



## **Interim financial report**

*For the six months ended 30 June 2014*

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**Nostrum Oil & Gas plc**

Interim Management report

*For the six months ended 30 June 2014*

## BUSINESS REVIEW

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*Some of the statements in this Interim Financial Report are forward-looking. Forward-looking statements include statements regarding the intent, belief and current expectations of the Group or its officers with respect to various matters. When used in this document, the words "expects," "believes," "anticipates," "plans," "may," "will," "should" and similar expressions, and the negatives thereof, are intended to identify forward-looking statements. Such statements are not promises or guarantees, and are subject to risks and uncertainties that could cause actual outcomes to differ materially from those suggested by any such statements.*

### Overview

Nostrum Oil & Gas plc (the "Company" and together with its subsidiaries the "Group" or "Nostrum") is an independent oil and gas enterprise engaged in the exploration and production of hydrocarbons. Through its indirectly wholly-owned subsidiary Zhaikmunai LLP, Nostrum is the owner and operator of four fields in North-Western Kazakhstan: the Chinarevskoye production field and the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye exploration fields.

The Group's primary field and license area is the Chinarevskoye field, located in the northern part of the oil-rich Pre-Caspian Basin, close to the main international railway lines in and out of Kazakhstan as well as to several major oil and gas pipelines. Based on the 2013 Ryder Scott Report, as at 31 August 2013, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye field were 483.3 million boe, of which 193.2 million boe was crude oil and condensate, 72.4 million boe was liquefied petroleum gas ("LPG") and 216.8 million boe was sales gas. According to the 2013 Ryder Scott Report, the Chinarevskoye field also contains approximately 76.2 million boe of gross possible hydrocarbon reserves.

Nostrum's exploration fields are located in the vicinity of Chinarevskoye field and according to the 2013 Ryder Scott Report, as at 31 August 2013, the estimated net probable hydrocarbon reserves at these three fields were 98.2 million boe with an additional 33.6 million boe of net possible hydrocarbon reserves.

Nostrum's operational facilities are located in the Chinarevskoye field and consist of an oil treatment unit capable of processing 400,000 tonnes of crude oil per year, multiple oil gathering and transportation lines including an oil pipeline from the field to its oil loading rail terminal in Rostoshi near Uralsk, a 17 kilometer gas pipeline from the field to the Orenburg-Novopskov pipeline, a gas powered electricity generation system, warehouse facilities, an employee field camp and a gas treatment facility with a throughput capacity of 1.7 billion cubic meters raw gas for the production of condensate, dry gas and LPG.

Nostrum's range of products includes crude oil, stabilized condensate, dry gas and LPG. The Group exports 100% of its condensate, and approximately 85-95% of its LPG. The Group sells 100% of its dry gas not used in production domestically in Kazakhstan at prices that are broadly in line with domestic gas prices. As for the crude oil, pursuant to the Production Sharing Agreement (the "PSA"), the Group is required to deliver 15% of its crude oil production sourced from wells in production in the domestic Kazakhstan market at government-regulated prices. The remainder of the Group's crude oil is free to be exported.

### Business strategy

The Company is in a phase of consolidation at a production level of close to 50,000 boe/day until inception of an expansion of the gas treatment capacities for a total capacity up to 100,000 boe/day in 2016.

As stated in the Group's most recent annual report, Nostrum's long-term objective is to further consolidate its position as one of the leading independent oil and gas companies in Kazakhstan.

In pursuit of this objective the Group identifies the following key focus areas:

#### *Delivering Organic Production Growth*

The Group aims to double production levels from the Chinarevskoye field by the end of 2016. To enable this, it started the construction of a third unit for the gas treatment facility ("GTU3") in the vicinity of the existing two units.

#### *Actively Pursuing Reserve Growth*

Over the last four years, drilling has focused mainly on production wells in order to secure feedstock for the gas treatment facility. Now that such feedstock is in place, the focus will be on a renewed appraisal drilling programme in order to transfer more of the Group's possible and probable reserves into proved reserves.

Nostrum was granted an extension of its exploration permit within the Chinarevskoye field following the execution of a tenth supplementary agreement to the PSA on 28 October 2013. The tenth supplementary agreement extended the exploration period, other than for the Tournaisian horizons, to 26 May 2014. In April 2014, Nostrum submitted an application to the relevant authorities for a further extension of such exploration period beyond 26 May 2014. Nostrum believes that its prospects for obtaining such an extension are good.

