awaiting the results from the technical studies undertaken on Biyski North-east and the western area which will help us define our drilling strategy going forward and these results therefore present an inherent risk.

However, we believe our tight cost control, focused drilling campaign and third-party contractor and buyer relationships leave us well placed from a balance sheet perspective to maintain a healthy cash position and mitigate financial risk.

QHSE priorities for 2019

- Formalise Health, Safety, Environment and Communities Board Committee
- Foster diversity at all levels of the Group
- Participate in CDP disclosure
- Focus on improving contractor safety management practices

For further information see page 30.

Q: How are you positioning the business for a sustainable future?

A: An environmental, social and governance focus.

ESG performance has and will always be central to how Nostrum operates as a business. This includes maintaining high standards of QHSE, with the health and safety of our employees being paramount.

Our 2018 Health, Safety and Environment Compliance Audit, conducted independently by AMEC, found our HSE systems conform to all applicable standards and best practice, and have consistently shown improvement year-on-year.

To demonstrate that we take our responsibility with regard to the environment and climate change seriously, we plan to begin reporting to the CDP initiative this year.

We are proposing a new committee of the Board be established to deal with Health, Safety, Environment and Communities, and attention to climate change issues will be among the duties of this committee.

The Audit Committee and the Board have recognised that climate change should be included among the risks and uncertainties faced by Nostrum and we will seek to quantify climate change related risks.

A: Developing our people and culture.

I am proud of our people and the culture at Nostrum. That culture must be harnessed to focus on operational excellence in 2019 and on delivery against our targets, whilst ensuring Nostrum is an attractive place to work with an inclusive environment that celebrates diversity.

We will continue to focus on diversity, and in particular gender diversity, across all levels throughout the Group. We are setting up a mechanism for regular reporting by our Human Resources team to the Board on this issue and we are grateful for the quality and commitment of our employees.

Q: What is the company strategy to create shareholder value in the medium to long-term?

A: Our fundamental mission is to maximise the value of our reservoirs and the associated infrastructure we have built. In a region rich in hydrocarbon resources and in particular gas, we not only have both our own hydrocarbons to process but can also seek to enter into agreements with surrounding licences to ensure we fill our gas plants as quickly as possible. We successfully signed a deal with Ural Oil & Gas in 2018 that will result in gas and condensate from their licence area being processed in Nostrum's facilities, and this is anticipated towards the end of next year. This will provide an immediate source of free cash flow for Nostrum. The infrastructure we have built will last for many years and the quicker we can fill it, the higher the value will be for Nostrum stakeholders. As such, we will continue to seek business development opportunities during 2019.

We recognise that our future growth must be achieved sustainably, with a focus on our social and environmental impact in the region in which we operate. We continue to invest in social development locally as well as education and training. We are constantly improving our independent environmental impact auditing and mitigation to ensure our future growth and long-term value creation is measured with a sustainable approach for all stakeholders.

I look forward to sharing our story with you over the coming months and thank you for your ongoing support.

Atul Gupta

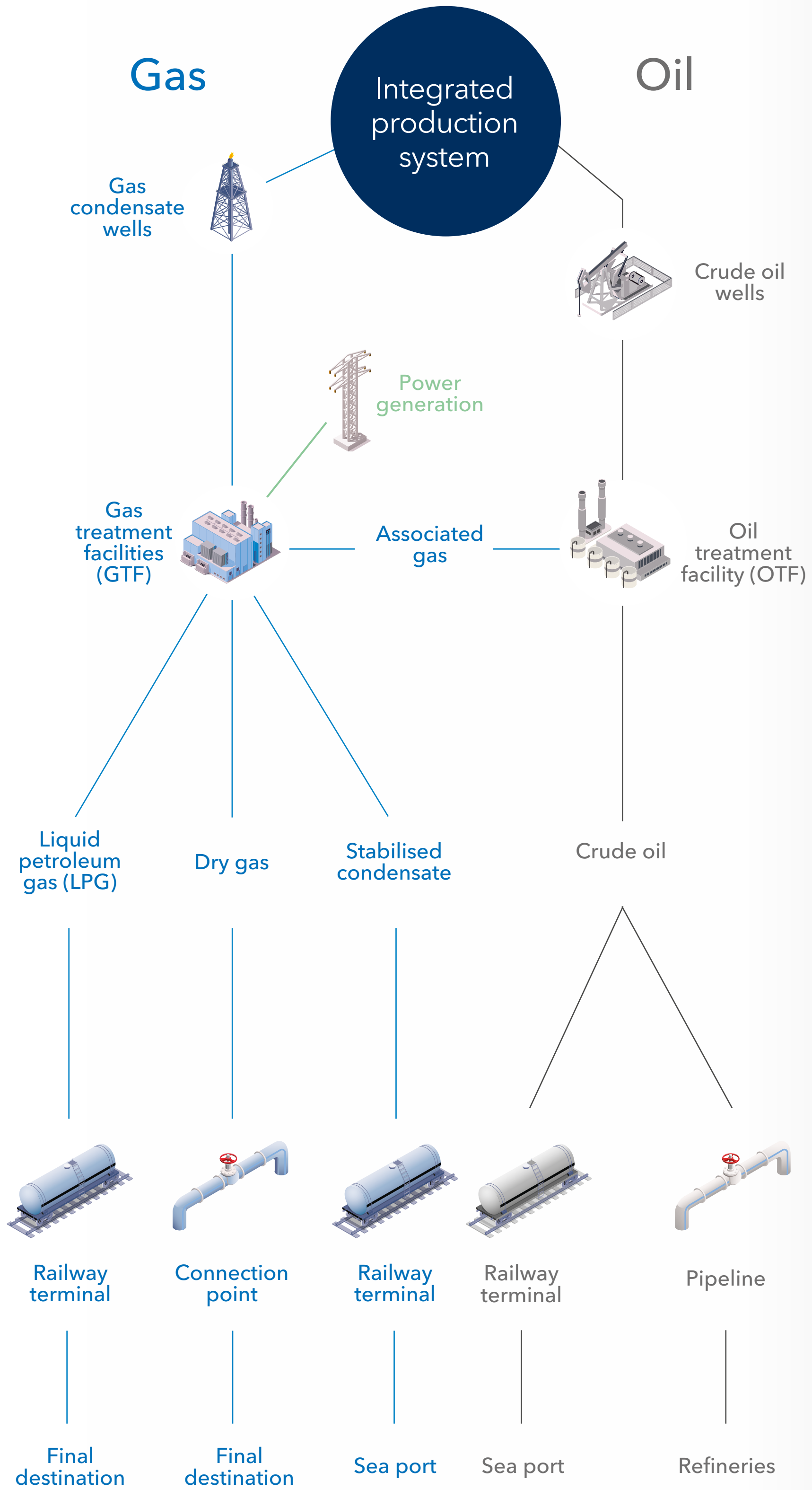
Atul Gupta
Executive Chairman

CREATING VALUE

Nostrum seeks to safely and responsibly develop the resources in North-western Kazakhstan through leveraging our world-class infrastructure platform to deliver value to our stakeholders.

Business model element	Key strengths
World-class infrastructure Well-placed to develop regional resources	• +US$2 billion invested since 2004 in production, storage and export facilities • Advantageous location is central to our business case, allowing us to leverage our existing footprint to develop assets within a tie-back radius of our facilities to deliver value through economies of scale • 4.2bcm of raw gas processing capacity
Substantial asset base Four licences within 120km of processing facilities	• Highly attractive 100% owned and operated asset base • Our main activities are located at the 274km^2 Chinarevskoye field which has produced more than 100 mmboe since 2007 • We have three additional licences with substantial upside potential
Stable financial platform Low operating costs and strong cash generation	• Efficient operations, a grandfathered PSA, a long track record of exports and an acute focus on costs allow the Group to generate cash flow to develop our assets • Access to multiple export markets allows the Group to proactively manage its netbacks for all sales products • Conservative financial policies ensure the Group can maintain at least US$50 million of cash at all times
Experienced management Extensive management experience in delivering large and complex projects in Kazakhstan	• Operating in Kazakhstan since 2004, we have extensive experience in exploring, appraising and developing hydrocarbon assets in the pre-Caspian basin • Unique understanding of regional geology and what is required to realise its potential • Strong corporate governance framework
Responsible operations Track record of safe development, proactively minimising any adverse environmental and social impact	• We have established a good reputation in Kazakhstan through operating in a responsible and socially conscious manner to create value for our stakeholders and the local community
Shared prosperity A leading employer in North-western Kazakhstan delivering sustainable benefits to the local community	• Long track record of delivering on local content and sponsorship commitments • Active engagement with local communities

Value chain



2018 achievements

GTU3
mechanical completion

Low Pressure System completion

Ural Oil & Gas LLP
binding agreements

29,516 boepd
of sales volumes

410 mmboe
of 2P reserves

US$231.3m
EBITDA

59.3%
EBITDA margin

US$50 million
minimum cash reserves

Linking corporate responsibility
to the growth of the Company

TRIF reduced to 1.39
Total Recordable Injury Frequency (hours) per 1 million man hours worked

LTIF reduced to 1.05
Lost Time Injury Frequency (hours) per 1 million man hours worked

96%
of total Group workforce in Kazakhstan

11% average salary increase in KZT
of locally-engaged employees

ESTABLISHING A SOLID FOUNDATION FOR OPERATIONAL SUCCESS

> Balancing capital preservation with investment in drilling during 2019 will remain a priority for the Company in order to meet our operational targets.
>
> Kai-Uwe Kessel
> Chief Executive Officer

Q: 2018 was a tough year in terms of production and missed guidance. What were the main issues and how can this be turned around?

A: During 2017 we saw three wells water out in our main producing reservoir, the Biyski North-east. The plan for 2018 was to stabilise our production decline by drilling four production wells in this reservoir. Unfortunately, our first well encountered water leading to a longer than anticipated period without new production coming online, and further questions being raised regarding the source of the water. We had a further delay on the second well due to technical drilling issues. Overall, these issues set back our production guidance by roughly six months.

In the second half of the year we successfully brought three producing wells in the Biyski online and stabilised production above 30,000 boepd. However, as a result of the water inflow we have seen, before we invest further money into the Biyski North-east we will conduct a thorough review of the reservoir with Schlumberger. This will allow us to more accurately estimate what additional wells we can drill or recover to further stabilise and continue to grow production in 2019 and beyond.

We had planned to bring the western area of the field into production during 2018 with a multi-frac planned for well 234. Unfortunately, before we were able to test the reservoir qualities, we suffered a wellbore collapse, meaning we could not continue with the planned multi-frac. Given the importance of this area, with 81 million barrels of probable reserves attributed to it, we have decided to halt all further drilling investment in the Biyski West until we receive a full analysis from Schlumberger. Due to the well bore collapse of 234, we did not have any production from the western part of the field which, again, impacted our production guidance. We remain optimistic that we can prove the technology works and bring the reserves to production in 2020 and into the future.

As result of the issues we faced in 2018, we uncovered more information about our existing reservoirs which resulted in a reduction in our 2P reserves by 78 million boe, in accordance with an independent report by Ryder Scott. This is largely down to two factors. Firstly, the water in the Biyski North-east meant that we lost reserves in the areas to this, and secondly, we have seen the commercial rates of some probable areas in the Mullinski reservoir in the North-east not being commercial to drill under current oil prices.

Looking forward, we have three key areas to focus on in order to grow production:

1) Identifying additional areas from production from the Biyski North-east;

2) Demonstrating the multi-frac can work in the west and unlocking the probable reserves there; and

3) Developing the Northern Area around wells 724 and 40.

Q: How strong is Nostrum's financial position?

A: A challenging operational year was tempered by a more positive financial performance. While this was in part due to improved prices for our sales products during 2018 as a result of higher commodity prices, our continued implementation of cost reduction initiatives across the business led to a healthy EBITDA margin in 2018. We managed to reduce our total General & Administrative expenses to US$22 million and total operating costs to US$50 million and we proactively managed the best possible netbacks across our sales products in the period, leading to stable operating cash flow margins.

We also successfully refinanced the remaining part of our debt. As a result, we have no debt maturities due until July 2022. This provides time to focus on turning around our operational performance and engage with the prudent research being undertaken into the issues faced.

Balancing capital preservation with investment into drilling during 2019 will remain a priority for the Company as we work through the challenges we encountered at the Chinarevskoye field, to increase our production.

Q: Can you provide an update on the GTU3 project?

A: We successfully achieved mechanical completion of GTU3 in December 2018 and we are now looking forward to commissioning the plant. Cold commissioning has commenced, with first gas targeted for Q2 2019 and full commissioning of the plant during 2019.

When commissioning is completed, GTU3 – our third gas treatment unit, will more than double our production capacity to over 100,000 boepd.

Q: What is the strategy to grow production beyond Chinarevskoye as you have a deal to process raw gas from Ural Oil & Gas LLP?

A: Our long-term strategy is to build a portfolio of reserves and resources in North-western Kazakhstan to fill the GTU capacity for the next 25 years. We are not tied to owning the licences but the goal is ensuring that we can monetise the infrastructure we have built by processing all the raw gas in the region at economically attractive terms to Nostrum. Given our limited liquidity position, we cannot develop all our licences at once. Thus, I was pleased to announce the binding agreements we signed with Ural Oil & Gas ("UOG") in 2018. This is an alternative to acquiring reserves and resources whereby we are generating a return through agreements that result in Nostrum making money from hydrocarbons UOG delivers to our plant. We are not required to invest in any material capital expenditure and will simply allocate part of our GTU for processing their raw gas. This is an extremely economic and effective way to monetise our infrastructure without us having to risk money on drilling. This deal demonstrates the value our infrastructure has in North-western Kazakhstan and we are continuously assessing other opportunities in the region.

Q: What are your development plans for Chinarevskoye?

A: During the year we saw encouraging results from our drilling operations at well 40 in the northern part of the Chinarevskoye exploration licence area, and we confirmed the discovery made in well 724 at the end of last year in the Upper Devonian formation.

How we engage with our stakeholders

Nostrum has always focused on creating social and economic benefits for our employees, business partners, local communities, the Kazakh people and the government. In line with our corporate and social responsibility values, our commitment translates into activities aimed at ensuring security, generating employment, developing reliable infrastructure and investing in local communities.

During 2018, we maintained regular dialogue with investors, whose feedback helped us further develop certain key Company initiatives, and, in particular, prepare ourselves for the launch of a Board Health, Safety, Environment and Communities committee. This will improve oversight and accelerate our ESG performance and practices in order to further align them with recognised international standards.

In line with our focus on stabilising production, and as part of our efforts to establish an infrastructure hub in Kazakhstan, we entered into agreements with Ural Oil & Gas. We will continue to partner with local businesses in the future as we seek to fill the processing capacity of our three gas treatment facilities. In 2019, we will have an ongoing focus on ensuring we are suitably prepared for and resourced to manage our supply chain, and continue to strengthen our relationships and dialogue with all external stakeholders to enable future growth and long-term value creation.

Well 40 was tested with stable flow rates exceeding 1,500 boe per day. This is a very significant result as it can potentially open up a new area in the Chinarevskoye field that is rich in hydrocarbons and is of material scale. This is one of the highest yielding condensate wells in the field's history.

Therefore, to better understand the full potential of those reserves in 2019, our two-rig drilling programme during the first half of 2019 will pursue the area around well 40 (wells 41 and 42) to define the extent of this encouraging prospect.

Q: What is your production guidance for 2019?

A: Our 2019 drilling programme will be conducted with only two rigs and we are expecting to drill six wells in the year. As we prioritised capital preservation this year, we believe this programme is a sound allocation of capital that will ensure we sustain existing production while targeting de-risked growth opportunities.

While the Northern Area has shown encouraging results, it is not yet fully appraised and therefore there is some uncertainty in predicting potential production volumes. As a result, we are changing our approach to production guidance so as not to include any appraisal wells to be drilled in 2019. This means that the average forecast field production for 2019 will be 30,000 boepd, corresponding to sales volumes of approximately 28,000 boepd.*

Kai-Uwe Kessel
Chief Executive Officer

25 March 2019

* The difference of 2,000 boepd between the field production and sales volumes is largely the amount of produced gas that is consumed within our extensive processing facilities.

NAVIGATING CHALLENGING MARKET CONDITIONS

Kazakhstan is one of the world's top countries in terms of oil and gas reserves and is the second largest oil producer in the Former Soviet Union after Russia. Since achieving independence in 1991, the country has more than trebled its oil and gas production, becoming one of the fastest-growing oil-producing nations outside of OPEC.

Kazakhstan's proven oil reserves

30 billion barrels

Kazakhstan's proven gas reserves

1.1 trillion cubic metres

Kazakhstan's 2017 oil production

1.8 million barrels of oil per day

Kazakhstan's 2017 gas production

27 billion cubic metres

Source: BP Statistical Review of World Energy 2018

ECONOMIC AND POLITICAL OVERVIEW

The oil and gas market in Kazakhstan

Kazakhstan is the largest land-locked country in the world and has three primary export routes for its production: one via Russia (Atyrau-Samara and the Caspian Pipeline Consortium pipelines); one via Azerbaijan and Turkey (the Baku-Tbilisi-Ceyhan pipeline); and one via China (Atasu-Alashankou).

Since independence, Kazakhstan has been able to attract more foreign direct investment than any other country in the FSU, including Russia. The majority of Kazakhstan's production comes from three supergiant fields situated in the north-west of the country (Tengiz, Karachaganak and Kashagan fields). The resumption of full scale production at the Kashagan field during 2017 has been a significant contributor to recent overall production growth in the country, with crude oil and condensate output at the project exceeding expectations. During 2018 total oil production at the three major projects amounted to 49 million tonnes. Expansion projects at the Tengiz and Karachaganak fields are currently being developed to increase liquid recovery volumes as the fields mature.

What it means for us

Nostrum's assets are all located in the oil-rich Pre-Caspian Basin close to the Russian border and in close proximity to some of the most significant hydrocarbon resources in the Former Soviet Union. In addition to the Company's own processing, storage and transportation infrastructure, Nostrum's advantageous location means that the Group has access to multiple export markets and additional resources to support its operations over the long term. During 2018, Nostrum's signing of binding agreements with Ural Oil & Gas to process hydrocarbons from the Rozhkovskoye field demonstrates the substantial value of the Group's infrastructure and competitive positioning in the region.

COMPETITIVE ANALYSIS AND MARKET SHARE – BENCHMARKING OUR BUSINESS AGAINST OUR PEERS

Strengths

- Advantageous location with access to multiple transportation routes
- Full control of liquid transportation logistics
- Extensive processing infrastructure allows Nostrum to develop raw gas deposits in North-western Kazakhstan where there is a shortage of processing capacity
- High quality, light, sweet crude

Weaknesses

- Nostrum is subject to fluctuations in the market prices for its products, although we have a variety of sales products
- Unavoidable geological risks inherent in the oil and gas industry
- Seasonal temperature fluctuations in a harsh operating environment
- Lack of significant population reduces the size of the skilled workforce locally

"Nostrum is fortunate to operate in an area with significant hydrocarbon resources and benefits from access to large oil and gas reserves within our licence boundaries and surrounding fields."

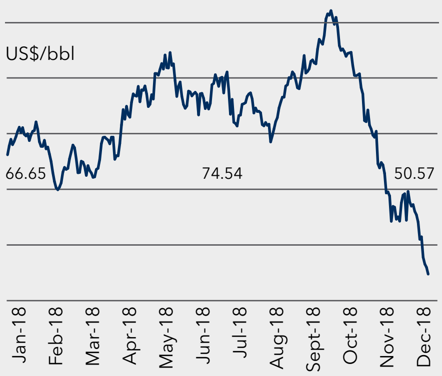
Arkadi Epifanov
Chief Commercial Officer

Key macroeconomic and microeconomic trends

CONTINUED OIL PRICE VOLATILITY

Oil prices continued to be volatile throughout 2018, reaching a high of US$86/bbl in October and a low of US$51/bbl in December. Despite this volatility, consensus views of long-term prices of around US$60-70/bbl have remained broadly consistent as the industry continues to adjust to profoundly different global supply dynamics brought about by the rapid evolution of the US shale industry.

Oil prices



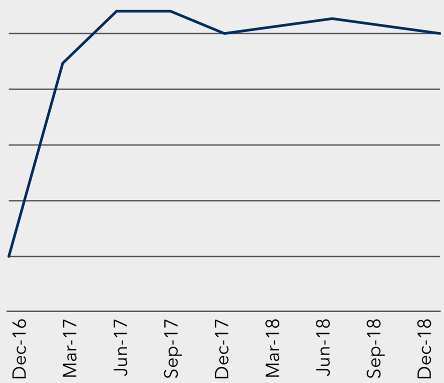
What it means for us

With no debt maturities until 2022 and over US$100 million of cash on our balance sheet, the Group is well positioned to weather near-term fluctuations in the oil price. Nostrum continues to focus on reducing its cost base to ensure the Group generates healthy cash flow and preserves capital while operational issues at the Chinarevskoye field are addressed during 2019.

KAZAKHSTAN ECONOMY

During 2018 Kazakhstan's economy grew by 3.7% (2017: 4.0%). Economic growth remains heavily dependent on the oil industry so an increase in oil prices and activity in the sector played a significant role. The KZT/USD average exchange rate remained broadly flat year-on-year at 345 KZT to USD (2017: 326 KZT to USD) and inflationary pressures were subdued with core inflation at 6.1% (2017: 7.4%).

GDP progression Q-on-Q real GDP growth (%)



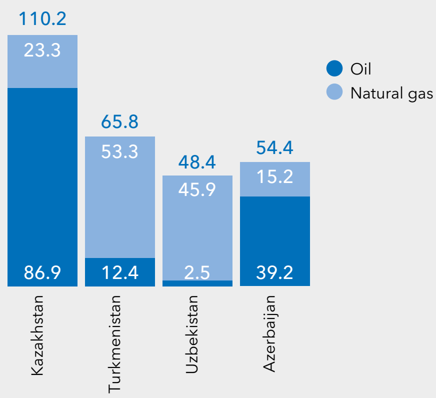
What it means for us

The prominence of the oil industry in Kazakhstan meant that the downturn in oil prices during and after 2014 had a material impact on the country's economy. Although long-term broader structural reforms are required to address this imbalance, in the near-term the government has been extremely supportive of the industry as it seeks to foster growth, development and investment. The government's decision to unpeg the KZT/USD exchange rate has had a meaningful effect on the operating cost bases of producers as prices have recovered and inflation has remained subdued.

COMPETITIVE ENVIRONMENT

Kazakhstan and Azerbaijan are the two main oil producing countries in the Caspian region, producing 1.8 million bopd and 0.8 million bopd in 2017 respectively. It is expected these countries will continue to lead the region in oil production. Turkmenistan and Uzbekistan are the predominant gas producers in the region, producing 62 bcm and 53 bcm in 2017 respectively. Russia plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea, although this part of Russia is not a substantial source of crude.

CIS production excl. Russia (mm tonnes)



What it means for us

Vast distances between Central Asian markets, long-established trading relationships and in-place infrastructure promote co-dependency between FSU exporters. Kazakhstan naturally benefits from its geo-strategic position between Russia and China. Nostrum is situated in the heart of the export corridor that exists between Russia and multiple markets to the west of the Caspian.

CREATING VALUE

Our strategy for future growth is focused on leveraging the strengths across our value chain to serve the interests and meet the needs of all of our stakeholders.

"We have a dedicated and experienced team who are committed to achieving the Company's goals and objectives in 2019 and beyond."

Heinz Wendel
Chief Operating Officer

Strategic pillars	2019 priorities
Maintain stable production levels while operational issues are addressed	• Two-rig drilling programme to drill up to six wells • Connecting existing wells to the Low Pressure System and full commissioning of GTU3 to increase liquid production efficiency
Continued cost reduction	• Continued reductions in both G&A and operating expenses against 2018 levels • Focus on bringing drilling costs and related capex as low as possible
2P reserve growth through M&A	• Continuously monitor M&A opportunities in a tie-back radius to the Company's existing infrastructure footprint
Integrating corporate responsibility into our business	• Increase presence in local communities and reported-on wellbeing of employees and working environment
Focus on delivering shareholder value	• Preserve capital while operational issues at Chinarevskoye are addressed • Post GTU3, start to generate positive post-tax free cash flow

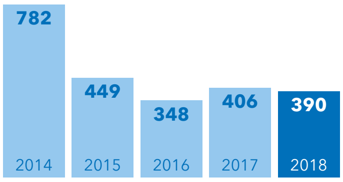
KPIs	Risks	Forecasts, objectives and prospects for 2019-2021
• 30,000 boepd field production with 28,000 boepd of sales volumes • Full commissioning of GTU3	• Drilling can be subject to cost overruns and technical issues • Drilling programme for 2019 may be subject to change depending on appraisal results obtained throughout the year	• Maintain production above a level of 30,000 boepd • Prolong the life of existing wells to maximise the extraction of 2P reserves • Appraise Northern Area around well 40
• G&A below US$20 million • Operating costs below US$55 million • Drilling capex below US$70 million	• Sustained higher oil prices can lead to cost inflation • Cutting costs too aggressively can lead to adverse operational outcomes	• Reduce costs by a further 20% on a boe basis by 2021
• Grow 2P reserves in North-western Kazakhstan	• Acquisitions come with geological risk such that expected reserve figures can prove to be lower following further appraisal	• Grow reserves to ensure full capacity utilisation of the Group's processing facilities for many years beyond 2021
• Number of man hours without loss of working hours (millions)	• Legal framework for environmental protection and operational safety still being developed in Kazakhstan	• Focus on expanding QSHE policies to include initiatives such as contractor QSHE management, environmental reporting and developing GHG reduction strategies • Formalise Board HSEC Committee to have oversight of QHSE issues, including those relating to climate change
• Approx. US$100 million of cash at YE 2019, with a minimum of US$50 million held at all times • Target post-tax free cash flow post commissioning of GTU3	• Commodity prices • Production performance • Success and specification of drilling programme	• Generate significant post-tax free cash flow beyond 2021

A STABLE PERFORMANCE

Financial KPIs

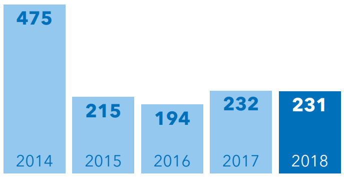
Nostrum's extensive infrastructure footprint, variety of sales products and multiple routes to export markets allow the Company to generate stable operating cash flows throughout the commodity cycle through proactively managing netbacks. The Company is positioned to realise the value of surrounding resources in North-western Kazakhstan.

Revenue (US$m)



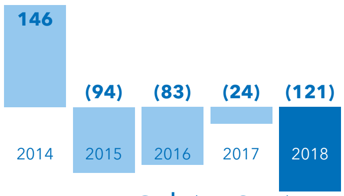
US$390m
-3.8%

EBITDA (US$m)



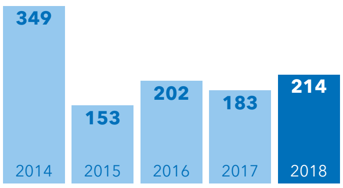
US$231m
-0.1%

Net income (US$m)



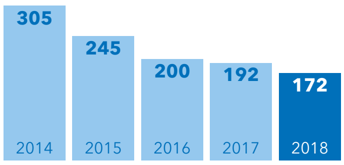
US$(121)m

Operating cash flow (US$m)



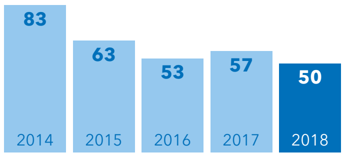
US$214m
+17.1%

Investing cash flow (US$m)



US$172m
-10.6%

Operating costs (US$m)



US$50m
-11.8%

2018 performance

During 2018 Nostrum worked to achieve key strategic, financial and operational targets in line with our strategy for progression.

Strategic
Ural Oil & Gas

We continuously monitored opportunities in and around the Chinarevskoye field to identify where stranded gas reserves could be processed through Nostrum infrastructure, in accordance with our 2017 goal. The Company signed binding agreements with Ural Oil & Gas LLP to process third-party hydrocarbons delivered to our processing facilities.

Financial
Cost reduction

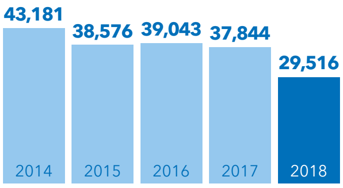
In 2018 we targeted reductions in G&A and opex against 2017 figures. Continued efficiencies saw a reduction in G&A by 33.3% and operating costs by 11.8%. While this was partly a result of reduced production, we also streamlined our corporate structure leading to reduced payroll, as well as renegotiated key contracts.

For further information see Financial Review on page 46.

Non-financial KPIs

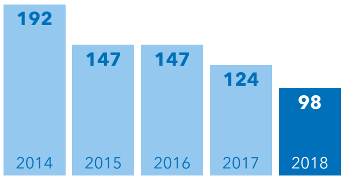
Performing responsibly is integral to our success and to the sustainability of our business. We believe that long-term value comes from seeing success as a part of a bigger picture, encompassing people and the environment. We have set ourselves specific non-financial KPIs to track our progress, as we believe it to be the best way to monitor our achievements in relation to environmental, social and governance matters.

Sales volumes (boepd)



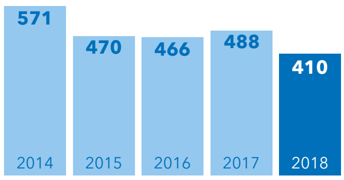
29,516 boepd
-22%

1P reserves (mmboe)



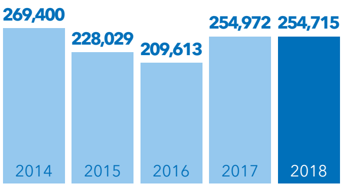
98 mmboe
-21%

2P reserves (mmboe)



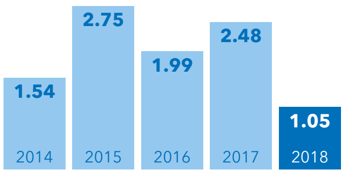
410 mmboe
-16%

Total GHG emissions (tCO_2e/mmboe)



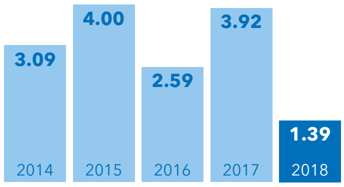
254,715 tCO_2e/mmboe
-0.1%

Lost Time Injury Frequency (hours)[1]



1.05 hours
-57.6%

Total Recordable Injury Frequency (hours)[1]



1.39 hours
-64.5%

1. Per 1 million man hours worked.

Bond refinancing

In February 2018 Nostrum successfully issued a US$400 million bond with a seven year maturity and a fixed coupon of 7.000% in order to refinance the remainder of its outstanding debt due 2019. Following this transaction, Nostrum has no debt maturities until 2022.

Operational
Production and reserves

In 2018 we did not meet our production or reserve KPIs. Production was 20% lower due to operational challenges at field site. 2P reserves also declined by 78 million boe due to water losses and also other areas being moved into contingent resources, due to it not being commercially viable to drill in them at current oil prices.

For further information see Financial Review on page 46.

Infrastructure

We targeted mechanical completion of GTU3 in 2018 and this was achieved in December 2018. Commissioning was planned for 2018 but is now anticipated in 2019. Additionally, we successfully implemented a Low Pressure System to extend the life of our producing wells.

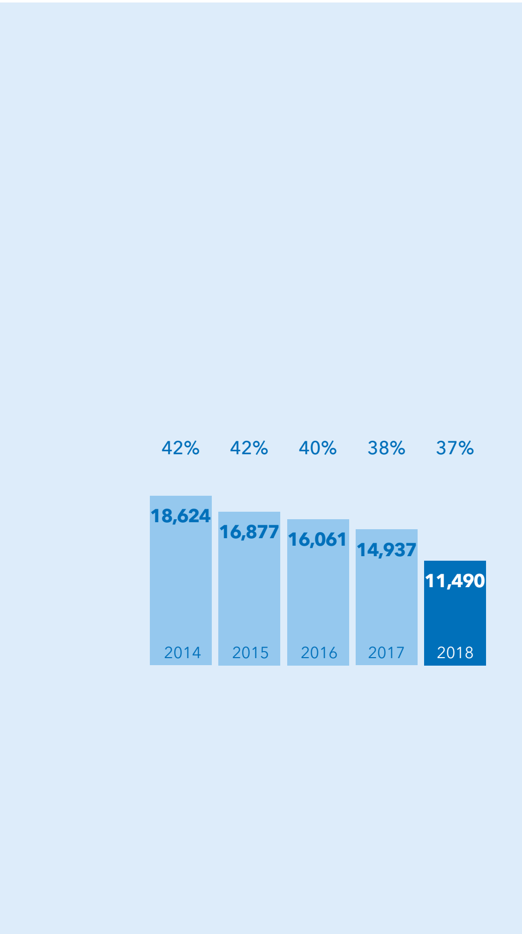
QHSE
Reduction in TRIF and LTIF

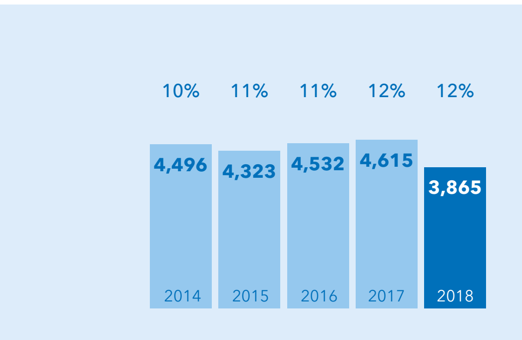
Following a commitment to improve our Health & Safety processes in 2018, we saw our Total Recordable Injury Frequency rate reduced from 3.92 to 1.39 per million man hours worked, and our Lost Time Injury Frequency from 2.48 to 1.05 per million man hours worked.

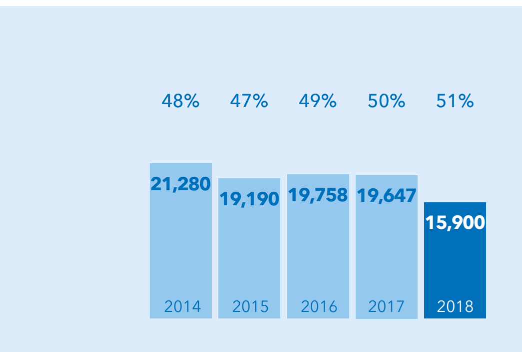
OUR PRODUCTS AND PROCESSES

	Quality	Sales	Pricing	Transportation
Crude oil	Density at 150C- 0.813 kg/m³. API – 42-43 degrees. Average sulphur – 0.45%. Superior in quality to other primary benchmark crude oils produced in Kazakhstan.	85% Exported in accordance with the PSA. 15% Sold domestically. During 2018 all exported crude oil volumes were sold through the KTO pipeline. Rail exports to multiple destinations are also available.	Urals-based pricing for pipeline exports. Brent-based pricing for railcar exports. Domestic sales at c.50% discount.	Crude exports are delivered to the KTO pipeline through an extension to our own 120km pipeline from the field site. From here it is delivered to the Russian Baltic Sea port of Ust-Luga.
Stabilised condensate	Density at 150C – 0.740kg/m³. API – 59 degrees API. Average sulphur – <0.4%.	100% Exported. Destinations include the Russian Black Sea port of Taman.	Brent-based pricing.	Sent through our own 120km pipeline from the field site to our own rail loading terminal in Uralsk. From here it is loaded onto railcars and sent to various destinations.
LPG	Field grade quality. No olefins and low sulphur content.	>80% Exported. Destinations include the Russian Black Sea Ports.	International Mediterranean LPG price Sonatrach for Black Sea deliveries. ARGUS DAF Brest quotation for Eastern European deliveries. ARGUS DAF Bekabad/ Galaba quotations for Asian deliveries.	Loaded onto LPG trucks from the field site to rail loading terminal in Uralsk. From here it is loaded onto railcars and sold to third parties.
Dry gas		100% Sold domestically.	Price agreed annually.	Sent through our own 17km pipeline from the field site to the connection point with the Intergas Central Asia gas pipeline. Sold at the connection point.

Production (boepd) and product split (%)







Infrastructure overview

Oil treatment facility

Nostrum finalised the construction of an oil treatment facility in 2006 ("OTF"). Currently the OTF has a maximum annual throughput capacity of 400,000 tonnes per annum.

Raw gas processing infrastructure

The gas treatment facility ("GTF") 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

The GTF currently includes two gas treatment units, each with the capacity to treat approximately 850 million cubic metres of raw gas per annum. The GTF is currently operating close to nameplate capacity.

GTU3

The third treatment unit of the GTF was mechanically completed in 2018, with commissioning beginning in 2019. Once commissioned, GTU3 will add 2.5 billion cubic metres of additional raw gas processing capacity, bringing the Group's combined capacity to 4.2 billion cubic metres per annum.

Power generation plant

The gas-fired power generation plant is linked to the gas treatment facility with an output of 15 megawatts. The generation capacity from the plant is sufficient to meet the existing and anticipated energy needs of the field site and associated operations as the Company grows production.

Gas pipeline

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

Liquids pipeline

Nostrum has its own 120km liquids pipeline that was completed in 2008. The pipeline runs from the field site to the Company's rail loading terminal in Uralsk. The pipeline has a maximum annual throughput capacity of over three million tonnes.

Rail loading terminal

Nostrum commissioned its own automated rail loading terminal in the city of Uralsk in 2009. The rail loading terminal currently receives all domestic crude oil and export condensate produced by Zhaikmunai and has a capacity of approximately four million tonnes of crude oil and condensate per annum.

Storage facilities

Nostrum has over 30,000 cubic metres of storage capacity for liquids at its field site and rail loading terminal.

KTO pipeline connection

During 2017 Nostrum completed the construction of a secondary crude oil pipeline to enable export sales via the Atyrau-Samara international export pipeline operated by KazTransOil. The KTO pipeline substantially reduced Nostrum's crude oil transportation costs by more than 50% and has enhanced the Company's ability to manage crude oil netbacks through the commodity cycle. The total completion cost of the KTO pipeline was under US$7 million and the project was completed on time and under the projected budget of US$10 million.

Low Pressure System

During 2018 Nostrum completed and commissioned new a Low Pressure System which aims to reduce the decline rates of ageing gas condensate reservoirs through reducing the inlet pressure of the main manifold at the GTF from 10 to 42 bar.

Our main asset

THE CHINAREVSKOYE FIELD

Nostrum has a 100% owned top-to-tail infrastructure footprint in the resource rich pre-Caspian basin in North-western Kazakhstan. The Company currently owns four licences, all located within a 120km radius of its substantial processing facilities.

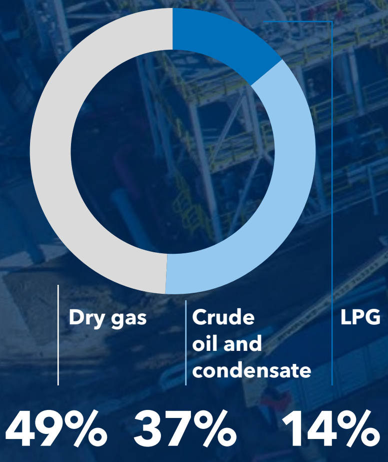
Nostrum's current producing asset is the Chinarevskoye field – a 274km² licence located to the north of Uralsk, near to the Russian border. The Chinarevskoye licence comprises a 185km² production and 89km² exploration licence.*

Despite recent operational setbacks, Nostrum will continue to try to extract as many hydrocarbons as possible from our licence areas. We see the potential for our fields to produce for many years to come, and we are still opening up new areas after more than ten years of drilling at Chinarevskoye.