#### *Developing a Multi-Field Model*

The Group is also pursuing a strategy of growth through value-accretive acquisitions. This is in line with its desire to leverage existing infrastructure to add further reserves at low costs. The recent acquisition of the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields, all of which are located between 50 kilometres and 105 kilometres from the existing gas treatment facility represented the first such acquisition pursuant to this strategy. The acquisition of data on these three fields commenced in 2013 and appraisal is expected to be concluded in 2015.

The Group evaluates opportunities for acquisitive growth on a continuous basis, with a focus on North-Western Kazakhstan, where practicable, but it will also consider opportunities in the surrounding regions. Nostrum will continue to look for further acquisitions which have the potential to further improve shareholder value.

#### *Making Sustainable Development a Priority*

The Group sees corporate social responsibility as an important indicator of non-financial risk and is regularly developing internal best practices to improve its standards. This is an important standalone part of Nostrum's strategy while it is also complementary to all of the other strategic initiatives. Sustainable development will remain a priority in 2014 and onwards.

#### *Focusing on Delivering Shareholder Value*

The Group's strategy is centered on a balanced approach to investment in growth. This entails both a prudent cash management policy and returns to shareholders.

On 20 June 2014 the Company successfully finalised the process of getting an admission of its ordinary share capital to the premium listing segment of the Official list of the Financial Conduct Authority and to trading on the London Stock Exchange plc's main market for listed securities. Following Admission, Nostrum intends to seek FTSE index inclusion.

The premium listing and FTSE index inclusion reflects Group's development into a successful, mature, blue chip oil and gas producer. Nostrum's management believes that this will strongly benefit the shareholders and the growth strategy, through increased liquidity and profile on the international markets.

### **Material events during the period**

#### *Notes*

On 14 February 2014, Nostrum Oil & Gas Finance B.V. successfully issued US\$400 million Senior Notes with a 14 February 2019 maturity and a fixed coupon of 6.375% per annum (the "2014 Notes"). The 2014 Notes were admitted to the Official List and trading on the Global Exchange Market, which is the exchange regulated market of the Irish Stock Exchange. On 8 April 2014, the Kazakhstan Stock Exchange ("KASE") granted its consent for the admission of the Notes to the "rated debt securities" category of the official list of the KASE, which became effective on 10 April 2014.

Following the listing of the Notes on the KASE on 6 May 2014, Zhaikmunai LLP replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes, whereupon it assumed all of the obligations of Nostrum Oil & Gas Finance B.V. as issuer under the 2014 Notes.

On 14 April 2014, Zhaikmunai LLP redeemed the outstanding US\$92,505,000 of its 10.5% Senior Notes due in 2015. The issuance of the 2014 Notes led to a lowering of the Group's average borrowing rate and is in keeping with the Group's ongoing liquidity requirements. These requirements relate to meeting ongoing debt service obligations, financing capital expenditures requirements and financing working capital requirements.

#### *New holding company, premium listing admission*

On 20 June 2014, Nostrum Oil & Gas plc, a public limited liability company newly incorporated in England and Wales, became the new holding company for the Group and announced the admission of its ordinary share capital of

188,182,958 shares to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange plc's main market for listed securities.

### ***Group Board of Directors changes***

In May 2014, Sir Christopher Codrington, Bt and Mark Martin were appointed as Directors. Sir Christopher has 28 years of executive board and senior management experience in the oil and gas, hospitality and other industries and has spent eight years 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. Mr. Martin has over 20 years of investment banking experience with Barclays, Baring Securities and ING, where he was the global head of equity capital markets from 2003 to 2011. Between 2011 and 2014, he served as the CEO of Exillon Energy plc.

### ***Distribution***

On 6 June 2014, Nostrum Oil & Gas LP made a distribution of US\$0.35 per common unit to the holders of common units representing limited partnership interests.

### ***Operational progress***

On 23 January 2014, the contracts for the exploration and production of hydrocarbons from Darjinskoye and Yuzhno-Gremyachinskoye fields were amended to extend the exploration period until 31 December 2015 for both fields and to amend the related working programs for 2013-2015.