During 2018 Nostrum made an application to the state authorities to extend its production licence to cover the full extent of its licence area following the exploration success of well 40 during 2017-2018. For this purpose, changes were approved to the mining allotment in the Northern Area of the field which will be reflected in a supplemental agreement to the PSA once the updated RoK development project has been approved.

Total sales volumes (boe)

2P reserve breakdown for the Chinarevskoye field (%)



17
reservoirs

Over
100 million
boe produced since 2007

* Licence areas as at 31 December 2018.

The Chinarevskoye field continued

Stable business environment

Exploration and production licence

Nostrum was first granted an exploration and production licence for the Chinarevskoye field in May 1997. The current production licence granted in 2008 covers 185km^2, with validity to 2032 for the North-eastern Tournaisian reservoir, and until 2033 for all other oil and gas bearing reservoirs and horizons.

Production Sharing Agreement (PSA)

A grandfathered PSA exists between Nostrum and the Government of Kazakhstan, which specifies the exploration and development boundaries of the Chinarevskoye field. The PSA also addresses the respective royalties, profit share and tax liabilities payable to the government.

Outlook

The licence and PSA are currently valid until 2032 (with respect to the North-eastern Tournaisian reservoir) and 2033 (for the rest of the Chinarevskoye field), and Nostrum must comply with the terms of the exploration permit, the production permit and the development plans during this period. To date, the Company 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 17 reservoirs and 53 compartments spread over three areas. Commercial hydrocarbons have been found in the Lower Permian, Bashkirian, Bobrikovski, Tournaisian, Mullinski, Ardatovski, and Biyski-Afoninski reservoirs. The Company is carrying out an appraisal programme to investigate the commerciality of the Frasnian reservoir found in well 40 in 2018.

Reserves

Based on a Ryder Scott report dated 1 January 2019, the proved and probable reserves for the Chinarevskoye field amount to 294 mmboe (2017: 358 mmboe). Proven reserves amount to 98 mmboe (2017: 124 mmboe) and probable reserves to 196 mmboe (2017: 234 mmboe). Oil and condensate amount to 110 mmbbl of proven and probable reserves (2017: 135 mmbbl), LPG to 42 mmbbl (2017: 54 mmbbl) and gas to 142 mmboe (2017: 168 mmboe).

Drilling

Initial hydrocarbon discoveries at the Chinarevskoye field were made during drilling exploration conducted during the Soviet era. Subsequent to this discovery, there have been 100 wells and side-tracks drilled under the PSA between 2004-2018.

At the Chinarevskoye field 20 oil wells and 25 gas condensate production wells were in operation as at 31 December 2018. Three new gas condensate production wells were brought online in 2018. The first well for production, well 224, drilled in 2018 in a flank position of the Biyski North-east reservoir, encountered water and could not be brought to production. An increased water inflow to other existing wells was also observed on the southern flank of the Biyski structure which resulted in a lower than expected average daily production from this main producing reservoir. In the western area of the field, the multi-frac appraisal well 234 was drilled to planned final depth. However, the multi-fracs could not be performed due to technical issues in the wellbore. Comprehensive technical work is being carried out and will be completed in H1 2019. Therefore, the Company plans to focus on an appraisal drilling programme in H1 2019 in the Northern Area of the Chinarevskoye field where well 724 and 40 discoveries were made in 2017 and 2018. The drilling programme will be conducted with two drilling rigs on the Chinarevskoye field. When the results of these appraisal wells are known the Company will be able to decide how best to proceed with the drilling programme for the remainder of the year.

20
crude oil production wells*

25
gas condensate production wells*

100
wells drilled since 2004

* Producing as at 31 December 2018

> Comprehensive technical work is being carried out and…the Company plans to focus in 2019 on an appraisal drilling programme in the Northern Area of the Chinarevskoye field.

Ablay Alzhanov
Head of Geology Department

On-site facilities

Location

Our facilities are located in an advantageous geographical position which encourages flexible transportation links for the off-takers of our sales products. The proximity to major international railway lines and oil and gas pipelines allows for convenient transport to markets in Central Asia and Eastern Europe.

Transportation

Crude oil transportation is provided by a short pipeline completed in 2017 which provides access to the KazTransOil ("KTO") pipeline for export.

GTU3

GTU3 was mechanically completed in December 2018. Commissioning of GTU3 is ongoing with first raw gas into the plant expected in 2019.

Oil and stabilised condensate pipeline and railway loading terminal

Since its completion in 2008 and commissioning in 2009, our 120km liquids pipeline and railway loading terminal located at Rostoshi near Uralsk have been used for the transportation of our crude oil and stabilised condensate. The products travel through the pipeline from the Chinarevskoye field site to the railway loading terminal, where it is first stored and then transported by railcar to final off-takers. The separation between our stabilised liquid condensate and crude oil occurs during transportation through the same pipeline using a "PIG" system. This ensures quality is not compromised as it would be in a multi-purpose pipeline and allows for higher export prices. The maximum throughput of our oil pipeline is three million tonnes per year. The rail loading terminal, which receives the crude oil and condensate, has a capacity of three to four million tonnes per year. Additional infrastructure in use also includes crude oil storage tanks on site and at the rail terminal, condensate tanks on site and at the terminal, and a railcar loading facility at the railway terminal. This terminal allows for 32 railcars to be loaded simultaneously. The first vapour recovery unit in Kazakhstan's history can also be found at the facility. Forecasted increases in throughput, in line with our strategy to double production, will be accommodated by our existing infrastructure.

Advancing our growth prospects

ROSTOSHINSKOYE, DARJINSKOYE AND YUZHNO-GREMYACHINSKOYE

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, and we continue to appraise other nearby opportunities.

Subsoil rights acquisition

Nostrum has rights to 100% of the subsoil use related to three oil and gas fields in the pre-Caspian Basin to the North-west of Uralsk, namely the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields. These fields were acquired under an asset purchase agreement in 2013. The Ministry of Oil & Gas signed supplementary agreements relating to those rights, which became effective from 1 March 2013. Nostrum subsequently applied for extensions to these three licences, two of which are effective with one outstanding decision expected to be received in H1 2019.

Geology

Decades of successful exploration activities have shown that the three fields contain hydrocarbons suitable for commercial production. The bulk of the hydrocarbons are located in the Bashkirian stage of the Carboniferous, with other reservoirs being of Permo-Carboniferous age. Prior to development there will be significant appraisal required to explore existing accumulations and deeper intervals.

Appraisal programme

During 2016, we drilled an appraisal well at Rostoshinskoye. The results of this appraisal well were evaluated in 2017 and changed the geological model of the Rostoshinskoye field and also increased the reserves potential of the Bashkirian section of the adjacent Darjinskoye field.

Total combined reserves

Nostrum has an outstanding track record of converting reserves. An independent reserve report by Ryder Scott dated 1 January 2019 has shown Nostrum has 410 mmboe of proved and probable reserves, 116 mmboe of which are contained in the three adjacent fields. In line with our strategy, we will continue to look to increase our reserve base and secure production growth.

Contingent resources

In addition to the estimated 2P reserves, contingent resources have been identified in the Chinarevskoye, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye licence areas. The 1C+2C contingent resources estimated as of 1 January 2019 for the Chinarevskoye area amount to 111 million barrels of liquids and 462 billion cubic feet of sales gas. For the three additional licences the contingent resources amount to 16 million barrels of liquids and 269 billion cubic feet of sales gas.

60-120km
from Chinarevskoye licence area

BINDING AGREEMENTS WITH URAL OIL & GAS LLP ("UOG")

Demonstrating the value of our infrastructure

During 2018, Nostrum entered into binding agreements to process third party hydrocarbons delivered by UOG from the Rozhkovskoye field which is situated less than 20km from the Chinarevskoye field. UOG will fund the connection of existing wells at the Rozhkovskoye field to Nostrum's licence area. Thereafter, Nostrum will process all of the hydrocarbons coming into the field. UOG is a company owned by KazMunaiGas ("KMG") (50%), Sinopec (27.5%) and MOL Group ("MOL") (22.5%).

Commercial terms agreed

The commercial terms comprise two parts. Firstly, a tolling fee for the stabilisation of liquid condensate which will be US$8 per barrel, and secondly the purchasing of raw gas from UOG at a price to be agreed at the point of delivery to Nostrum's facilities.

The Rozhkovskoye field

The pre-salt Rozhkovskoye gas condensate field was discovered in 2008 on the Fedorovsky exploration block by UOG. The field has broadly analogous geology to the Chinarevskoye field which sits approximately 20km to the north. Rozhkovskoye's primary Tournaisian (Lower Carboniferous) reservoir tested positive for gas-condensate in all nine exploration and appraisal wells drilled by UOG. The Tournaisian consists of shallow marine limestones at 4,200-4,600 metres. The Bobrikovski horizon (Lower Carboniferous) also contains gas-condensate. In 2014, an oil discovery was announced in the Bashkirian (Upper Carboniferous). In April 2015, UOG signed a 25-year production contract for the Rozhkovskoye field, demonstrating a commitment to developing its licence area.

MAKING A POSITIVE IMPACT

Nostrum maintains and promotes the highest standards of Environmental, Social and Governance practice. The Company recognises it has a responsibility to operate in a sustainable and ethical manner for the benefit of the local community and all of our stakeholders.

We have operated in Kazakhstan for more than 20 years and during this time the Company has sought to be a responsible and transparent company which places the public interest at the core of decision-making processes. We have a deep understanding of, and respect for, the needs of the communities in which we operate, and we therefore prioritise the ethical management of our people, our communities and our environment.

Nostrum recognises both Kazakh and UK legislative and regulatory requirements in relation to our QHSE standards and we seek to comply with ISO 14001 Environmental Management System and ISO 50001 Energy Management standards.

In 2019 we will form a Board Health, Safety, Environment and Communities Committee which will have oversight over health, safety and environmental matters. This committee will be focused upon Leadership & Commitment, Incident Investigation, Contractor Management, Process Safety, Environmental & Climate Change and Social Responsibility. This will be undertaken as part of a five year strategic roadmap to achieve Nostrum's HSE goals and objectives.

QHSE policy and priorities

QHSE at Nostrum focuses on improving the management and mitigation of risks relating to quality, health, safety and the environment, 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 QHSE culture

Organisation

The organisation and responsibilities for the management of QHSE 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, 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 Kazakh legal requirements and company QHSE standards

Planning & Performance Monitoring

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

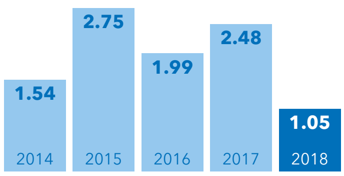
An independent audit and review system is implemented to assess the effectiveness of QHSE management and to identify areas for improvement

Health and safety

Our operational success is reliant upon a strong health and safety culture within our business. To ensure the security of all employees and contractors, we utilise active QHSE training and reporting procedures.

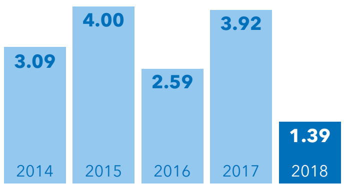
Health and safety

Lost Time Injury Frequency (hours)*



Heath and safety

Total Recordable Injury Frequency (hours)*



Nostrum has a complete HSE Policy and QHSE management system which records comprehensive information on safety and environmental performance and health and hygiene monitoring results and statistics, as required by Kazakh law. This information is reported to management on a monthly basis, reflecting a strong commitment to employee safety at senior levels.

* Per 1 million man hours worked

In 2018 both of our major injury frequency metrics were improved, with a significant reduction in both Lost Time Injury Frequency and Total Recordable Injury Frequency. This was owing to the successful implementation of HSE observation cards in 2018, Job Safety Analysis being adopted as a part of the Permit to Work System, reinforcement of HSE requirements amongst contractors and personnel adopting positive safety behaviour generally.

Safety communications

In 2018 there was an effort to improve employee safety communications. A pop-up HSE messaging system was developed in May 2018 in which a pop-up window appears on all PC screens when staff are logging in, and at 11:00 am every day, featuring a message from the QHSE department relating to safety, health or the environment. HSE Posters were also printed to communicate hazards and enhance HSE awareness.

The HSE Card System, which was developed in 2017, continued to be used in 2018 to report unsafe conditions observed by employees and contractors and to allow them to make suggestions on HSE improvements.

QHSE Management System Framework

A QHSE Management System Framework was developed and approved in March 2018. This provides a reference tool to assist employees and contractors in their efforts to ensure the system is implemented at all levels of the Group. The Framework provides an overview of all QHSE reference documentation and describes the elements of the integrated management system, including planning, implementation, monitoring and review.

Contractor management

The Company sought to improve contractor management practices in 2018. During the year an updated Road Safety Procedure was developed in response to concerns about contractor transportation safety. In addition, two contractor transport audits were performed.

An updated contractor management framework is planned for 2019, which will involve HSE selection criteria in contractor prequalification, QHSE management system audits, periodic meetings with key contractors and senior management on both sides, contractor HSE safety forums and a final performance review. In 2019 nine contractor audits and six internal management safety audits have been scheduled, demonstrating an ongoing commitment to improved contractor management.

2019 initiatives

A further initiative planned for 2019 is the implementation of management leadership tours, which would increase visibility and promote ownership of QHSE targets. We plan to support this by hosting additional events to further promote health and safety, such as a HSE Day and Forum.

Additionally, an annual HSE Compliance Audit Report is consolidated to show the results of audits and inspections that have occurred over the year to identify trends and areas for improvement. In 2019 nine contractor audits and six internal safety audits have been scheduled.

Process safety

In 2019 the Company intends to set up a Process Safety Roadmap. The implementation of this Roadmap will involve KPIs and the development of a maintenance plan for all safety-critical elements with performance standards, frequency and methods.

Our people

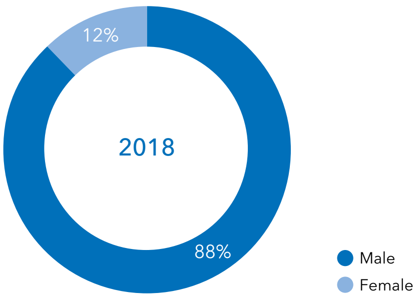
Nostrum is proud to engage a diverse workforce spanning many ages, nationalities and genders. The Nostrum Code of Conduct protects all employees and contractors against illegal discrimination on the basis of race, religion, national origin, age, gender, disability, sexual orientation or political opinion.

Nostrum encourages diversity – we believe it supports innovation and personal advancement in the workplace.

Marina Grinevskaya
Chief HR Officer

Our business is led by a dedicated and experienced management team, diverse in age, nationality and gender. This is integral to advancing the Group's approach to diversity throughout the business.

Gender diversity at department head level



Whilst we are encouraged by our diversity at Board and department head levels, we do recognise that diversity remains an ongoing issue in the oil and gas industry, particularly with regards to gender diversity. Nostrum is committed to improving the gender balance at all levels of the Company and in 2018 we engaged with interest groups to better understand how we might do this. Additionally, Nostrum adopted a corporate Equality and Diversity Policy in November 2017 to further support these ambitions. At present, 195 out of 820 Group employees are female and 625 are male.

The Board recognises the importance of continued improvement in this area and is committed to giving due regard to the benefits of diversity in our future appointments, including ensuring Kazakh nationals are properly represented at senior levels of the Company. The Board also focused on succession planning during 2018, and gender considerations will factor into this.

In addition, Human Resources is working toward a policy of promotion from within and building a pipeline of diverse employees at all levels of the business. We are pleased to report that 50% of Group recruitment in 2018 was female.

For more information on how the Equality and Diversity Policy was implemented at Board level in 2018 please see page 61.

Employee relations and social guarantees

Nostrum prides itself on being an integral community partner and the Company is one of the largest employers in Western Kazakhstan, with 789 of 820 of Group employees engaged locally. In addition to our Kazakh operations, we employ staff from more than 20 countries in offices in Amsterdam, London, St Petersburg and Brussels.

We offer all staff members competitive remuneration packages in compliance with all regulatory bodies, guidelines and requirements. In 2018 the average monthly salary of locally-engaged employees increased by 11% in KZT.

In an effort to promote gender equality we will now also monitor gender pay discrepancies. In 2018 the average Group employee salary was 21.99% higher for males however the median employee salary was 2.72% higher for females.

In addition to remuneration, Nostrum also offers personnel benefits in relation to:

- Social security
- Pension funds
- Medical assistance and care
- Insurance plans.

Education and training

We believe investing in our people is key to economic self-empowerment in the communities in which we operate. Under the terms of our PSA, we are required to adhere to an accrual of 1% per annum of the field development cost relative to the Chinarevskoye field. We also adhere to training obligations under subsoil use agreements for the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

Our employees and their children are eligible for educational grants and financial support to assist with university and college expenses. Educational fellowships and assistance may also be awarded on a discretionary basis.

More than two decades of operational success has been underpinned by strong employee relations and social responsibility.

50% female recruitment in 2018

In 2018, Nostrum supported 763 employees to benefit from education and training programmes. Our total Group training costs in 2018 were US$1,372,150 and the total number of training days in 2018 was 9,936 days.

Training was undertaken by operational teams, department heads, specialist engineers and other technicians at different levels across the organisation.

Nostrum Code of Conduct and Human Rights Policy

Nostrum is committed to maintaining a Group-wide culture that recognises international standards of human rights. In 2019 the Company will develop and implement a Human Rights Policy which reflects a desire to comply with industry best practice.

This is in addition to the Nostrum Code of Conduct ("the Code") which defines the principles that guide business conduct and provide 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. In 2018 the Code was updated to reflect changes in legislation relating to insider dealings and disclosure of insider information.

A copy of the Code is available on the Group's intranet in both Russian and English and can be downloaded from our website: www.nog.co.uk.

Modern Slavery Act

Under the Group's standard supply contracts, the Group is entitled to require suppliers to demonstrate compliance with the Code and to hold its suppliers responsible for compliance by their supply chain with equivalent terms.

A copy of our Modern Slavery and Transparency Statement is available on our website: www.nog.co.uk.

In 2018 the Company also put collective agreements in place to provide for workforce representation.

Whistleblowing Policy

We have a Whistleblowing Policy which takes into account the Whistleblowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work and which applies to all individuals working for the Group at all levels and grades.

The Whistleblowing Policy sets out details of three compliance liaison officers who speak a variety of languages for the purposes of reporting any concerns. The Whistleblowing Policy is also mentioned in the Code and a person who reports any matter in good faith will be protected against any sanctions. A copy of the Whistleblowing Policy is available in both Russian and English and on the Company's website. At the time of writing we have received no reports under our Whistleblowing Policy of forced/involuntary labour or human trafficking in relation to our business or supply chains. For further details please see our website: www.nog.co.uk.

+2.72% median female employee salary compared to male

9,936 total number of training days in 2018

US$1.37m total Group training costs in 2018

Communities and social review

Nostrum engages both formally and informally with the communities in which we operate and strives to be responsive to stakeholder feedback, including from local residents, suppliers and government.

Nostrum seeks to foster a culture of openness in regards to community engagement. The Company provides an avenue for feedback through an online portal and proactively engages with staff and contractors regarding appropriate behaviour towards local residents.

Additionally, we support our local communities through financing social infrastructure and community projects. In 2018 key initiatives included:

Support of the 'Akzhaik' Charitable Foundation, including financing of the 'Tugan Zher' social project. This involved the funding of:

- Local historical educational programmes;
- Ecology and landscaping;
- The study of regional history;
- The restoration of cultural sites and historical monuments;
- Infrastructure support;
- Assistance to youth representatives; and
- Sponsorship of WKO children's participation in the 'Burabay Summer Fest' children's festival.

We also provided for social projects in the Zelenovskii Area, the location of the Company's field and supporting infrastructure, involving:

- Improvements to Yanvartsevo Village including street lighting and repairing monuments, as well as support for the local primary school and other festive events;
- Financing of a children's playground in Sulukol rural district and support for the local secondary school;
- Part-financing of a recreation park construction in Beles rural district and support for the local secondary school;
- Financial support of the 'Zhas Kanat' Youth Association to assist with a festive concert dedicated to the city day;
- Ongoing sponsorship of the West Kazakhstan Volleyball Federation to support local youth teams;
- Financing of acquisitions and construction at local regional ecological and biological centre (city zoo);
- Funding of a regional orphanage, including repair of the 'Zhuldyz' rooms, medical post and purchase of furniture; and
- Financial support of the Baiterek Public Association, an organisation dedicated to assisting those with cerebral palsy.

In addition, grants totalling over US$100,000 were made to sixteen schools in the region in order to upgrade equipment and technical capabilities.

Use of Group facilities

The Group allows the use of certain Company facilities by members of the community when it can be of assistance. This includes our medical staff and transportation being used in cases of emergency to provide first aid and deliver local residents to hospital. Additionally, our Fire Department provides community support in the event of wildfires. The Company also offers the local government support with the clearing of rural roads and driveways when state machinery is not available, including during the winter of 2018-2019 when the community dealt with record-breaking amounts of snow.

Over
US$100,000
granted to local schools in 2018

A community partner

Nostrum completed the construction of 36km of road from the "Spartak" Village to our facilities in 2012. Before the construction of this road, the local community was forced to use the unpaved steppe roads and at least seven villages did not have a permanent transport link with both the field and adjoining villages. In addition to the construction of the road, the Company annually allocates funds for maintenance, clearing and necessary repairs of this route. This project has improved the living conditions of an estimated 3,000 local residents.

Payment to governments

Nostrum is committed to transparency in its business activities and payments to governments. We have a formal Public Relations and Government Relations procedure which regulates our relationships with the local community and government, and it details how and why we engage with various stakeholder groups.

In 2017 a total of US$32,909,896 was paid to governments by Nostrum and its subsidiary undertakings. We will report on 2018 payments to governments in the first half of 2019. For more details please see the Transparency page of our website.

Anti-corruption and bribery policy

For more information on the Group's Anti-corruption and bribery policy please see page 62.

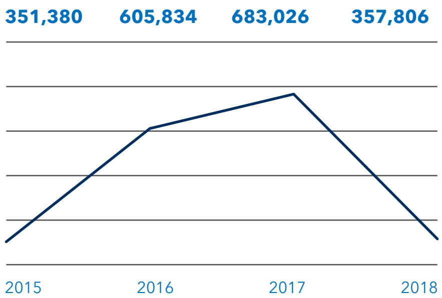
Liquidation fund contribution

Under the terms of the Chinarevskoye PSA and the subsoil use agreements for Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye, Nostrum is building up a liquidation fund of US$23 million to provide funds for the removal of oil and property at the end of the PSA. The fund will be used to eliminate the consequences of operating activities, namely the conservation and liquidation of drilled wells and the elimination of other facilities. We have engaged a contractor to prepare a liquidation project which will be completed by the end of 2019 and will reflect the details of all liquidation activities, including the specific distribution of funds to offset infrastructure assets. This project will subsequently be approved by the Company, the local community, and government. At the end of 2018 US$7.02 million was held on restricted cash accounts as a liquidation fund deposit (2017: US$6.66 million).

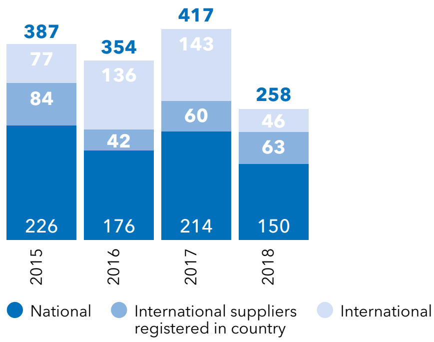
Spend with suppliers

We are committed to partnering with local companies and in 2018 we spent 58% of our supplier budget with Kazakh companies.

Liquidation fund contribution (US$)



Spend with suppliers (US$m)



Our environment

Nostrum is committed to operating in a safe and environmentally sustainable manner. We comply with all legal and regulatory environmental requirements, and are working towards ISO standards in our environmental management system.

We recognise the importance of minimising our impact in the areas in which we operate to prevent harm to the natural environment. Our approach to environmental protection follows a structured commitment to a series of yearly environmental objectives. We manage our environmental footprint through a site monitoring programme, which has thorough controls in relation to:

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

For more detailed information on our site monitoring programme please visit our website at www.nog.co.uk.

In 2019 our main environmental objectives are to participate in the CDP (formerly Carbon Disclosure Project), which is a key way for companies to disclose their environmental impact and risk management, as well as continuing to focus on greenhouse gas (GHG) emission reduction strategies.

Compliance with legislation

Nostrum engages an independent auditor to measure and evaluate our environmental impact. In 2018 AMEC was again engaged to undertake a "Health, Safety and Environmental Compliance Audit" and report upon the content, methodology and results of the environmental efforts at Nostrum during the year. Our 2018 AMEC report showed no non-compliance with Kazakh legislation or any significant environmental findings. The main conclusions drawn from AMEC's 2018 audit were as follows:

- HSE management systems meet national and international standards and have demonstrated continuous improvement over several years;
- Major incident statistics were reduced in 2018, showing the effectiveness of QHSE initiatives; and
- The HSE card initiative and distribution of monthly HSE reports has facilitated the involvement of staff into the HSE control process.

Waste, water and soil management

The impact of Nostrum's operational activities on the environment are monitored through detailed waste, water and soil management systems. The Company undertakes air, soil and subsurface water testing to ensure sanitary and epidemiological compliance with Kazakh legislation.

In 2018 93.4% of drilling waste was recycled by a contracted company. Soil and water survey results demonstrated compliance with all applicable environmental legislation.

For more detailed information please visit our website at www.nog.co.uk.

GHG emission reduction and reporting

Nostrum seeks to minimise all GHG emissions and continues to invest in new technologies to improve GHG emission performance. In 2018 this included the commissioning of a Sulphur Regeneration Unit which will lead to a decrease in emissions. Nostrum strictly adheres to both UK and Kazakh regulatory requirements with regard to GHG emissions and has been monitoring and reporting GHG emissions since 2011. In 2019 we will seek to participate in the CDP disclosure process to demonstrate our commitment to improvement and transparency in this area.

As a dually-listed entity, Nostrum also follows UK company law requirements regarding GHG reporting as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, which requires the disclosure of all emission sources. The Company's GHG reporting period is aligned with the period 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.

GHG emissions

The baseline in the GHG emissions allocation plan was set as the mean value of the total emissions for the years 2013-2014 (in carbon dioxide emissions equivalent). According to the established limit, GHG emissions for 2018 should not exceed the 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.

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 type (tCO_2e)

	2014	2015	2016	2017	**2018**
Carbon dioxide	236,556.0	208,466.2	195,453.3	242,275.6	**244,379.2**
Methane	27,424.8	13,919.8	10,817.0	10,723.4	**8,436.3**
Nitrous oxide	124.3	126.2	1,045.7	1,305.4	**1,303.5**
Hydrofluorocarbons	16.1	34.0	33.6	27.6	**36.6**
Total	264,121.2	222,546.2	207,349.6	254,332.0	**254,155.6**

GHG emission structure is shown in Table 1. The composition of the GHG emissions predominantly consisted of carbon dioxide and methane.

Table 2: Scope 1 GHG emissions subdivided by source types (tCO_2e)

	2014	2015	2016	2017	**2018**
Stationary combustion	260,124.4	205,701.9	195,576.1	243,001.1	**245,467.3**
Mobile combustion	2,135.2	1,498.2	757.9	434.9	**115.9**
Fugitive sources	1,861.6	15,346.1	11,015.6	10,896.0	**8,572.4**
Total	264,121.2	222,546.2	207,349.6	254,332.0	**254,155.6**

Stationary combustion sources formed the major portion of emitted GHGs. The reduction in emissions from mobile combustion is related to the fact that the majority of vehicles were transferred to a transport services company.

Indirect GHG emissions (Scope 2)

Nostrum does not use purchased steam, heating or cooling. Electrical power is the only such purchased power related to indirect GHG emissions, and it is supplied to Nostrum facilities via the Zelenovskaya distribution network (ZapKazREK JSC), through its subsidiary Batys Energoresursy LLC. The regional emission factor (0.27086 tCO_2/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 emissions (tCO_2e)

	2014	2015	2016	2017	**2018**
Direct energy (Scope 1)	264,121.2	222,546.2	207,349.6	254,332.0	**254,155.6**
Indirect energy (Scope 2)	5,278.6	5,482.3	2,262.9	640.3	**559.2**
Total	269,399.8	228,028.5	209,612.5	254,972.3	**254,714.8**

Emissions intensity ratio

Tonnes of CO_2 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 CO_2e ($mtCO_2e$) per tonne of oil equivalent (mmboe).

Table 4 shows intensity ratios for total (Scope 1 and Scope 2) emissions in the period 2014-2018.

Planned
CDP
participation in 2019

ESG
performance considered by Remuneration Committee

The independent review conducted by AMEC found Nostrum's environmental practices conformed to all required legislation.

Daulet Tulegenov
Group QHSE Manager

Our environment continued

Table 4: Emissions intensity ratios for total GHG emissions

	2014	2015	2016	2017	2018
Production, toe	2,366,023.6	2,152,421.6	2,156,171.2	2,088,917.0	**1,878,026.2**
tCO_2/toe	0.1	0.1	0.1	0.1	**0.1**
Production, mmboe	16.2	14.7	14.8	14.3	**12.9**
tCO_2/mmboe	16,623.8	15,467.3	14,193.4	17,820.7	**19,801.8**

According to adjusted GHG National Allocation Plan for 2018-2020, the total Nostrum GHG distribution allowance has been set to 627,174 tonnes of CO_2. The Kazakh Ministry of Energy is currently in co-operation with the World Bank to develop and implement an electronic GHG reporting platform which at present is being used in the deployment of a national GHG quota trading system. While we targeted a reduction in our GHG emission intensity ratio in 2018, our total emission levels stayed broadly the same whilst our levels of production fell. Unfortunately this resulted in an increase in our GHG emission intensity ratio and this is something that we are continually working to improve.

Climate change

Nostrum recognises that hydrocarbon exploration and production is a major contributor to GHG emissions and consequently we have a responsibility to work to address climate change. One of our key CSR goals in 2018 was to better understand and respond to this challenge. During the year we partnered with an external agency to assist us in understanding and reporting on potential impacts to our business. We hope this will be a key step in our ongoing efforts to address the issue of climate change long term within our business.

Climate change can affect our business through physical disruption to operations due to changing weather conditions, legislative and policy changes, technology to help reduce emissions, and future changes in energy market demands. We plan to more rigorously assess the impact of climate change on our business in the near future, including through portfolio resilience testing. Climate change has been added to our risk register for 2018. For more details please see page 44.

Future GHG reduction initiatives

We are committed to reducing our GHG emissions, and future plans include:

- Modernisation of equipment at the Oil Treatment Unit to reduce GHG emissions; and
- Undertaking an energy audit to identify ways in which GHG emissions can be reduced.

ESG risk is already a primary consideration of Nostrum's Board, however the Company is working to ensure Senior Management are focused on key issues affecting the business. In addition, the Remuneration Committee has the remit to take into account ESG issues when deciding on the remuneration of Nostrum's directors.

Nostrum must also balance climate change responsibilities with our commitments to our shareholders and other stakeholders. We believe in the sustainability of our business and see a continuing demand for the Company's products into the foreseeable future. We do not believe that a fundamental change in business strategy would be in the best interest of the Company or our stakeholders, particularly given the economic importance of our activities in the communities in which we operate.

Non-financial information statement

This section of the strategic report constitutes the Company's Non-Financial Information Statement, produced to comply with sections 414CA and 414CB of the Companies Act. The information is incorporated by cross reference.

Reporting requirement	Policies and standards which govern our approach	Information necessary to understand our business and its impact, policy due diligence and outcomes
Environmental matters	• Annual environmental objectives • Liquidation fund contribution	Our environment, pages 36 to 38 Communities and social review, pages 34 to 35 Results from independent environmental audit, page 36 Climate change, page 38
Employees	• Group Code of Conduct and Human Rights • Whistleblowing Policy • Health and Safety Policy and QHSE Management System Framework	Our people, pages 32 to 33 Our people, page 33 Health and safety, page 31 Reduction in Total Recordable Injury Frequency, page 31
Respect for human rights	• Modern Slavery Statement • Equality and Diversity Policy	Our people, page 33 Our people, page 32
Social matters	• Use of Group facilities	Communities and Social Review, page 34
Anti-corruption and anti-bribery	• Anti-Corruption and Bribery Policy • Anti-Facilitation of Tax Evasion Policy • Payments to Governments	Communities and Social Review, page 35 Our Governance Framework, page 62 Communities and Social Review, page 35
Description of principal risks and impact of business activity		Drilling results in the Northern Area, pages 24 to 27 Our principal risks and uncertainties, pages 41 to 44
Description of the business model		Our Business Model, page 12
Non-financial key performance indicators		Key Performance Indicators, page 21 Our Strategic Priorities, pages 18 to 19 Education and training, page 32

Risk management

The Group continuously develops its risk management system in order to ensure it remains in line with best practice in achieving the primary purpose of managing, monitoring and reporting on the risks that may impact achievement of the Group's strategic objectives, whilst maintaining compliance with respective regulatory requirements.

Risk management framework

Under the UK Corporate Governance Code, the Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain a sound system of risk management and internal control systems.

Therefore, the Board, supported by the Audit Committee and senior management, has the ultimate responsibility for risk management and internal control, including responsibility for the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives and for ensuring that an appropriate risk-awareness culture has been embedded throughout the Group.

The Group is in the process of formalising risk management roles and duties according to "The Three Lines of Defence" model as further described in the diagram below, whereby the Board and senior management are the primary stakeholders served by the three lines of defence as follows:

1. Heads of business functions;
2. Risk control and compliance oversight functions; and
3. The internal audit function.

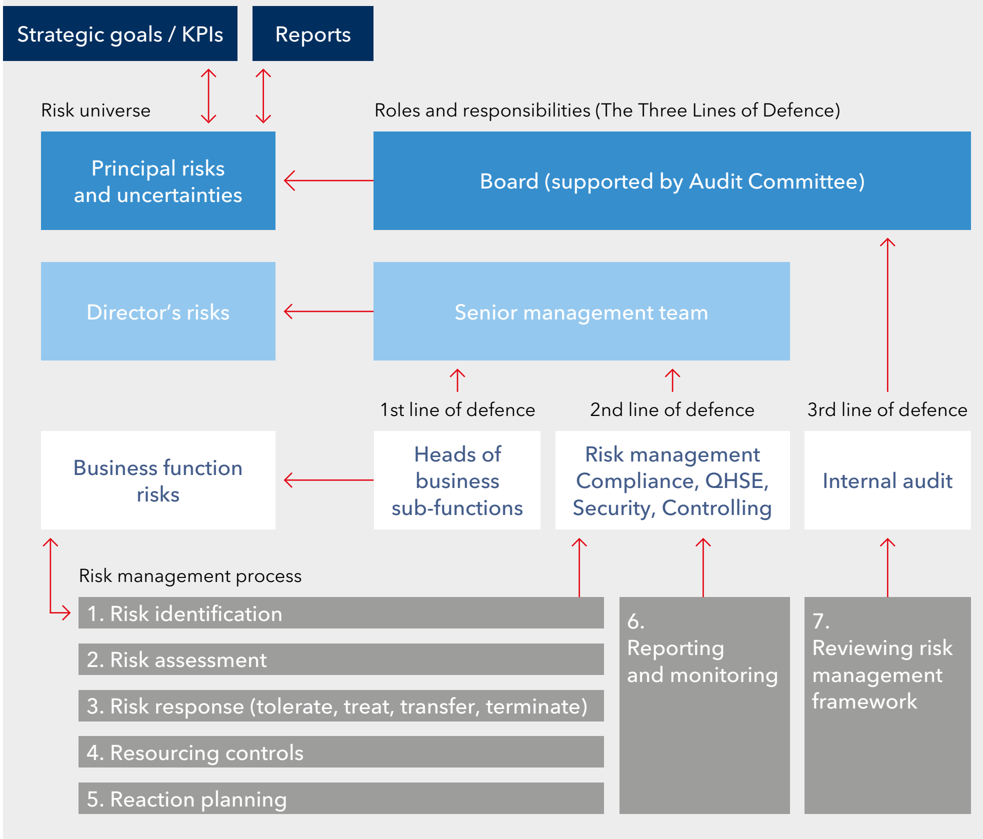
The risk management process goes through a set of coordinated activities starting with risk identification and ending with a review of the risk management framework, as shown in the diagram below.

The principal risks and uncertainties, which are managed and monitored at Board level, are supported by the directors' risks, which are identified, managed and reported by senior management. Risks are inherent in the various business functions within the Group and have therefore been categorised as business function risks. The members of the Senior Management Team have overall responsibility for managing the business function risk(s) relevant to their functional responsibility but delegate such responsibilities to various heads of business sub-functions. The identified risks are then aggregated and categorised into the following risk categories; strategic, operational, financial, compliance and other.

Based on these risk registers, related analysis and discussions senior 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".

In 2018, the processes related to risk management and internal control systems were consistent with the UK Corporate Governance Code and FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014.

Risk management framework



The Board oversees the design and implementation of systems of risk management and internal control and manages and reports on principal risks.

The Senior Management Team supports the Board in its oversight and monitoring role and perform management and reporting on the level of director's risks.

Heads of business functions, being the 1st line of defence, own and manage operational risks related to their respective area of activity.

2nd line of defence has a general oversight function to ensure that the risk management practices followed are effective.

Internal audit, acting as the 3rd line of defence, provides independent assurance over the effectiveness of the systems of risk management and internal control.

Risk management continued

Environmental, social and governance (ESG) matters

ESG matters form an integral part of the areas covered by the Group's systems of risk management and internal controls, and the Board recognises their significance and importance which are assessed consistently in accordance with regulatory requirements and established rules. Identified ESG risks and related responses can be seen within operational and other risks in the "Principal risks and uncertainties" disclosure on the next page.

The Board receive appropriate information for managing such risks and ensures that systems of risk management and internal controls are in place to effectively manage and monitor them. More elaborate disclosure on the established policies and procedures in these areas can be found in the Sustainable accountability section on page 30.

Changes from prior year risk assessment

In 2018, the principal risks and uncertainties managed and monitored by the Board and senior management mostly remained the same as in 2017, and the related risk assessments did not change significantly. One change relates to the section "Other Risks" where the risk of climate change has now been addressed.

Principal risks and uncertainties

Description of risk	Risk management
STRATEGIC RISKS	
Business and market environment The Group is exposed to various risks related to the market and external business environment, which are out of the Group's control. Such risks include: • The volatility of commodity prices on the markets; • The geopolitical, regional situation affecting the Group's areas of operations; and • Changes in currency exchange rates. Given that the Group's sales prices of crude oil and condensate are based on market prices, the Group's future earnings are exposed to adverse impact by changes in the market price of crude oil. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. The Group could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve. The Group's strategy and business model are not directly influenced by any significant risk resulting from Brexit.	The Group uses financial instruments to manage commodity price risks and liquidity risks. See note 29 - Derivative Financial Instruments in the Consolidated financial statements for details of the nature and extent of such position(s), and for qualitative and quantitative disclosures of these instruments. In addition, the Group is selling the majority of its dry gas under contract referencing export prices which are usually substantially higher than domestic prices. In 2017 the Group expanded its transportation options as it completed a connection to an oil pipeline. It can now transport its crude oil either via rail or pipeline. To mitigate the geopolitical, regional and customer risks, the Group has been strengthening customer relationships through establishing long-term off-take agreements while also looking at possibilities to geographically diversify its customer portfolio. Also, senior management constantly monitors the Group's exposure to foreign currency exchange rate changes and plans for necessary measures.
Strategic development initiatives The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue, which puts the Group at a significant risk of not meeting shareholder expectations in the event of natural disaster, facilities damage from accidents, crisis and other political influences. Diversification of its activity areas is considered by the Group as a way of minimising this risk while also providing the Group with an opportunity to gain from expanding the use of available capacities, technological resources and human capital. The Group's strategic initiatives towards diversification of its activity areas including M&A activities and further development projects, such as the GTU3 construction project and the well drilling programme, are subject to customary risks related to delay, non-completion and cost overruns which could impact future production and the Group's performance. In addition, the Group's strategic initiatives, as well as certain other ordinary activities, are subject to the risks that terms of the transactions with related parties may deviate from market terms, as well as associated risks related to the disclosure of such transactions.	The Group has a team of dedicated specialists who assess possible acquisitions of oil and gas fields and assets. In 2013, the Group acquired subsoil use rights for three oil and gas fields near the Chinarevskoye field. For the purpose of GTU3 construction, the Group has formed a dedicated experienced project management team and engaged JSC "OGCC KazStroyService". In December 2018 the Group announced mechanical completion of GTU3 and the start of the commissioning process. Senior management and the Board continuously monitor the timing, scope and performance of the drilling programme and take into account the status of the GTU3 project and current oil prices. A detailed drilling programme is approved by senior management for each well which forms the basis against which the progress of works and costs are reported.