On 3 March 2014, in accordance with its hedging policy, the Group entered, at nil upfront cost, into a new hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through 29 February 2016. According to the contract the Group will be compensated for a decrease in oil prices below US\$ 85/bbl, and will compensate up to US\$ 6/bbl when oil prices increase above US\$ 111.5/bbl.

On 22 May 2014, Nostrum agreed a two-year contract to supply gas condensate via its wholly-owned operating subsidiary Zhaikmunai LLP to Trafigura Beheer B.V. (Trafiguraö). Under the contract signed with Trafigura the Group plans to sell approximately 720,000 tons of gas condensate to Trafigura over the next 24 months. Trafigura is one of the leading global commodity trading houses.

### ***Other events***

On 19 May 2014, Nostrum Oil & Gas Cooperatief U.A. signed purchase agreements to acquire 100% of the share capital of Amersham Oil LLP (incorporated under the laws of the Republic of Kazakhstan) and Prolag BVBA (incorporated under the laws of Belgium).

**OPERATIONAL AND FINANCIAL PERFORMANCE****Results of operations for the six months ended 30 June 2014 and 2013**

The table below sets forth the line items of the Group's interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2014 and 2013 in US Dollars and as a percentage of revenue.

| <i>In thousands of US Dollars</i>                | <b>Six months ended 30 June</b>   |                               |                                   |                               |
|--|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|
|  | <b>2014</b><br><b>(unaudited)</b> | <b>% of</b><br><b>revenue</b> | <b>2013</b><br><b>(unaudited)</b> | <b>% of</b><br><b>revenue</b> |
| Revenue  | <b>444,977</b>                    | <b>100.0%</b>                 | 442,499                           | 100.0%                        |
| Cost of sales                                    | <b>(98,549)</b>                   | <b>22.1%</b>                  | (135,331)                         | 30.6%                         |
| <b>Gross profit</b>                              | <b>346,428</b>                    | <b>77.9%</b>                  | 307,168                           | 69.4%                         |
| General and administrative expenses              | <b>(27,506)</b>                   | <b>6.2%</b>                   | (25,425)                          | 5.7%                          |
| Selling and transportation expenses              | <b>(63,505)</b>                   | <b>14.3%</b>                  | (60,814)                          | 13.7%                         |
| Finance costs                                    | <b>(35,749)</b>                   | <b>8.0%</b>                   | (25,622)                          | 5.8%                          |
| Finance costs - reorganisation                   | <b>(16,575)</b>                   | <b>3.7%</b>                   | .                                 | 0.0%                          |
| Employee share option plan fair value adjustment | <b>(4,585)</b>                    | <b>1.0%</b>                   | (2,537)                           | 0.6%                          |
| Foreign exchange loss, net                       | <b>(2,203)</b>                    | <b>0.5%</b>                   | (210)                             | 0.0%                          |
| Loss on derivative financial instrument          | <b>(6,126)</b>                    | <b>1.4%</b>                   | .                                 | 0.0%                          |
| Interest income                                  | <b>680</b>                        | <b>0.2%</b>                   | 549                               | 0.1%                          |
| Other expenses                                   | <b>(14,064)</b>                   | <b>3.2%</b>                   | (10,646)                          | 2.4%                          |
| Other income                                     | <b>2,988</b>                      | <b>0.7%</b>                   | 2,354                             | 0.5%                          |
| <b>Profit before income tax</b>                  | <b>179,783</b>                    | <b>40.4%</b>                  | 184,817                           | 41.8%                         |
| Income tax expense                               | <b>(88,025)</b>                   | <b>19.8%</b>                  | (73,119)                          | 16.5%                         |
| <b>Profit for the period</b>                     | <b>91,758</b>                     | <b>20.6%</b>                  | 111,698                           | 25.2%                         |

**General note**

For the six months ended 30 June 2014 (the reporting period) realised profit decreased by US\$19.9 million to US\$91.8 million (H1 2013: US\$111.7 million). Increased revenue and lower cost of sales resulted in a significant increase in gross profit, however, this was offset by increase in other operating costs and income tax expenses resulting in a lower profit for the reporting period.

**Revenue**

The Group's revenue increased by 0.6% to US\$445.0 million for the reporting period (H1 2013: US\$442.5). The increase in Group revenue was driven primarily by an increase in achieved sales price for products and a slight increase in sales volumes over the reporting period.

Revenues from sales to the Group's largest three customers amounted to US\$181.8 million, US\$77.1 million and US\$52.6 million respectively (H1 2013: US\$103.9 million, US\$87.3 million and US\$77.5 million).

The Group's revenue breakdown by products and sales volumes for the reporting period and H1 2013 is presented below:

| <i>In thousands of US Dollars</i> | <b>Six months ended 30 June</b>   |                                   |                 |                    |
|-----------------------------------|-----------------------------------|-----------------------------------|-----------------|--------------------|
|                                   | <b>2014</b><br><b>(unaudited)</b> | <b>2013</b><br><b>(unaudited)</b> | <b>Variance</b> | <b>Variance, %</b> |
| Oil and gas condensate            | <b>353,510</b>                    | 353,386                           | 124             | 0.0%               |
| Gas and LPG                       | <b>91,467</b>                     | 89,113                            | 2,354           | 2.6%               |
| <b>Total revenue</b>              | <b>444,977</b>                    | 442,499                           | 2,478           | 0.6%               |
| <b>Sales volumes (boe)</b>        | <b>8,175,413</b>                  | 8,067,414                         | 107,999         | 1.3%               |

The following table shows the Group's revenue breakdown by export/domestic sales for the reporting period and H1 2013:

| <i>In thousands of US Dollars</i> | Six months ended 30 June |                     |              |             |
|-----------------------------------|--------------------------|---------------------|--------------|-------------|
|                                   | 2014<br>(unaudited)      | 2013<br>(unaudited) | Variance     | Variance, % |
| Revenue from export sales         | 389,919                  | 378,090             | 11,829       | 3.1%        |
| Revenue from domestic sales       | 55,058                   | 64,409              | (9,351)      | (14.5)%     |
| <b>Total</b>                      | <b>444,977</b>           | <b>442,499</b>      | <b>2,478</b> | <b>0.6%</b> |

### *Cost of sales*

| <i>In thousands of US Dollars</i>        | Six months ended 30 June |                     |                 |                |
|--|--------------------------|---------------------|-----------------|----------------|
|  | 2014<br>(unaudited)      | 2013<br>(unaudited) | Variance        | Variance, %    |
| Depreciation, depletion and amortisation | 56,679                   | 63,213              | (6,534)         | (10.3)%        |
| Repair, maintenance and other services   | 17,934                   | 24,770              | (6,836)         | (27.6)%        |
| Royalties                                | 10,381                   | 18,028              | (7,647)         | (42.4)%        |
| Payroll and related taxes                | 9,814                    | 7,804               | 2,010           | 25.8%          |
| Materials and supplies                   | 4,739                    | 6,279               | (1,540)         | (24.5)%        |
| Well workover costs                      | 3,773                    | 1,745               | 2,028           | 116.2%         |
| Other transportation services            | 1,463                    | 2,356               | (893)           | (37.9)%        |
| Environmental levies                     | 626                      | 574                 | 52              | 9.1%           |
| Management fees                          | –                        | 1,587               | (1,587)         | (100.0)%       |
| Change in stock                          | (727)                    | 3,847               | (4,574)         | (118.9)%       |
| Government profit share                  | (7,950)                  | 4,249               | (12,199)        | (287.1)%       |
| Other                                    | 1,817                    | 879                 | 938             | 106.7%         |
| <b>Total</b>                             | <b>98,549</b>            | <b>135,331</b>      | <b>(36,782)</b> | <b>(27.2)%</b> |

*Cost of sales* decreased by 27.2% to US\$98.5 million for the reporting period (H1 2013: US\$135.3 million). The decrease is primarily explained by a decrease in depreciation, depletion and amortisation, royalties, government profit share, repair, maintenance and other services, materials and supplies expenses, although this is partially offset by an increase in payroll and related taxes, well workover costs and other expenses. On a boe basis, cost of sales decreased marginally by US\$4.72 or 28.1% to US\$12.05 for the reporting period (H1 2013: US\$16.78) and cost of sales net of depreciation per boe decreased by US\$3.82, or 42.7%, to US\$5.12 (H1 2013: US\$8.94).