Principal risks and uncertainties continued

Description of risk	Risk management
OPERATIONAL RISKS	
Oil and gas reserves and operations	
Oil and gas reserves estimation, exploration, development and production are accompanied by typical risks inherent to activities in this industry, which may adversely affect the Group's financial performance and achievement of strategic objectives. Estimation of oil and gas reserves requires exercise of judgement owing to the inherent uncertainty in any oil and gas field. There are also uncertainties and risks related to a field's geological structure and choice of development methods to maximise the reservoir performance. Hence, there are a number of risks that may lead to a deviation of production volumes from estimated and projected volumes. Unsuccessful drilling activities and failure to find additional commercial reserves could reduce future production of oil and natural gas, which is dependent on the rate of success of drilling activity. Well drilling and workover activities as well as construction, operation and maintenance of surface facilities are also subject to various risks including the availability of adequate services, technologies, expertise, etc., which may adversely affect the fulfilment of the Group's strategic objectives.	The Group has a department of highly skilled geologists who perform periodic assessments of the oil and gas reserves in accordance with international standards on reserve estimations and prepare production forecasting using advanced exploration risk and resource assessment systems. The results of the assessments are reviewed by the Group's independent reserve consultant, Ryder Scott. For well drilling and workover activities the Group engages highly skilled personnel, leading service suppliers as well as operations and cost monitoring systems, based on which the management oversees the work progress. Maintenance of the wells and surface facilities is scheduled in advance in accordance with technical requirements and all necessary preparations are performed in a timely manner and within budget ensuring high quality. In addition, the Group has emergency response and disaster recovery plans in place and periodically conducts necessary training and testing procedures.
Health, safety and environment	
Linking corporate social responsibility (CSR) to growth is one of the strategic priorities of the Group. Relevant health, safety and environmental risks are also considered to be one of the key areas of focus in terms of risk management. The Group faces typical health, safety and environmental risks in the oil and gas industry, including risks related to gas flaring, waste management, environmental pollution, fires and explosions at facilities, and transportation accidents. These risks may have a broad range of results including, but not limited to, injury of employees or local residents, pollution of the local environment and respective regulatory actions, legal liabilities, business interruption and any consequential impact on financial performance. It should also be noted that the legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times.	The Group has a QHSE department of highly skilled and competent specialists. The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Periodic training on the requirements of policies and regulations are held for employees. In addition, at the supplier selection and contracting stage the Group places a high degree of importance on a supplier's resources and ability to comply with the Group's QHSE requirements and, subsequently, the Group's dedicated team in this area conducts supplier audits. Key indicators such as GHG emissions, lost time injuries, waste management, water and soil pollution rates, etc., as well as progress of work are reported to senior management on a monthly basis. The Group is working towards full compliance with ISO 14001 Environmental Management Systems, ISO 45001 Occupational Health & Safety Management System and ISO 50001 Energy Management Systems. The Group also regularly engages an independent auditor to conduct HSE audits to monitor its compliance and best practice in this area and takes all necessary measures on the basis of the audit recommendations.

Description of risk	Risk management
COMPLIANCE RISKS	
Subsoil use agreements As the Group performs exploration, development and production activities in accordance with related licences for the oil and gas fields, there are related risks that the Group might not be able to obtain extensions when necessary, risks of non-compliance with the licence requirements owing to ambiguities, risks of alteration of the licence terms by the authorities and others. These risks may result in the Group's inability to fulfil scheduled activities; fines, penalties, suspension or termination of licences by authorities; and, respectively, significant and adverse impact on the Group's business, financial performance and prospects.	The Group has procedures and processes in place for the timely application for extension of licence periods when it is considered appropriate, however, uncertainty remains in relation to timing and results of decisions of authorities. 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.
Compliance with laws and regulations The Group carries out its activities in a number of jurisdictions and therefore must comply with a range of laws and regulations, which exposes the Group to the respective risks of non-compliance. In addition, the Group must comply with the Listing Rules, the Disclosure Guidance and Transparency Rules, FRC guidance and requirements, as well as KASE and bond indenture requirements, in light of its publicly traded shares and notes. Hence, there are non-compliance risks to which the Group is exposed. The impact of these risks may vary in magnitude and include regulatory actions, fines and penalties by authorities, diversion of management time, and may have an overall adverse effect on the Group's performance and activities towards achieving its strategic objectives.	For the purpose of compliance with laws, regulations and rules the Group has adopted a number of policies including a code of conduct, inside information and disclosure policy, related party transactions policy, code for dealing in securities, Anti-Corruption and Bribery Policy and a Whistle-Blowing Policy. The Group also performs periodic updates based on the changes in regulatory requirements and carries out related communications and training for employees. Necessary communication lines are established with authorities to ensure timely and adequate inbound and outbound flow of information. Management and the Board monitor significant matters related to legal and compliance matters in order to act promptly in response to any actions. The Group continuously monitors its compliance with its policies on the level of authorisations for transactions. In addition, the management maintains an open dialogue with its sponsors in relation to any matter related to non-compliance with Listing Rules and other regulatory requirements.

Principal risks and uncertainties continued

Description of risk	Risk management
FINANCIAL RISKS	
Tax risks and uncertainties The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create risks related to additional tax liabilities from assessments or risks related to recoverability of tax assets. Tax risks and uncertainties may adversely affect the Group's profitability, liquidity and planned growth.	The Group has policies and procedures related to various tax assessments and positions, as well as other control activities to ensure the timely assessment and filing of tax returns, payment of tax obligations and recovery of tax assets. The Group regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.
Liquidity risks Forecasting to maintain an adequate liquidity position is subject to the risk that inaccurate information or assumptions are used for the forecasts, risks of counterparty delay or failure to meet their contractual obligations owing to severe market conditions, etc.	Management and the Board constantly monitor the Group's liquidity position, forecasts and key financial ratios to ensure that sufficient funds are available to meet any commitments as they arise. In addition, the treasury policy provides that the Group should maintain a minimum level of cash of US$50 million.
Financing risks The Group's ability to access and source debt or equity capital is also exposed to volatility and uncertainties in global financial markets, which may adversely impact the Group's ability to meet its commitments associated with its financial liabilities, increase the cost of financing and affect the plans towards realisation of its strategic initiatives.	The Group performs financial reviews, establishes credit limits and engages with reliable financial counterparties. The Group's corporate finance function continuously monitors debt and equity markets and maintains an open dialogue with investors to be able to react quickly to any need for financing.
CLIMATE CHANGE RISKS	
Climate change Climate change risks is the group of risks including those stemming from more intense extreme weather events, rising energy intensity in the oil and gas industry, the changing regulatory landscape, the risk of fugitive emissions and climate change policies driving down the demand. The risk of more intense extreme weather events, for example, may lead to the following sub-risks: • Risks of reduced asset operation; • Risks of higher insurance premiums; and • Risks of disruptions to supply chains.	The Group is actively planning and managing projects designed to mitigate certain climate change related risks: • To decrease its exposure to rising fuel prices it retooled drilling rigs to derive more power from electricity rather than diesel; • In operations there is a permanent effort and commitment improve energy efficiency and to reduce flaring, venting and leaks; and • At campsite most of the water the Group utilises now is recycled. Climate change is on the Board's agenda. The Senior Management Team actively evaluates opportunities to further adapt and implement cost-effective mitigation measures.
OTHER RISKS	
Other significant risks Other risks are those that are not specifically identified within any of the principal risks and uncertainties but may be related to several such areas or be organisation-wide. These include risks related to: • Fraudulent activities; • Cyber security; • The Group's supply chains; • Accounting and reporting management systems; or • The availability of human resources. They may also significantly impact the Group's financial performance, reputation and achievement of its strategic objectives.	The Group has an Anti-Bribery and Corruption Policy and provisions relating to the same are included in the Group's Code of Conduct. Related training and updates are periodically provided for employees in relation to their obligations in this area. The Group has a wide range of internal controls over its supply chains and accounting and reporting processes, including policies, procedures, segregation of duties for authorisation of matters, periodic training for employees, etc. Senior management and the Board stay alert to emerging challenges related to various management systems and related governance matters and, when necessary, initiate change initiatives to ensure enhancement and integration of certain management systems.

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

Viability statement

The Group's viability assessment is built through integration of the principal risks and uncertainties (described on pages 41-44 into the model based on the elements of corporate planning and modelling process, which includes:

- The long-term projections and analysis based on a financial model (extending through 2032, i.e. the licence term of the Chinarevskoye field), based on which the senior management and the Board perform annual strategic planning and decision-making;
- Medium-term development planning (described on pages 18-19) based on three-year financial projections, which is also used for monitoring the Group's performance in terms of strategic objectives, related KPIs and risks;
- Annual budgeting and forecasting process incorporating preparation of an annual budget for the following year, which is reviewed and approved by the Board, and followed up by quarterly forecasts, which are monitored by the senior management and the Board.

This viability assessment also takes into account the requirements of Principle N Provision 31 of the 2018 Code.

Considering the uncertainties inherent to the Group's operations as well as the medium-term development planning mentioned above, the Board came to conclusion that a viability assessment over a three-year period provides more robust and realistic evaluation of Group's future performance in the context of potential risks and uncertainties, recent operational developments and refinancing of the Notes in 2017 and 2018. With this approach the Board continues to believe that the assessment:

- Improves the optimal balance between a reasonable degree of confidence and an appropriate longer-term outlook;
- Is aligned with medium-term development planning mentioned above;
- Is consistent with other current and/or recent communications (e.g. production forecasts etc.);
- Is appropriate for the current stage of development of the Group and gives an opportunity to reasonably assess sensitivity of the Group's performance to principal risks during and after realisation of major strategic objectives (described on pages 18-19), including production ramp-up.

For the purpose of our viability assessment a three-year financial model was used as a base-case scenario. The assumptions used in this scenario are consistent with those used in the impairment testing process (as described in the financial statements on page 125, except for the three-year period of assessment. Considering the shorter assessment period as compared to the impairment testing model, it was expected that, the base-case scenario is more sensitive to the following assumptions:

- Implementation of the drilling programme, which is based on the most recent Ryder Scott reserve report. The drilling programme is based on the required programme to produce all 2P reserves and does not cover any of the contingent resource base; and
- GTU3 completion (as described on page 14): it is assumed to be fully commissioned in H2 2019 for viability purposes.

For the purpose of sensitivity testing, several principal risks and uncertainties were selected (from those described on pages 41-44), which were deemed to have the highest potential financial impact on the Group's future performance, taking into account prior period assessments. The effect of those principal risks and uncertainties or their combination on the base-case scenario were analysed within following scenarios:

- Deterioration in the business and market environment: taking into account the fact that the oil price assumptions applied in the base case scenario were based on the most conservative projections by institutional analysts, this scenario was aimed at analysing the sensitivity to further 10% reduction in the oil prices over the period of assessment;
- Development of proved reserves: this scenario reflected results based on the assumption of 20% reduction in production and respectively sales volumes over the three-year period;
- Severe but plausible scenario: a combination of 10% reduction in the oil and gas prices, removal of production from western part of the license, together with impact of the risks related to one-year delays in commissioning of GTU3 and starting of processing of hydrocarbons from UOG, to the extent such assessments were practicable.

The scenarios took into account the availability and likely effectiveness of any mitigating actions that are in place or could be implemented to avoid or reduce the impact or occurrence of the underlying risks which would realistically be available to the Group in such 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 were taken into account.

The directors remained mindful of the risks associated with the Group's development projects, commodity price risks as well as risks associated with oil and gas reserves and operations (described on pages 41-44), which may impact the Group's ability to meet its liabilities, including the repayment of its Notes due in 2022 and 2025.

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 2021.

This strategic report is approved by the Board.

Kai-Uwe Kessel
Chief Executive Officer

25 March 2019

Tom Richardson
Chief Financial Officer

25 March 2019

Financial review

Results of operations for the years ended 31 December 2018 and 2017

The table below sets forth the line items of the Group's consolidated statement of comprehensive income for the years ended 31 December 2018 and 2017 in US Dollars and as a percentage of revenue.

In thousands of US dollars	For the year ended 31 December 2018	% of revenue	2017	% of revenue
Revenue	**389,927**	100.0%	405,533	100.0%
Cost of sales	**(165,145)**	42.4%	(177,246)	43.7%
Gross profit	**224,782**	57.6%	228,287	56.3%
General and administrative expenses	**(22,212)**	5.7%	(33,303)	8.2%
Selling and transportation expenses	**(49,984)**	12.8%	(66,441)	16.4%
Taxes other than income tax	**(29,702)**	7.6%	(19,967)	4.9%
Impairment charge	**(150,000)**	38.5%	–	0.0%
Finance costs	**(49,383)**	12.7%	(59,752)	14.7%
Employee share options – fair value adjustment	**1,320**	0.3%	2,099	*0.5%*
Foreign exchange loss, net	**(978)**	0.3%	(688)	0.2%
Loss on derivative financial instruments	**(12,387)**	3.2%	(6,658)	1.6%
Interest income	**514**	0.1%	374	0.1%
Other income	**4,374**	1.1%	4,071	1.0%
Other expenses	**(8,504)**	2.2%	(22,055)	*5.4%*
Profit before income tax	**(92,160)**	23.6%	25,967	*6.4%*
Income tax expense	**(28,535)**	7.3%	(49,849)	12.3%
Loss for the year	**(120,695)**	31.0%	(23,882)	*5.9%*
Other comprehensive (loss)/income for the year	**(895)**	0.2%	825	0.2%
Total comprehensive loss for the year	**(121,590)**	31.2%	(23,057)	*5.7%*

General note

For the year ended 31 December 2018 (the "reporting period") total comprehensive loss increased by US$98.5 million to US$121.6 million (FY 2017: US$23.1 million). The increase in loss is mainly due to the impairment charge for the year, which was partially offset by the improvement mainly driven by reductions in cost of sales, general and administrative expenses, selling and transportation expenses and finance costs, as explained in more detail below.

Revenue

The Group's revenue decreased by 3.8% to US$389.9 million for the reporting period (FY 2017: US$405.5 million). This is mainly explained by the decrease in production and sales volumes, which was partially offset by increase in the average Brent crude oil price from 54.7 US$/bbl during 2017 to 71.7 US$/bbl during the reporting period. The pricing for all 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$258.9 million, US$80.5 million and US$7.0 million respectively (FY 2017: US$200.6 million, US$102.8 million and US$30.9 million).

The following tables present the Group's revenue breakdown by products and sales volumes and the breakdown by export/domestic sales for the reporting period and FY 2017:

In thousands of US dollars	For the year ended 31 December 2018	2017	Variance	Variance, %
Oil and gas condensate	**267,815**	261,069	6,746	2.6%
Gas and LPG	**122,112**	144,464	(22,352)	(15.5)%
Total revenue	**389,927**	405,533	(15,606)	(3.8)%
Sales volumes (boe)	**10,773,266**	13,813,060	(3,039,794)	(22.0)%
Average Brent crude oil price (US$/bbl)	**71.7**	54.7		

In thousands of US dollars	For the year ended 31 December 2018	2017	Variance	Variance, %
Revenue from export sales	**296,034**	262,767	33,267	12.7%
Revenue from domestic sales	**93,893**	142,766	(48,873)	(34.2)%
Total	**389,927**	405,533	(15,606)	(3.8)%

Cost of sales

In thousands of US dollars	2018	2017	Variance	Variance, %
	For the year ended 31 December			
Depreciation, depletion and amortisation	**115,212**	120,692	*(5,480)*	(4.5)%
Payroll and related taxes	**18,326**	17,652	*674*	3.8%
Repair, maintenance and other services	**16,133**	18,960	*(2,827)*	(14.9)%
Other transportation services	**6,116**	8,335	*(2,219)*	(26.6)%
Materials and supplies	**5,253**	6,333	*(1,080)*	(17.1)%
Well workover costs	**2,767**	4,159	*(1,392)*	(33.5)%
Environmental levies	**367**	375	*(8)*	(2.1)%
Change in stock	**134**	297	*(163)*	(54.9)%
Other	**837**	443	*394*	88.9%
Total	**165,145**	177,246	*(12,101)*	*(6.8)%*

Cost of sales decreased by 6.8% to US$165.1 million for the reporting period (FY 2017: US$177.2 million). The decrease is primarily explained by the decrease in depreciation, depletion and amortization, repair, maintenance and other services, other transportation services, materials and supplies and well workover costs, further described in more detail below. On a boe basis, cost of sales increased by 19.6% to US$15.33 for the reporting period (FY 2017: US$12.83) and cost of sales net of depreciation per boe increased by US$0.54, or 13.2%, to US$4.63 (FY 2017: US$4.09).

Depreciation, depletion and amortisation decreased marginally by 4.5% to US$115.2 million for the reporting period (FY 2017: US$120.7 million). Depreciation is calculated applying units of production method. Decrease of depreciation in 2018 in comparison with prior period is a consequence of the ratio change between the volumes produced and the proved developed reserves as well as addition to O&G assets in the amount of US$131.5 million during reporting period.

Repair, maintenance services decreased by 14.9% to US$16.1 million for the reporting period (FY 2017:US$19.0 million) and materials and supplies decreased by 17.1% to US$5.3 million for the reporting period (FY 2017: US$6.3 million). These expenses include services on repairs and maintenance of the facilities, specifically for the gas treatment facility as well as related spare parts and other materials. These costs fluctuate depending on the timing of the periodic scheduled maintenance works.

Other transportation services decreased by 26.6% to US$6.1 million for the reporting period (FY 2017:US$8.3 million). The decrease is explained by the successful cost optimisation implemented by the Group during the reporting period.

Financial review continued

General and administrative expenses

In thousands of US dollars	For the year ended 31 December 2018	2017	Variance	Variance, %
Payroll and related taxes	**11,292**	13,578	*(2,286)*	(16.8)%
Professional services	**4,346**	11,095	*(6,749)*	(60.8)%
Depreciation and amortisation	**1,869**	2,294	*(425)*	(18.5)%
Insurance fees	**1,570**	1,640	*(70)*	(4.3)%
Lease payments	**846**	797	*49*	6.1%
Business travel	**774**	1,487	*(713)*	(47.9)%
Communication	**357**	411	*(54)*	(13.1)%
Materials and supplies	**168**	363	*(195)*	(53.7)%
Bank charges	**165**	221	*(56)*	(25.3)%
Other	**825**	1,417	*(592)*	(41.8)%
Total	**22,212**	33,303	*(11,091)*	*(33.3)%*

General and administrative expenses decreased by 33.3% to US$22.2 million for the reporting period (FY 2017: US$33.3 million). This was mainly driven by US$6.7 million or 60.8% decrease in professional services from US$11.1 million in 2017 to US$4.3 million in 2018.

Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December 2018	2017	Variance	Variance, %
Loading and storage costs	**18,881**	26,940	*(8,059)*	(29.9)%
Transportation costs	**15,017**	20,160	*(5,143)*	(25.5)%
Marketing services	**10,963**	14,363	*(3,400)*	(23.7)%
Payroll and related taxes	**2,565**	2,033	*532*	26.2%
Other	**2,558**	2,945	*(387)*	(13.1)%
Total	**49,984**	66,441	*(16,457)*	*(24.8)%*

Selling and transportation expenses decreased by 24.8% to US$50.0 million for the reporting period (FY 2017: US$66.4 million), owing primarily to decrease in sales volumes as well as further decrease effect in oil transportation costs resulting from successful connection to the KTO pipeline.

Taxes other than income tax

In thousands of US dollars	For the year ended 31 December 2018	2017	Variance	Variance, %
Royalties	**15,155**	15,724	(569)	(3.6)%
Export customs duty	**11,233**	3,864	7,369	190.7%
Government profit share	**3,277**	248	3,029	1221.4%
Other taxes	**37**	131	*(94)*	(71.8)%
Total	**29,702**	19,967	*9,735*	*48.8%*

Royalties, which are calculated based on production and market prices for the different products, decreased by 3.6% to US$15.1 million for the reporting period (FY 2017: US$15.7 million), which is mainly owing to the relative decrease in the production volumes.

Export customs duty on crude oil increased by 190.7% to US$11.2 million for the reporting period (FY 2017: US$3.9 million), mainly owing to the relative decrease of export sales to CIS countries, which are not subject to export duties.

Government profit share increased by US$3.0 million to US$3.3 million for the reporting period (FY 2017: US$0.2 million).

Impairment charge

Considering the reserves downgrade the Group has stress-tested the impairment model with higher sensitivities and recognised non-cash impairment charge totalling US$150.0 million (FY 2017: nil), including impairment of goodwill in the amount of US$32.4 million and impairment of oil and gas assets of US$117.6 million.

Finance costs

In thousands of US dollars	For the year ended 31 December 2018	2017	Variance	Variance, %
Interest expense on borrowings	**41,143**	42,797	(1,654)	(3.9)%
Transaction costs	**6,648**	15,709	(9,061)	(57.7)%
Unwinding of discount on amounts due to Government of Kazakhstan	**845**	866	(21)	(2.4)%
Unwinding of discount on abandonment and site restoration provision	**399**	225	174	77.3%
Other finance costs	**214**	–	214	100%
Finance charges under finance leases	**134**	155	(21)	(13.5)%
Total	**49,383**	59,752	(10,369)	(17.4)%

Finance costs decreased by 17.4% to US$49.4 million for the reporting period (FY 2017: US$59.8 million), which is mainly owing to lower transactions costs on bonds refinancing, as well as relatively higher interest capitalisation rate.

Other

Loss on derivative financial instruments amounted to US$12.4 million in the reporting period and relates to fair value of the hedging contract covering oil sales. Based on the contract the Group has covered the cost of the floor price by selling a number of call options with different strike prices for each quarter: Q1:US$67.5/bbl, Q2:US$64.1/bbl, Q3:US$64.1/bbl, Q4:US$64.1/bbl. The amount of upside given away has been capped through the purchase of a number of call options with different strike prices: Q1:US$71.5/bbl, Q2:US$69.1/bbl, Q3:US$69.6/bbl, Q4:US$69.6/bbl. Movement in fair value of financial derivative instruments is disclosed in Note 29 of the Consolidated financial statements included in this report.

Other expenses decreased to US$8.5 million for the reporting period (FY 2017: US$22.0 million). Such a significant decrease in other expenses is mainly explained by non-recurring business development expenses incurred in 2017 in relation to potential acquisitions of oil and gas exploration and appraisal assets in Kazakhstan.

Income tax expense decreased by US$21.3 million to US$28.5 million for the reporting period (FY 2017: US$49.8 million). The decrease in income tax expense was primarily driven by impairment of oil and gas properties in the current period, the effect of which on the deferred tax liabilities was partially offset by the devaluation of Tenge against US Dollar during the reporting period.

Financial review continued

Liquidity and capital resources

During the period under review, Nostrum's principal sources of funds were cash from operations and amounts raised under the 2018 Notes. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2017 Notes and the 2018 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 2017:

	For the year ended 31 December	
In thousands of US dollars	**2018**	2017
Cash and cash equivalents at the beginning of the year	**126,951**	101,134
Net cash flows from operating activities	**214,041**	182,788
Net cash used in investing activities	**(172,021)**	(192,391)
Net cash (used in)/from financing activities	**(47,009)**	34,589
Effects of exchange rate changes on cash and cash equivalents	**(209)**	831
Cash and cash equivalents at the end of the year	**121,753**	126,951

Net cash flows from operating activities

Net cash flow from operating activities was US$214.0 million for the reporting period (FY 2017: US$182.8 million) and was primarily attributable to:

- Loss before income tax for the reporting period of US$92.2 million (FY 2017: profit before income tax of US$26.0 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$117.1 million (FY 2017: US$123.0 million), impairment charge of US$150.0 million (FY 2017: nil), finance costs of US$49.4 million (FY 2017: US$59.8 million), loss on derivatives of US$12.4 million (FY 2017: US$6.7million) and payments made under derivatives of US$8.6 million.
- A US$4.0 million decrease in working capital (FY 2017: US$18.8 million increase) was mainly due to a decrease in prepayments and other current assets of US$7.7 million (FY 2017: a increase of US$5.7 million), a decrease in trade payables of US$3.2 million (FY 2017: US$4.6 million) and a decrease in other current liabilities of US$5.5 million (FY 2017: a decrease of US$1.6 million).
- Income tax paid of US$9.1 million (FY 2017: US$15.9 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$172.0 million (FY 2017: US$192.4 million) due primarily to costs associated with the drilling of new wells of US$87.5 million for the reporting period FY 2017: US$57.5 million), costs associated with the third gas treatment unit of US$55.8 million (FY 2017: US$157.5 million), and costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US$2.5 million (FY 2017: US$3.6 million).

Net cash from/(used) in financing activities

Net cash used in financing activities during the reporting period made up US$47.0 million, and was mainly represented by proceeds from issue of 2018 Notes in the amount of US$397.3 million, offset by the early redemption of 2012 Notes and 2014 Notes totalling US$353.2 million, the fees and premium paid for the arrangement of these transactions in the amount of US$9.5 million, and the payment of US$81.1 million of the finance costs, primarily on the Group's 2017 Notes and 2018 Notes. Net cash from financing activities during FY 2017 made up US$34.6 million, which was mainly represented by proceeds from issue of 2017 Notes in the amount of US$725 million, offset by the early redemption of 2012 Notes and 2014 Notes totalling US$606.8 million, the fees and premium paid for the arrangement of these transactions in the amount of US$27.0 million, and the payment of US$57.0 million of the finance costs on the Group's 2012 Notes and 2014 Notes.

Commitments

Liquidity risk is the risk that the Group will encounter difficulty raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management seeks to ensure that sufficient funds are available to meet any commitments as they arise.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2018 based on contractual undiscounted payments:

As at 31 December 2018	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	43,000	43,000	1,011,000	456,000	**1,553,000**
Trade payables	37,843	–	15,033	–	–	**52,876**
Other current liabilities	29,858	–	–	–	–	**29,858**
Due to Government of Kazakhstan	–	258	773	4,124	7,474	**12,629**
	67,701	**43,258**	**58,806**	**1,015,124**	**463,474**	**1,648,363**

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$131.4 million (FY 2017: US$188.1 million). This mainly reflects costs associated with the construction of the third gas treatment unit, drilling costs and other field infrastructure development projects.

Gas Treatment Facility

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, the Group achieved mechanical completion of a third unit in December 2018, with commissioning anticipated to be completed in 2019. The construction of GTU3 is important for implementing the Group's strategy to increase operating capacity and as a result increase production and processing of liquid hydrocarbons. Management estimates, based on the production profile of both proved and probable reserves reported in the 2018 Ryder Scott Report and assuming the full commissioning of the gas treatment facility in H2 2019, that the Company's annual production will gradually increase from 2019 onwards. The remaining costs for the completion of GTU3 are estimated at US$34.6 million.

Drilling

Drilling expenditures amounted to US$87.5 million for the reporting period (FY 2017 US$57.5 million). After the completion of GTU3, it is expected that the drilling expenditure will become the primary driver of the Company's investing activities.

Dividend policy

The Group currently pays no dividend and has not done so for the last three years, as the Board determined it was not in the Company's best interests to do so. This will be reviewed annually by the Board.

Five-year summary

In millions of US$ (unless mentioned otherwise)	2018	2017	2016	2015	2014
EBITDA reconciliation					
(Loss)/profit before income tax	**(92.2)**	26.0	(65.5)	72.3	311.7
Add back					
Impairment charge	**150.0**	–	–	–	–
Finance costs	**49.4**	59.8	41.7	46.0	61.9
Finance costs – reorganisation[1]	**-**	–	–	1.1	29.6
Employee share options – fair value adjustment	**(1.3)**	(2.1)	(0.1)	(2.2)	(3.1)
Foreign exchange loss, net	**1.0**	0.7	0.4	21.2	4.2
Loss on derivative financial instruments	**12.4**	6.7	63.2	(37.1)	(60.3)
Interest income	**(0.5)**	(0.4)	(0.5)	(0.5)	(1.0)
Other expenses	**8.4**	22.0	(1.8)	30.6	49.8
Export customs duty[2]	**-**	–	–	(14.7)	(19.7)
Other income	**(4.4)**	(4.1)	(2.2)	(11.3)	(10.1)
Depreciation, depletion and amortisation	**117.1**	123.0	131.6	109.4	111.9
Proceeds from derivative financial instruments[3]	**-**	–	27.2	92.3	–
Purchase of derivative financial instruments[3]	**(8.6)**	–	–	(92.0)	–
EBITDA	**231.3**	231.6	194.0	215.0	475.0
Operating costs reconciliation					
Cost of sales	**165.1**	177.2	182.2	186.6	221.9
Less					
Depreciation, depletion and amortisation[4]	**(115.2)**	(120.7)	(129.4)	(107.7)	(110.5)
Royalties[5]	**-**	–	–	(14.4)	(24.3)
Government profit share[5]	**-**	–	–	(1.9)	(4.6)
Operating costs	**49.9**	56.5	52.8	62.6	82.5
Net debt reconciliation					
Long-term borrowings	**1,094.0**	1,056.5	943.5	936.5	930.1
Current portion of long-term borrowings	**35.6**	31.3	15.5	15.0	15.0
Less					
Current investments	**-**	–	–	–	25.0
Cash and cash equivalents	**121.8**	127.0	101.1	165.6	375.4
Net debt	**1,007.8**	960.8	857.9	785.9	544.7
Net cash flows from operating activities	**214.0**	182.8	202.1	153.3	349.1
Net cash used in investing activities[6]	**(172.0)**	(192.2)	(200.3)	(245.3)	(304.5)
Net cash from / (used in) financing activities	**(47.0)**	34.6	(66.3)	(115.9)	147.5
EBITDA margin[7]	**59.3%**	57.1%	55.7%	47.9%	60.7%
Equity/assets ratio %	**25.3%**	29.6%	32.8%	35.4%	41.6%
Share price at end of period (US$)[7]	**1.03**	4.41	4.75	5.97	6.56
Shares outstanding ('000s)	**188,183**	188,183	188,183	188,183	188,183
Options outstanding ('000s)	**3,432**	3,333	2,536	2,611	2,611
Dividend per share (US$)	**-**	–	–	0.27	0.35

1. The reorganisation costs are represented by the costs associated with the introduction of Nostrum as the new holding company of the Group and the respective reorganisation that took place in June 2014.
2. In 2016, 2017 and 2018, Export customs duty is included within Profit / (loss) before income tax (presented within 'taxes other than income tax'). In 2014 and 2015, Export customs duty is included within 'other expenses', therefore an adjustment is made to re-include Export customs duty within respective EBITDA.
3. Cash received from hedge contract represents the cash proceeds from the long-term hedging contract which in accordance with IAS7 Statement of Cash Flows is included within operating cash flows. While this item is not required to be presented in the Consolidated Income Statement, we have included this in our definition of EBIT and EBITDA in order to better align these non-GAAP measures with our operating cash flows.
4. Depreciation as it applies to operating assets only.
5. Prior to 2016, royalties and government profit share were reported within the cost of sales line.
6. IFRS term based on indirect cash flow methodology
7. EBIDTA margin is calculated as EBITDA divided by total revenue.
8. Prior to 20 June 2014 the equity of the Group was represented by GDRs, the share price as at 31 December 2018 was 1.03 GBP/share x 1.28 US$/GBP = 1.32 US$/share

Alternative performance measures

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

EBITDA

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

Operating costs

Operating costs are the cost of sales less depreciation, royalties and government profit share[5]. This metric is relevant as it allows management to see the cost base of the company on a cash basis.

Executive Chairman's overview

Dear shareholder,

I am pleased to report that the Board has set up several important initiatives in the area of corporate governance during 2018, which we intend to follow up on in a systematic way going forward. These included the promotion of our heads of QHSE and Human Resources into our senior management team, additional ESG reporting, a greater emphasis on improving diversity at all levels of our workforce and the creation of our Group Anti-Facilitation of Tax Evasion Policy.

In addition, following on from initiatives taken in 2018, in early 2019 we created a Health, Safety, Environment and Communities Committee of the Board which will allow us to place a greater focus on the Board's efforts in those areas, including in particular further attention to environmental and climate changes issues.

Board changes

With 2017 being a year of change in the composition of the Board, 2018 has been a period of 'bedding in' for the Board members and I can report that there have been no changes in the composition of the Board in 2018.

My role as Chairman has been expanded and I now have assumed certain executive responsibilities, particularly in the areas of business development, strategic initiatives and investor relations.

In addition, Michael Calvey stepped down from the Remuneration Committee during 2018 to ensure that the committee is comprised solely of independent non-executive directors.

Key priority tasks in 2018

In February 2018 the Board was pleased to oversee the completion of the issuance of a new US$400 million bond at 7.000% that allowed the Company to refinance the remainder of its outstanding debt that was to come due in 2019, such that Nostrum has no debt maturities until 2022.

In addition, mechanical completion of GTU3 was completed in 2018 and commissioning of the plant has commenced.

The Board maintains its focus on managing risk as Nostrum builds out its infrastructure and the Board discusses risk regularly as part of the Board's wider discussion of our strategy and business model. Further information is set out on page 39 where we aim to demonstrate how decisions taken by the Board are underpinned by a robust risk management framework.

Board evaluation

The Board self-evaluation in 2018 centered around five key themes identified by directors. Those related to engagement with shareholders, interaction with senior management, engagement with the workforce, succession planning and diversity. The Board adopted a concrete action plan following up on this self-evaluation and further details on this can be found on page 64.

Remuneration policy

A revised remuneration policy will be presented to shareholders for their vote at our upcoming Annual General Meeting. The Remuneration Committee led the process in proposing amendments to our policy in response to feedback received from shareholders in 2018. The policy will specifically preclude the making of any LTIP awards to non-executive directors.

Compliance with the Code

The UK Corporate Governance Code 2016 is the standard against which we measured ourselves in 2018. A copy of the Code is available from the Financial Reporting Council's website. Nostrum complied with all provisions of the Code except for those provisions set out in our Corporate Governance Statement, available on our website: www.nog.co.uk.

Until 16 August 2018, the Company did not comply with Provision D.2.2 of the Code as one member of the Remuneration Committee was not an independent non-executive director. As previously announced, with effect from 16 August 2018, the Committee is comprised solely of independent non-executive directors.

New Corporate Governance Code

The Nomination and Governance Committee reviewed the Company's compliance with the terms of the newly-issued 2018 Code of Corporate Governance, in advance of its implementation on 1 January 2019, and has recommended actions to ensure compliance going forward, particularly around workforce engagement. The Company will report more fully on such actions in due course.

Governance summary

Leadership

Your Board rigorously challenges strategy, performance, responsibility and accountability to ensure that every decision we make is of the highest quality.

Learn more on page 60.

Effectiveness

Your Board continuously evaluates the balance of skills, experience, knowledge and independence of the directors.

We scrutinise the effectiveness of our performance in an annual Board evaluation, more details of which can be found on page 64.

Accountability

All of our decisions are discussed within the context of the risks involved. Effective risk management is central to achieving our strategic objectives.

Discover more about how we remain accountable as a Board on page 61.

Remuneration

Our remuneration policy and practices aim to attract, retain and motivate by linking reward to performance.

A copy of our remuneration policy can be found on pages 78 to 95.

Relations with shareholders

The Board seeks to engage with shareholders regularly.

Further information regarding shareholder engagement can be found on page 64.

As a Board, we have made a particular effort during 2018 to improve our dialogue and engagement with shareholders. The additional statement on the Company's remuneration policy and Report announced and posted on the Investment Association's Public Register in response to shareholder feedback is an indication of the Board's commitment to such dialogue.

We will continue to review and develop our corporate governance practices in 2019 to ensure full compliance with regulatory requirements, to strive for best practice and to ensure that all our practices promote the long-term success and development of our business as a whole for the benefit of all its stakeholders and the communities in which we operate.

Atul Gupta

Atul Gupta
Executive Chairman

25 March 2019

Board of directors

Atul Gupta
Executive Chairman[1]

DOB:
15 December 1959

Nationality:
British

Date of appointment:
19 May 2014

Other current appointments:
- Midway Resources LLC – Director

Other positions by date:
- Chief Executive Officer (2006-2008) and Chief Operating Officer (1999-2006) of Burren Energy.
- 30 years' broad 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).

1. Atul Gupta resigned as a member of the Nomination Committee on 26 November 2018 following his appointment as Executive Chairman.

Board committees

- A Audit Committee
- N Nomination and Governance
- R Remuneration
- Chairman

Kai-Uwe Kessel
Chief Executive Officer

DOB:
17 December 1961

Nationality:
German

Director of Nostrum's predecessor entities since 2004

Date of appointment:
3 October 2013

Other current appointments:
- None

Other positions by date:
- 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.

Tom Richardson
Chief Financial Officer

DOB:
17 March 1981

Nationality:
British

Date of appointment:
1 September 2016

Other current appointments:
- Sokoni Medical Limited – Director
- Sokoni Ventures Limited – Director
- TDR Enterprises Holdings Limited – Director
- Nostrum Oil & Gas UK Limited – Director
- TDR Enterprises Ltd – Director
- TDR Investments Ltd – Director

Other positions by date:
- Since 2011, provided corporate finance services to the Nostrum Group.
- Worked for a number of financial institutions including Rothschild, JP Morgan and ING.
- Eight years of experience in banking covering emerging markets.
- Holds a Bachelor of Science degree from Bristol University.

Mark Martin
Senior Independent Director

DOB:
17 February 1969

Nationality:
British

Date of appointment:
19 May 2014

Other current appointments:
- None

Other positions by date:
- 20 years of investment banking experience with Barclays, Baring Securities and ING where he was Global Head of Equity Capital Markets from 2003 to 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.

Sir Christopher Codrington, Bt.
Independent non-executive director

DOB:
20 February 1960

Nationality:
British

Date of appointment:
19 May 2014

Other current appointments:
- Navarino Services Limited – Director
- Capital Marketing Investments Ltd – Director

Other positions by date:
- More than 30 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.

Kaat Van Hecke
Independent non-executive director

DOB:
7 December 1971

Nationality:
Belgian

Date of appointment:
31 December 2016

Other current appointments:
- Axxela Limited - Director

Other positions by date:
- 2013-2016 served as Managing Director and Senior Vice President of the Austrian Upstream business at Österreichische Mineralölverwaltung (OMV).
- 2010-2013 served as E&P Group Head of Business Support at OMV.
- 2002-2010 held various positions with Shell in Russia, Nigeria and The Netherlands.
- 1995-2001 held various positions with ExxonMobil in Belgium and The Netherlands.
- Obtained a Master of Science degree in Chemical Engineering from the University of Ghent, Belgium. Also holds a Master in General Management from the Vlerick Management School, Belgium.

Michael Calvey
Non-executive director

DOB:
3 October 1967

Nationality:
American

Date of appointment:
25 April 2017

Other current appointments:
- Public Joint Stock Company "Orient Express Bank" – Director
- BPEP International – Director
- Kaspi Bank – Member of Advisory Council
- Volga Gas PLC – Director
- Atlantic Council of United States – Director
- Etalon Group Limited – Director
- Baring Vostok Capital Partners – Director and Senior Partner
- Baring Vostok Holding Limited – Director
- Baring Vostok Capital Partners Limited (Cyprus) – Director
- Baring Vostok Capital Partners Group Limited – Director

Other positions by date:
- 1994 – present, Founder and Senior Partner at Baring Vostok Capital Partners.
- Prior to 1994 worked on oil and gas investment projects for the European Bank for Reconstruction and Development and Salomon Brothers.
- Obtained a Masters degree in Finance from the London School of Economics and a Bachelors degree in Business from Oklahoma University.

Simon Byrne
Non-executive director

DOB:
8 September 1967

Nationality:
British

Date of appointment:
16 November 2017

Other current appointments:
- Chief Executive Officer of Steppe Capital Pte Ltd
- Director of Mayfair Investments B.V., Kazstroyservice Global B.V. and various other entities within the Steppe Capital Group
- Independent Non-Executive Director at Pacific Hunt Energy Limited

Other positions by date:
- Chief Executive Officer of Steppe Capital Pte Ltd, an investment holding company and international family office based in Singapore.
- More than 30 years' corporate finance and banking experience and previously served as a Managing Director at RBS Global Banking & Markets and at ABN Amro and held position with Asahi Bank and Manufacturers Hanover Limited.

Martin Cocker
Independent non-executive director

DOB:
19 September 1959

Nationality:
British

Date of appointment:
16 November 2017

Other current appointments:
- Etalon Group PLC – Non-Executive Director
- Tinkoff Credit Systems Group Holdings – Non-Executive Director
- Beverley Building Society – Non-Executive Director
- Zeminik Trading Limited – Director

Other positions by date:
- Chartered accountant with over 30 years' business experience.
- Held several line management, project leader and CEO-level positions and currently is an independent non-executive director and Chairman of the audit committee at Etalon Group PLC and TCS Group Holdings PLC.
- Managing Director and co-owner of Bliss Development and a member of the investment committee of Pride Capital.
- Previously held senior positions with Deloitte & Touche, KPMG, Ernst & Young and Amerada Hess.
- Obtained a BSc joint honours in Mathematics and Economics from the University of Keele.
- Member of the Institute of Chartered Accountants of England and Wales.

Senior management team

(See biographies of executive directors Kai-Uwe Kessel and Tom Richardson on page 56).

Sergey Khafizov

Role:
Chief Business Development Officer

DOB:
14 February 1965

Nationality:
Russian

Skills and experience:
- Appointed as Chief Business Development Officer in September 2016.
- 2015-2016 held position as Project Director and Head of Exploration Department.
- Over 33 years' of experience in geological exploration and production, leading large exploration projects, research and project teams.
- Previously held managerial and technical positions with Gazprom Neft and TNK-BP.
- Graduate of the Gubkin Russian State University of Oil and Gas, Doctor of Science, Geology Professor, Full Member (Academician) of the Russian Academy of Natural Sciences, Member of the American Association of Petroleum Geologists (AAPG) and Society of Petroleum Engineers (SPE).

Arkadi Epifanov

Role:
Chief Commercial Officer

DOB:
27 October 1957

Nationality:
Russian

Skills and experience:
- Appointed as Chief Commercial Officer on 13 January 2017.
- 2009-2017 held position as marketing consultant for Zhaikmunai LLP.
- Over 20 years' experience in senior management and directorial positions in Nafta, Transoil, Lukoil, Litasco and Baltic Oil Terminal.
- Has worked in the oil sector across diverse regions including Finland, Belgium, Romania, Russia, Switzerland, The Netherlands and the British Isles.
- Holds qualifications in Economics from Leipziger University.

Thomas Hartnett

Role:
Chief Legal Officer and Company Secretary

DOB:
4 July 1964

Nationality:
US/Belgian

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

Heinz Wendel

Role:
Chief Operating Officer[1]

DOB:
22 August 1953

Nationality:
German

Skills and experience:
- Appointed as Chief Operating Officer of the Group in November 2016.
- 2013-2016 held position as General Director of Zhaikmunai LLP.
- 2012-2013 held position as Operations Director of Zhaikmunai LLP.
- Near to 40 years' experience and oil and 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, among others, GDF Suez E&P Deutschland and East German Erdöl-Erdgas Gommern (EEG).
- Graduate of the Oil & Gas Institute of Baku, Azerbaijan.

1. On 12 February 2019 Robert Tinkhof was appointed as Chief Operating Officer as a result of the retirement of Heinz Wendel.

Daulet Tulegenov

Role:
Group QHSE Manager

DOB:
29 January 1980

Nationality:
Kazakh

Skills and experience:
- Appointed as Group QHSE Manager in October 2018.
- 2017-2018 HSE Transformation team leader at KazMunaiGas JSC.
- 2010-2016 HSE manager at Lukoil.
- Over 15 years experience in E&P oil and gas assets (onshore and offshore).
- Took part in major international projects at Chevron, Shell, Lukoil, Tengizchevroil and CNPC companies in Kazakhstan
- Graduate of the Tyumen State Oil & Gas University, Russian Federation.

Marina Grinevskaya

Role:
Chief HR Officer

DOB:
9 April 1963

Nationality:
Russian

Skills and experience:
- Appointed as Group HR Manager on 15 September 2016 and as Chief HR Officer on 1 February 2019.
- More than 24 years' experience in human resources management.
- Worked for international companies in various industries: professional services, sales and marketing, oil and gas, production.
- Held HR Manager and HR Director positions at KPMG, Lumene, Farmos, Gazprom Neft Middle East B.V., DS Controls.
- Graduate of the St. Petersburg State University with a PhD degree in English Philology, holds a diploma and certificate in Human Resources Management from the St. Petersburg State University of Economics and Finance and Pierre Mendès-France University of Grenoble.

Our governance framework

The Board

The Board is chaired by Atul Gupta and meets a minimum of four times a year. The Board is collectively responsible to shareholders for the long-term success of the Group. This is achieved by reviewing trading performance, budgets and funding, setting and monitoring the Groups strategic objectives, reviewing acquisition opportunities and engaging with stakeholders. The Board is supported by a number of committees whose Terms of Reference (TORs) are available on our website.

Chairman

Responsible for leadership of the Board and for ensuring its effectiveness in all aspects of its role.

Chief Executive Officer

Responsible for the successful planning and execution of the objectives and strategies agreed by the Board.

Non-executive directors

Responsible for bringing an external perspective, sound judgement and objectivity to the Board's decision-making. Scrutinise management performance and constructively challenge strategy.

Senior Independent Director

Provides a sounding board for the Chairman and a trusted intermediary for the other directors.

Audit Committee

Responsible for oversight of the Group's financial reporting processes. Scrutinises the work of the external auditor and regularly reviews the risk management framework and the work of internal audit.

Chairman:
Sir Christopher Codrington, Bt.

See page 66 for Committee Report.

Nomination and Governance Committee

Reviews the structure, size and composition of the Board and its committees and makes recommendations to the Board accordingly, and leads the process for new Board appointments.

Chairman:
Sir Christopher Codrington, Bt.

See page 74 for Committee Report.

Remuneration Committee

Reviews and recommends to the Board the executive remuneration policy and determines the remuneration packages of the directors.

Chairman:
Mark Martin

See page 76 for Committee Report.

Company Secretary

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

Company Secretary:
Thomas Hartnett

Senior management team

The senior management team supports the Chief Executive Officer in making important decisions regarding the overall management of the Group in respect of all Group matters that are not reserved for the Board and ensuring that operational activities and performance are aligned with the overarching strategy of the Group. Each member of the team reports directly to the Chief Executive Officer, who then directly reports to the Board.

The functional responsibilities of the senior management team members in their respective area include but are not limited to implementing Chief Executive Officer and Board decisions, allocating resources, managing risk, maximising efficiencies, guiding and developing employees, reviewing performance and supporting cross-functional integration.

Finance

Responsible for supporting the Group and the Board in matters relating to: (i) corporate finance (ii) investor relations (iii) economic analysis (iv) tax (v) budget and control (vi) insurance (vii) risk management and (viii) ICT.

Head: Tom Richardson

Business Development

Responsible for supporting the Group and the Board in matters relating to: (i) hydrocarbon reserves management (ii) preparation and implementation of E&P strategy (iii) geological exploration and analysis (iv) asset portfolio management (v) market intelligence (vi) transaction management and (vii) peer analysis.

Head: Sergey Khafizov

Operations

Responsible for supporting the Group and the Board in matters relating to: (i) production engineering and reservoir management (ii) drilling and workover management production (iii) production (iv) engineering and construction field operations (v) relations with governmental authorities (vi) procurement (vii) research and development (viii) security and (ix) administration licensing.

Head: Heinz Wendel

Legal

Responsible for supporting the Group and the Board in matters relating to: (i) all legal matters (ii) compliance (iii) corporate governance (iv) company administration and (v) internal communications.

Head: Thomas Hartnett

Sales and Marketing

Responsible for supporting the Group and the Board in matters relating to: (i) sales of oil and gas products (ii) marketing and (iii) logistics and transportation.

Head: Arkadi Epifanov

QHSE

Responsible for supporting the Group and the Board in matters relating to: (i) product quality, (ii) health, (iii) safety and (iv) the environment.

Head: Daulet Tulegenov

Human Resources

Responsible for supporting the Group and the Board in matters relating to: (i) personnel and the workforce matters generally (ii) training and (iii) remuneration.

Head: Marina Grinevskaya

Board policies and governance arrangements

Nostrum recognises the important role that good corporate governance plays in the success of the Company. As a result, the Board promotes high standards of corporate governance as a key component of its activities. Clearly defined roles and responsibilities, non-executive independence, boardroom and workplace diversity, an open and transparent culture and the work of our committees in implementing the Company's values and policies throughout the Group are all vital ingredients to get this right for our stakeholders.

In order to ensure that it is involved in making important decisions for the Group and to ensure there is a clear division of responsibilities between the Board and executive management, the Board has identified certain "reserved matters" that are subject to its approval. Other matters, responsibilities and authorities have been delegated to its committees and the senior management team, as set out in the governance framework on page 60. The schedule of matters reserved for the Board is reviewed annually and is available on our website.

Division of responsibilities

On 27 November 2018 the Board resolved to expand the role of the Company's Chairman, Atul Gupta, to give him certain executive responsibilities, in particular in relation to business development, strategic initiatives and investor relations. Notwithstanding this, in accordance with the Code, the roles of Chairman and Chief Executive remain separate, with each having distinct and clearly defined responsibilities, as summarised in the Board structure diagram. Mr Gupta's new role as Executive Chairman is to guide, advise, counsel and assist the Chief Executive Officer in overseeing the Company's implementation of its strategy. The Chief Executive Officer remains responsible for line-management of his direct reports and implementation of the Company's strategy.

The Chairman's overarching role in leading an effective Board is supported by the Senior Independent Director, while the Chief Executive's Officer's strategic capabilities are strengthened by the Senior Management Team.

Independence

Robust oversight is crucial for strong corporate governance and the Board is committed to securing this through the appropriate balance of independent non-executive directors.

The Board considers all of its non-executive directors, other than Michael Calvey and Simon Byrne, to be independent within the meaning of such term as defined in the Code. Michael Calvey and Simon Byrne are not deemed to be independent as a result of having been nominated by Baring Vostok Capital Partners and Mayfair Investments B.V. respectively, who are two of the largest shareholders in the Company.

HSEC Committee

Following on from discussions by the Board during 2018, the Company is in the process of forming a Health, Safety, Environment and Communities Committee of the Board. Among the matters that will be dealt with by the Committee are the following:

- Attention to climate change issues will be among the principal duties of this committee;
- Working with our operational teams on site, compiling and evaluating the relevant information for the Company to self-report environmental data in 2019 using the CDP submission process;
- Assessing the requirements for TCFD disclosure and analysing our preparedness to meet these; and
- Working with the Audit Committee and the Board to include climate change among the principal risks and uncertainties faced by Nostrum and to endeavour to quantify climate change-related risks.

Equality and 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, geographic and ethnic origin and gender.

The Company has 11% female representation on its Board. The Nomination and Governance Committee remains satisfied that the Board has the right mix of skills and experience to operate effectively, but remains committed to monitoring diversity closely and increasing diversity where possible as part of future succession planning.

Our governance framework continued

In November 2017 the Board approved its Equality and Diversity Policy, to which the Company continued to adhere throughout 2018.

In accordance with the policy, the Group is committed to eliminating discrimination and encouraging equality and diversity in all of our business activities, including the provision of employment. The policy applies to all who work for the Group, including directors, together with the managerial, supervisory and administrative bodies of all entities within the Group. The policy also applies equally to the treatment of our supply chain, applicants and visitors by our staff and the treatment of our staff by these third parties. The objective of the policy is to promote equality of opportunity and to ensure that no individual suffers unlawful discrimination, directly or indirectly, on the grounds of race, colour, ethnicity, religion, sex, gender identity or expression, gender reassignment, national origin, age, marital status, disability or sexual orientation.

The Group aims to ensure the objective of the policy is met by:

- Ensuring all recruitment advertising and publicity aims to encourage applications from any individual who has appropriate qualifications and/or experience;
- Not offering discriminatory conditions of employment;
- Ensuring all promotions are made strictly on the basis of the ability to do the job and no such decision is made on a discriminatory basis;
- Considering requests for part-time work or job-sharing opportunities wherever appropriate and practicable and aiming to ensure that part-time employees receive fair treatment;
- Ensuring that the demands of religion (e.g. prayer time and religious holidays), culture (e.g. traditional dress) and special dietary needs are accommodated where possible; and
- Taking reasonable steps to assist employees with domestic responsibilities (e.g. young children and dependent elderly relatives).

The following are steps that have been taken in 2018 to implement this policy:

- In 2018 a woman was promoted into the Senior Management Team;
- We have continued to focus on attracting more female candidates across all levels throughout the Group and are assessing our performance in attracting female employees at junior management levels in Kazakhstan and reviewing our current training, retention and promotion schemes to encourage promotion of more women into senior management positions;
- We are setting up a mechanism for regular reporting by our Human Resources team to the Board on diversity and any gender pay gap issues we may have; and
- We are looking into cross-company mentor schemes to achieve our goals in this area.

Conflicts of interest

A director has a duty to avoid a situation in which they have, or may have, a direct or indirect interest that conflicts or may conflict with the interests of the Company.

Formal procedures are in place to ensure that the Board's powers of authorisation of conflicts or potential conflicts of interest of directors are operated effectively. The Board is satisfied that during 2018 these procedures were enforced and adhered to appropriately.

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.

Each non-executive director appointment is for an initial term of three years, subject to being re-elected at each subsequent Annual General Meeting.

Bribery, corruption and Whistle-Blowing

Bribery and corruption are significant risks in the oil and gas industry and as such the Company operates a Group-wide Anti-Corruption and Bribery 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.

The Company has also adopted a Whistle-Blowing Policy that takes account of the Whistleblowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work. No matters were raised under the Whistle-Blowing Policy in 2018. Further information can be found on page 33.

Both policies were reviewed by the Audit Committee in 2018 and minor changes were recommended to the Board and implemented.

Anti-facilitation of tax evasion

Further to the implementation of new rules under the Criminal Finances Act 2017 ("CFA") in the UK, the Board approved a new Anti-Facilitation of Tax Evasion Policy during the year, applicable to the Group and its associated persons. In connection with the preparation of this policy, the Company commissioned an independent, bespoke risk assessment and incorporated findings from such assessment in the policy in this area.

Board activities and achievements

Board activities during 2018

During the financial year, the Board held five meetings. During these meetings, the Board spent a significant amount of time discussing and approving matters relating to the strategy of the Group.

The Board and committee agendas were shaped to ensure that discussion was focused on the Group's key strategies and monitoring activities, as well as reviews of significant issues arising during the year. The Group's ongoing financial and strategic performance is reviewed at every meeting and the Chief Executive Officer and the Chief Financial Officer comment on drilling, production, share price performance, the market and shareholder feedback.

The table below gives the highlights of how the Board and its committees spent their time during the 2018 financial year but should not be regarded as an exhaustive list. More information regarding the Group's strategic objectives and focus during the year can be found in the Strategic Report on pages 2–53, and the more detailed activities of each committee are located in their relevant report.

Strategy and business focus	• Working with the CEO and CFO on implementing the Company's strategy in drilling, production, the business and operations. • Year-end review of the oil and gas industry outlook and consideration of the 2019 budget and drilling and operations programme. • Discussions around completion of the construction and commissioning of GTU3. • Overseeing the refinancing of the Company's bonds.
Risk	• Review of all interim financial results announcements and the 2017 Annual Report and Accounts. • Consideration of the Group's viability statement and risk appetite for the coming year. • Review of Group tax matters including the Group's tax residency and approach to tax risk. • Approval of a new Anti-Facilitation of Tax Evasion Policy. • Review of all insurance contracts across the Group to assess risk exposure.
Governance	• Received reports from Board committees. • Consideration of the new UK Corporate Governance Code applicable to the Company in 2019 and other regulatory requirements and proposed various changes in governance in the light thereof. • Review of the Notice of AGM and the matters proposed for shareholder approval. • Conducted a roundtable internal Board evaluation for 2018. • Reviewed and approved various updates to key Group policies. • Consideration of director conflicts of interest.
People and culture	• Review of the Equality and Diversity Policy and reviewed the equality and diversity provisions contained in other Group policies and launched several initiatives in this area. • Implemented the second tranche of the Company's Long-Term Incentive Plan.

Board activities and achievements continued

Board evaluation

As explained in the Nomination and Governance Committee report on page 74 , due to the numerous changes to the composition of the Board during 2017 it was felt that it was appropriate to conduct a Board self-evaluation in a roundtable format discussing the issues directors wished to raise and discuss in 2018. Directors were also given the opportunity to email any issues to the Company Secretary following the discussion if they wished to raise additional points outside the open forum.

The Board focused on the following in 2018:

- Engagement with and understanding of shareholders' feedback and concerns. An improved information flow of shareholder feedback to the Board will be developed, through additional information in Board materials on comments from investors and analysts and improved dialogue through meetings with investors;
- The interaction between the Board and Senior Management will be improved through closer interaction with senior managers, their participation in regular Board meetings and the sharing of information on the budgetary responsibilities of managers;
- Engagement and understanding of a wider range of views of stakeholders within the business (including the workforce) will be improved by the appointment of an independent non-executive director to the role of leading engagement with the workforce;
- The Board will work further on succession planning for executive and non-executive directors, in particular a plan for an eventual successor to the CEO; and
- Building greater diversity, including gender diversity, at Board and Senior Management level.

In addition, by taking Board papers as read, the Board made an effort to spend more time actively discussing and debating issues at Board meetings.

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 meet with members of the Board in order to obtain a good understanding of the challenges and opportunities faced by the Group. The directors are given the opportunity to discuss their training and professional development needs at every quarterly Board meeting and on an ad hoc basis as required and to make recommendations to the Chairman regarding topics on which they would like to receive training. In addition to training organised by the Company, the directors regularly attend training events organised by third parties and the Company actively encourages directors to attend such events.

During 2018 various directors suggested potential training topics and information sessions were held on geology, drilling matters and ESG matters.

Shareholder engagement

Nostrum is in regular contact with its shareholders and sell-side analysts, and maintains an active and transparent dialogue with them 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 posting them 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, Link 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 past year, the Investor Relations team and management met more than 250 investors through face-to-face meetings, roadshows, conferences and other corporate events. The Executive Chairman, Chief Executive Officer and Chief Financial Officer, in particular, regularly meet with major investors and analysts and provide feedback on any shareholder concerns or views to the Board.

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.

Attendance at meetings of the Board and its committees in the 2018 financial year

The following table illustrates the attendance of directors at Board and committee meetings (as relevant) throughout the year.[1]

	Board		Audit Committee		Remuneration Committee		Nomination and Governance Committee	
	A	B	A	B	A	B	A	B
EXECUTIVE DIRECTORS								
Atul Gupta	5	5					4	3
Kai-Uwe Kessel	5	5						
Tom Richardson	5	5						
NON-EXECUTIVE DIRECTORS								
Mark Martin[2]	5	5	6	6	3	3	4	4
Sir Christopher Codrington, Bt.[3]	5	5	6	6	3	3	4	4
Kaat Van Hecke	5	5	6	6	3	3	4	4
Michael Calvey	5	5						
Simon Byrne	5	5						
Martin Cocker	5	5	6	6				

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

B= Total number of meetings the director did attend.

1. A meeting of an implementation committee for the Company's 2018 Bond refinancing was held on 15 January 2018, which all three committee members, Messrs Gupta, Codrington and Richardson attended.
2. Chairman of the Remuneration Committee
3. Chairman of the Audit Committee and the Nomination and Governance Committee

Audit Committee Report

Dear shareholder,

Following another busy year for the committee alongside the operational and fiscal challenges faced by the Group, this report summarises our activities carried out in relation to the financial year ended 31 December 2018.

With four members onboard during the year, we kept our practice of formally meeting on the same date as the scheduled quarterly Board meetings and having the pre-meetings several days prior to have enough time and opportunity for covering various topics on financial, risk, audit and compliance matters, as well as other emerging critical issues. The external auditors were invited to our meetings for discussion of their review and audit work as well as other relevant matters.

We recognise the Company is going through a challenging time operationally. GTU3 delays have coincided with both subsurface issues and challenges with the technical execution of drilling wells. The Chinarevskoye field, whilst containing many hydrocarbons, is comprised of multiple deep and tight reservoirs. This makes both extracting the hydrocarbons and forecasting future production difficult. This has had a direct impact on the impairment analysis, and we have worked with management and EY to come up with a view that takes into account the challenges we have encountered, especially in relation to drilling in the western area of the field. We have sought to run a number of sensitivities both on the impairment model and in the viability statement to ensure that we have considered all eventualities. On the back of reserve downgrades and the challenges of drilling in the west, we felt it prudent to take an impairment against our assets. We will continue to monitor the progress of drilling in the Northern Area, the speed at which UOG is moving forward and the results of the Schlumberger reports on the Biyski-west and North-east, in order to assess whether these impact our view on impairment going forward. The Committee noted that both the Northern area and UOG agreements provide for possible future upside but this needs to be balanced against the challenges in our core areas over the last twelve months.

Financial position, results and prospects of the Group were under our constant monitoring, through reviewing the financial statements, liquidity forecasts, viability assessments and long-term modelling in the context of the above-mentioned operational developments. When we considered additional information was necessary for our understanding of the various matters in these areas, we addressed our requests to the senior management and held additional meetings and workshops with involvement of the subject-matter experts in relevant topics. I am pleased to report that throughout the year positive improvements were made with various aspects of financial reporting that are the results of strengthening of the Group finance team in our head office in London.

We have also paid attention to the new developments in the accounting standards as well as the FRC's expectations for annual financial reporting. As an example, we have reviewed management's position and financial statement disclosures relating to the application of IFRS 9 Financial Instruments adopted by the Group from 1 January 2019, and management's assessments and related disclosures on application of IFRS 16 Leases. Further details of our work are described in the next sections of the Audit Committee report.

I'm pleased to report that the committee has successfully worked through and addressed its tasks in addition to supporting the Board with its insight in financial, audit, assurance and compliance matters, as well as guiding and challenging the senior management team as we embark on the Group's next stage of development: commissioning the GTU3, stabilising production and managing the opportunities for further growth.

I would like to thank my fellow committee members for their contribution to the effective discharge of the committee's duties throughout the year.

Sir Christopher Codrington, Bt.
Chairman, Audit Committee

Independent non-executive director

25 March 2019

Role and responsibilities of the Audit Committee

The Committee is committed to its primary role of assisting the Board in achieving the Group's strategic objectives whilst protecting stakeholder interests. There were no substantial changes in the key areas of responsibility of the committee as categorised below:

- Review the Group's annual and interim reports including financial statements, formal announcements of financial results and other related announcements;
- Review the effectiveness of the Group's internal control and risk management systems;
- Monitor compliance with applicable regulatory and legal 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.

More detail on these key areas can be found in the committee's terms of reference which are available on the Group's website at www.nog.co.uk.

Membership

Sir Christopher Codrington, Bt.	Member since 19 May 2014 Chairman since 8 May 2017
Mark Martin	Member since 31 December 2016
Kaat van Hecke	Member since 8 May 2017
Martin Cocker	Member since 16 November 2017

All members of the Audit Committee are independent non-executive directors. The qualifications presented in the biographies of the members of the Committee on pages 56-57 and their respective contributions to the activities of the committee demonstrated that the committee as a whole has competence in oil and gas upstream and downstream operations, and that it also has the necessary levels of competence in accounting and auditing as well as recent and relevant financial experience.

Meetings

In addition to its scheduled quarterly meetings, the committee also meets when it is necessary. The Chief Financial Officer, the Chief Legal Officer and Company Secretary and the external auditor are invited to the meetings. The committee held six meetings during 2018 and the attendance of each committee member at meetings of the Committee is shown on page 65.

In 2018 the Committee continued to use its annual planner, which summarises various topics requiring the committee's attention, and which were accumulated based on the requirements of the UK Corporate Governance Code 2016 ("the 2016 Code"), the FRC's Guidance on Audit Committees dated April 2016, the Committee's Terms Of Reference and other relevant sources.

Interaction with the Financial Reporting Council ("FRC")

The Committee, together with the Chief Financial Officer, considered the key areas highlighted in the October 2018 letter from the FRC addressed to Audit Committee Chairs and Finance Directors, and undertook the following actions:

- Reviewed the key changes required by IFRS 15 'Revenue from contracts with customers' and concluded that there is no substantial impact on the Group, hence the disclosures provided in the financial statements were considered appropriate;
- Reviewed the disclosures related to IFRS 9 'Financial Instruments' in the quarterly financial statements and recommended the management to implement certain improvements, which were discussed and implemented in the annual financial statements;
- Reviewed management's report on the assessment of the impact on implementation of IFRS 16 'Leases' and concurred with the conclusions reached, accounting treatment applied, and disclosures made in the financial statements;
- While reviewing critical judgements and estimates applied by management, focused on challenging distinction between judgements and estimates, disclosures of the sensitivities of carrying amounts to the relevant assumptions and estimates, and appropriateness of other relevant disclosures;
- Continued monitoring the internal controls over financial reporting through discussions with those involved in the accounting and financial reporting and external auditors as well as reviewing the periodic information provided;
- Gave due consideration to the Brexit impact, even though there has previously been an assessment and it was concluded to have an insignificant influence on the Group;
- Stayed alert on appropriate accounting treatment and related disclosures related to significant complex supplier arrangements;
- Reviewed management's assessment of the prospects based on a three-year model and assessed whether the viability statement adequately reflects significant assumptions and qualifications, if necessary; and
- Paid attention to presentation in the Annual Report of a balanced and comprehensive analysis of the Group's financial position and performance. As part of this review, the Committee continued to challenge the definitions, explanations, reconciliations, prominence and consistency of alternative performance measurements such as EBITDA, etc. Also, the committee reviewed the Non-Financial Information Statement, which provides a picture of the Company's performance and impact; where information was not provided on a specified non-financial matter, the committee requested a reasoned explanation of why it was not provided.

Audit Committee Report continued

Self-assessment

In 2018, the Board held a round table internal self-evaluation of its performance as detailed on page 64. In its activities following this exercise, the committee considered relevant points through contribution to communications with shareholders, closer interaction with the management team, and paying attention to diversity matters.

Activities during the year

In accordance with its responsibilities outlined above, the Committee's activities fell under the following four main areas, each of which is explained in more detail in the following Sections 1 to 4:

- Financial reporting
- Risk management and internal controls
- Compliance with laws and regulations
- External audit.

1. Financial reporting

The key areas of the Committee's activities related to financial reporting can be summarised as follows:

- Review of and discussions on quarterly and annual financial statements and recommendation to the Board for approval;
- Review and discussions on matters of liquidity and going concern analysis as well as impairment considerations;
- Review of periodic press releases and results presentations prior to their publication;
- Review of annual budgets and periodic forecasts;
- Review of monthly management updates covering key issues including financial and operational performance and the status of key initiatives; and
- Discussion of various ad hoc matters related to financial accounting and reporting.

Review of the quarterly and annual financial statements as well as the Annual Report by the committee was undertaken with an emphasis on the following areas:

- Ensuring that the accounting policies adopted, and disclosures made for compliance with financial reporting standards and relevant corporate governance requirements, with particular attention to the appropriate and timely implementation of any changes and new standards and requirements, e.g. activities related implementation of new IFRS as mentioned above;
- Ensuring the reasonableness of the significant judgements and estimates applied by management (described in more detail below) and their appropriate disclosures as mentioned earlier;
- Assessing whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Group's performance, business model and strategy; and
- Discussing any significant matters with management and the external auditor and providing feedback to management on ways to improve the effectiveness and clarity of the Group's corporate reporting.

Significant judgements, estimates and assumptions

Significant judgements, estimates and assumptions applied by management when preparing the financial statements are closely related to the principal risks and uncertainties faced by the Group, which are subject to constant monitoring by the Board and the committee. The following table summarises the key areas where significant judgements, estimates and assumptions are applied, and the corresponding actions taken by the committee to address them:

Significant judgements	Significant estimates	Significant assumptions	Impact on financial statement accounts
Oil and gas reserves			
Management applied significant judgement when selecting the unit-of-production method of depletion of assets based on the oil and gas reserves.	Management uses internal estimates, confirmed by Ryder Scott on an annual basis, to perform an annual assessment the oil and gas reserves. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE").	While making such estimates management uses various assumptions related to future commodity prices, capital and operating expenditures necessary for the development of a field, geological and technical assumptions, future production volumes, drilling programme, etc.	Changes in the key assumptions may significantly affect the estimation of oil and gas reserves, and respectively result in substantial changes in depletion expense and carrying value of working oil and gas properties in the future periods.
Committee actions			
The Committee concurred with the continued application of the unit-of-production method of assets depletion, as this method reflects the expected pattern of consumption of future economic benefits by the Group.	The Committee gained comfort on the outcomes of the oil and gas reserves' estimations based on its review of the key assumptions, and confirmation by independent reserve engineers using consistent methodology of estimations.	Considering the most recent available information, the Committee reviewed various key assumptions used by management in estimating the oil and gas reserves and was satisfied with the reasonableness of such assumptions.	
Non-current assets' carrying values			
For impairment analysis, management used judgement and determined a single cash-generating unit (CGU) within the Group's non-current assets, which includes all assets related to Chinarevskoye and exploration fields and gas treatment facilities.	Estimations of the recoverable amount of the CGU were prepared by management based on the discounted cash flow model using significant assumptions.	Assumptions used in estimating the recoverable amount included future commodity prices, oil and gas reserves, future production profiles, operating expenses and capital expenditure estimates, fiscal regimes, and discount rate.	Changes in the key assumptions may significantly affect the estimation of recoverable amount of non-current assets, and respectively may result in impairment of non-current assets in the future periods.
Committee actions			
The Committee concurred with management's position in determining a single CGU for the majority of the Group's non-current assets.	The Committee reviewed the detailed reports on impairment testing prepared by management and agreed with management's approach in using a discounted cashflow model as the most appropriate for this purpose.	Areas of focus were the assumed oil prices and discount rates particularly in light of recent oil price developments and related volatility risk.	The Committee also gave special consideration to the sensitivity analysis in relation to the assumptions used.
Exploration assets' carrying values			
Exploration assets were considered by management as part of the single CGU – please refer to the above point.	The estimates of the recoverable amount of exploration assets are included in the above-mentioned single discounted cash flow model.	In addition to the abovementioned assumptions integrated in the discounted cash flow estimations, exploration assets are subject to management's assumptions and plans on performing further exploration works as well as term of subsoil use rights.	Changes in the key assumptions may significantly affect the estimation of recoverable amount of exploration assets, and respectively may result in their impairment in the future periods.
Committee actions			
The Committee's response is covered as mentioned above.	The Committee's response is covered as mentioned above.	The Committee discussed with management future plans and expectations related to further exploratory works and concurred with conclusions made.	

Audit Committee Report continued

Significant judgements	Significant estimates	Significant assumptions	Impact on financial statement accounts
Financial liabilities – modification (IFRS 9)			
Significant judgement was used by management in determining whether 2017 and 2018 refinancing of the Notes contained modification of existing liabilities.	Where modification is determined, the gross carrying amount of the new Notes is recalculated taking in consideration the relative proportion of the arrangement fees associated with the Notes being exchanged.	Significant assumptions were made in relation to the proportion of the Notes determined to be modified.	
Committee actions			
The Committee discussed with management modification of financial liabilities and challenged the arguments used to reach conclusions.	The Committee discussed with management the approach taken in estimating the carrying amount of the modified Notes.	The Committee reviewed and discussed with management its assumptions used in estimating the carrying amount of the modified Notes.	
Leases (IFRS 16)			
Management used significant judgement in assessing whether supplier contracts contain leases. This included assessment of whether assets subject to lease can be identified, identification of who obtains substantial benefits from such assets, and who operates them. Also, judgement was required to identify components of each lease.	For those contracts with suppliers, which were concluded to contain a lease, management estimated the net present value of the lease liability based on the amounts of future payments, and any other applicable components of a lease.	In the process of estimating the net present value of lease liability, management's assumptions were related to their expectation of the future minimum number of assets, discount rates and other specific assumptions depending on the nature of a contract.	Changes in the key assumptions may lead to significant changes in the amount of right-of-use assets and lease liabilities in the future periods.
Committee actions			
The Committee reviewed management's analysis of significant supplier contracts and challenged the application judgement.	The Committee reviewed and discussed with management the lease estimates and assumptions used.	The Committee reviewed and discussed with management the lease estimates and assumptions used.	

Other significant judgements and estimates

The decommissioning of oil and gas assets at the end of their economic lives, the provisioning for contingent and other liabilities, current and deferred income tax and the fair value of financial instruments are all areas that require the management to use judgement and estimates. The Committee examined each of these issues and sought clarifications as and when necessary, including discussions with the Company's auditor.

Significant matters communicated by the external auditor

Significant risks identified by the external auditor were related to the above-mentioned areas involving judgments and estimates as well as the following areas which were additionally considered by the Committee:

- Revenue recognition - the Committee believes that the Group's policy and internal controls in relation to revenue recognition adequately respond to this risk.
- Related party transactions and disclosures - the Committee has been monitoring procedures for identification of related parties to ensure that pre-approvals are obtained before entering into any such contracts, depending on the thresholds as per Group's policy on approval of matters and transactions.
- Risk of management override - in the Committee's view a set of internal controls, as described below under the heading "internal control system", sufficiently minimises the risks related to management's ability to manipulate accounting records or to misappropriate assets.

2. Risk management and internal controls

The Committee continuously monitored the Group's risk management systems, further information on which can be found in the Risk Management section on pages 39-44 of the Annual Report.

In accordance with requirements of the 2016 Code relating to the viability statement, the committee reviewed the impact and sensitivity analysis of such risks on the Group's long-term viability. The principal areas of risk management assessed by the Committee are described in the table below.

Key areas of the committee's focus in relation to principal risks	
GTU3 construction and well drilling	Construction of GTU3 and the drilling programme continued to be a key focus for the Committee, particularly in light of low oil prices. The Committee reviewed progress reports and met regularly with management to discuss potential problems and to provide recommendations on future steps to be taken by management.
Oil and gas production rates	Oil and gas production volumes, being one of the strategic indicators of the Group's performance, are subject to risks and uncertainties of a geological and technological nature. The Committee has been constantly monitoring forecast production rates in comparison to actual rates. Any material variances were discussed, and explanations sought either during committee meetings or dedicated presentations given by management.
Health, safety and environment	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. This area will be within the scope of responsibilities of the newly established HSEC Committee of the Board.
Cyber security	The Committee examined cyber security matters and discussed with management past and planned actions directed at addressing the recommendations from external consultants.
Financial reporting	The Committee seeks to ensure the accurate maintenance of accounting records and related transactions. Considering the volatility of oil prices, the Committee focused on the review of impairment testing, going concern and the viability statement.

Internal control system

The Group's internal control system is aimed at mitigating risks and improving efficiency. These include:

- Corporate governance: segregation of authorities and duties at various levels;
- Policies and procedures covering directors' remuneration, compliance, accounting and reporting, health, safety and environment as described in the relevant sections of the Annual Report;
- Training and internal communications; and
- Continuous monitoring by senior management and the Board of short-term, medium-term and long-term planning and decision-making processes.

In the Committee's view, the Group maintained robust and defensible systems of risk management and internal control, and the committee made recommendations to senior management on further improvements as and when considered necessary.

Internal audit

The primary role of the internal audit function is to assist the Board and senior management to protect the assets, reputation and sustainability of the organisation. This is 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 regarding risk management and assurance across the Group.

To adequately resource the internal audit function, the Group has outsourced the work to experts in relevant areas on a case-by-case basis. A dedicated member of the finance team has been assigned with a role of collecting requests for internal audit work from the management and the committee, organising the outsourcing of such work and coordinating delivery of results.

Also, in Committee's view the Group has sufficient internal processes providing assurance to the management, Audit Committee and the board about effectiveness of systems of internal control and risk management, e.g. monthly management reports and their review by management and the Board, assurance provided by QHSE and Security personnel.

Audit Committee Report continued

3. Compliance with laws and regulations

The Chief Legal Officer and Company Secretary attends the Committee's quarterly meetings which allow the Committee to raise any concerns related to legal, compliance, whistle-blowing and the status of any ongoing litigation.

UK Corporate Governance Code

In relation to the work of the Committee, as of 31 December 2018, Nostrum had complied with all the principles and provisions of the UK Corporate Governance Code 2016.

Whistle-blowing arrangements

Nostrum has a Group Whistle-Blowing Policy and ensures that all Group employees have access to someone who can provide them with support and guidance. The Group has two compliance liaison officers: one Russian-speaking officer based in Kazakhstan and another Dutch and English-speaking officer based in Brussels. The Audit Committee maintained close contact with the compliance liaison officers. There were no whistle-blowing instances reported during 2018.

Corporate Bonds Covenants

At its quarterly meetings, the Committee is updated by management on the Group's compliance with covenants contained in the 2017 and 2018 Corporate Bonds.

4. External audit

Appointment of external auditor

Since 2007, Ernst & Young LLP (Kazakhstan) has been the auditor of the predecessor group of companies. On the recommendation of the Committee and subsequent approval by the Company's shareholders, Ernst & Young LLP (UK) was first appointed as an auditor of the Group on 19 May 2014.

In accordance with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the "CMA Order 2014") companies should put their external audit contract out to tender at least once every ten years. The Committee carried out a tender for the external audit arrangements in 2015 to ensure that the Group was receiving the highest possible quality audit services commensurate with the best available price. Based on the results of the tender it was concluded that it would be in the best interests of the stakeholders to continue engaging Ernst & Young LLP (UK) as the Group's external auditor.

Following a recommendation to that effect from the Board, the shareholders approved the re appointment of Ernst & Young LLP (UK) at the Annual General Meeting held on 5 June 2018. Mr. Richard Addison was appointed as lead audit engagement partner on 19 May 2014 and has to-date continued in this role. However, he has given notice about his tenor coming to end with the completion of the 2018 audit, hence the Committee interviewed three candidates from Ernst & Young LLP (UK) and unanimously recommended that William Binns continues in this role. William is an audit engagement partner of FTSE 100 companies and has rich experience in auditing oil and gas companies.