*Depreciation, depletion and amortisation* decreased by 10.3% to US\$56.7 million for the reporting period (H1 2013: US\$63.2 million). The decrease is mainly due to an increase in proved developed reserves starting from 31 August 2013, which was partially offset by an increase of production volumes.

*Repair, maintenance and other services* decreased by 27.6% to US\$17.9 million for the reporting period (H1 2013: US\$24.8 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of the Group, engineering and geophysical study expenses. These costs fluctuate depending on the planned works on certain objects.

*Royalties*, which are calculated on the basis of production and market prices for the different products, decreased by 42.4% to US\$10.4 million for the reporting period (H1 2013: US\$18.0 million). This decrease resulted from the reversal of royalty expenses from prior periods amounting to US\$5.8 million. The reversal was due to the adoption of a new work program for oilfield operations and a change in the coefficient of natural gas equivalent.

*Costs for government profit share* decreased by US\$12.2 million to a credit of US\$8.0 million for the reporting period (H1 2013: US\$4.2 million). The decrease resulted from the adoption of a new work program for oilfield operations and a change in the coefficient of natural gas equivalent which resulted in a reversal of the government profit share expense from prior periods amounting to US\$22.2 million.



*Materials and supplies expenses* decreased by 24.5% to US\$4.7 million for the reporting period (H1 2013: US\$6.3 million). This decrease resulted from less need for spare parts and other materials for repairs and maintenance of the facilities, specifically for the gas treatment facility and wells.

*Well workover costs* increased by 116.2% to US\$3.8 million for the reporting period (H1 2013: US\$1.7 million). The increase resulted from the scheduled work on several wells.

*Management fees* are absent in cost of sales for the reporting period (H1 2013: US\$1.6 million). The fees incurred by the Group relate to the services provided by Probel Capital Management N.V., which was acquired by the Group on 30 December 2013 and is now being consolidated. The related costs of this entity are included in general and administrative expenses for the reporting period as professional services (related to the rendering of geological, geophysical, drilling, technical and other consultancy services) and payroll and related taxes.

### **General and administrative expenses**

| <i>In thousands of US Dollars</i> | <b>Six months ended 30 June</b> |                            |                 |                    |
|-----------------------------------|---------------------------------|----------------------------|-----------------|--------------------|
|                                   | <b>2014</b><br>(unaudited)      | <b>2013</b><br>(unaudited) | <b>Variance</b> | <b>Variance, %</b> |
| Professional services             | 10,869                          | 2,326                      | 8,543           | 367.3%             |
| Payroll and related taxes         | 6,632                           | 2,911                      | 3,721           | 127.8%             |
| Business travel                   | 2,854                           | 2,190                      | 664             | 30.3%              |
| Training                          | 1,389                           | 2,549                      | (1,160)         | (45.5)%            |
| Sponsorship                       | 1,032                           | 625                        | 407             | 65.1%              |
| Insurance fees                    | 785                             | 999                        | (214)           | (21.4)%            |
| Management fees                   | 682                             | 7,626                      | (6,944)         | (91.1)%            |
| Depreciation and amortization     | 658                             | 718                        | (60)            | (8.4)%             |
| Communication                     | 654                             | 467                        | 187             | 40.0%              |
| Bank charges                      | 367                             | 588                        | (221)           | (37.6)%            |
| Lease payments                    | 336                             | 285                        | 51              | 17.9%              |
| Materials and supplies            | 259                             | 276                        | (17)            | (6.2)%             |
| Social program                    | 150                             | 150                        | –               | 0.0%               |
| Other taxes                       | 73                              | 3,379                      | (3,306)         | (97.8)%            |
| Other                             | 766                             | 336                        | 430             | 128.0%             |
| <b>Total</b>                      | <b>27,506</b>                   | <b>25,425</b>              | <b>2,081</b>    | <b>8.2%</b>        |

*General and administrative expenses* increased by 8.2% to US\$27.5 million for the reporting period (H1 2013: US\$25.4 million). This was primarily due to an increase in expenses for professional services, payroll and related taxes, which was partially offset by decreased management fees, other taxes and training. The change in the structure of general and administrative expenses can be explained by the acquisition of Probel Capital Management N.V. on 30 December 2013, which led to the elimination of intercompany management fees, and the recognition of its expenses as professional services and payroll and related taxes.

### **Selling and transportation expenses**

| <i>In thousands of US Dollars</i> | <b>Six months ended 30 June</b> |                            |                 |                    |
|-----------------------------------|---------------------------------|----------------------------|-----------------|--------------------|
|                                   | <b>2014</b><br>(unaudited)      | <b>2013</b><br>(unaudited) | <b>Variance</b> | <b>Variance, %</b> |
| Transportation costs              | 29,198                          | 39,485                     | (10,287)        | (26.1)%            |
| Loading and storage costs         | 24,137                          | 15,990                     | 8,147           | 51.0%              |
| Payroll and related taxes         | 1,057                           | 1,199                      | (142)           | (11.8)%            |
| Management fees                   | –                               | 475                        | (475)           | (100.0)%           |
| Other                             | 9,113                           | 3,665                      | 5,448           | 148.6%             |
| <b>Total</b>                      | <b>63,505</b>                   | <b>60,814</b>              | <b>2,691</b>    | <b>4.4%</b>        |

*Selling and transportation expenses* increased by 4.4% to US\$63.5 million for the reporting period (H1 2013: US\$60.8 million). The significant decrease in transportation costs and increase in loading and storage costs is

primarily due to transportation costs including certain loading and storage costs for the prior year. Part of the increase in loading and storage costs was driven by a rise in sales volumes for LPG and condensate.

### *Finance costs*

| <i>In thousands of US Dollars</i>                                   | Six months ended 30 June |                     |               |              |
|---|--------------------------|---------------------|---------------|--------------|
|   | 2014<br>(unaudited)      | 2013<br>(unaudited) | Variance      | Variance, %  |
| Interest expense on borrowings                                      | 34,701                   | 24,691              | 10,010        | 40.5%        |
| Unwinding of discount on Abandonment and site restoration provision | 647                      | 517                 | 130           | 25.1%        |
| Unwinding of discount on amounts Due to Government                  | 401                      | 414                 | (13)          | (3.1)%       |
| <b>Total</b>  | <b>35,749</b>            | <b>25,622</b>       | <b>10,127</b> | <b>39.5%</b> |

*Finance costs* increased by US\$10.1 million to US\$35.7 million for the reporting period (H1 2013: US\$25.6 million). The increase in these costs was primarily driven by the expenses relating to the early redemption of the Notes issued in 2010 and the amortization of the remainder of transaction cost, incurred for the issuance of these Notes.

### *Finance costs – reorganisation*

The *finance costs – reorganisation* are represented by the costs associated with introduction of the Nostrum Oil & Gas plc as the new holding company of the Group and respective reorganisation.

### *Other*

*Foreign exchange losses* amounted to US\$2.2 million for the reporting period (H1 2013: US\$0.2 million). This is explained by the fact that on 11 February 2014 the Tenge was devalued against the US Dollar and other major currencies. The exchange rates before and after devaluation were 155 Tenge/US Dollar and 185 Tenge/US Dollar respectively. Since the Group had a net asset position of Tenge denominated accounts around this date, the devaluation of the Tenge resulted in a significant foreign exchange loss recognised in the reporting period.

*Other expenses* increased by 32.1% to US\$14.1 million for the reporting period (H1 2013: US\$10.6 million). Other expenses mainly represent export duties paid by the Group. The export duties represent custom duties for the export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc. The Kazakhstan customs authorities, based on their interpretation of CIS free-trade legislation, imposed custom duties on oil exports from Kazakhstan to Ukraine that began in December 2012. Other expenses for the reporting period also include fines and penalties amounting to US\$2.6 million, which were the result of court decisions.

*Income tax expense* increased by 20.4% to US\$88.0 million for the reporting period (H1 2013: US\$73.1 million). The increase in income tax expense was primarily due to an increased deferred tax for the reporting period. This was driven by the Tenge devaluation in February 2014, which led to a significant decrease in the tax base of property, plant and equipment, which is denominated in Tenge.