2018 audit

During Q4 2018 the Audit Committee reviewed and discussed the detailed audit plan prepared by Ernst & Young LLP (UK) which identified the audit scope and its assessment of significant risks. The key risks monitored by the Committee corresponded with those identified and assessed by management and the external auditor. All members of the Committee supported the application of professional scepticism by the Group's external auditor.

During 2018, 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 included: the external auditor's assessment of significant risks and related management actions, confirmation that there had been no restriction in the scope placed on it by management, the adequacy of the audit fees, the independence of its audit and how the auditor had exercised professional scepticism.

The Committee reviewed the H1 2018 interim and 2018 annual auditor's reports giving consideration to the audit procedures and findings in the areas of significant judgements and estimates. The Committee also reviewed the letter of representations in respect of both the interim review and the annual audit, which were subsequently signed by management.

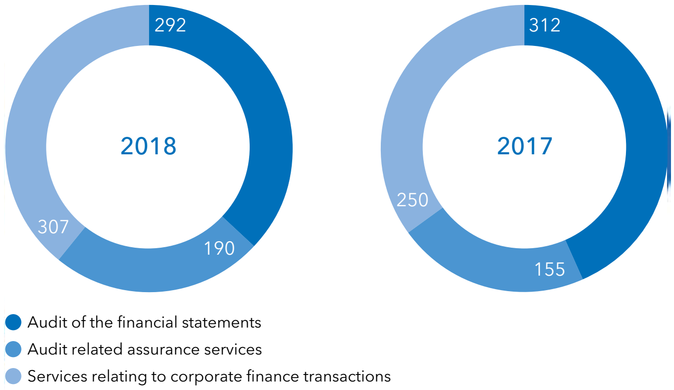
The Committee evaluated the effectiveness of the external audit process for the year ended 31 December 2018, by completing a questionnaire, which addressed areas such as processes, audit team, audit scope, communications, technical expertise, audit governance and independence and audit fees. Based on such evaluation the committee concluded that the performance of the external auditor remains at an appropriately high level and recommend its re-appointment.

Non-audit services

In 2016, the Group's "Policy on the provision of non-audit services by the external auditor" was revised based on the requirements of the FRC Revised Ethical Standards dated June 2016 and the FRC's Guidance on Audit Committees dated April 2016. There were no significant changes made to the policy during 2018.

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. Committee pre-approval is required before the external auditor is engaged to provide any permitted non-audit services (as defined in the policy) in addition to any other approvals required by the Board and management pursuant to powers delegated by the Board or Nostrum's internal approvals policies. The Committee monitors the external auditor to ensure that it does not provide non-audit services that are prohibited by the FRC and limits such services to due diligence services and other assurance services. The revised policy is available on the Group's website at www.nog.co.uk and will be reviewed and amended as and when required.

Audit and non-audit fees (US$ thousands)



The detailed breakdown of audit and non-audit fees can be found in the Note 31 to the consolidated financial statements of the Group on page 151. The ratio of audit fees to non-audit fees in 2018 was 0.69 (2017: 0.77). A significant proportion of non-audit fees was attributable to quarterly reviews of interim financial statements and assurance services related to the bond refinancing projects carried out in 2017 and 2018. Considering the assurance nature of these services, the committee concluded that it was in the best interest of the Group that such services were provided by the external auditor. By operating in accordance with the above policy and other practices established within the Group, the committee was satisfied that adequate safeguards were in place to ensure the objectivity and independence of the external auditor.

Sir Christopher Codrington, Bt.
Chairman, Audit Committee

Independent non-executive director

25 March 2019

Letter from the Chairman of the Nomination and Governance Committee

The Nomination and Governance Committee has played a key role in the review of the new 2018 Corporate Governance Code and implementation of key matters to ensure the Company's adherence to the new 2018 Code.

The Committee concluded and recommended to the Board that one of the independent non-executive directors be appointed to oversee effective engagement with the workforce as mandated under the 2018 Code.

During 2017, the Committee had discussed Mr Calvey's appointment to the Remuneration Committee. At the time of recommending Mr Calvey's appointment to the Remuneration Committee, the Committee recognised that it was doing so in contravention of Provision D.2.1 of the Code but at that time felt that, notwithstanding this provision, Mr Calvey, as a non-independent director representing a significant shareholder, could bring a valuable additional perspective to discussions regarding the remuneration and incentivisation of directors and senior management in the long-term interest of the Company.

This has since been reviewed by the Committee during the financial year ended 31 December 2018 and Mr Calvey subsequently stepped down as a member of the Remuneration Committee on 16 August 2018 to ensure that the Company complies with the Code in this area. In addition, Atul Gupta stepped down from the Committee when he became Executive Chairman on 26 November 2018. As a result, the Committee is now comprised solely of independent non-executive directors.

The Committee approved Mr Gupta's assumption of certain executive responsibilities because the respective responsibilities of the Chairman of the Board and the Chief Executive Officer remain clearly defined in accordance with UK Corporate Governance Code 2018 Principle F, and the Committee believe that the Company will benefit from Mr Gupta's assumption of such responsibilities.

Committee members

- Sir Christopher Codrington, Bt. (Chairman)
- Kaat Van Hecke
- Mark Martin
- Atul Gupta (committee member until 26 November 2018)

The Chairman does not have any other significant commitments to report.

Key responsibilities

- Lead the process for Board appointments and make recommendations to the Board regarding candidates for appointment or re-appointment 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) 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.

The Committee during 2018 recommended the formation of a new Health, Safety, Environment and Communities Committee which was created in early 2019 to emphasise the importance of these matters to the Board.

We believe that the current composition of the Board and its committees remains appropriate for the time being, but this will be kept under review during 2019. The Committee in early 2019 recommended the approval of the appointment by Mr Calvey of Ralph Tavakolian Morgan as his alternate director.

The Committee also played an important role in the recruitment during 2018 of a new Chief Operating Officer for the Group, to ensure a smooth succession process and that the Group's leadership needs in this area are met.

Committee meetings

The Nomination and Governance Committee met formally four times during 2018. The attendance of each Committee member at Committee meetings held during 2018 is shown on page 65. I report to the Board, as a separate agenda item, on the activities of the committee at each quarterly Board meeting.

Only members of the Committee have the right to attend committee meetings. However, other individuals such as the Chief Executive Officer, the Chief HR Officer and external advisers may be invited to attend all or part of any meeting, as and when appropriate.

Board self-evaluation

The Committee analysed the results of the Board self-evaluation conducted, a description of which is set out on page 64.

The Senior Independent Director led the evaluation of the Executive Chairman.

Policies

Adherence to, and implementation of, the Group-wide Equality and Diversity Policy was kept under review during 2018 and I was pleased to see a woman join our Senior Management Team. A copy of the policy is available to download on our website. More information in relation to Board diversity can be found on page 61.

In addition to the approval of the new Anti-Facilitation of Tax Evasion Policy in 2018, the Committee also recommended to the Board a number of changes to other Group policies and procedures to reflect changes in legislation and best practice.

All directors will stand for re-election at the 2019 Annual General Meeting with the full support of the Board.

Sir Christopher Codrington, Bt.
Chairman, Nomination and Governance Committee

25 March 2019

Letter from the Chairman of the Remuneration Committee

Dear shareholder,

I am pleased to introduce the Directors' Remuneration Report which has been approved by both the Remuneration Committee and the Board for the year ended 31 December 2018.

On 16 August 2018, Michael Calvey stepped down as a member of the Committee to ensure the Company's full compliance with Provision D.2.1 of the Code and I would like to thank him for his valuable contributions to the committee.

Remuneration report and remuneration policy

During 2018 the Committee focused in particular on feedback received from shareholders and shareholder advisory bodies prior to the Company's Annual General Meeting on 5 June 2018, regarding the remuneration report and remuneration policy. As previously announced, the Company's non-executive directors who had been granted awards under the Company's LTIP agreed to renounce such awards and agreed that they will not accept any future LTIP awards from the Company.

Following the AGM, the Committee continued its consultations with shareholders and has discussed at length the views of shareholders in relation to these two matters. The main themes expressed by some shareholders and shareholder advisers were:

- That non-executive directors should not be eligible for participation in the LTIP;
- That the performance period under the LTIP be extended from one to three years;
- That the vesting period for the LTIP awards be increased from three to five years;
- That the LTIP be modified to remove the provisions for accelerated vesting of awards in the event of certain sales of the Company;
- That there be additional clarity that the targets for certain bonuses were agreed in advance by the Remuneration Committee; and
- That the Remuneration Committee be comprised solely of independent non-executive directors and the Company Executive Chairman.

The Committee and the Board continue to believe that the Company's remuneration policy is appropriate and aligned with Nostrum's strategy and business needs. However, as a result of its engagement with shareholders Nostrum has taken a number of specific actions:

- Following the decision mentioned above by Nostrum's non-executive directors who had been granted LTIP awards, the Company amended the terms of its LTIP to make non-executive directors ineligible to participate in the LTIP;
- The Board has resolved to propose to shareholders at this year's AGM that the remuneration policy be modified to prohibit non-executive directors from participating in the LTIP;
- The composition of the Committee has been changed such that it is now comprised solely of independent non-executive directors; and
- The Committee will endeavour to provide additional information and clarity regarding KPIs for bonuses for executive directors in future in the remuneration report published in the Company's annual reports.

After taking the actions mentioned above, the Committee and the Board concluded that the current provisions of the LTIP relating to the performance period, vesting period and accelerated vesting of awards upon a sale of the Company are appropriate and aligned with the interest of shareholders, so that modifying such provisions of the LTIP at this time would not be the right course of action.

All of these decisions were announced in an additional statement issued by the Company on 30 November 2018 which has been included in the Public Register maintained by the Investment Association.

The Committee and the Board have also recommended a clarification to the remuneration policy to allow for a possible pension entitlement, but only up to 10% of remuneration or to the extent that the same is required under applicable law to ensure the Company complies with such law.

The Board and the Committee are committed to continuing their engagement and dialogue with the Company's shareholders and their advisory bodies on these and other matters and welcome their feedback.

Remuneration for 2018

Further details of executive director performance against 2018 KPIs can be found on page 81. On the basis of the above and the overall performance of the Group, the Committee has decided not to award the executive directors with an annual bonus payment for 2018.

The 2019 key performance indicators for the executive directors are set out on page 86.

Details of the Committee's determination regarding the satisfaction in 2018 of the performance conditions under the Group's long-term incentive plan can be found on page 82.

Throughout 2018, the Committee continued to consider updates to corporate governance guidelines in its decision-making and will continue to monitor best practice guidelines and take account of these and the views of shareholders in the decision-making process. The committee has the freedom to consider any issues it regards as of importance when setting executive directors' remuneration, including environmental, social or governance issues.

The Committee and the Board reviewed non-executive director fees in November 2018 and concluded that Mr Gupta's fee should be increased from US$250,000 to US$450,000 per annum to reflect the increase in his responsibilities since becoming Executive Chairman of the Company. No other changes were made to the fees of the non-executive directors.

This report has been prepared in accordance with the UK's regulations on remuneration reporting.

On behalf of the Committee, I would like to thank shareholders for their continuing support.

Mark Martin
Chairman, Remuneration Committee

25 March 2019

2018 annual report on remuneration

In this section we give details of the composition of the Remuneration Committee and activities undertaken in the 2018 financial year. We will seek an advisory vote on the remuneration report at the 2019 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 2018 were:

Name	Membership start date	Membership end date
Mark Martin (Chairman)	19 May 2014	
Sir Christopher Codrington, Bt.	19 May 2014	
Kaat Van Hecke	31 Dec 2016	
Michael Calvey	8 May 2017	16 August 2018

None of the Committee members has day-to-day involvement with the business. Their biographies are given on pages 56–57. 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 to download from 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 Executive 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 2018 and the attendance of each committee member at such meetings is shown on page 65. The principal agenda items at the formal meetings were as follows:

Meeting	Agenda item
March 2018	• Review and approval of key performance indicators. • Approval of senior management compensation and bonuses. • Review and approve the 2018 remuneration report. • Discuss achievement against performance conditions under the long-term incentive plan. • Review and approval of the CEO contractual arrangements
May 2018	• Review and approve its terms of reference
August 2018	• Review of composition and approval of the change (Michael Calvey stepping down) • Review and discussion of non-executive director exclusion in long-term incentive plan. • Review and discussion of the lengthening of the long-term incentive plan performance period from one year to three years. • Discussion of the pension contribution or provisions for executive directors. • Review and approval of changes to the Company's remuneration policy. • Review of Executive Chairman's remuneration.
November 2018	• Discuss implementation of the long-term incentive plan. • Discuss 2017-2018 key performance indicators. • Discuss changes to remuneration policy.

With the exception of the Chairman of the Board and the Chief Executive Officer, no other directors participated in meetings of the Committee during 2018.

During the year the Committee received advice internally from Atul Gupta (Executive Chairman), Kai-Uwe Kessel (Chief Executive Officer) and Thomas Hartnett (Company Secretary). The Chairman and the Chief Executive Officer 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 Executive Chairman of the Board, the Chief Executive Officer 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 the remuneration of senior members of the executive management team below Board level.

The Remuneration Committee will keep the external adviser relationship under review to ensure it remains comfortable that the advice it is receiving is objective and independent.

Voting on remuneration matters

Section 439A of the Companies Act 2006 (the "Act") requires the remuneration policy to be submitted to shareholders for a binding vote every three years or where there is a change in the remuneration policy. The remuneration policy was last approved by shareholders at the 2018 Annual General Meeting by way of a binding vote and the results of the votes received are shown in the table below. The changes proposed to the remuneration policy for 2018 were approved by shareholders at the 2018 Annual General Meeting. The resolution put to shareholders at the 2018 Annual General Meeting relating to directors' remuneration was a resolution to approve the directors' annual report on remuneration and, in accordance with the Act, the resolution was subject to an advisory vote. The votes received are set out in the table below.

Resolution	Votes FOR and % of votes cast		Votes AGAINST and % of votes cast		Votes WITHHELD
Approval of directors' remuneration policy	95,280,475	65.49%	50,197,586	34.51%	0
Approval of directors' annual report on remuneration	109,351,784	75.17%	36,126,277	24.83%	0

At the 2019 Annual General Meeting the directors' remuneration report and revised remuneration policy will be put to shareholders for approval by way of an advisory vote. In accordance with the Act, a resolution to approve the Company's revised remuneration policy will also be submitted to shareholders for a binding vote.

Single total figure of remuneration for executive directors

The table below shows the single total figure of remuneration for the year ended 31 December 2018 for each executive director that served as an executive director at any time during the year. The information contained in the table is as prescribed by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and contains a single total figure of remuneration for each executive director.

The executive directors are remunerated in either EUR, GBP, USD or KZT and, to avoid any anomalies in the figures reported owing to fluctuations in the EUR/USD, GBP/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[4]	**Period**	**Salary and fees**	**Benefits in kind**	**Annual bonus**[3]	**Phantom Share Option Plan**	**LTIP**[8]	**Pension**[6]	**Total (audited)**[10]
Atul Gupta	2018	31,650	–	–	–	–	–	**31,650**
	2017		–	–	–	–	–	**-**
Kai-Uwe Kessel (Chief Executive Officer)	2018	592,079[9]	18,156[2]	–	–	–	7,530	**617,765**
	2017	773,567[9]	18,188[2]	96,696	–	–	–	**888,451**
Tom Richardson (Chief Financial Officer)	2018	510,075	17,414	–	–	–	25,504	**552,993**
	2017	359,700	17,465[5]	159,093[7]	–	–	17,985	**554,243**

1. Mr Kessel received part of his remuneration under his contract for services as a director and part under separate service agreements for his role as a Group executive. Mr Richardson and Mr Gupta (from November 2018 when he was appointed as Executive Chairman) receive their remuneration under Group executive service contracts. Prior to November 2018, Mr Gupta was not an executive director. For clarity, this table presents their total remuneration from the Group whether received under a contract for services as a director or a Group executive services contract.
2. Mr Kessel is provided with a company car and payments in lieu of the provision of life insurance under his employment contract for his role as Chief Executive Officer and not under his service contract as an executive director but, for completeness, the amount received has been included in this table.
3. No bonus for 2018 will be paid to executive directors.
4. Mr Gupta is remunerated in USD, Mr Richardson is remunerated in GBP and Mr Kessel is remunerated in EUR, USD and KZT but for the purposes of this table the following exchange rates have been used:

   2018: GBP:EUR (1.134); USD:EUR (1.185); KZT:EUR (431)

   2017: GBP:EUR (1.1413)
5. This amount is paid to Tom Richardson in lieu of the provision of medical insurance under his employment contract for his role as Chief Financial Officer and not under his service contract as an executive director but, for completeness, the amount received has been included in this table.
6. The Company did not operate a pension scheme for executive directors in 2017 or 2018 but may make a pension contribution or a payment in lieu of pension contributions to executive directors under their employment contracts as executives of the Group as opposed to under their service agreements as directors of the Company.
7. Tom Richardson was awarded an annual bonus in 2017 of 12.5% of his base salary based on the executive directors' performance against 2017 KPIs. In addition, the committee awarded him with an additional bonus of £100,000 for his outstanding performance in connection with the refinancing of the Group's outstanding debt.
8. Awards made under the LTIP in 2017 have not vested yet and so no amounts have been received/are receivable by the executive directors in respect of such awards. No awards made under the LTIP in 2018 are capable of vesting as the performance conditions were not met in 2018.
9. Kai-Uwe Kessel is remunerated on a net guarantee basis and his gross remuneration is adjusted to achieve the relevant agreed level of net remuneration. The salary and fees figure shown in the table represents the total cost to the Company in connection with his employment.
10. Remuneration figures stated for 2017 and in the historical period include employer taxes borne by Nostrum. For 2018 it was decided to show only gross personal salary, fees and benefits paid to directors by Nostrum and exclude other employer taxes. The difference in the reporting basis results in a large comparative difference between 2017 and 2018 remuneration.

2018 annual report on remuneration continued

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 Amounts in USD	**Period**	**Fees**	**Total (audited)**
Atul Gupta[1]	2018	229,167	**229,167**
	2017	205,509	**205,509**
	2016	100,027	**100,027**
Sir Christopher Codrington, Bt.[2]	2018	120,000	**120,000**
	2017	116,667	**116,667**
	2016	110,000	**110,000**
Mark Martin[3]	2018	130,000	**130,000**
	2017	130,000	**130,000**
	2016	110,055	**110,055**
Kaat Van Hecke	2018	100,000	**100,000**
	2017	100,000	**100,000**
	2016	274	**274**
Martin Cocker[4]	2018	100,000	**100,000**
	2017	12,443	**12,443**
	2016	–	**-**
Simon Byrne[5]	2018	100,000	**100,000**
	2017	12,443	**12,443**
	2016	–	**-**
Michael Calvey[6]	2018	100,000	**100,000**
	2017	68,311	**68,311**
	2016	–	**-**

1. Mr Gupta became Executive Chairman in November 2018 and his salary increased to US$450,000 to reflect his additional responsibilities.
2. Sir Christopher Codrington receives an additional fee for being the Chairman of both the Nomination and Governance Committee and the Audit Committee.
3. Mr Martin receives an additional fee for being Senior Independent Director and the Chairman of the Remuneration Committee.
4. Mr Cocker joined the Board on 16 November 2017.
5. Mr Byrne joined the Board on 16 November 2017.
6. Mr Calvey joined the Board on 25 April 2017.

Notes on the single total figure remuneration table

Base salaries

The Committee reviewed salaries in March 2018 and it was decided that the executive directors would be awarded a 2% salary increase for 2018 effective as of 1 March 2018.

When reviewing salaries, the Committee also considered the provisions of the remuneration policy.

Annual bonus

In the last financial year all executive directors were eligible for a bonus.

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.

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 2018 to 31 December 2018, the key performance indicators for annual cash bonuses for executive directors were as follows:

2018 Bonus Performance Measures	Weight	Actual	% of base salary
Operational and Financial	**60%**		
• Achieve annual average sales (boepd) from 32,000 boepd (0%) to 36,000 (100%) (sliding scale)	40%	0%	0%
• Complete and commission GTU3 construction project on budget	15%	0%	0%
• Reduce operational and G&A cash costs from US$85.7m (0%) to US$68.56m (100%) (sliding scale)	5%	2%	0.8%
Strategic Objectives	**20%**	**0%**	**0%**
• A commercially sensitive strategic target	15%	0%	0%
• A commercially sensitive strategic target	5%	0%	0%
HSE, social and governance	**7%**	**7%**	**2.8%**
Reduce LTIs per 1 million man hours below 2	7%	7%	2.8%
Sub-total: Corporate KPIs	**87%**	**9%**	**3.6%**
Personal Objectives	**13%**	**N/A**	**N/A**
Kai-Uwe Kessel – Deliver 2018 Company objectives (to be defined individually)	13%	N/A	N/A
Tom Richardson – Deliver the 2018 Company financial objectives (to be defined individually)	13%	N/A	N/A
Total	100%	9%	3.6%

Based on an assessment of Group and individual performance towards achievement of KPIs of the executive directors during 2018 the Committee exercised its discretion not to award bonuses to the executive directors notwithstanding the modest achievement against performance measures.

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 payable in the following year and so the rationale behind a clawback mechanism is less relevant.[1]

1. Includes LTIP awards for which performance conditions have been satisfied.

2018 annual report on remuneration continued

Long-term incentive awards

In 2017, the Company implemented its new performance-based long-term incentive plan and granted additional awards on 28 November 2018.

The LTIP awards granted are based on performance over one calendar year which is followed by an additional two-year holding period such that no awards may vest before the third anniversary of the date of grant.

The performance conditions attaching to the awards made under the LTIP in 2018, together with the levels of achievements against such performance measures are as follows:

50% of an award was based on average sales boepd measurements calculated as follows:

Boepd for the year ended 31 December 2018	% of the first 50% of the award that may vest	Actual % achievement	% of LTIP award opportunity (maximum 50%)
36,000 or greater (average sales)	100%		
32,000	0%		
	On a straight line basis between 32,000 and 36,000		
Actual achievement	29,516	0%	0%

The remaining 50% of an award was based on a reserves measurement calculated as follows:

2P barrels of oil per share	% of the second 50% of the award that may vest	% of LTIP award opportunity (maximum 50%)	% of LTIP award opportunity (maximum 50%)
3.0 or greater	100%		
2.5	0%		
	On a straight line basis between 2.5 and 3.0		
Actual achievement	2.18	0%	0%

Based on the above levels of performance, the Committee has determined that none % of the LTIP awards granted in 2018 will be capable of vesting at the end of the two-year holding period.

No awards were made to the non-executive directors.

Pension entitlements

The Company did not operate a pension scheme for executive directors in 2018 but may make a pension contribution or a payment in lieu of pension contributions to executive directors under their employment contracts as executives of the Group as opposed to under their service agreements as directors of the Company.

Payments to past directors

No payments were made to past directors of the Company during the year ended 31 December 2018.

Payments for loss of office

No payments were made in respect of loss of office during the year ended 31 December 2018.

Non-executive director fees

The Committee and the Board reviewed non-executive director fees in November 2018 and concluded that Mr Gupta's fee should be increased from US$250,000 to US$450,000 per annum to reflect the increase in his responsibilities since becoming Executive Chairman of the Company. No other changes were made to the fees of the other directors.

Directors' shareholdings

The beneficial interests of the directors in the share capital of the Company as at 31 December 2018 were as follows[2]:

Director	Total (audited)
Atul Gupta	178,357
Kai-Uwe Kessel	10,000
Tom Richardson	–
Sir Christopher Codrington, Bt.	3,312
Mark Martin	10,000
Kaat Van Hecke	–
Simon Byrne	25,000
Martin Cocker	–
Michael Calvey	–

Please refer to the text in the remuneration policy table on page 82 in relation to shareholding guidelines applicable to directors

Phantom share option plan

The Company currently operates one non-performance related phantom share option plan (the "Plan"). As at 31 December 2018, 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 10 years from the date of grant, pursuant to the Plan:

(Audited) Director	Date of grant	Options held at 31 December 2018	Face value at date of grant (in USD)	Options exercised during the financial year 2018	Options lapsed during the financial year 2018	Options held at 31 December 2018	Option exercise price (US$ per option)	Expiry date
Kai-Uwe Kessel	10 June 2009	–	35,049[1]	–	–	700,974	4.0	9 June 2019
	26 March 2013	–	18,000[2]	–	–	200,000	10.0	25 March 2023
Tom Richardson	26 March 2013	–	9,900[2]	–	–	110,000	10.0	25 March 2023

1. Calculated by multiplying the market value of the options at 10 June 2009 (US$4.05) less $4.00 by the number of options granted.
2. Calculated by multiplying the market value of the options at 26 March 2013 (US$10.09) less $10.00 by the number of options granted.
3. There have been no changes in the interests in the Plan between the end of the financial year 2018 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.

It is intended that the Company's new long-term incentive plan will replace the Plan going forward and so it is not currently envisaged to make any further awards under the Plan.

Long-term incentive plan

On 24 August 2017, the Board approved the making of certain initial grants under the Company's new long-term incentive plan ("LTIP") and on 28 November 2018 additional grants were made to executive directors.

The following table provides details of the LTIP awards made to directors in 2017 and 2018:

Director	Date of grant	Options at date of grant	Options capable of vesting as at 31 December 2018	Face value (in GBP)[2]	Options capable of being exercised during the financial year 2018[1]	Expiry date
Kai-Uwe Kessel	28 November 2018	332,706	0	0	0	27 November 2028
Kai-Uwe Kessel	10 October 2017	332,706	150,649	415,585	0	9 October 2027
Tom Richardson	28 November 2018	174,900	0	0	0	27 November 2028
Tom Richardson	10 October 2017	174,900	79,195	218,458	0	9 October 2027

1. None of the options granted are currently exercisable.
2. The face value has been calculated by multiplying the number of options capable of vesting by the fair value of the options at grant date (£2.76 for 2017 options) and as performance conditions for 2018 were not met the 2018 options have no face value. A nominal amount of 0.01p per option will be payable by all directors upon exercise. The Company has the option to waive the nominal cost.

As previously mentioned, all non-executive directors who had been granted awards under the LTIP (including the Chairman) have formally renounced such awards and the Company has amended the terms of its LTIP to make non-executive directors ineligible to participate in the LTIP.

Further information regarding how the LTIP operates and the performance conditions applicable to grants made in 2018 can be found on page 82.

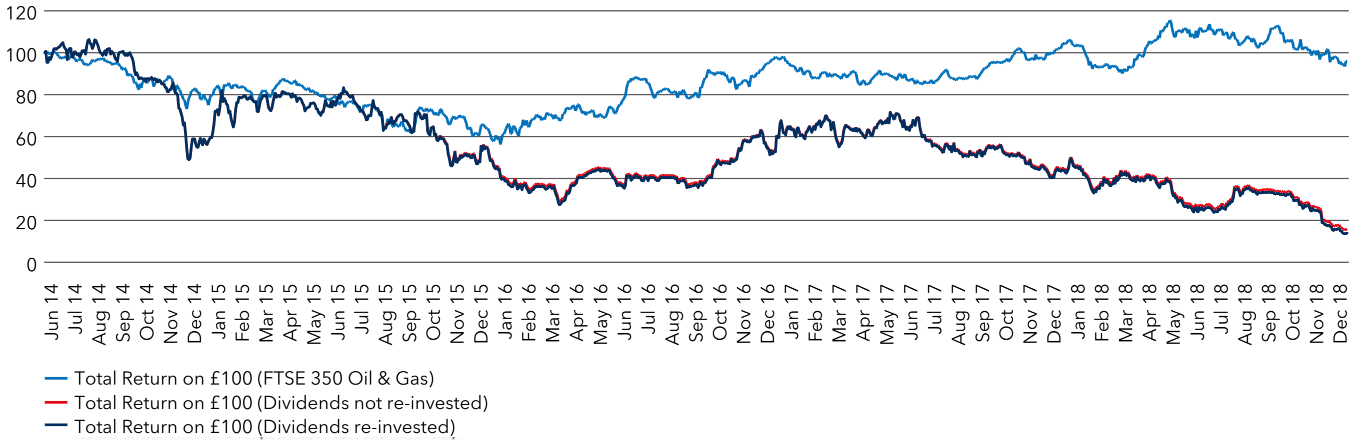
2018 annual report on remuneration continued

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 with the FTSE 350 Oil & Gas 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.

Total share return

Share price (GBp)



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
2013	889,217	100%
2014	2,050,323[1]	100%
2015	971,224	80%[2]
2016	915,900	75%
2017	888,451	31.25%
2018	617,765	0%

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's 2018 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.

	Chief Executive			**Comparator group**
(EUR[3])	**2018**	2017	% change	% change
Salaries[4]	592,079	773,567	-23	2
Benefits	25,687	18,188	41	0
Annual bonus	0	96,696[5]	-100.00	-66.67

1. Total CEO remuneration for 2014 includes remuneration from the exercise of share options.
2. These figures include a bonus amount of EUR 236,262 paid in 2015 in respect of 2014 performance. No bonuses were paid for 2015 performance.
3. 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.
4. Salary increases are determined and awarded during the course of the calendar year.
5. Remuneration figures stated for 2017 and in the historical period include employer taxes borne by Nostrum. For 2018 it was decided to show only gross personal salary, fees and benefits paid to directors by Nostrum and excludes other employer taxes. The difference in the reporting basis results in a large comparative difference between 2017 and 2018 remuneration.

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 dollars	2018	2017	% change
Remuneration paid to all employees[1]	**39,029**	39,802	-1.95%
Dividends to shareholders (total)	**0**	0	
• Dividends	**0**	0	0%
• Share buy-back	**0**	0	0%

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

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

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 pages 93 and 95 respectively of this Annual Report. All directors are subject to annual re-appointment and accordingly all executive and non-executive directors will stand for election or re-election (as appropriate) at the Annual General Meeting.

Statement of 2018 remuneration policy implementation

The Company's remuneration policy was put to a shareholder vote at the 2018 Annual General Meeting and was approved by 65.49% of shareholders. The Board recognises that a significant minority of shareholders voted against this resolution. We are therefore putting a revised directors' remuneration policy to a shareholder vote at our 2019 Annual General Meeting. A copy of the revised policy can be found on pages 87-95 and an explanation of the key changes can be found on page 76.

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 between December and March and becoming payable between April and August of each year.

Remuneration in 2019 will be consistent with the policy described on pages 88-91.

Salaries and service fees

The Committee is currently reviewing the structure of the executive directors contractual arrangements as employees of the Group and will determine any salary increases later in the year.

Number of outstanding shares at 1 January 2019: 188,182,958

2P reserves at 1 January 2019: 410 mmboe

Ratio at 1 January 2019: 2.179 boe/share

2018 annual report on remuneration continued

Annual bonus

In accordance with the remuneration policy applicable in 2019, the executive director annual bonus opportunity is up to 40% of base compensation. Annual performance will be assessed against a performance scorecard of which a portion is based on operational and financial measures, a portion on strategic objectives and a portion on HSE, social and governance objectives.

The 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 2019 to determine the annual bonus amounts payable to executive directors in 2020. Details of any non-commercially sensitive KPIs are set out below. 2019 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.

2019 Bonus Performance Measures	**Weight**
Operational and Financial	**60%**
• Achieve annual average sales (boepd) from 30,000 boepd (0%) to 35,000 (100%) (sliding scale)	30%
• Reduce operational and G&A cash costs from US$79m (0%) to US$63m (100%) (sliding scale)	10%
• Successful appraisal from the Northern Area of the Chinarevskoye field	10%
• Complete and commission GTU3 construction project on budget by mid-2019 (50%) with first sales from it by end-2019 (50%)	5%
• Implement new cost management system so that it is operational group-wide by end-2019 (50%) and on budget (50%)	5%
Strategic Objectives	**30%**
• A commercially sensitive strategic target	15%
• A commercially sensitive strategic target	15%
HSE, Social and Governance	10%
Inventorise GHG emissions by Q2 2019 and demonstrate an active GHG emissions reduction plan by Q4 2019	5%
Assessment by the HSEC Committee of achievement of the HSE Plan for 2019 (provided that there have been no fatalities)	5%
Total	100%

Phantom share option plan

The Committee does not envisage the award of any additional phantom share options to executive directors in 2019.

Long-term incentive plan

The Committee does envisage granting additional awards under the Company's long-term incentive plan in 2019. The performance conditions for such grants in 2019 will be as follows:

2019 LTIP Performance Conditions

Boepd (average accrued sales) for year ended 31 December 2019 (75% weighting)	**% of the award that may vest**
35,000 or greater	100%
30,000	0%
	On a straight line between 30,000 and 35,000
2P barrels of oil equivalent per share (25% weighting)[1]	% of award that may vest
3.0 or greater	100%
2.5	0%
	On a straight line between 2.5 and 3.0

Non-executive directors

Non-executive director fees were reviewed in March 2018 and it was decided that no change was warranted. The next review of non-executive director fees will be conducted in 2020.

Approval of the directors' remuneration report

The directors' remuneration report was approved by the Board on March 2019.

On behalf of the Board

Kai-Uwe Kessel
Chief Executive Officer

25 March 2019

Tom Richardson
Chief Financial Officer

25 March 2019

Directors' remuneration policy

Future directors' remuneration policy

This part of the directors' remuneration report sets out the remuneration policy for the Company and has been prepared in accordance with the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority. Our directors' remuneration policy for 2018 was approved by 65.49% of our shareholders at our AGM on 30 April 2018. We have considered the views of our shareholders, including those who did not approve the policy in 2018, and a revised policy will be put to a binding vote of shareholders at the Company's 2019 Annual General Meeting and will apply for a maximum of three years from the date of shareholder approval.

Policy coverage

This policy applies to all payments to directors of the Company from the date of the Company's 2018 AGM.

Policy objectives

This policy is designed to:

1. Provide that the Company may not make any LTIP awards to its non-executive directors or Chairman.
2. Provide a structure and level of pay that attracts and retains high calibre directors capable of delivering the Company's strategic objectives.
3. 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.
4. Align the remuneration of executives with the interests of the Company's shareholders, and ensure that rewards are justified by performance.
5. Ensure that the pay of the executive directors takes into account: (i) pay and conditions throughout the Company; and (ii) corporate governance best practice including health and safety, environmental, social and governance risks.
6. Allow for future bonuses to be paid in whole or part in deferred shares.
7. Allow for pension contributions to executive directors for their services under service contracts up to a 10% maximum opportunity or higher if required by applicable law.

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 350 companies of a similar size to Nostrum;
- Oil and gas E&P companies globally which compete for scarce skills within the industry; and
- 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.

Remuneration policy table

The table on pages 88-91 sets out the key components of the reward package for executive directors.

Directors' remuneration policy continued

Executive directors' remuneration policy table

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
BASE PAY	To provide market-competitive base salaries.	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.	Base salary is reviewed annually and fixed for 12 months.	None
BENEFITS	To reflect market practice and provided in line with peer companies.	The aggregate value of such benefits should not constitute a significant proportion of any employee's compensation.	Benefits include: • Medical insurance. • Life insurance. • Permanent health insurance (long-term disability or income protection insurance). • A company car is provided to the CEO. The Company may make payments to directors in lieu of benefits and may also make separate benefit arrangements for executive directors in connection with their service as executives of Group companies.	None
ANNUAL BONUS	Executive directors may be eligible for an annual bonus in cash and/or deferred shares for good performance (as determined at the Board's discretion).	In general, maximum opportunity of 40% of base salary compensation.	The annual bonus is determined by reference to performance in the prior calendar year. Annual bonuses are generally paid sometime between April and August of each year. Malus and clawback provisions apply to the award of annual bonuses such that executive directors may be liable to repay some or all of their annual bonus if there is a material misstatement of results, or error in calculation of any KPI or serious misconduct. The discovery period is one year commencing on the date on which the bonus is determined.	Key performance indicators against which the performance of the executive directors will be measured in the following year are determined at the end of each year and all non-commercially-sensitive key performance indicators are disclosed in the directors' remuneration report. Any commercially sensitive performance measures will be disclosed retrospectively following completion of the relevant financial year. Performance against key performance indicators for the previous year is also disclosed in the directors' remuneration report to show how the Board has determined executive director performance against the relevant key performance indicators for that year and consequently the levels of annual bonus payable to the executive directors.

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
NOSTRUM OIL & GAS PLC 2017 LONG-TERM INCENTIVE PLAN ("LTIP")	To incentivise executive directors and employees over a longer time frame and to increase their interest in the Company's long-term business goals and performance through share ownership. To help retain executives and other key employees and align their interests with shareholders through building a shareholding in the Company.	200% of base salary in any financial year.	Awards of nominal-cost options are made at the sole discretion of the committee. It is anticipated that awards will be granted annually for calendar years 2017-2019, subject to annual performance conditions. Generally, awards have a one-year performance period attached to them and will not vest for an additional two years following the date on which the committee determines whether or not a performance condition has been wholly or partly satisfied such that no award may vest before the third anniversary of the date of grant. The committee has the discretion to decide, on or before the grant of an award, that a participant shall be entitled to receive dividend equivalents arising over the period between the grant date and the vesting date with such amounts being payable in cash or shares in respect of shares which vest. Malus and clawback provisions apply to the LTIP such that participants are liable to repay/forfeit some or all of their shares if there is a material misstatement of results, or error in calculation, or if there is serious misconduct. The discovery period is three years commencing on the date on which the award vests, which can be extended by the committee for an additional two years if an event occurs which the committee determines could result in the operation of recovery or withholding.	Performance measures are generally measured over one year though the committee have the discretion to apply a longer performance period to awards. The committee has the discretion to set any performance condition attaching to awards granted under the LTIP. Vesting of awards would ordinarily be based: • In part on average accrued sales volumes measured in barrels of oil equivalent per day; and • In part on reserves measurement on the basis of 2P barrels of oil per share.

Directors' remuneration policy continued

Executive directors' remuneration policy table continued

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
PHANTOM SHARE OPTION PLAN (THE "PLAN")	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. The Plan has effectively been replaced by the LTIP and no awards are expected to be made under the Plan in 2019.	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. In accordance with the Plan rules, the total number of shares that may be granted pursuant to the Plan is five million.	• Intertrust 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.	None

Element of pay	Purpose and link to strategy	Maximum opportunity	Operation	Performance criteria
PENSIONS	To remain competitive in the marketplace and provide income in retirement.	10% or, if higher, any minimum pension contribution which may be required under applicable law.	There are ordinarily no pension contributions or provisions for directors, although there may be pension arrangements made for executive directors in connection with their service as executives of Group companies.	None
SHAREHOLDING GUIDELINE	Aligns interests of executive directors with those of shareholders.	Executive directors are encouraged to maintain a holding in the Company to align their interests with shareholders.	If the Company grants shares to directors outside the LTIP by way of bonus or otherwise they will be required to hold 50% of such shares for a three year period. The committee monitors the holdings of all directors.	None
NON-EXECUTIVE DIRECTORS AND CHAIRMAN	Attract and retain high performing individuals.	No prescribed maximum annual increase in fees.	Any fee increases are usually considered at the end of each year and the Board and, where applicable, the committee considers pay data at comparable companies of a similar scale. The Senior Independent Director and the Chairmen of the committees receive additional fees. No eligibility for participation in bonuses but limited benefits may be delivered (provision of iPad and travel-related expenses). Non-executive directors and the Chairman are not eligible to participate in the LTIP.	

Directors' remuneration policy continued

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 an award; and (iii) the size of the award.

Treatment of existing arrangements

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

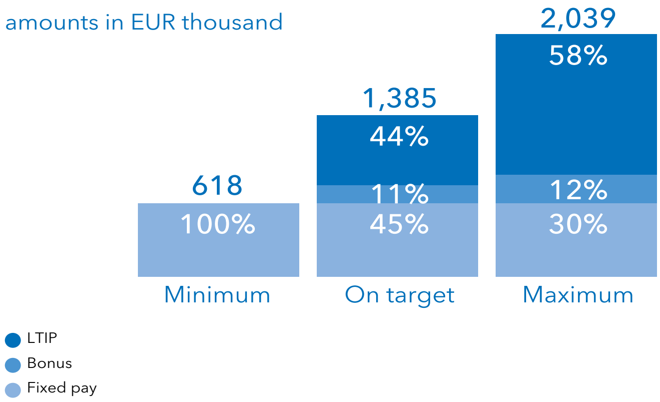
The bar charts below provide estimates of the potential remuneration of the executive directors for 2019. Three scenarios are presented for each executive director which are based on the following assumptions:

- The "minimum" columns are intended to show the fixed level of remuneration to which executive directors are entitled in 2019 irrespective of performance levels, namely base salary, benefits using the details set out in the single-figure table provided on page 79 (which includes any payments made in lieu of benefits made under the executive directors employment contracts for their roles as executives of the Group and not under their service contracts as executive directors) and any payments made in lieu of the provision of a pension scheme (which are paid under the executive directors employment contracts for their roles as executives of the Group and not under their service contracts as executive directors). The base salary for each of the executive directors is currently under review and so their estimated 2018 base salary has been used for the purposes of the bar charts for Mr Kessel and Mr Richardson. Mr Gupta's salary, agreed in November 2018, has been used for his bar chart. No bonus payments or vesting of shares are assumed for minimum performance.
- The "on target" scenario seeks to illustrate the remuneration the executive directors would receive if performance was in line with expectation. In addition to the fixed elements summarised above, it assumes a specified level of payout/vesting under the annual bonus scheme and awards made in 2019 under the LTIP though no LTIP awards made in 2019 would be eligible for vesting until two years after the date on which the committee determine whether or not the applicable performance measures have been met. Given that neither of these incentive arrangements explicitly stipulate an 'on target' amount and grant levels under the LTIP for 2019 have not been determined yet, the assumed levels for the scenario are:
  - For the LTIP, the illustration is based on 50% vesting in relation to the percentage of base salary over which the relevant LTIP grant was made (up to a maximum of 200% of base salary as stated under the LTIP rules). We have used the grant levels made to each of the executive directors under the LTIP in 2018 to determine the on target and maximum percentage of base salary over which share options could be awarded in 2019 (being an LTIP award equivalent to 200% of base salary for Kai-Uwe Kessel and 150% of base salary for Tom Richardson); and
  - In case of the annual bonus, a bonus of 25% of base salary.
- The "maximum" columns illustrate total remuneration levels in circumstances where the variable elements pay out in full, namely an annual bonus payment of 40% of base salary and 100% vesting of LTIP awards to be granted in 2019.
- During 2018 the non-executive directors who had been granted awards under the LTIP agreed to renounce such awards.

The bar charts below do not include any amounts in relation to the phantom share option plan because, as at the time of this Annual Report, the Board does not intend to grant any further awards under the phantom share option plan in 2019.

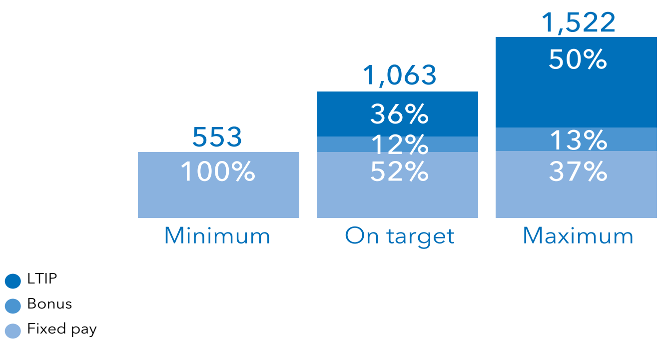
Kai-Uwe Kessel, Chief Executive Officer

amounts in EUR thousand



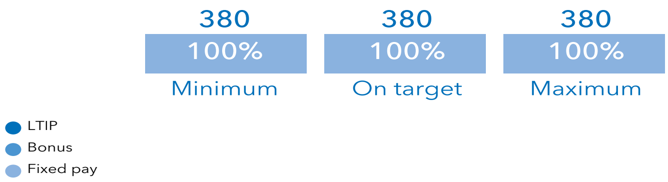
Tom Richardson, Chief Financial Officer

amounts in EUR thousand



Atul Gupta, Executive Chairman

amounts in EUR 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 pages 88-91.
- 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 salaries 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 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:

	Director's service agreement date	Annual salary and fees as at 1 January 2019 (EUR)[1,2]
Atul Gupta	28 November 2018	379,803
Kai-Uwe Kessel	Originally dated 19 May 2014 and most recently amended and restated on 1 April 2018 (effective as of 1 April 2018)	555,914
Tom Richardson	Originally dated 1 September 2016 and most recently amended and restated on 22 March 2018 (effective as of 1 January 2018)	510,075

1 Mr Gupta is remunerated in USD, Mr Richardson is remunerated in GBP and Mr Kessel is remunerated in EUR, USD and KZT but for the purposes of this table the following exchange rates have been used:

2018: GBP:EUR (1.134); USD:EUR (1.185); KZT:EUR (431)

2017: GBP:EUR (1.1413).

2 Annual salary and fees represents the total salary and fees (excluding benefits/pension, and discretionary remuneration) from the Group for both the director's executive and director service roles.

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; and
- 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.

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 and at the Annual General Meeting.

Directors' remuneration policy continued

Payments for departing executive directors

Provision	Policy
Notice period and compensation for loss of office in service contracts	• 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	No entitlement.
Treatment of unvested share option awards under the Plan	An executive director's award 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.
Treatment of unvested awards under the LTIP	For a director considered to be a 'good leaver' before the original vesting date (including leaving the Company on retirement, redundancy, ill health, as a result of death in service or in other circumstances determined by the committee), outstanding awards will be pro-rated for time and vest subject to performance on the original vesting date. For a director who is considered a 'good leaver' after the original vesting date, any awards will remain exercisable for a period of 12 months commencing on the date of cessation. For a director whose employment is terminated for any other reason, the award will lapse in full.

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.

Change of control

In accordance with the LTIP rules and the terms of the awards granted in 2017 and 2018 under the LTIP if there is a sale of all or substantially all of the Company or the Company's business in circumstances where such sale has been approved by a majority of shareholders and is at a price of $10 per share or more then all awards granted will vest in full regardless of the achievement or otherwise of applicable performance conditions on the date of such event if they have not already vested and all awards will remain exercisable for one month from such date. To the extent that any option is not exercised in such period, it shall lapse at the end of that period.

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

The following table provides details of non-executive director appointment letters:

Name	Position	Date of letter of appointment	Expiry of current term
Sir Christopher Codrington, Bt.	Independent non-executive director	19 May 2017	19 May 2020
Kaat Van Hecke	Independent non-executive director	20 December 2016	31 December 2019
Mark Martin	Senior Independent Director	19 May 2017	19 May 2020
Michael Calvey	Non-executive director	25 April 2017	25 April 2020
Martin Cocker	Independent non-executive director	16 November 2017	16 November 2020
Simon Byrne	Non-executive director	16 November 2017	16 November 2020

The Company intends to comply with provision 18 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 or the LTIP.

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 meet with shareholders and solicit their views on the Company's policies in relation to director and executive remuneration, and take 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 2018.

This report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The following are incorporated by reference and shall be deemed to form part of this Directors’ Report:

- The Strategic Report on pages 1-53;
- The Board and Governance report (which includes the Board, the Corporate Governance Report and the Directors’ Remuneration Report) on pages 54–101; and
- The energy and global greenhouse gas emissions disclosure on 37-38.

In addition, the following information is also incorporated into this Directors’ Report by reference:

Subject matter	Page
Likely future developments within the Group	45
Related party transactions	150
Going concern statement	118
Financial position and performance of the Group	46-53
Greenhouse gas emissions	37-38
Directors’ share interests	82
Corporate governance statement	54

Directors

Full biographical details of all current directors of the Company (all of whom held office at some point during the reported year) and the Board committees of which they are members are set out on pages 56-57 of this Annual Report.

Dividends

No dividends were paid during the year ended 31 December 2018.

No dividend is proposed to be paid in 2019 in respect of the year ended 31 December 2018.

Auditor

In accordance with section 418(2) of the Companies Act 2006, each director in office at the date of this Directors’ Report confirms that (a) so far as the director is aware, there is no relevant audit information of which the Company’s auditor is unaware and (b) the director has taken all the steps that he/she ought to have taken as a director to make him/herself aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

Ernst & Young LLP has confirmed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming AGM.

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 AGM.

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 2018.

Contributions to non-EU political parties

No contributions to non-EU political parties were made during the year 2018.

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 and during 2018 moved its place of effective management and tax residence from the Netherlands to the United Kingdom. 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 2018, 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 circulation. 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.

Subject to applicable law and the Company's Articles of Association the directors may exercise all powers of the Company, including the power to authorise the issue and/or market purchase of the Company's shares, subject to an appropriate authority being given to directors by shareholders in a General Meeting and any conditions attaching to such authority. The current authority, approved at the 2018 Annual General Meeting, for the allotment of relevant securities is for a nominal amount of up to: (i) £1,240,000 and (ii) equity securities up to a nominal amount of £620,000 less the nominal amount of any securities allotted under part (i) of the authority. No shares were allotted during the year.

Furthermore, at the 2018 Annual General Meeting, shareholders authorised the directors to make market purchases up to a maximum of approximately 10% of the Company's issued share capital (being £18,600,000 ordinary shares) excluding treasury shares. Any shares purchased under this authority may either be cancelled or may be held as treasury shares provided that the number of shares held does not exceed 10% of issued share capital. No shares were bought back during the year.

Resolutions to renew these authorities will be proposed at the 2019 AGM.

Intertrust 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 2018 the Trust held 2,948,879 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 shareholders 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 shareholder present in person or by proxy has one vote for every share held by him. No shareholder 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 2018. 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.

Further details are included in the "Our people" section on pages 32-33.

Directors' Report continued

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 team to discuss any reasonable adjustments that would help overcome or minimise the difficulty. Their line manager or the Human Resources team 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.[1]

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 Company also operates an employee phantom share option plan and in 2017 implemented a new employee long-term incentive plan, further details of which can be found in the directors' remuneration policy on page 89 and the Notes to the consolidated audited financial statements for the year ended 31 December 2018.

Shareholders holding 3% or more of the Company's issued share capital

As of 31 December 2018, the following significant shareholdings of voting rights in the share capital of the Company had been disclosed to the Company under Disclosure Guidance and Transparency Rule (DTR) 5 or otherwise.

Name	Number of ordinary shares	% of Issued ordinary shares	Nature of holding
Mayfair Investments BV	48,333,300	25.68	Direct
Baring Vostok Capital Partners Ltd.	33,708,044	17.91	Direct
Aberforth Partners LLP	21,525,026	11.44	Indirect
Standard Life Investments Ltd.	14,628,559	7.77	Indirect
Harding Loevner LP	9,000,357	4.78	Indirect
M&G Investment Management Ltd.	8,970,675	4.77	Indirect
Majedie Asset Management Ltd.	8,876,021	4.72	Indirect
Trafigura Ventures V B.V.	7,860,500	4.18	Direct
JPMorgan Asset Management (UK) Ltd.	6,353,673	3.38	Indirect
Wellcome Trust Ltd.	5,765,977	3.06	Direct

Details of all information provided to the Company pursuant to Financial Conduct Authority's ('FCA') DTRs is publicly available to view via the regulatory information service on the Company's website. This publicly available information also covers the requirements of the Kazakh Stock Exchange to provide information about all major transactions with the listed company's shares in the reporting period and any changes in the structure of shareholders holding five and more per cent of the outstanding shares over the reporting period.

Between 31 December 2018 and the date of this report there have been no notifications to the Company under DTR 5.

Financial risk management

The Company's financial risk management objectives and policies, including its use of financial instruments, can be found in Note 33 of the financial statements.

Significant contractual arrangements

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

Pursuant to its terms, the KSS Global Relationship Agreement 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) KSS Global (together with any of its 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.

1. These disclosures have been made on a voluntary basis as the Company does not have more than 250 employees employed under contracts of service working wholly or mainly in the UK each week as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

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:

1. In the event of a takeover of the Company all options under the Company's phantom share option plan shall be deemed to have vested and the Board shall direct Intertrust 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 10th anniversary of the date of grant. Any options that have not been exercised will lapse at the end of this period.
2. In the event of a takeover of the Company all options under the Company's employee long-term incentive plan shall be deemed to have vested and the Board shall direct Intertrust Employee Benefit Trustee Limited to allow each optionholder to exercise his or her options during the one-month period following the change of control event. Any options that have not been exercised will lapse at the end of this period.
3. The 2012 Bonds, 2014 Bonds, 2017 Bonds and 2018 Bonds contain change of control provisions. If a change of control occurs the Company will be required to offer to repurchase the 2012 Bonds, 2014 Bonds, 2017 Bonds, and 2018 Bonds at 101% of their principal amount, plus accrued and unpaid interest to the date of the purchase.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment or otherwise that occurs specifically because of a takeover.

Corporate governance statement

Pursuant to Disclosure Guidance 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.

Directors' Report continued

Requirements of the Listing Rules

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

Information required	Sub-section of Listing Rule 9.8.4R	Reference
Capitalised interest	(1)	Please refer to Note 7 in the financial statements
Publication of unaudited financial information	(2)	Not applicable
Details of any long-term incentive schemes established to specifically recruit or retain a director.	(4)	Not applicable
Waiver of emoluments by a director	(5) (6)	No such waivers
Allotment of equity securities for cash	(7) (8)	No such share allotments
Participation in a placing of equity securities	(9)	Not applicable
Contracts of significance	(10)	Please refer to the Directors' Report
Contracts for the provisions of services by a controlling shareholder	(11)	Not applicable
Dividend waiver	(12) (13)	Under the trust deed relating to the phantom share option plan and the LTIP, the trustee has agreed to waive any dividends on shares held under both plans.
Agreements with controlling shareholder	(14)	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

Important events since the end of the financial year

Major events after 31 December 2018 are disclosed in Note 34 to the consolidated audited financial statements.

This report was approved by the Board on 25 March 2019.

On behalf of the Board

Kai-Uwe Kessel
Chief Executive Officer

25 March 2019

Tom Richardson
Chief Financial Officer

25 March 2019

Nostrum Oil & Gas PLC, registered number 8717287

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.

In preparing these financial statements the directors are required to:

- Select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes and Accounting Estimates and Errors' and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- State that the Group and the Company have complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements.
- Provide additional disclosures when compliance with specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and performance.
- Prepare the Group's and Company's financial statements on a going concern basis, unless it is inappropriate to do so.

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 website.[1]

Each of the directors whose names and functions are listed on page 56-57, confirm that to the best of their knowledge:

a. The Company and Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

b. The Strategic Report contained in the Annual 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

25 March 2019

Tom Richardson
Chief Financial Officer

25 March 2019

1. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated financial statements

Contents

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

Our opinion on the financial statements

In our opinion:

- Nostrum Oil & Gas PLC's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Group	Parent company
Consolidated statement of financial position as at 31 December 2018	Statement of financial position as at 31 December 2018
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	Statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 16 to the financial statements including a summary of significant accounting policies
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

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

Basis for opinion

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

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

Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on pages 41 to 44 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 39 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 118 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 45 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation ('DD&A') and the decommissioning provision • Impairment of exploration licenses, goodwill and oil & gas development and production fixed assets • Revenue recognition • Completeness of related party transactions and related disclosures • Risk of management override
Audit scope	• We performed an audit of the complete financial information of four components across the United Kingdom, Belgium, and Kazakhstan, and audit procedures on specific balances for a further five components across the United Kingdom, the Netherlands, Russia and Kazakhstan. • The components where we performed full or specified procedures accounted for full coverage of Profit before tax, EBITDA, Revenue and Total assets.
Materiality	• Overall group materiality of $6.7m which represents 3% of EBITDA.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation ('DD&A') and the decommissioning provision Refer to the Audit Committee Report on page 66; the estimates, assumptions and judgements on page 124 and the disclosures in note 7 of the Consolidated Financial Statements (page 134) This was a significant risk due to the subjective nature of reserves estimates and the pervasive impact on the financial statements through impairment, DD&A calculations and the decommissioning provision. Reserves are also considered a fundamental indicator of the future potential of the Group's performance and its ability to continue as a going concern. The estimation of oil and gas reserves is a significant area of judgement due to the technical uncertainty in assessing reserves quantities. Consistent with the previous year, management has engaged a third-party specialist in connection with the estimation of reserves volumes. The risk has increased compared with the prior year.	Our audit procedures have focused on management's estimation process, including whether bias exists in determination of reserves. We assessed management's assumptions including commercial assumptions to ensure that they are based on supportable evidence. We have: • carried out procedures to walkthrough and understand the Group's internal process and key controls associated with the oil and gas reserves estimation process; • met with management's third-party specialist during the planning and execution of the audit and assessed their competence and objectivity by enquiry of their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists, to satisfy ourselves that they are appropriately qualified to carry out the volumes estimation and prepare the input data used by the third-party specialist. We checked the accuracy of the data transfer to the third-party specialist; • corroborated management's commercial assumptions by checking they lie within an acceptable range compared to publicly available benchmarks where available. We compared management's internal assumptions to the latest plans and budgets for consistency; we have also challenged management's capabilities to execute on such plans by comparison to prior performance; • reviewed the final oil and gas reserves estimation report prepared by management's third-party specialist in light of our understanding of the business and we confirmed with them that all significant changes in reserves were made in the appropriate period, and in compliance with relevant industry standards; and • validated that the updated reserves estimates were included appropriately in the Group's consideration of impairment, in accounting for DD&A and determination of decommissioning dates.	Based on audit procedures performed we consider that the reserves estimations are reasonable for use in impairment testing, management's going concern assessment, calculation of DD&A and the determination of decommissioning dates.
	We performed full scope audit procedures over this risk area in one location (Kazakhstan).	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of impairment of exploration licenses, goodwill and oil & gas development and production fixed assets Refer to the Audit Committee Report on page 66; the estimates, assumptions and judgements on page 126 and the disclosures in notes 5 to 8 of the Consolidated Financial Statements (pages 133 to 136). Impairment charge in 2018 of US$150,000 thousand. At 31 December 2018 the carrying value of goodwill was nil (2017: US$32,425 thousand); exploration licenses: US$50,241 thousand (2017: US$47,828 thousand); oil & gas development and production assets, including non-current advances: US$1,895,431 thousand (2017: US$1,910,752 thousand). Owing to the continued oil price volatility combined with technical and operational challenges that arose during the year, there is a related risk of impairment. Accounting standards require management to test goodwill for impairment annually. We focused on this area due to the significance of the carrying value of the Cash Generating Unit ('CGU') containing goodwill, the current economic environment and the judgement involved in the key assumptions of the future prices of oil, natural gas and related products the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes. Changes to any of these key inputs could lead to a potential impairment. The risk has increased compared with the prior year.	For exploration licenses we have evaluated management's assessment of each impairment trigger per IFRS 6 'Exploration for and Evaluation of Mineral Resources'. We have: • verified that the Group had the right to explore in the relevant exploration licence which included obtaining and reviewing supporting documentation such as license agreements and signed supplemental agreements and communication with relevant government agencies. In the event of non-compliance, the Group can evidence that the terms are modified and any relevant penalties and fines accrued; • enquired that management had the intention to carry out exploration and evaluation activity in the relevant exploration area and corroborated these responses by reviewing management's cash-flow forecast models to verify they include further spend on the exploration activities. We discussed the intentions and strategy of the Group with senior management and Directors to confirm our understanding; • validated whether the Group has the ability to finance any planned future exploration and evaluation activity; • assessed the competency of management's experts, and (where applicable), the competency and objectivity of third party specialists engaged for the purposes of assessing the reserves and resources associated with those exploration and evaluation assets; and • compared the commercial viability of the exploration fields to the cash-flow forecast models. In addressing the risk of impairment for Goodwill and oil & gas development and production fixed assets we utilised our valuation specialists and evaluated management's impairment assessment by testing the key assumptions. We have: • walked through the controls designed by the Group relating to the assessment of the carrying value of goodwill and oil & gas development and production fixed assets; • tested the integrity of models with the assistance of our own specialists; • tested price and discount rate assumptions by comparing forecast oil price assumptions to the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the group; • focused our audit procedures on oil & gas reserves estimates, as described above in our report; • tested forecast cash flows by comparing the assumptions used within the impairment models to the approved budgets, business plans and other evidence of future intentions. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance; • compared the inflation and exchange rate assumptions to external market data; • evaluated management's sensitivity analysis of goodwill and oil & gas development and production fixed assets impairment testing in order to assess the potential impact of a range of reasonably possible outcomes. These sensitivities included adjustments to the discount rate, prices, future production volumes, opex and capex assumptions; and • evaluated the appropriateness of the financial statement disclosures.	We consider that management's estimates are reasonable with the most sensitive assumptions falling within an expected range. The Group's price assumptions are within the range of analyst expectations and other market data, including the range of what we understand other market participants are considering as long-term oil and gas prices. The pre-tax discount rate is within the range of our expectations. Based on the results of audit procedures performed, we concluded that the impairment charge was reasonable. We concluded that the related disclosures provided in the Group's financial statements are appropriate.
	We performed full scope audit procedures over this risk area at the Group level (goodwill). We also audited the impairment assessment prepared by management for exploration licenses and oil & gas development and production fixed assets in Kazakhstan. By performing these procedures we obtained full coverage of the risk amount.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition Refer to the Audit Committee Report on page 66; The Summary of significant accounting policies in page 132 and the disclosures in note 20 of the Consolidated Financial Statements (page 143) Revenue for the year ended 31 December 2018 amounts to US$389,927 thousand (2017: US$405,533 thousand). Revenue sales include crude oil, gas condensate, dry gas and liquefied petroleum gas ('LPG'). There is the risk of management manipulation to overstate or understate revenue. This could be achieved by potentially recording sales in an incorrect period. The risk has remained consistent with the prior year.	Our component team in Kazakhstan performed procedures to walkthrough and understand the process and key controls associated with the revenue recognition and accounts receivable process. We made enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with their terms, we also performed procedures that are designed to address the risk of manipulation of accounting records and the ability to override controls. We have: • tested a sample of third party evidence to verify revenue transactions are recorded appropriately, this included inspection of sales contracts with customers and delivery documents. We performed substantive audit procedures on cash accounts to verify cash collection from customers; • analysed the entire population of revenue transactions and identified revenue journals for which the corresponding entry was not posted against trade debtors and trade debtors not cleared through cash. From the outstanding debtor accounts identified, we confirmed the material debtors balances with the relevant counterparties as well as tested that debtors amounts were received subsequent to year-end; • tested the appropriateness of journal entries impacting revenue, using data extracted from the accounting system, as well as other adjustments made in the preparation of the financial statements; • carried out other analytical review procedures on each individual revenue stream using disaggregated volume by product, by customer and by month to assess the respective products' underlying performance and corroborate the appropriateness of the timing of revenue recognition; and • evaluated the financial statement disclosures for compliance with the requirements of accounting standards.	We consider that Revenue is recognised consistently with the terms of sales agreements. We also consider the financial statements disclosures with respect to Revenue to fulfil the requirements of the accounting standards.
	We performed full scope audit procedures over this risk area in one location (Kazakhstan). By performing these procedures we obtained full coverage of the risk amount.	
Completeness of related party transactions ("RPT") and related disclosures Refer to the Audit Committee Report on page 66 and the disclosures of related party transactions in note 30 of the Group Financial Statements (page 150) Transactions with related parties mainly comprise transactions between the subsidiaries of the Company and entities controlled by the shareholders with significant influence over the Group. Given the significant monetary amounts involved we consider RPTs and related disclosures to be a significant risk. The risk has remained consistent with the prior year.	Our audit procedures have focused on obtaining evidence over the completeness of related party transactions and the related disclosures. We have: • obtained an understanding of the process that management has established to identify, account for and disclose RPTs and authorise and approve significant RPTs and arrangements outside the normal course of business; • inspected bank and legal confirmations, minutes of meetings and significant agreements with new counterparties; • identified high value and unusual transactions, if any, and if necessary performed further procedures; • obtained an updated list of all related parties to the Group and reviewed the general ledger against this list to ensure completeness of transactions; • made enquiries of management in order to identify if any related party transactions outside the normal course of business have taken place; and • verified the completeness of disclosures in the financial statements.	Based on the procedures performed, we did not detect any undisclosed related party transactions.
	In addressing this risk, audit procedures were performed by the component teams in Kazakhstan and Belgium and the Group engagement team.	

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

An overview of the scope of our audit

Tailoring the scope

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

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 10 reporting components of the Group, we selected 9 components covering entities within the Netherlands, Belgium, Russia, United Kingdom and Kazakhstan, which represent the principal business units within the Group.

Of the 9 components selected, we performed an audit of the complete financial information of four components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("specified procedures scope components") we performed procedures on the existence and valuation of cash balances and the completeness and measurement of payroll and general and administrative expenses. The audit scope for specified procedures are those where we perform procedures that address only specific account assertions rather than the account balance as a whole.

The four full scope components account for 100% of the Group's revenue and 102% of the Group's EBITDA. The EBITDA coverage of 112% represents one full scope component having a positive contribution of 112% offset by three full scope components having a negative contribution of 10%. The specified procedures scope locations do not have income generating activities and we audited cash, payroll, general and administrative expenses, and other current liabilities.

The remaining one component has a contribution of less than 1% of the Group's EBITDA. For this component, we performed other procedures, including analytical review, inquiries and testing of consolidation journals and intercompany eliminations to address any residual risk of material misstatement to the Group financial statements.

Changes from the prior year

We changed scope for one entity from specific scope to full due to the size and the risk. The entity has a full year finance cost charge (2017: only half year) and includes a new material derivative financial instrument in 2018.

Also, we changed scope for three entities from specific scope to specified procedures because no overall risk associated with entities was identified; risk is limited to completeness of costs and cash balances.

Involvement with component teams

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

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

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be $6.7 million (2017: $6.5 million), which is 3% (2017: 3%) of EBITDA. EBITDA is a key performance indicator for the Group and is also a key metric used by the Group in the assessment of the performance of management. We also noted that market and analyst commentary on the performance of the Group uses EBITDA as a key metric. We therefore, considered EBITDA to be the most appropriate performance metric on which to base our materiality calculation as we considered that to be the most relevant performance measure to the stakeholders of the Group.

We determined materiality for the parent company to be $1.0 million (2017: $975 thousand), which is 1% (2017: 1%) of total assets.

Performance materiality

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

Based on our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely $3.35m (2017: $3.25m). 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 $1m to $3m (2017: $0.3m to $2.4m).

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 uncorrected audit differences in excess of $0.35m (2017: $0.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report set out on pages 1 to 101, including the Strategic Report and Corporate Governance sections, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable set out on page 101** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 66** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee / the explanation as to why the annual report does not include a section describing the work of the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 54** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 101, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our approach was as follows:

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

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

Other matters we are required to address

Following the recommendation of the Audit Committee we were re-appointed by the Company's Annual General Meeting (AGM) on 5 June 2018, as auditor of the Company to hold office until the conclusion of the next AGM of the Company, and signed an engagement letter on 17 September 2018. Our total uninterrupted period of engagement is five years covering periods from our appointment through to the period ended 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to Nostrum Oil & Gas PLC or the parent company and we remain independent of Nostrum Oil & Gas PLC and the parent company in conducting the audit.

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

Use of our report

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

Ernst & Young LLP

Richard Addison
(Senior statutory auditor)

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

London, 25 March 2019

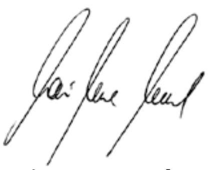
Notes:

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

Consolidated statement of financial position

In thousands of US dollars	Notes	31 December 2018	31 December 2017
NON-CURRENT ASSETS			
Exploration and evaluation assets	6	**50,241**	47,828
Goodwill	5	**-**	32,425
Property, plant and equipment	7	**1,919,662**	1,941,894
Restricted cash	12	**7,021**	6,663
Advances for non-current assets	8	**15,466**	14,598
Total Non-current assets		**1,992,390**	2,043,408
CURRENT ASSETS			
Inventories	9	**29,583**	29,746
Trade receivables	10	**35,732**	34,520
Prepayments and other current assets	11	**20,014**	27,103
Income tax prepayment		**-**	3,380
Cash and cash equivalents	12	**121,753**	126,951
Total Current assets		**207,082**	221,700
TOTAL ASSETS		**2,199,472**	2,265,108
SHARE CAPITAL AND RESERVES	13		
Share capital		**3,203**	3,203
Treasury capital		**(1,660)**	(1,660)
Retained earnings and reserves		**555,456**	668,010
Total Share capital and reserves		**556,999**	669,553
NON-CURRENT LIABILITIES			
Long-term borrowings	15	**1,093,967**	1,056,541
Abandonment and site restoration provision	16	**21,894**	23,590
Due to Government of Kazakhstan	17	**5,280**	5,466
Deferred tax liability	28	**400,981**	381,595
Total Non-current liabilities		**1,522,122**	1,467,192
CURRENT LIABILITIES			
Current portion of long-term borrowings	15	**35,633**	31,337
Employee share option plan liability	26	**55**	2,086
Trade payables	18	**52,876**	56,855
Advances received		**394**	1,279
Income tax payable		**679**	499
Current portion of due to Government of Kazakhstan	17	**1,031**	1,031
Other current liabilities	19	**29,683**	35,276
Total Current liabilities		**120,351**	128,363
TOTAL EQUITY AND LIABILITIES		**2,199,472**	2,265,108

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



Kai-Uwe Kessel
Chief Executive Officer

Tom Richardson
Chief Financial Officer

The accounting policies and explanatory notes on pages 116 through 155 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

In thousands of US dollars	Notes	For the year ended 31 December 2018	2017
Revenue			
Revenue from export sales		**296,034**	262,767
Revenue from domestic sales		**93,893**	142,766
	20	**389,927**	405,533
Cost of sales	21	**(165,145)**	(177,246)
Gross profit		**224,782**	228,287
General and administrative expenses	22	**(22,212)**	(33,303)
Selling and transportation expenses	23	**(49,984)**	(66,441)
Taxes other than income tax	24	**(29,702)**	(19,967)
Impairment charge	5,7	**(150,000)**	-
Finance costs	25	**(49,383)**	(59,752)
Employee share options - fair value adjustment	26	**1,320**	2,099
Foreign exchange loss, net		**(978)**	(688)
Loss on derivative financial instruments	29	**(12,387)**	(6,658)
Interest income		**514**	374
Other income		**4,374**	4,071
Other expenses	27	**(8,504)**	(22,055)
(Loss)/profit before income tax		**(92,160)**	25,967
Current income tax expense		**(12,251)**	(13,883)
Deferred income tax expense		**(16,284)**	(35,966)
Income tax expense	28	**(28,535)**	(49,849)
Loss for the year		**(120,695)**	(23,882)
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		**(895)**	825
Other comprehensive (loss)/income for the year		**(895)**	825
Total comprehensive loss for the year		**(121,590)**	(23,057)
Loss for the year attributable to the shareholders (in thousands of US dollars)		**(120,695)**	(23,882)
Weighted average number of shares		**185,234,079**	185,068,917
Basic and diluted earnings per share (in US dollars)		**(0.65)**	(0.13)

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

The accounting policies and explanatory notes on pages 116 through 155 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

In thousands of US dollars	Notes	For the year ended 31 December 2018	2017
Cash flow from operating activities:			
Profit before income tax		**(92,161)**	25,967
Adjustments for:			
Depreciation, depletion and amortisation	21, 22	**117,081**	122,986
Impairment charge	5,7	**150,000**	-
Finance costs	25	**49,383**	59,752
Employee share option plan fair value adjustment		**(2,031)**	(2,099)
Interest income		**(514)**	(374)
Net foreign exchange differences		**34**	(1,541)
Loss on write-off of property, plant and equipment		**1,712**	1,285
Payments under derivative financial instruments	29	**(8,649)**	-
Loss on derivative financial instruments	29	**12,387**	6,658
Provision for doubtful debts		**(116)**	1,756
Accrued expenses		**-**	3,046
Operating profit before working capital changes		**227,126**	217,436
Changes in working capital:			
Change in inventories		**163**	1,561
Change in trade receivables		**(1,212)**	(5,468)
Change in prepayments and other current assets		**7,664**	(5,733)
Change in trade payables		**(3,183)**	(4,555)
Change in advances received		**(886)**	(531)
Change in due to Government of Kazakhstan		**(1,031)**	(1,289)
Change in other current liabilities		**(5,538)**	(1,597)
Payments under Employee share option plan		**-**	(1,162)
Cash generated from operations		**223,103**	198,662
Income tax paid		**(9,062)**	(15,874)
Net cash flows from operating activities		**214,041**	182,788
Cash flow from investing activities:			
Interest received		**514**	374
Purchase of property, plant and equipment		**(168,343)**	(188,060)
Exploration and evaluation works	6	**(2,518)**	(3,482)
Acquisition of subsidiaries		**(1,674)**	-
Placement of bank deposits		**(45,000)**	-
Redemption of bank deposits		**45,000**	-
Loans granted		**-**	(1,223)
Net cash used in investing activities		**(172,021)**	(192,391)
Cash flow from financing activities:			
Finance costs paid		**(81,111)**	(57,013)
Issue of notes		**397,280**	725,000
Repayment of notes		**(353,192)**	(606,808)
Fees and premium paid on arrangement of notes		**(9,496)**	(27,084)
Treasury shares sold		**-**	1,853
Payment of finance lease liabilities		**(132)**	(676)
Transfer to restricted cash		**(358)**	(683)
Net cash (used in) / from financing activities		**(47,009)**	34,589
Effects of exchange rate changes on cash and cash equivalents		**(209)**	831
Net (decrease) / increase in cash and cash equivalents		**(5,198)**	25,817
Cash and cash equivalents at the beginning of the year	12	**126,951**	101,134
Cash and cash equivalents at the end of the year	12	**121,753**	126,951

The accounting policies and explanatory notes on pages 116 through 155 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

In thousands of US dollars	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
As at 1 January 2017		**3,203**	**(1,846)**	**260,918**	**429,537**	**691,812**
Loss for the year		–	–	–	(23,882)	(23,882)
Other comprehensive income		–	–	825	–	825
Total comprehensive loss for the year		**–**	**–**	**825**	**(23,882)**	**(23,057)**
Sale of treasury capital		–	186	674	–	860
Transaction costs		–	–	–	(62)	(62)
As at 31 December 2017		**3,203**	**(1,660)**	**262,417**	**405,593**	**669,553**
Impact of adopting IFRS 9	3	–	–	–	8,325	8,325
Restated opening balance under IFRS 9		**3,203**	**(1,660)**	**262,417**	**413,918**	**677,878**
Loss for the year		–	–	–	(120,695)	(120,695)
Other comprehensive loss		–	–	(895)	–	(895)
Total comprehensive loss for the year		**–**	**–**	**(895)**	**(120,695)**	**(121,590)**
Share based payments under LTIP		–	–	711	–	711
As at 31 December 2018		**3,203**	**(1,660)**	**262,233**	**293,223**	**556,999**

The accounting policies and explanatory notes on pages 116 through 155 are an integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. General

Overview

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

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

These consolidated financial statements were authorised for issue by the Board of directors of the Company on 25 March 2019.

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

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

Grandstil LLC was liquidated as of 6 December 2017.

On 28 December 2018, the Group acquired 100% interest in Atom&Co LLP for a cash consideration of US$ 1.7 million for the main purpose to gaining control over the administrative office in Uralsk, which was under finance lease with this entity. This transaction has been accounted for as an asset acquisition (Note 15).

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 2018, the Group employed 820 employees (FY 2017: 989).

Subsoil use rights terms

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

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

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. Subsequently the exploration period for the Bobrikovski reservoir was extended to 26 August 2018.

The contract for exploration and production of hydrocarbons from the Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. Subsequently, the exploration period was extended until 8 February 2019. The Group's application for further extension of the exploration period is in process.

The contract for exploration and production of hydrocarbons from the Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2021.

The contract for exploration and production of hydrocarbons from the Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2021.

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 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union and the requirements of the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to annual financial statements.

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

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

Notes to the consolidated financial statements continued

2. Basis of preparation and consolidation continued

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2018. 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 results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

Group reorganisation

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

Going concern

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

Subsidiaries

Nostrum Oil & Gas UK Ltd. registered and incorporated in the United Kingdom under Companies Number 08071559 is exempt from the requirements of the UK Companies Act 2006 relating to the audit of the individual accounts by virtue of the section 479A of the Act.

3. Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the application of IFRS 9 and IFRS 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. However, as permitted by IFRS 9 the Group elected not to restate comparative information for the year ended 31 December 2017 for the financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018.

As of 1 January 2018, the effect of adopting IFRS 9 resulted in the following adjustments to the carrying amounts of the financial instruments, which were previously accounted for under IAS 39, as well as other balances on the consolidated statement of financial position:

In thousands of US dollars	As previously reported	Remeasurement	As adjusted
Property, plant and equipment	1,941,894	2,362	1,944,256
Total non-current assets	**2,043,408**	**2,362**	**2,045,770**
Total assets	**2,265,108**	**2,362**	**2,267,470**
Retained earnings	668,010	8,325	676,335
Total equity	**669,553**	**8,325**	**677,878**
Long-term borrowings	1,056,541	(9,065)	1,047,476
Deferred tax liabilities	381,595	3,102	384,697
Total non-current liabilities	**1,467,192**	**(5,963)**	**1,461,229**
Total equity and liabilities	**2,265,108**	**2,362**	**2,267,470**

The nature of these adjustments is described below:

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group's financial assets. Trade receivables are held to collect contractual cashflows and are expected to give rise to cashflows representing solely payments of principal and interest, if applicable. Hence, the Group continued to measure these at amortised cost.

The classification and measurement of the Group's financial liabilities has remained materially unchanged on application of IFRS 9 with the exception of long-term borrowings accounted at amortised cost.

Under IFRS 9, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss, whereas under IAS 39 there was no such requirement to recognize gain or loss in such circumstances. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. Any fees and costs incurred are amortised over the remaining term of the asset.

The Group performed an assessment of impact of this change in the requirement on the refinancing of the Notes in 2012, 2014 and 2017 as of the date of initial application, 1 January 2018, and then applied the remeasurement retrospectively to the 2012 Notes, the 2014 Notes and the Notes 2017, that were not derecognised as of 1 January 2018.

In accordance with the requirements of IFRS 9, the Group identified the modified part of the Notes on each refinancing and estimated gains and losses on modification, which should have been recognized in profit and loss at the date of each transaction, while the premium paid on early redemption and the transaction costs and fees were assumed to be capitalized under the long-term borrowings. The unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were deemed to be expensed at the date of each refinancing. As a result of these estimations, the Group decreased the carrying values of the 2012 Notes, the 2014 Notes and the 2017 Notes by US$ 99 thousand, US$ 85 thousand and US$ 8,881 thousand, respectively, by increasing the respective capitalized transaction costs.

The adjustment of capitalized transaction costs and fees resulted in the change of the effective interest rate on the Notes from each date of refinancing. Hence, the interest capitalization rate has been revised and related adjustments made to the carrying amounts of property, plant and equipment and deferred taxes at 1 January 2018.

(b) Impairment

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

Notes to the consolidated financial statements continued

3. Changes in accounting policies and disclosures continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Group has adopted IFRS 15 with effect from January 1, 2018, which did not represent a change from the Group's existing practice and did not have a significant effect on the Group's accounting or disclosures, and therefore no transition adjustment is presented.

(a) Sale of goods

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

(b) Variable consideration

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

(c) Advances received from customers

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

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.

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to apply IFRS 16 retrospectively, with the initial application date of 1 January 2019. However, as permitted by IFRS the Group plans to elect not to restate comparative information for the year ended 31 December 2018, and recognize differences arising from the adoption of IFRS 16 by restating the balances of assets and liabilities as at 1 January 2019.

The Group will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment that are considered of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16 and expects the most significant impact from recognition of right-of-use assets and lease liabilities for leased drilling rigs, rail tank cars and vehicles.

In summary the impact of IFRS 16 adoption on the statement of financial position is expected to be, as follows:

In thousands of US dollars	**1 January 2019**
Property, plant and equipment (right-of-use asset)	33,747
Total non-current assets	**33,747**
Total assets	**33,747**
Lease liabilities, long-term portion	17,207
Total non-current liabilities	**17,207**
Lease liabilities, current portion	16,540
Total current liabilities	**16,540**
Total equity and liabilities	**33,747**

Notes to the consolidated financial statements continued

3. Changes in accounting policies and disclosures continued

The impact of the standard on 2019 underlying earnings and profit before tax following adoption is not expected to be significant although the income statement presentation of the cost of leases is expected to be changed. Instead of a rent expenses, the cost of leases will be allocated between the depreciation of right-of-use assets, and a finance charge representing the unwinding of the discount on lease liabilities.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

4. Summary of significant accounting policies

Exploration expenditure

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

Significant estimates and assumptions: Exploration expenditure

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

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

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

The Group owns licences in the Western Kazakhstan region, including the Rostoshinskoye, Yuzhno-Gremyachenskoye and Darjinskoye fields where the exploration periods will expire or have expired (respectively on 8 February 2019, 31 December 2021 and 31 December 2021). The Group's applications for extension of these exploration periods are under approval by the MOE. The Group remains committed to developing its exploration assets and based on the past history of the Group's ability to obtain extension, therefore, continues to carry the capitalized costs on its balance sheet. For more detailed information in relation to the subsoil use rights terms, please see Note 1.

Significant accounting judgement: Exploration expenditure

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

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

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

Property, plant and equipment

Oil and gas properties

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

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

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies continued

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:

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

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

Significant accounting judgment: oil and gas reserves

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

Significant estimates and assumptions: oil and gas reserves

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

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

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

In addition, provisions for decommissioning may require revision – where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities (see Decommissioning related significant judgements, estimates and assumptions for further details). Also, the recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

Business combinations and goodwill

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies continued

Significant accounting judgment: identification of cash-generating unit
Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. Management has determined a single cash-generating unit within the Group's non-current assets consisting of all Group's assets related to its Chinarevskoye and exploration fields as well as facilities. This is mainly based on the fact that hydrocarbons extracted from the fields are processed and passed through a combination of various facilities, so it is impracticable to clearly separate assets solely dedicated to each product.

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

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

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

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

- Oil prices (in real terms): US$67.5/bbl for 2019-2032;
- 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 15.4% (2017: 14.7%);
- Considering mechanical completion of GTU3 in December 2018 and the ongoing commissioning works, the first gas is planned for Q2 2019 and full commissioning of the plant during 2019, which is expected to lead to a gradual increase in the annual production volumes.

Owing to drilling challenges in the western area of the Chinarevskoye field accompanied with reduction of the 2P reserves expected to be recovered from the field over the period of 2019-2032, the Group performed stress-testing of the discounted cashflow model by applying higher sensitivities to oil prices and forecast production profiles while keeping discount rate at the same level. Based on such analysis the Group evaluated the value-in-use of the single CGU and recognized an impairment charge US$150,000 thousand.

In accordance with IFRS requirements the impairment charge was first allocated against goodwill amounting to US$32,425 thousand. This impairment cannot be reversed in future periods in accordance with accounting policy of the Group. The remaining US$117,575 thousand of impairment charge was allocated between working oil & gas assets and construction in progress proportionate to their carrying amounts at 31 December 2018 (US$67,740 thousand and US$49,835 thousand, respectively), resulting in the recoverable amount of property, plant and equipment of US$1,919,662 thousand. Further downgrades of reserves by 5% or decline in oil prices by 5% may result in increase of the impairment charge in future periods by US$125,500 thousand and US$98,700 thousand, respectively. Successful drilling results in the western area, 2P reserves increase, and increase in utilisation of the Group's processing facilities would have the effect of reversal of the impairment partially or in full. Delay in commissioning of GTU3 up to 1-2 years will have no material impact on the VIU model used by management for the purpose of the impairment testing.

More detailed information related to carrying values of oil and gas properties and related depreciation, depletion, amortisation and impairment are shown in Note 7. For information related to goodwill and related impairment, please refer to Note 5.

Taxation

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

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

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

Deferred income tax

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

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

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

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

For more detailed information in current and deferred income tax disclosure as at 31 December 2018 and 2017, please see Note 28.

Significant accounting judgment: taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018.

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

As at 31 December 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see Note 28.

Foreign currency translation

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

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

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

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies continued

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

Advances for non-current assets

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

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

Borrowing costs

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

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

Inventories

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

For more information in relation to the breakdown of inventories as at 31 December 2018 and 2017, please see Note 9.

Provisions and contingencies

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

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

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

Decommissioning

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

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

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

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

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

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

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

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

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

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

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

Other current liabilities

The Group makes accruals for liabilities related to the underperformance and/or adjustments of work 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.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies continued

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Financial liabilities

Initial recognition, measurement and derecognition

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, long-term borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of long-term borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, long-term borrowings, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group's financial liability as at fair value through profit or loss include derivative financial instruments.

Long-term borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in 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 fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing borrowings. For more information, refer to Note 15.

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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

<u>Significant accounting judgment: modifications of liabilities</u>

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

The holders of the old Notes are given an option to exchange the old Notes for the new Notes. If the terms are not substantially different, the exchange of Notes does not result in derecognition of the financial liability, and the Group recalculates the gross carrying amount of the new Notes taking in consideration the relative proportion of the arrangement fees associated with the Notes being exchanged. In relation to the portion of the Notes which are repurchased rather than exchanged for newly issued Notes, the Group derecognises those Notes along with the relative portion of the unamortised arrangement fees. For more information on the application of judgement in relation to the Group's long-term borrowings please refer to Notes 3 (IFRS 9 Financial Instruments) and 15.

Notes to the consolidated financial statements continued

4. Summary of significant accounting policies continued

Offsetting of financial instruments

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

Derivative financial instruments and hedging

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

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

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

Cash and short-term deposits

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

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

For more detailed information in relation to cash and cash equivalents as at 31 December 2018 and 2017, please see Note 12.

Revenue recognition

The Group sells crude oil, gas condensate and LPG under agreements priced by reference to Platt's and/or Argus' index quotations and adjusted for freight, insurance and quality differentials where applicable. The Group sells gas under agreements at fixed prices. For contracts that contain separate performance obligations the transaction price is allocated to those separate performance obligations by reference to their relative standalone selling prices.

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer. For sales of crude oil, gas condensate and LPG, this generally occurs when the product is physically transferred into a vessel, pipe, railcar, trucks or other delivery mechanism; for sales of gas, it is when the product is physically transferred into a pipe.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods before transferring them to the customer.

Treasury shares

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

Share-based payments

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

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

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

5. Goodwill

As at 31 December 2018 and 31 December 2017, goodwill comprised the following due to business combinations:

In thousands of US dollars	2018	2017
Balance as at 1 January	**32,425**	32,425
Goodwill impairment	**(32,425)**	-
Balance as at 31 December	**-**	32,425

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

The Group performed annual review of goodwill and oil and gas assets for impairment at the year end, as a result of which impairment of goodwill in the amount of US$ 32,425 thousand was recognized. For information in relation to goodwill impairment testing, please see Note 4.

6. Exploration and evaluation assets

In thousands of US dollars	31 December 2018	31 December 2017
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**34,406**	31,993
	50,241	47,828

During the year ended 31 December 2018 the Group had additions to exploration and evaluation assets of US$2,413 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (FY 2017: US$3,557 thousand). Interest was not capitalised on exploration and evaluation assets.

7. Property, plant and equipment

As at 31 December 2018 and 31 December 2017 property, plant and equipment comprised the following:

In thousands of US dollars	31 December 2018	31 December 2017
Oil and gas properties	**1,879,965**	1,896,154
Other property, plant and equipment	**39,697**	45,740
	1,919,662	1,941,894

Notes to the consolidated financial statements continued

7. Property, plant and equipment continued

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 2018 and 2017 was as follows:

In thousands of US dollars	Working assets	Construction in progress	Total
Balance at 1 January 2017, net of accumulated depreciation and depletion	**1,133,031**	**626,221**	**1,759,252**
Additions	8,580	243,927	252,507
Transfers	104,664	(104,379)	285
Depreciation and depletion charge	(115,890)	–	(115,890)
Balance at 31 December 2017, net of accumulated depreciation and depletion	**1,130,385**	**765,769**	**1,896,154**
Additions	1,145	212,799	213,944
Transfers	131,900	(131,900)	–
Disposals	(2,203)	–	(2,203)
Disposals depreciation	842	–	842
Depreciation and depletion charge	(111,197)	–	(111,197)
Impairment charge	(67,740)	(49,835)	(117,575)
Balance at 31 December 2018, net of accumulated depreciation and depletion	**1,083,132**	**796,833**	**1,879,965**
As at 31 December 2016			
Cost	1,785,127	626,221	2,411,348
Accumulated depreciation and depletion	(652,096)	–	(652,096)
Balance, net of accumulated depreciation and depletion	**1,133,031**	**626,221**	**1,759,252**
As at 31 December 2017			
Cost	1,898,361	765,769	2,664,130
Accumulated depreciation and depletion	(767,976)	–	(767,976)
Balance, net of accumulated depreciation and depletion	**1,130,385**	**765,769**	**1,896,154**
As at 31 December 2018			
Cost	2,029,203	846,668	2,875,871
Accumulated depreciation, depletion and impairment	(946,071)	(49,835)	(995,906)
Balance, net of accumulated depreciation and depletion	**1,083,132**	**796,833**	**1,879,965**

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 10.33% and 10.89% in 2018 and 2017, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2018. Depletion has been calculated using the unit of production method based on these reserves estimates.

During the year ended 31 December 2018 the Group evaluated the value-in-use of the single CGU and recognized an impairment charge US$ 117,575 thousand attributable to oil and gas properties (Note 4).

During the year ended 31 December 2018 the Group has written off two water wells and a power transformer with the carrying value of US$ 1,712 thousand.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (Note 16) in the year ended 31 December 2018 resulted in the decrease of the oil and gas properties by US$ 2,809 thousand (31 December 2017: an increase of US$ 1,391 thousand).

The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2018 and 31 December 2017:

In thousands of US dollars	**31 December 2018**	31 December 2017
Borrowing costs including amortisation of arrangement fee	**91,429**	76,395
Capitalisation rate	**8.43%**	6.98%
Capitalised borrowing costs	**50,286**	33,599

Other property, plant and equipment

In thousands of US dollars	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
Balance at 1 January 2017, net of accumulated depreciation	**34,528**	**4,255**	**1,211**	**9,233**	**45**	**49,272**
Additions	1,039	2,530	21	1,308	–	4,898
Transfers	67	22	–	(374)	–	(285)
Disposals	(8)	(452)	(1,223)	(468)	–	(2,151)
Disposals depreciation	7	360	981	276	–	1,624
Depreciation	(4,070)	(1,550)	(194)	(1,830)	–	(7,644)
Translation difference	–	–	–	26	–	26
Balance at 31 December 2017, net of accumulated depreciation	**31,563**	**5,165**	**796**	**8,171**	**45**	**45,740**
Additions	439	335	14	597	–	1,385
Transfers	115	(168)	–	104	–	51
Disposals	(324)	(78)	(48)	(292)	–	(742)
Disposals depreciation	222	76	44	212	–	554
Depreciation	(4,048)	(1,463)	(142)	(1,613)	–	(7,266)
Translation difference	–	–	–	(25)	–	(25)
Balance at 31 December 2018, net of accumulated depreciation	27,967	3,867	664	7,154	45	39,697
As at 31 December 2016						
Cost	49,159	18,094	2,900	15,587	45	85,785
Accumulated depreciation	(14,631)	(13,839)	(1,689)	(6,354)	–	(36,513)
Balance, net of accumulated depreciation	34,528	4,255	1,211	9,233	45	49,272
As at 31 December 2017						
Cost	50,257	20,194	1,710	16,129	45	88,335
Accumulated depreciation	(18,694)	(15,029)	(914)	(7,958)	–	(42,595)
Balance, net of accumulated depreciation	31,563	5,165	796	8,171	45	45,740
As at 31 December 2018						
Cost	50,487	20,283	1,624	16,278	45	88,717
Accumulated depreciation	(22,520)	(16,416)	(960)	(9,124)	–	(49,020)
Balance, net of accumulated depreciation	27,967	3,867	664	7,154	45	39,697

Notes to the consolidated financial statements continued

8. Advances for non-current assets

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

In thousands of US dollars	**31 December 2018**	31 December 2017
Advances for construction services	**13,128**	9,512
Advances for pipes and construction materials	**520**	5,086
Advances for other non-current assets	**1,818**	–
	15,466	14,598

9. Inventories

As at 31 December 2018 and 31 December 2017 inventories comprised the following:

In thousands of US dollars	**31 December 2018**	31 December 2017
Spare parts and other inventories	**23,479**	23,506
Gas condensate	**4,197**	4,063
Crude oil	**1,761**	1,968
LPG	**126**	189
Gas	**20**	20
	29,583	29,746

As at 31 December 2018 and 31 December 2017 inventories are carried at cost.

10. Trade receivables

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

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

11. Prepayments and other current assets

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

In thousands of US dollars	**31 December 2018**	31 December 2017
VAT receivable	**11,043**	14,960
Advances paid	**5,057**	6,826
Other taxes receivable	**2,949**	4,279
Other	**965**	1,038
	20,014	27,103

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2018, advances paid in the amount of US$ 1,751 thousand were impaired and fully provided for. Below table provides the movements in in the provision for impairment of advances paid:

In thousands of US dollars	Individually impaired
As at 31 December 2016	**-**
Charge for the year	1,867
As at 31 December 2017	**1,867**
Write-offs for the year	(116)
As at 31 December 2018	**1,751**

12. Cash and cash equivalents

In thousands of US dollars	**31 December 2018**	31 December 2017
Current accounts in US dollars	**118,902**	106,487
Current accounts in tenge	**1,396**	17,342
Current accounts in other currencies	**1,446**	3,110
Petty cash	**9**	12
	121,753	126,951

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as a liquidation fund deposit for the amount of US$ 658 thousand with Sberbank in Kazakhstan and US$ 6,363 thousand with Halyk bank (31 December 2017: a total of US$6,663 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

13. Share capital and reserves

As at 31 December 2018 the ownership interests in the Parent consists of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

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

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

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

Distributions

During the years ended 31 December 2018 and 2017 there were no distributions made.

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 31 December 2018 the book value per share amounted to US$2.96 (31 December 2017: US$3.39).

Notes to the consolidated financial statements continued

14. Earnings per share

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

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

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

	For the year ended 31 December	
	2018	2017
Loss for the year attributable to the shareholders (in thousands of US dollars)	**(120,695)**	(23,882)
Weighted average number of shares	**185,234,079**	185,068,917
Basic and diluted earnings per share (in US dollars)	**(0.65)**	(0.13)

15. Borrowings

Borrowings are comprised of the following as at 31 December 2018 and 31 December 2017:

In thousands of US dollars	**31 December 2018**	31 December 2017
Notes issued in 2012 and maturing in 2019	**-**	167,731
Notes issued in 2014 and maturing in 2019	**-**	187,863
Notes issued in 2017 and maturing in 2022	**727,447**	731,474
Notes issued in 2018 and maturing in 2025	**402,153**	–
Finance lease liability	**-**	810
	1,129,600	1,087,878
Less amounts due within 12 months	**(35,633)**	(31,337)
Amounts due after 12 months	**1,093,967**	1,056,541

2012 Notes

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

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

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

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

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

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

2014 Notes

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

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

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

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

Period	Redemption Price
2017	103.1875%
2018 and thereafter	100.00%

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

2017 Notes

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

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

On and after 25 July 2019, the 2017 Issuer shall be entitled at its option to redeem all or a portion of the 2017 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2017 Note), plus accrued and unpaid interest on the 2017 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 25 July of the years set forth below:

Period	Redemption Price
2019	106.0%
2020	104.0%
2021 and thereafter	100.0%

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

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

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

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

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

Notes to the consolidated financial statements continued

15. Borrowings continued

Transaction costs

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

For the purposes of the accounting treatment Nostrum considers part of the purchased 2012 Notes and 2014 Notes to be modified and the remainder is treated as extinguished. In 2017 consolidated financial statements unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed (Note 24), and fees and expenses directly attributable to the modified portion of the debt were capitalised under the long-term borrowings. However, with application of IFRS 9 effective from 1 January 2018 the Group has restated the balances of the Notes as of 1 January 2018, whereby for the modified part of the borrowings the Group recognized loss on modification through retained earnings and reserves, while the premium paid on early redemption and the transaction costs and fees were capitalized under the long-term borrowings. For more details please see
Note 3.

2018 Notes

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

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

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

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

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

Call of the 2012 Notes and the 2014 Notes

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

On 16 February 2018, Nostrum announced that the conditions to the call notices had been satisfied by the issue of the 2018 Notes by Nostrum Oil & Gas Finance B.V. (see above). Therefore, with effect on 17 February 2018 (the "Call Date"), US$ 169,116 thousand in principal amount of the outstanding 2012 Notes and US$ 184,076 thousand in principal amount of the outstanding the 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries were purchased from the bondholders by Nostrum Oil & Gas Finance B.V.

Transaction costs and discounts

For the purpose of the accounting treatment the purchased 2012 Notes and 2014 Notes were treated as extinguished and new liabilities were recognised for issue of the 2018 Notes, since the transaction does not fall under modification guidance under IFRS 9. The unamortised transaction costs and premiums paid on early redemption related to the 2012 Notes and the 2014 Notes amounting to of US$ 3,636 thousand and

US$ 3,012 thousand, respectively, were expensed in profit and loss (Note 20). Fees and expenses of US$ 6,484 thousand directly attributable to the issue of 2018 Notes and discount on issue of the notes amounting to US$ 2,720 thousand were capitalized under the long-term borrowings.

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

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

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

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

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

In thousands of US dollars	1 January	Impact of IFRS of adaption	Finance charges under finance leases	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Other	31 December
2018								
Long-term borrowings	**1,056,541**	(9,065)	–	397,280	(353,192)	2,403	–	**1,093,967**
Current portion of long-term borrowings	**31,337**	–	135	–	(81,111)	85,539	(267)	**35,633**
2017								
Long-term borrowings	**943,534**	–	–	725,000	(633,892)	21,899	–	**1,056,541**
Current portion of long-term borrowings	**15,518**	–	156	–	(57,013)	71,585	1,091	**31,337**

Finance lease

On 12 April 2016 Zhaikmunai LLP entered into a finance lease agreement with Atom & Co LLP for the main administrative office in Uralsk for a period of 20 years for a fee of US$ 66 thousand per month, and a finance lease prepayment amounting to equivalent of US$ 12,163 thousand.

On 28 December 2018, the Group acquired 100% interest in Atom & Co LLP for a cash consideration of US$ 1.7 million and became the owner of the administrative building, hence the finance lease was derecognized (Note 1). At the date of the transaction the remaining balance of the finance lease prepayment in the amount of 11,236 together with the cash consideration paid were considered to be part of the purchase price, has been allocated to the individually identifiable assets and liabilities on the basis of their fair values at the date of the transaction.

Future minimum lease payments under the finance lease, together with the present value of the net minimum lease payments were as follows:

	31 December 2018		31 December 2017	
In thousands of US dollars	Minimum payments	Present value of payments	Minimum payments	Present value of payments
No later than one year	-	–	**143**	131
Later than one year and no later than five years	-	–	**558**	345
Later than five years	-	–	**1,900**	334
Total minimum lease payments	-	–	**2,601**	810
Less amounts representing finance charges	-		**(1,791)**	
Present value of minimum lease payments	-	–	**810**	810

Notes to the consolidated financial statements continued

16. Abandonment and site restoration provision

The summary of changes in abandonment and site restoration provision during years ended 31 December 2018 and 2017 is as follows:

In thousands of US dollars	2018	2017
Abandonment and site restoration provision as at 1 January	**23,590**	19,635
Unwinding of discount	**321**	225
Additional provision	**792**	2,429
Provision used	**-**	(90)
Change in estimates	**(2,809)**	1,391
Abandonment and site restoration provision as at 31 December	**21,894**	23,590

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 2018 were 2.30% and 4.33%, respectively (31 December 2017: 2.50% and 3.63%).

The change in the long-term inflation rate and discount rate in the year ended 31 December 2018 resulted in the decrease of the abandonment and site restoration provision by US$ 2,809 thousand (31 December 2017: the increase by US$ 1,391 thousand).

17. Due to government of Kazakhstan

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

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

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2018 and 31 December 2017 is as follows:

In thousands of US dollars	2018	2017
Due to Government of Kazakhstan as at 1 January	**6,497**	6,920
Unwinding of discount	**845**	866
Paid during the year	**(1,031)**	(1,289)
	6,311	6,497
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,280**	5,466

18. Trade payables

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

In thousands of US dollars	31 December 2018	31 December 2017
US dollar denominated trade payables	**26,951**	22,861
Tenge denominated trade payables	**20,684**	27,153
Euro denominated trade payables	**3,702**	5,395
Russian rouble denominated trade payables	**1,051**	1,098
Trade payables denominated in other currencies	**488**	348
	52,876	56,855

19. Other current liabilities

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

In thousands of US dollars	**31 December 2018**	31 December 2017
Training obligations accrual	**11,609**	11,592
Accruals under the subsoil use agreements	**7,856**	9,941
Taxes payable, other than corporate income tax	**5,419**	6,278
Due to employees	**2,181**	3,627
Other current liabilities	**2,618**	3,838
	29,683	35,276

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

20. Revenue

The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the year ended 31 December 2018 was US$71.7 (FY 2017: US$54.7)

	For the year ended 31 December	
In thousands of US dollars	**2018**	2017
Oil and gas condensate	**267,815**	261,069
Gas and LPG	**122,112**	144,464
	389,927	405,533

During the year ended 31 December 2018 the revenue from sales to three major customers amounted to US$258,898 thousand, US$80,499 thousand and US$6,987 thousand respectively (FY 2017: US$200,572 thousand, US$102,813 thousand and US$30,871 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia. All revenues of the Group are from contracts with customers.

21. Cost of sales

	For the year ended 31 December	
In thousands of US dollars	**2018**	2017
Depreciation, depletion and amortisation	**115,212**	120,692
Payroll and related taxes	**18,326**	17,652
Repair, maintenance and other services	**16,133**	18,960
Other transportation services	**6,116**	8,335
Materials and supplies	**5,253**	6,333
Well workover costs	**2,767**	4,159
Environmental levies	**367**	375
Change in stock	**134**	297
Other	**837**	443
	165,145	177,246

Notes to the consolidated financial statements continued

22. General and administrative expenses

In thousands of US dollars	For the year ended 31 December 2018	2017
Payroll and related taxes	**11,292**	13,578
Professional services	**4,346**	11,095
Depreciation and amortisation	**1,869**	2,294
Insurance fees	**1,570**	1,640
Lease payments	**846**	797
Business travel	**774**	1,487
Communication	**357**	411
Materials and supplies	**168**	363
Bank charges	**165**	221
Other	**825**	1,417
	22,212	33,303

23. Selling and transportation expenses

In thousands of US dollars	For the year ended 31 December 2018	2017
Loading and storage costs	**18,881**	26,940
Transportation costs	**15,017**	20,160
Marketing services	**10,963**	14,363
Payroll and related taxes	**2,565**	2,033
Other	**2,558**	2,945
	49,984	66,441

24. Taxes other than income tax

In thousands of US dollars	For the year ended 31 December 2018	2017
Royalties	**15,155**	15,724
Export customs duty	**11,233**	3,864
Government profit share	**3,277**	248
Other taxes	**37**	131
	29,702	19,967

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.

25. Finance costs

In thousands of US dollars	For the year ended 31 December 2018	2017
Interest expense on borrowings	**41,143**	42,797
Transaction costs	**6,648**	15,709
Unwinding of discount on amounts due to Government of Kazakhstan	**845**	866
Unwinding of discount on abandonment and site restoration provision	**399**	225
Other finance costs	**214**	–
Finance charges under finance leases	**134**	155
	49,383	59,752

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

26. Employees' remuneration

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

	2018	2017
Management and administrative	**201**	246
Technical and operational	**619**	731
	820	977

Their aggregate remuneration comprised:

In thousands of US dollars	2018	2017
Wages and salaries	**35,274**	34,573
Social security costs	**4,537**	5,229
Share-based payments	**727**	1,008
	40,538	40,810

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$33,180 thousand (FY 2017: US$34,927 thousand).

Key management personnel remuneration

In thousands of US dollars	2018	2017
Short-term employee benefits	**3,819**	4,304
Share-based payments	**222**	1,008
	4,041	5,312

Directors' remuneration

In thousands of US dollars	2018	2017
Short-term employees benefits	**2,056**	2,594
Share-based payments	**148**	–
	2,204	2,594

Employee share option plan

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

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

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

The equity-based payment plan is described below.

During 2008-2015, – 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 1,925,974 of SARs at 31 December 2018 is US$ 40 thousand (31 December 2017: 2,211,153 SARs with carrying value of US$ 2,086 thousand). During the year ended 31 December 2018 8,000 SARs were fully vested (FY 2017:205,000).

Notes to the consolidated financial statements continued

26. Employees' remuneration continued

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

	2018		2017	
	No.	EP,US$	No.	EP,US$
Total outstanding at the beginning of the year (with EP of US$ 4)	**946,153**	4	**1,276,478**	4
Total outstanding at the beginning of the year (with EP of US$ 10)	**1,265,000**	10	**1,260,000**	10
Total outstanding at the beginning of the year	**2,211,153**		**2,536,478**	
Share options exercised	-	4	**(330,325)**	4
Share options granted	-	10	**40,000**	10
Share options lapsed	**(285,179)**	10	**(35,000)**	10
Total outstanding at the end of the year	**1,925,974**		**2,211,153**	
Total exercisable at the end of the year	**1,893,974**		**1,926,153**	

There were no SARs granted during the years ended 31 December 2018 and 2017: 40,000 thousand SARs). The weighted average price at the date of exercise for SARs exercised during the year ended 31 December 2017 amounted to US$ 5.57 per SAR, and there were no SARs exercised during the year ended 31 December 2018.

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 2018 and 2017:

	2018	2017
Price at the reporting date (US$)	**1.03**	4.40
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**44.0%**	41.4%
Risk-free interest rate (%)	**0.8%**	0.7%
Expected life (years)	**10**	10
Option turnover (%)	**10%**	10%
Price trigger	**2.0**	2.0

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

2017 Long-term incentive plan

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

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

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

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

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

The following table summarizes the movement in the number of share options during 2017 and 2018:

	Equity-settled awards	Cash-settled awards	Total awards
Total outstanding as at 1 January 2017	–	–	–
Share options granted	1,139,146	69,697	1,208,843
Share options forfeited	(11,838)	–	(11,838)
Share options lapsed	(5,721)	–	(5,721)
Total outstanding as at 31 December 2017	**1,121,587**	**69,697**	**1,191,284**
Share options granted	1,095,691	67,349	1,163,040
Share options performance adjusted	(580,260)	–	(580,260)
Share options forfeited	(106,235)	–	(106,235)
Share options lapsed	(24,670)	–	(24,670)
Total outstanding as at 31 December 2018	**1,506,113**	**137,046**	**1,643,159**

On 23 March 2018 the remuneration committee of the board of the Company determined the level of performance conditions that were met for the performance conditions set upon issue of the share options granted in 2017. On 28 November 2018 the Company granted further 1,163,040 share options.

As at 31 December 2017 106,713 share options were vested in accordance with the management's best estimate. The fair value of the equity-settled share options at the valuation dates of 28 November 2018 and 23 March 2018 amounted to US$ 2.76 and US$ 1.25 per share option, respectively. The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for valuation of the share options at the grant date:

	28 November 2018	23 March 2018
Price at the valuation date	**1.3**	2.8
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**43.4%**	40.4%
Risk-free interest rate (%)	**1.38%**	1.45%
Expected life (years)	**10**	10
Option turnover (%)	**10%**	10%
Price trigger	**2.0**	2.0

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

Notes to the consolidated financial statements continued

27. Other expenses

In thousands of US dollars	For the year ended 31 December 2018	2017
Other accruals	**2,691**	3,024
Training	**2,440**	2,752
Loss on disposal of property, plant and equipment	**1,709**	1,810
Social program	**300**	316
Sponsorship	**53**	256
Business development	**-**	9,295
Accruals under subsoil use agreements	**-**	587
Inventory write-offs and provisions	**-**	201
Other	**1,311**	3,814
	8,504	22,055

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

28. Income tax

The income tax expense comprised the following:

In thousands of US dollars	For the year ended 31 December 2018	2017
Corporate income tax	**12,490**	12,992
Withholding tax	**612**	424
Deferred income tax (benefit) / expense	**16,284**	35,966
Adjustment in respect of the current income tax for the prior periods	**(851)**	467
Total income tax expense	**28,535**	49,849

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 Kazakh tax rate applicable to the Chinarevskoye subsoil use rights is as follows:

In thousands of US dollars	For the year ended 31 December 2018	2017
(Loss)/profit before income tax	**(92,161)**	25,966
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**(27,648)**	7,790
Effect of exchange rate on the tax base	**18,284**	(194)
Adjustments in respect of current income tax of previous years	**(851)**	466
Effect of loss / (income) taxed at different rate[1]	**473**	1,551
Non-deductible interest expense on borrowings	**23,847**	19,755
Non-deductible goodwill impairment	**9,728**	-
Deferred tax asset not recognised	**3,891**	9,498
Non-deductible penalties	**(204)**	3,222
Net foreign exchange loss	**(1,261)**	588
Non-deductible social expenditures	**203**	256
Non-deductible cost of technological loss	**224**	224
Non-deductible training expenditures	**88**	282
Non-deductible business development costs	**-**	2,787
Other non-deductible expenses	**1,761**	3,624
Income tax expenses reported in the consolidated financial statements	**28,535**	49,849

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

The Group's effective tax rate for the year ended 31 December 2018 is negative 31.0% (2017: 192.0%). The Group's effective tax rate, excluding effect of movements in exchange rates, non-deductible interest expense on borrowings and non-deductible impairment of goodwill, for the year ended 31 December 2018 is 23.9% (2017: 114.4%).

In addition, the effective tax rate was impacted by the effect of losses and gains taxed at different rates which decreased effective tax rate by 0.5% for the year ended 31 December 2018 (2017: increased by 6.0%).

As at 31 December 2018 the Group has tax losses of US$104,185 thousand (2017: US$90,210 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 2023-2027. 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.

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

In thousands of US dollars	**31 December 2018**	31 December 2017
Deferred tax asset		
Accounts payable and provisions	**4,910**	4,960
Deferred tax liability		
Property, plant and equipment	**(398,115)**	(386,555)
Long-term borrowings	**(7,776)**	–
Net deferred tax liability	**(400,981)**	(381,595)

The movements in the deferred tax liability were as follows:

In thousands of US dollars	**2018**	2017
Balance as at 1 January	**381,595**	345,607
Impact of adopting IFRS 9	**3,102**	–
Restated opening balance under IFRS 9	**384,697**	–
Current period charge to statement of income	**16,284**	35,988
Balance as at 31 December	**400,981**	381,595

29. Derivative financial instruments

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

In thousands of US dollars		
As at 1 January 2017	**current**	6,658
	non-current	–
Loss on derivative financial instruments		(6,658)
As at 31 December 2017	**current**	–
	non-current	–
Loss on derivative financial instruments		(12,387)
Payments made under derivative financial instruments		8,649
Reclassification to trade payables upon expiry of the contract		3,738
As at 31 December 2018	**current**	–
	non-current	–

On 14 December 2015, Zhaikmunai LLP entered, at cost of US$ 92,000 thousand, into a long-term hedging contract covering oil sales of 14,674 bbls/day for the first calculation period and 15,000 bbls/day for the subsequent calculation periods or a total of 10,950,000 bbls running through to 14 December 2017. The counterparty to the hedging agreement 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.

On 4 January 2018, the Group entered into a hedging contract equating to production of 9,000 barrels of oil per day. The hedging contract is a zero-cost capped collar with a floor price of US$60.0/bbl. The Group has covered the cost of the floor price by selling a number of call options with different strike prices for each quarter: Q1:US$67.5/bbl, Q2:US$64.1/bbl, Q3:US$64.1/bbl, Q4:US$64.1/bbl. The amount of upside given away has been capped through the purchase of a number of call options with different strike prices: Q1:US$71.5/bbl, Q2:US$69.1/bbl, Q3:US$69.6/bbl, Q4:US$69.6/bbl. There were no upfront costs to the Group for the hedging contract. The hedging contract was settled in cash on a quarterly basis and matured on 31 December 2018, hence the balance of US$ 3,738 thousand was reclassified to accounts payable.

Gains and losses on the derivative financial instruments, which do not qualify for hedge accounting, are taken directly to account "Loss on derivative financial instruments" within profit and loss. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 33.

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30. 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 2018 and 31 December 2017 consisted of the following:

In thousands of US dollars	**31 December 2018**	31 December 2017
Trade receivables and advances paid		
JSC OGCC KazStroyService	**11,408**	7,573

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

In thousands of US dollars	**31 December 2018**	31 December 2017
Trade payables		
JSC OGCC KazStroyService	**11,420**	10,063

During the years ended 31 December 2018 and 2017 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

	For the year ended 31 December	
In thousands of US dollars	**2018**	2017
Purchases		
JSC OGCC KazStroyService	**13,975**	50,350
Management fees and consulting services		
Cervus Business Services	-	948
VWEW Advocaten VOF	-	5

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2018 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

During the year ended 31 December 2018 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA and VWEW Advocaten VOF. Starting from April 2017 these entities ceased to be considered related parties in accordance with IAS 24 definitions.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 3,439 thousand for the year ended 31 December 2018 (FY 2017: US$4,304 thousand). Payments to key management personnel under ESOP for the year ended 31 December 2018 amounted to US$ 151 thousand (FY 2017: no payments under ESOP were made).

31. Audit and non-audit fees

During the years ended 31 December 2018 and 2017 audit and non-audit fees comprise the following:

In thousands of US dollars	2018	2017
Audit of the financial statements	**292**	312
Total audit services	**292**	312
Audit-related assurance services	**190**	155
Services relating to corporate finance transactions	**307**	250
Other non-audit services	**1**	-
Total non-audit services	**498**	405
Total fees	**790**	717

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

32. Contingent liabilities and commitments

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 1.25. 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 2018. As at 31 December 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

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

Capital commitments

As at 31 December 2018 the Group had contractual capital commitments in the amount of US$131,373 thousand (31 December 2017: US$139,462 thousand) mainly in respect to the Group's oil field exploration and development activities.

Notes to the consolidated financial statements continued

32. Contingent liabilities and commitments continued

Operating lease

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

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

In thousands of US dollars	**31 December 2018**	31 December 2017
No later than one year	**5,417**	7,019
Later than one year and no later than five years	**5,431**	14,057

Lease expenses of railway tank wagons for the year ended 31 December 2018 amounted to US$5,296 thousand (FY 2017: US$7,394 thousand).

Social and education commitments

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

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

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

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

- spend US$133 thousand for funding of development of Astana city;
- invest at least US$12,209 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;
- 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 31 October 2018) require the subsurface user to:

- invest at least US$19,837 thousand for exploration of the field during the exploration period;
- spend US$201 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US$221 thousand to finance social infrastructure;
- fund liquidation expenses equal to US$201 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 10 October 2018) require the subsurface user to:

- invest at least US$20,351 thousand for exploration of the field during the exploration period;
- spend US$176 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US$220 thousand to finance social infrastructure;
- fund liquidation expenses equal to US$176 thousand.

Domestic oil sales

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

33. Financial risk management objectives and policies

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

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

Interest rate risk

The Group is not exposed to interest rate risk in 2018 and 2017 as the Group had no financial instruments with floating rates as at years ended 31 December 2018 and 2017.

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
2018		
US dollar thousand	**+ 60.00%**	12,001
US dollar thousand	**- 20.00%**	(4,000)
2017		
US dollar thousand	**+ 60.00%**	12,863
US dollar thousand	**- 20.00%**	(4,288)

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

As at 31 December 2018	Tenge	Russian rouble	Euro	Other	Total
Cash and cash equivalents	1,430	224	1,163	34	2,851
Trade receivables	16,231	–	–	–	16,231
Trade payables	(20,684)	(1,051)	(3,702)	(410)	(25,847)
Other current liabilities	(16,978)	(104)	(279)	(890)	(18,251)
	(20,001)	**(931)**	**(2,818)**	**(1,266)**	**(25,016)**

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

Notes to the consolidated financial statements continued

33. Financial risk management objectives and policies continued

Liquidity risk

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

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

The Group's policy is that, while it has an investment 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 three notes: US$ 169 million issued in 2012 and maturing in 2019, US$ 184 million issued in 2014 and maturing in 2019 and US$ 725 million issued in 2017 and maturing in 2022. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2018 and 31 December 2017 based on contractual undiscounted payments:

As at 31 December 2018	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	-	43,000	43,000	1,011,000	456,000	**1,553,000**
Trade payables	37,843	-	15,033	-	-	**52,876**
Other current liabilities	29,858	-	-	-	-	**29,858**
Due to Government of Kazakhstan	-	258	773	4,124	7,474	**12,629**
	67,701	**43,258**	**58,806**	**1,015,124**	**463,474**	**1,648,363**

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

Credit risk

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

The Group places its tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba3 (negative) from Moody's rating agency and ING with a credit rating of P1 (stable) from Moody's rating agency at 31 December 2018. The Group does not guarantee obligations of other parties.

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

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

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

Fair values of financial instruments

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

	Carrying amount		Fair value	
In thousands of US dollars	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017
Financial liabilities measured at amortized cost				
Interest bearing borrowings	**1,129,600**	1,087,068	**722,377**	1,141,803
Finance lease liabilities	**-**	810	**-**	1,267
Total	**1,129,600**	**1,087,878**	**722,377**	**1,143,070**

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.

During the years ended 31 December 2018 and 2017 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Capital management

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

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

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

	For the year ended 31 December	
In thousands of US dollars	**2018**	2017
Interest bearing borrowings	**1,129,600**	1,087,878
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(128,774)**	(133,614)
Net debt	**1,000,826**	954,264
Equity	**556,999**	669,553
Total capital	**556,999**	669,553
Capital and net debt	**1,557,825**	1,623,817
Gearing ratio	**64%**	59%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

34. Events after the reporting period

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

Parent company financial statements

Contents

Parent company statement of financial position

As at 31 December 2018

In thousands of US dollars	Notes	**31 December 2018**	31 December 2017 Restated*	1 January 2017 Restated*
ASSETS				
Non-current assets				
Property, plant and equipment		**60**	–	–
Investments in subsidiaries	5	**116,779**	113,371	109,499
		116,839	113,371	109,499
Current assets				
Advances paid		**-**	23	23
Receivables from related parties	6	**27,386**	26,633	27,659
Other current assets		**178**	–	–
Cash and cash equivalents	7	**38**	88	761
		27,602	26,744	28,443
TOTAL ASSETS		**144,441**	140,115	137,942
EQUITY AND LIABILITIES				
Share capital and reserves				
Issued share capital	8	**3,203**	3,203	3,203
Retained earnings		**106,812**	106,284	105,478
		110,015	109,487	108,681
Non-current liabilities				
Employee share option plan LT liability		**15**	–	–
Financial guarantee, long-term portion	9	**4,678**	3,228	2,255
		4,693	3,228	2,255
Current liabilities				
Financial guarantee, current portion	9	**1,003**	2,899	810
Trade payables		**495**	124	243
Payables to related parties	10	**27,367**	23,817	25,331
Accrued liabilities		**868**	560	622
		29,733	27,400	27,006
TOTAL EQUITY AND LIABILITIES		**144,441**	140,115	147,942

* Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made, please refer to Note 3 for more details.

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

The Company reported a loss of US$183 thousand for the financial year ended 31 December 2018 (2017: profit of US$806 thousand). During the reporting periods there were no transactions impacting the statement of other comprehensive income.

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

Kai-Uwe Kessel
Chief Executive Officer

Tom Richardson
Chief Financial Officer

The accounting policies and explanatory notes on pages 152 through 162 are an integral part of these financial statements

Parent company statement of cash flows

For the year ended 31 December 2018

In thousands of US dollars	Notes	For the year ended 31 December 2018	2017 Restated*
Cash flow from operating activities:			
(Loss)/profit before income tax		**(183)**	821
Adjustments for:			
Depreciation, depletion and amortisation		**10**	–
Finance costs		**160**	–
Employee share option plan fair value adjustment		**50**	–
Accrued income		**(1,338)**	–
Foreign exchange gain on investing and financing activities		**(1)**	(77)
Financial guarantee income, net		**(3,177)**	(810)
Accrued expenses		**620**	(63)
Operating profit before working capital changes		**(3,859)**	(129)
Changes in working capital:			
Change in receivables from related parties		**430**	(493)
Change in trade payables		**371**	(118)
Change in other current liabilities		**384**	5
Cash generated from operations		**(2,674)**	(735)
Income tax paid		**(2)**	(15)
Net cash used in operating activities		**(2,676)**	(750)
Cash flow from investing activities:			
Purchase of property, plant and equipment		**(70)**	–
Net cash used in investing activities		**(70)**	–
Cash flow from financing activities:			
Funds borrowed		**2,695**	–
Net cash from financing activities		**2,695**	–
Effects of exchange rate changes on cash and cash equivalents		**1**	77
Net decrease in cash and cash equivalents		**(50)**	(673)
Cash and cash equivalents at the beginning of the year	7	**88**	761
Cash and cash equivalents at the end of the year	7	**38**	88

* Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made, please refer to Note 3 for more details.

The accounting policies and explanatory notes on pages 152 through 162 are an integral part of these financial statements

Parent company statement of changes in equity

As at 31 December 2018

In thousands of US dollars	Notes	Share capital	Other reserves	Retained earnings	Total
As at 1 January 2017 (as previously reported)		**3,203**	**-**	**105,266**	**108,469**
Impact of restatement		–	–	212	212
As at 1 January 2017 (restated*)		**3,203**	**-**	**105,478**	**108,681**
Profit for the year		–	–	806	806
Total comprehensive income for the year		**-**	**-**	**806**	**806**
As at 31 December 2017 (restated*)		**3,203**	**-**	**106,284**	**109,487**
Loss for the year		–	–	(183)	(183)
Total comprehensive loss for the year		**-**	**-**	**(183)**	**(183)**
Share based payments under LTIP		–	711	–	711
As at 31 December 2018		**3,203**	**711**	**106,101**	**110,015**

The accounting policies and explanatory notes on pages 152 through 162 are an integral part of these financial statements

STRATEGIC REPORT CORPORATE GOVERNANCE FINANCIAL REPORT REGULATORY INFORMATION ADDITIONAL DISCLOSURES

Notes to the Parent company financial statements

1. General

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

The subsidiary undertakings of the Company as at 31 December 20188 and the percentage holding of their capital are set out below:

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

1. Merged with Nostrum Services CIS BVBA during 2016

Grandstil LLC was liquidated as of 6 December 2017.

On 28 December 2018, Zhaikmunai LLP acquired 100% interest in Atom&Co LLP for a cash consideration of US$1.7 million for the main purpose to gaining control over the administrative office in Uralsk, which was under finance lease with this entity.

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

As part of the reorganisation the Company became the holding company of the Company 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 20188 have been prepared on a going concern basis and in accordance with the Companies Act 2006 and International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") as adopted by the European Union.

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

Going concern

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

3. Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the application of IFRS 9 and IFRS 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The nature of these adjustments is described below:

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Company's financial assets. Trade receivables are held to collect contractual cashflows and are expected to give rise to cashflows representing solely payments of principal and interest, if applicable. Hence, the Company continued to measure these at amortised cost.

The classification and measurement of the Company's financial liabilities has remained materially unchanged on application of IFRS 9 with the exception of long-term borrowings accounted at amortised cost.

Under IFRS 9, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss, whereas under IAS 39 there was no such requirement to recognize gain or loss in such circumstances. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. Any fees and costs incurred are amortised over the remaining term of the asset.

The Company performed an assessment of impact of this change in the requirement on the refinancing of the Notes in 2012, 2014 and 2017 as of the date of initial application, 1 January 2018, and then applied retrospectively to the 2012 Notes, the 2014 Notes and the Notes 2017, that were not derecognised as of 1 January 2018.

In accordance with the requirements of IFRS 9, the Company identified the modified part of the Notes on each refinancing and estimated gains and losses on modification, which should have been recognized in profit and loss at the date of each transaction, while the premium paid on early redemption and the transaction costs and fees were assumed to be capitalized under the long-term borrowings. The unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were deemed to be expensed at the date of each refinancing. As a result of these estimations, the Company decreased the carrying values of the 2012 Notes, the 2014 Notes and the 2017 Notes by US$ 99 thousand, US$ 85 thousand and US$ 8,881 thousand, respectively, by increasing the respective capitalized transaction costs.

The adjustment of capitalized transaction costs and fees resulted in the change of the effective interest rate on the Notes from each date of refinancing. Hence, the interest capitalization rate has been revised and related adjustments made to the carrying amounts of property, plant and equipment and deferred taxes at 1 January 2018.

Notes to the Parent company financial statements continued

3. Changes in accounting policies and disclosures continued

(b) Impairment
IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company applies the simplified approach and record lifetime expected losses on all trade receivables. There was no significant impact on Company's equity due to the short-term nature and high quality of its trade receivables as well as anticipation of low trade impairment losses on trade receivables based on the historical data.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The Company has adopted IFRS 15 with effect from January 1, 2018, which did not represent a change from the Company's existing practice and did not have a significant effect on the Company's accounting or disclosures, and therefore no transition adjustment is presented.

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

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Company has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company's consolidated financial statements.

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 consolidated financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

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

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

Correction of an error

In 2018, the Company performed reassessment of its position related to the treatment of its guarantees under 2012 Notes, 2014 Notes, 2017 Notes and 2018 Notes issued by its indirect subsidiary undertakings. Further details on these Notes are provided in the Note 9. Based on this review it was concluded that at the time when the Company became a guarantor under the Notes respective financial guarantee contracts should have been recognised at fair value in accordance with requirements of IAS 39 Financial Instruments: Recognition and Measurement, and subsequently measured at the greater of (a) the amount determined in accordance with IAS 37 and (b) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18. IFRS 9 Financial Instruments replaced IAS 39 for annual periods beginning on or after 1 January 2018, with similar requirements.

As a result, corrections have been reflected by restating each of the affected financial statement line items for the prior periods, as follows:

Effect on statement of financial position

	As at 1 January 2017			**As at 31 December 2017**		
In thousands of US dollars	As reported	Restatement	**As adjusted**	As reported	Restatement	**As adjusted**
Investments in subsidiaries	106,222	3,277	109,499	106,222	7,149	113,371
Total non-current assets	106,222	3,277	109,499	106,222	7,149	113,371
TOTAL ASSETS	**134,665**	**3,277**	**137,942**	**132,966**	**7,149**	**140,115**
Retained earnings and reserves	105,266	212	105,478	105,262	1,022	106,282
TOTAL share capital and reserves	**108,469**	**212**	**108,681**	**108,465**	**1,022**	**109,487**
Financial guarantee, long-term portion	–	2,255	2,255	–	3,228	3,228
Total non-current liabilities	**-**	**2,255**	**2,255**	**-**	**3,228**	**3,228**
Financial guarantee, current portion	–	810	810	–	2,899	2,899
Total current liabilities	**26,196**	**810**	**27,006**	**24,501**	**3,229**	**27,400**
TOTAL EQUITY AND LIABILITIES	**134,665**	**3,277**	**137,942**	**132,966**	**7,149**	**140,115**

Effect on statement of cash flows

	For the year ended 31 December 2017		
In thousands of US dollars	As reported	Restatement	**As adjusted**
Profit before income tax	11	810	821
Adjustments for:			
Financial guarantee (income)/loss, net	–	(810)	(810)
Net cash used in operating activities	**(750)**	**-**	**(750)**

Notes to the Parent company financial statements continued

4. Summary of significant accounting policies

Foreign currency translation

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

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

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

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

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

Investments

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Company determines the classification of its financial assets at initial recognition.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include cash and receivables from related parties.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognised (i.e., removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- 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.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets
The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Financial liabilities

Initial recognition, measurement and derecognition
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, long-term borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of long-term borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include payables to trade payables, payables related parties and financial guarantee liabilities

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company's financial liability as at fair value through profit or loss include derivative financial instruments.

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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Notes to the Parent company financial statements continued

Financial guarantees

Financial guarantees are initially recognised in the financial statements at fair value at the time the guarantee is issued. The Group estimates the fair value of the financial guarantee contract as the difference between the net present value of the contractual cashflows required under a debt instrument, and the net present value of the net contractual cashflows that would have been required without the guarantee. The present value is calculated using a risk-free interest rate.

Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in profit and loss, and the amount of expected credit losses (ECL). Financial guarantee ECL reflect the cash shortfalls adjusted by the risks that are specific to the cashflows. If the ECL exceeds the initially recognised guarantee amount less cumulative amortisation the difference is taken to profit and loss.

A financial guarantee liability is derecognised when the liability underlying the guarantee is discharged or cancelled or expires, or if the guarantee is withdrawn or cancelled. The carrying amount of the financial guarantee is taken to the statement of profit or loss.

Share-based payments

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

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

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

5. Investments in subsidiaries

Investments of the Company as at 31 December 2018 comprised of:

In US dollars	**31 December 2018**	31 December 2017	1 January 2017
Nostrum Oil & Gas Coöperatief U.A.	**116,556,729**	113,149,199	109,277,357
Nostrum Oil & Gas BV	**222,271**	222,271	222,271
	116,779,000	113,371,470	109,499,628

The investments in Nostrum & Gas Cooperatief U.A. include the guarantee costs in the amount of US$ 9,881 thousand as described in the Note 9 (2017: US$ 7,149 thousand; 2016: US$3,277 thousand) as well as US$676 thousand capitalized costs under the Long-term Incentive Plan 2017 (Note 13).

6. Receivables from related parties

Receivables from related parties are comprised of the following as at 31 December 2018 and 31 December 2017:

In thousands of US dollars	**31 December 2018**	31 December 2017
Receivables from Nostrum employee benefit trust	**23,812**	23,812
Receivables from Nostrum Oil & Gas Coöperatief U.A.	**3,574**	2,821
	27,386	26,633

7. Cash and Cash Equivalents

In thousands of US dollars	**31 December 2018**	31 December 2017
Current accounts in US Dollars	**8**	16
Current accounts in Euro	**3**	54
Current accounts in Pounds Sterling	**27**	18
	38	88

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 Company reorganisation referred to in that resolution.

Share capital of Nostrum Oil & Gas PLC

As at 31 December 2018 the ownership interests in the Company consist of ordinary shares, which are listed on the London Stock Exchange, these shares have been issued and fully paid. As at 1 January 2014 the Company had subscriber shares and redeemable preference shares, all of which were cancelled on 7 August 2014.

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

9. Financial guarantees

Financial guarantees are comprised of the following as at 31 December 2018 and 31 December 2017:

In thousands of US dollars	2018	2017
Financial guarantee as at 1 January	**6,127**	3,065
Release upon repayment of the Notes	**(2,255)**	(1,937)
Recognition on issue of the Notes	**2,731**	3,872
Amortisation for the period	**(922)**	-
Charge for expected credit losses	**-**	1,128
Financial guarantee as at 31 December	**5,681**	6,127
Less amounts due within 12 months	**(1,003)**	(2,899)
Amounts due after 12 months	**4,678**	3,228

In June 2014, as part of the Group reorganisation the Company became the new parent entity (as a successor of Nostrum Oil & Gas LP) and respectively became a guarantor under the Notes issued in 2012 and 2014. Also, the Company acts as a guarantor under the Notes issued in 2017 and 2018. Further details on the Notes are provided below. Since the guarantees are issued in favour of the Company's indirect subsidiaries, related costs are capitalized into the investments in subsidiaries (Note 5).

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

The 2012 Notes were 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 were the 2012 Issuer's and the 2012 Guarantors' senior obligations and ranked equally with all of the 2012 Issuer's and the 2012 Guarantors' other senior indebtedness. The 2012 Notes and the 2012 Guarantees were unsecured. Claims of secured creditors of the 2012 Issuer or the 2012 Guarantors would 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 bore interest at a rate of 6.375% per annum. Interest on the 2014 Notes was payable on 14 February and 14 August of each year, beginning on 14 August 2014.

The 2014 Notes were 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 were the 2014 Issuer's and the 2014 Guarantors' senior obligations and ranked equally with all of the 2014 Issuer's and the 2014 Guarantors' other senior indebtedness. The 2014 Notes and the 2014 Guarantees were unsecured. Claims of secured creditors of the 2014 Issuer or the 2014 Guarantors would 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.

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

On 29 June 2017, Nostrum Oil & Gas Finance B.V., a subsidiary of Nostrum Oil & Gas PLC, announced a tender offer and consent solicitation in respect of the 2012 Notes and the 2014 Notes (the "Tender and Consent"). The Tender and Consent closed at 11:59 NY time on 27 July 2017 and was settled on 31 July 2017. As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders US$ 390,884 thousand in principal amount of the outstanding 2012 Notes and US$ 215,924 thousand in principal amount of the outstanding 2014 Notes. 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.

Since part of the 2012 Notes and 2014 Notes were payable by the Company's one subsidiary to its another subsidiary, the probability of outflow of economic benefits under the related guarantees was assessed as remote, and the related portion of the guarantee balances was taken to profit and loss in 2017.

Notes to the Parent company financial statements continued

Call of the 2012 Notes and the 2014 Notes

On 18 January 2018, Nostrum issued conditional call notices for all outstanding 2012 Notes and 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries. The 2012 Notes were called at a price of 101.78125% plus accrued interest and the 2014 Notes were called at a price of 100.00% plus accrued interest. On 16 February 2018, Nostrum announced that the conditions to the call notices had been satisfied by the issue of the 2018 Notes by Nostrum Oil & Gas Finance B.V. (see above). Therefore, with effect on 17 February 2018 (the "Call Date"), US$ 169,116 thousand in principal amount of the outstanding 2012 Notes and US$ 184,076 thousand in principal amount of the outstanding the 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries were purchased from the bondholders by Nostrum Oil & Gas Finance B.V.

Considering the fact that as a result of the transaction the full amount of the 2012 Notes and 2014 Notes became payable by the Company's one subsidiary to its another subsidiary, the probability of outflow of economic benefits under the related guarantees was assessed as remote, and the related remaining balance of the guarantee balances was taken to profit and loss in 2018.

2017 Notes

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

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

2018 Notes

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

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

10. Payables to related parties

Payables to related parties are comprised of the following as at 31 December 2018 and 31 December 2017:

In thousands of US dollars	**31 December 2018**	31 December 2017
Payables to Nostrum Oil & Gas Coöperatief U.A.	**23,812**	23,812
Loan and interest payable Nostrum Oil & Gas Finance B.V.	**2,855**	–
Payables to Nostrum Oil & Gas UK Ltd.	**650**	–
Payables to Nostrum Oil & Gas BV	**50**	5
	27,367	23,817

As at 31 December 2018 amounts payable to Nostrum Oil & Gas Coöperatief U.A. represent the arrangements in respect of the Nostrum employee benefit trust.

In 2018 the Company received a loan from its indirect subsidiary Nostrum Oil & Gas Finance B.V. in the amount of US$ 2,695 thousand (2017: nil), at the interest rate of 7%, which is repayable on demand. The interest accrued the loan at 31 December 2018 amounted to US$ 160 thousand.

11. Auditors' remuneration

The fees for the audit of the Company amount to US$10 thousand (2017: US$10 thousand).

12. Directors' remuneration

The directors of the Company are also directors of the Group. The aggregate amount of remuneration paid to or receivable by executive directors in respect of qualifying services for the financial year ended 31 December 2018 was US$1,202 thousand (2017: US$1,824 thousand) and was paid by other Company companies. In addition, US$854 thousand (2017: US$771 thousand) was paid by the Company to the non-executive directors. The directors do not believe that it is practicable to apportion these amounts between their services as directors of the Company and their services as directors of the Company.

For the year ended 31 December 2018 the Company employed an average of 6 non-executive directors (FY 2017: 6 non-executive directors).

Full details of individual directors' remuneration are given in the directors' remuneration report on pages 76-95 of the annual report.

13. Long-term incentive plan

In 2017 the Company started operating a Long-term incentive plan ("the LTIP"), that was approved by the shareholders of the Company on 26 June 2017 and adopted by the board of directors of the Company on 24 August 2017. The LTIP is a discretionary benefit offered by the

Company for the benefit of selected employees. Its main purpose is to increase the interest of the employees in the Company's long-term business goals and performance through share ownership. The LTIP is an incentive for the employees' future performance and commitment to the goals of the Company. The remuneration committee of the board of the Company has the right to decide, in its sole discretion, whether or not further awards will be granted in the future and to which employees those awards will be granted.

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

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

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

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

The following table summarizes the movement in the number of share options during 2017 and 2018:

	Equity-settled awards	Cash-settled awards	Total awards
Total outstanding as at 1 January 2017	–	–	–
Share options granted	1,139,146	69,697	1,208,843
Share options forfeited	(11,838)	–	(11,838)
Share options lapsed	(5,721)	–	(5,721)
Total outstanding as at 31 December 2017	**1,121,587**	**69,697**	**1,191,284**
Share options granted	1,095,691	67,349	1,163,040
Share options performance adjusted	(580,260)	–	(580,260)
Share options forfeited	(106,235)	–	(106,235)
Share options lapsed	(24,670)	–	(24,670)
Total outstanding as at 31 December 2018	**1,506,113**	**137,046**	**1,643,159**

On 23 March 2018 the remuneration committee of the board of the Company determined the level of performance conditions that were met for the performance conditions set upon issue of the share options granted in 2017. On 28 November 2018 the Company granted further 1,163,040 share options.

As at 31 December 2017 106,713 share options were vested in accordance with the management's best estimate. The fair value of the equity-settled share options at the valuation dates of 28 November 2018 and 23 March 2018 amounted to US$ 2.76 and US$ 1.25 per share option, respectively. The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for valuation of the share options at the grant date:

	28 November 2018	23 March 2018
Price at the valuation date	**1.3**	2.8
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**43.4%**	40.4%
Risk-free interest rate (%)	**1.38%**	1.45%
Expected life (years)	**10**	10
Option turnover (%)	**10%**	10%
Price trigger	**2.0**	2.0

Notes to the Parent company financial statements continued

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.

14. Related party transactions

Related parties of the Company include its direct and indirect subsidiaries, 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 2018 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$4,039 thousand (2017: US$2,786 thousand). In addition, during the year ended 31 December 2018 the Company recorded net guarantee income of US$3,177 thousand (2017: US$820 thousand) in relation to guarantees under the Notes issued by Nostrum Oil & Gas Finance B.V. and Zhaikmunai LLP (Note 9).

As at 31 December 2018 receivables from related parties include US$23,812 thousand from Nostrum employee benefit trust (2017: US$23,812 thousand) and US$3,574 thousand from Nostrum Oil & Gas Coöperatief UA (2017: US$1,821 thousand).

As at 31 December 2018 liabilities to related parties include US$23,812 thousand loan payable to Nostrum Oil & Gas Coöperatief UA. (2017: US$23,812 thousand), US$2,695 thousand loan payable and US$160 thousand interest payable to Nostrum Oil & Gas Finance B.V. (2017: nil), US$650 thousand payable to Nostrum Oil & Gas UK Ltd. (2017: nil) and US$50 thousand payable to Nostrum Oil & Gas B.V. (2017: US$5 thousand). Further details on payables to related parties is presented in Note 10.

15. Financial risk management objectives and policies

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

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

Foreign currency risk

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

Credit risk

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

The Company places its US Dollar and Euro denominated cash with ING which has a credit rating of P1 (upper medium grade) from Moody's rating agency at 31 December 2018.

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

Fair values of financial instruments

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

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

Capital management

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

16. Events after the reporting period

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

Investor information

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Place of registration: England and Wales

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Website and electronic communications details

Nostrum's website provides 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 impact our to on environment, we encourage all shareholders to opt for electronic shareholder communications, including annual reports and notices of meetings.

Share price information

Exchange	London Stock Exchange
Ticker	NOG.LN
Reuters code	NOGN.L
ISIN code	GB00BGP6Q951

Share price performance

Nostrum Oil & Gas share price (GBp)

Capitalisation-weighted index of FTSE 350 E&P

Earnings per share (as at 31 December 2018): US$(0.65)/share

Book value per share (as at 31 December 2018): US$2.96/share

Financial Calendar 2019

Q1 2019	Operational Update	30 April 2019
Q1 2019	Financial Results	21 May 2019
H1 2019	Operational Update	30 July 2019
H1 2019	Financial Results	20 August 2019
Q3 2019	Operational Update	29 October 2019
Q3 2019	Financial Results	19 November 2019

Investor information continued

Equity financing

Equity raising	Timing	Amount	Lead manager
IPO	March 2008	US$100m	ING Bank NB
Secondary equity issue	September 2009	US$300m	ING Bank NV Mirabaud Securities Renaissance Securities

Debt financing

Current outstanding bond issues for Nostrum Oil & Gas PLC are provided in the following table:

Settlement	Maturity	Currency	Amount (m)	Coupon	Listing		RegS	Rule 144A
Jul 2017	Jul 2022	USD	725	8.000%	Dublin	CUSIP	N64884AB0	66978CAB8
						ISIN	USN64884AB02	US66978CAB81
						Common Code	16453439	164534073
Feb 2018	Feb 2025	USD	400	7.000%	Dublin	CUSIP	N64884AD6	66978CAC6
						ISIN	USN64884AD67	US66978CAC64
						Common Code	176959886	176959878

For a summary of certain covenants relating to the 2017 and 2018 Notes, please see the consolidated financial statements.

Internally-held Bond Financing of the Nostrum Group

Bond issues wholly owned by Nostrum Oil & Gas Finance BV are provided in the following table:

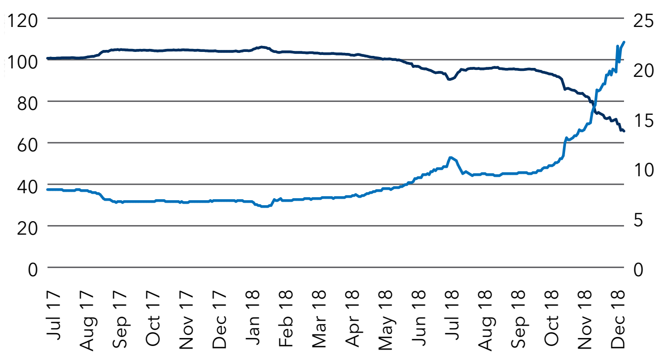
Settlement	Maturity	Currency	Amount (m)	Coupon	Listing		RegS	Rule 144A
Feb 2014	Jan 2033	USD	400	9.5%	Dublin/ Almaty	CUSIP	N64884AA2	66978CAA0
						ISIN	USN64884AA29	US66978CAA09
						Common Code	103302323	103302307
Nov 2012	Jun 2033	USD	560	9.5%	Dublin/ Almaty	CUSIP	N97716AA7	98953VAA0
						ISIN	USN97716AA72	US98953VAA08
						Common Code	085313177	085259776

Bond yield information

July 2022

8.000% Bond output

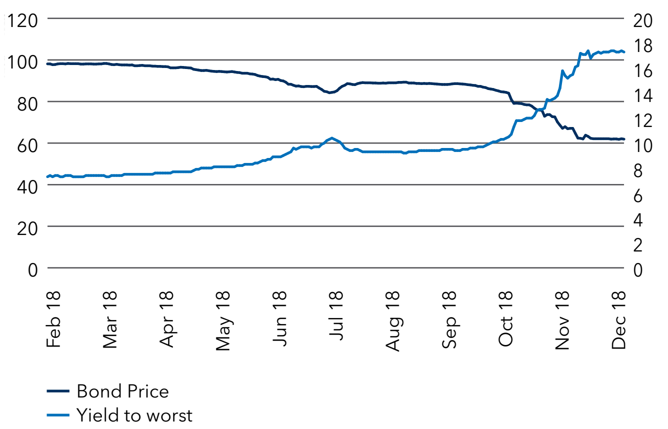
Bond Price (US$) (%)



Feb 2025

7.000% Bond output

Bond Price (US$) (%)



Credit ratings

Nostrum Oil & Gas PLC is currently being rated by two credit rating agencies: Standard and Poor's and Moody's Investor Services[1]:

Agency	Rating	Outlook
Standard and Poor's	B-	Stable
Moody's	B2	Negative

Zhaikmunai LLP is a wholly-owned indirect subsidiary of Nostrum and its equity is not listed, while Nostrum's equity is listed on the premium segment of the London Stock Exchange and the Kazakhstan Stock Exchange.

The Group's Investor Relations programme aims to develop 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 Investor Relations department of the Group seeks to ensure all questions received from any of the Group's stakeholders are dealt with in a timely manner based on the underlying principle that the Group is approachable and responsive to any potential queries.

1. On 18 February 2019 Moody's re-rated Nostrum as a B3 rating

Glossary

2010 Notes	10.500% notes issued in 2010.
2012 Notes	7.125% notes issued in 2012.
2014 Notes	6.375% notes issued in 2014.
2017 Notes	8.000% notes issued in 2017.
2018 Notes	7.000% notes issued in 2018.

A

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.
associated gas	Gas, which occurs in crude oil reservoirs in a gaseous state.

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 sedimentary rock.
bcm	Billion cubic metres.
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.
Boepd	Barrels of (crude) oil equivalent per day.
Bopd	Barrels of crude oil per day.

C

C_1	Methane
C_2	Ethane
C_3	Propane
C_4	Butane
C_5	Pentane
C_6	Hexane
C_7	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.
CDP	CDP is an organisation based in the United Kingdom which supports companies to disclose their environmental impact (formerly known as the Carbon Disclosure Project).
Chinarevskoye field	The Chinarevskoye oil and gas condensate field.
CO_2	Carbon dioxide.
commissioning	Process to assure a facility or plant such as GTU3 is tested to verify if it functions according to technical objectives and specifications before use.

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.
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.
D	
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.
downstream	Downstream refers to all petroleum operations occurring after delivery of crude oil or gas to a refinery or fractionation plant.
Development Plans	The development plans approved by the SCFD in March 2009.
directors or Board	The directors of the Company.
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.
EBITDA	Profit Before Tax non-recurring expenses + Finance Costs + Foreign Exchange Loss/(Gain) + ESOP + Depreciation – Interest Income + Other Expenses / (Income).
Environmental Code	The Kazakhstan Environment Code (No 212, dated 9 January 2007, as amended).
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 programme by the farmee(s). Note that this work would normally have had to have been delivered and paid for by the farmor.
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 programme required by the permit, or fulfilling other contractually specified conditions.
FCA	Financial Conduct Authority of the United Kingdom.
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.
FSU	Former Soviet Union.

Glossary continued

G	
G&A	General and administrative expenses.
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.
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 means the first unit of the Gas Treatment Facility. GTU2 means the second unit of the Gas Treatment Facility. GTU3 means the third unit of the Gas Treatment Facility.
GDRs	The global depository receipts of Nostrum Oil & Gas LP.
greenhouse gas	A gas that contributes to the greenhouse effect by absorbing infrared radiation, e.g. carbon dioxide.
Group	Nostrum Oil & Gas PLC and, as the context requires, its direct and indirect consolidated subsidiaries.
H	
HSE	Health, safety and environment.
hydrocarbons	Compounds formed from the elements hydrogen (H) and carbon (C), which may be in solid, liquid or gaseous form.
hydrocarbon reserves	Hydrocarbon reserves have been proved, and are referred to as 3P, 2P and 1P depending on the likelihood of commercial production from that field.
I	
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
INED	Independent non-executive director.
J	
joint venture	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.
joule	Unit of energy used for measuring gas volumes. • megajoules = 106 • gigajoules = 109 • terrajoules = 1012 • petajoules = 1015

K	
KASE	Kazakhstan Stock Exchange.
Kazakhstan	The Republic of Kazakhstan.
KazMunaiGas	State-owned oil and gas company of Kazakhstan.
KazMunaiGas Exploration Production (KMG EP)	Onshore oil and gas exploration production subsidiary of KazMunayGas.
KazTransOil (KTO) pipeline	A tie-in to the KTO pipeline enables crude oil export sales via the Atyrau-Samara international export pipeline.
L	
Licence	Licence series MG No. 253-D (Oil) issued to Zhaikmunai LLP by the Government on 26 May 1997, including amendments.
Licencing 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.
LTIP	Long-term incentive plan.
M	
m	Metre(s).
m3	Cubic metres.
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.
Mboe	Thousands of barrels of oil equivalent.
Mechanical completion	Final construction or installation phase whereby a facility can then undergo commissioning activities
Mmbbls	Millions of barrels of oil.
Mmboe	Millions of barrels of oil equivalent.
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: 9th Floor 20 Eastbourne Terrace London W2 6LG United Kingdom
O	
OPEC	The Organisation of Petroleum Exporting Countries.
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.

Glossary continued

P	
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.
Possible Reserves (3P)	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.
Probable Reserves (2P)	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.
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.
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.
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	
QHSE	Quality, Health, Safety and the Environment.
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.
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.
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 Share	The share of hydrocarbon production due (in cash or kind) to the Republic of Kazakhstan under the PSA.
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.

T

TCFD	Task Force on Climate-related Financial Disclosures.
Tenge or KZT	The lawful currency of the Republic of Kazakhstan.
Tonne	Metric tonne.
Trillion	10 to the power of 12.

U

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 1960's, the consortium was involved in more than 59 exploration projects. In 1970, the consortium was renamed "Uralsk Enlarged Oil-Gas Exploration Expedition".
UOG	Ural Oil and Gas LLP.
UK Corporate Governance Code	Set of principles of good corporate governance for listed companies promulgated by the UK Financial Reporting Council.

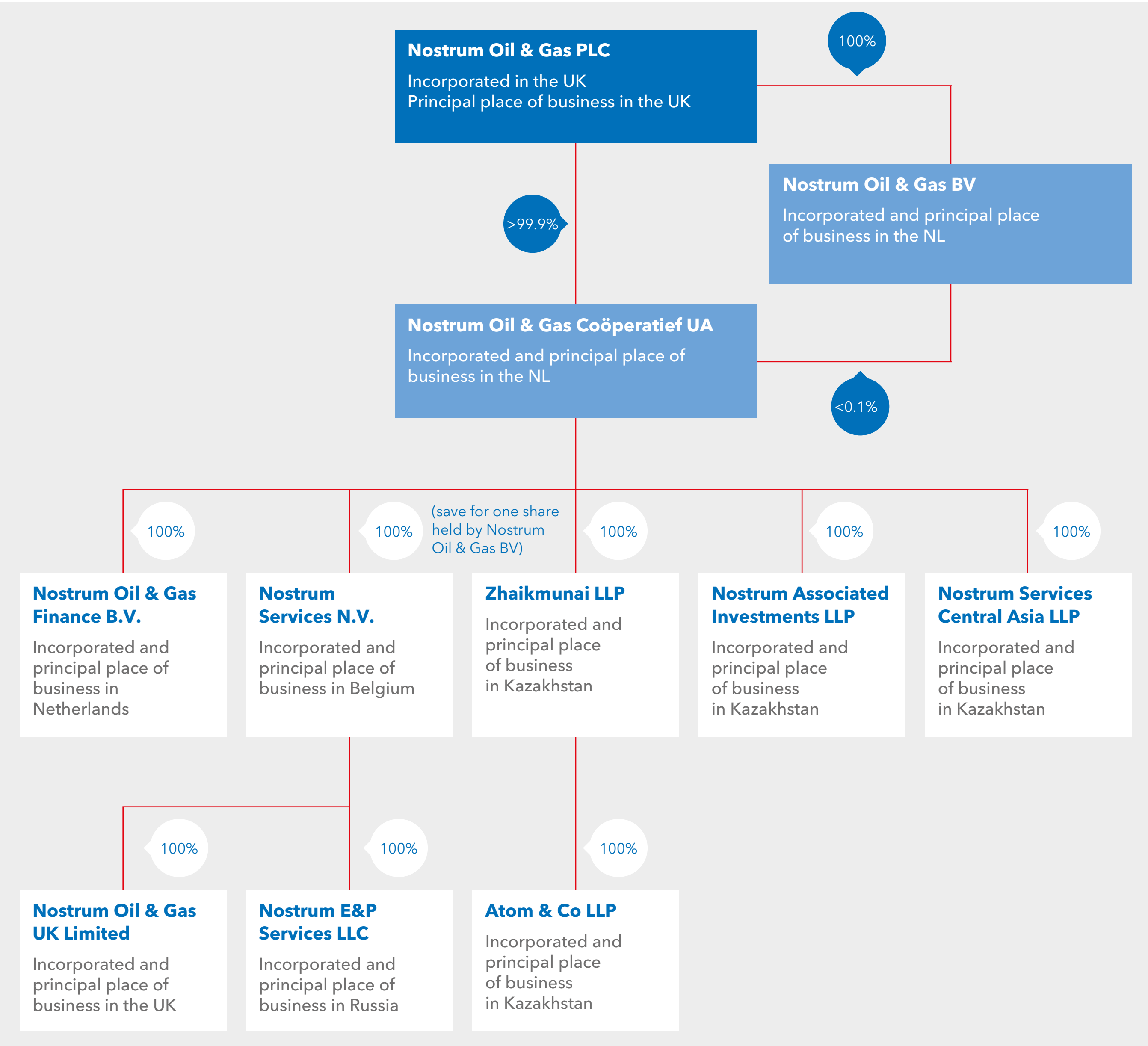
W

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.
work programme	A schedule of works agreed between parties (permit holders, farmees and government) contracted to be delivered in a defined time frame.
workover	Routine maintenance or remedial operations on a producing well in order to maintain, restore or increase production.
WUP or Water Use Permit	The permit granted by the relevant Government authority with respect to water use pursuant to the Water Code.

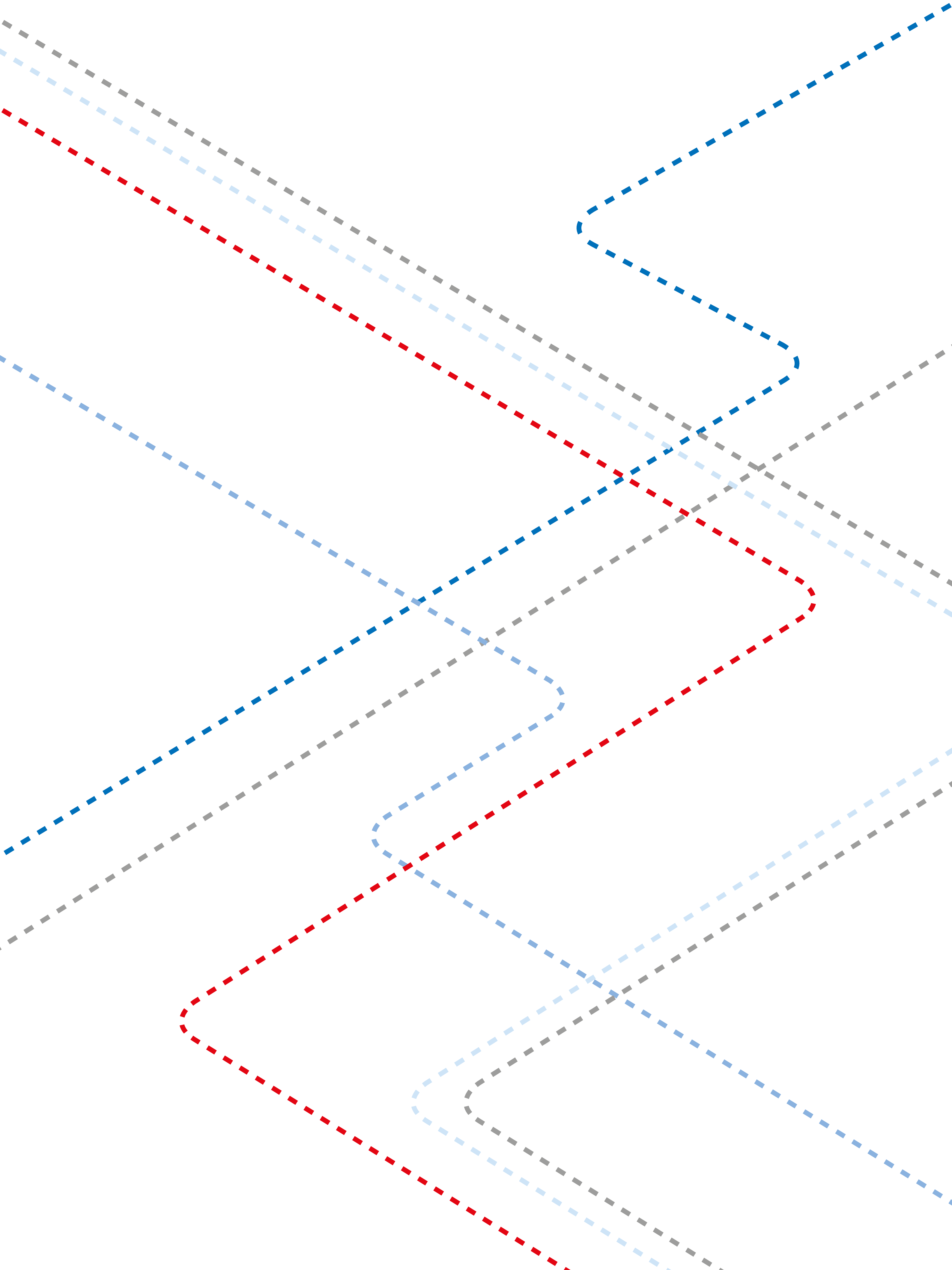
Z

Zhaikmunai LLP	Principal operating entity of the Group	
	Corporate Office: 43/1 Karev str. Uralsk, 090000 Republic of Kazakhstan	Representative Office: Mariam Zhagorkyzy st. 17 Yes District Astana, Republic of Kazakhstan

Nostrum Group Structure Chart
as at 31 December 2018



* Apart from the external debt held by Nostrum Oil & Gas Finance B.V, the contribution and results of Nostrum Oil & Gas PLC and all of its subsidiaries (other than Zhaikmunai LLP) to the KPIs and results of the Group were insignificant.



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