### **Liquidity and Capital Resources**

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

**Cash Flows**

The following table sets forth the Group's consolidated cash flow statement data for the reporting period and H1 2013:

| <i>In thousands of US Dollars</i>                             | <b>Six months ended 30 June</b> |             |
|---|---------------------------------|-------------|
|   | <b>2014</b>                     | <b>2013</b> |
| <b>Cash and equivalents at the beginning of the period</b>    | <b>184,914</b>                  | 197,730     |
| Net cash flows from operating activities                      | <b>177,310</b>                  | 167,392     |
| Net cash used in investing activities <sup>1</sup>            | <b>(123,301)</b>                | (80,289)    |
| Net cash from / (used in) financing activities                | <b>194,815</b>                  | (28,951)    |
| Effects of exchange rate changes on cash and cash equivalents | <b>(515)</b>                    | .           |
| <b>Cash and equivalents at the end of the period</b>          | <b>433,223</b>                  | 255,882     |

<sup>1</sup> Net cash used in investing activities during the six months ended 30 June 2014 and 2013 includes a redemption of bank deposits in the amount of US\$30 million and US\$50 million, respectively, and a placement of bank deposits in the amount of nil and US\$19.5 million, respectively. These deposits were not included in cash and cash equivalents since they were expected to mature in more than three months after the end of the respective reporting date.

Net cash flows from operating activities

Net cash flow from operating activities was US\$177.3 million for the reporting period (H1 2013: US\$167.4 million) and was primarily attributable to:

- É profit before income tax for the reporting period of US\$179.8 million (H1 2013: US\$184.8 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US\$57.3 million (H1 2013: US\$63.9 million), and finance costs of US\$35.7 million (H1 2013: US\$25.6 million).
- É a US\$54.7 million change in working capital (H1 2013: US\$37.9 million) primarily attributable to an increase in trade receivables of US\$40.7 million (H1 2013: US\$36.2 million), an increase in prepayments and other current assets of US\$13.3 million (H1 2013: a decrease of US\$1.5 million), an increase in trade payables of US\$18.6 (H1 2013: a decrease of US\$4.6 million) and a decrease in other current liabilities of US\$23.0 million (H1 2013: US\$4.8 million).
- É income tax paid of US\$58.8 million (H1 2013: US\$68.5 million).

Net cash used in investing activities

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

Net cash used in investing activities for the reporting period was US\$123.3 million (H1 2013: US\$80.3 million) due primarily to the drilling of new wells resulting in cash spent of approximately US\$84.4 million (H1 2013: US\$80.8 million), costs associated with the third gas treatment unit of approximately US\$43.5 million (H1 2013: US\$4.9 million) and costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US\$6.4 million (H1 2013: nil), partially offset by the redemption of US\$30.0 million of cash deposits (H1 2013: redemption of US\$50 million and placement of US\$19.5 million of bank deposits).

Net cash (used in)/provided by financing activities

Net cash provided from financing activities during the reporting period was US\$194.8 million, primarily attributable to the issue of the 2014 Notes amounting to US\$400.0 million, offset by an early redemption of the 2010 Notes amounting to US\$92.5, payment of US\$60.0 million in distributions and the finance costs paid on the Group's 2010 Notes, 2012 Notes and 2014 Notes. Net cash used in financing activities during the H1 2013 was US\$29.0 million, which was mainly represented by the finance costs paid on the Group's 2010 Notes and 2012 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 30 June 2014 based on contractual undiscounted payments:

|                                     | Six months ended 30 June |                    |               |                |                   | Total            |
|-------------------------------------|--------------------------|--------------------|---------------|----------------|-------------------|------------------|
|                                     | On demand                | Less than 3 months | 3-12 months   | 1-5 years      | more than 5 years |                  |
| Borrowings                          | -                        | 12,750             | 52,650        | 261,600        | 992,589           | <b>1,319,589</b> |
| Trade Payables                      | 41,804                   | -                  | -             | -              | -                 | <b>41,804</b>    |
| Other current financial liabilities | 19,288                   | -                  | -             | -              | -                 | <b>19,288</b>    |
| Due to the government of Kazakhstan | -                        | 258                | 773           | 4,124          | 12,113            | <b>17,268</b>    |
| <b>Total</b>                        | <b>61,092</b>            | <b>13,008</b>      | <b>53,423</b> | <b>265,724</b> | <b>1,004,702</b>  | <b>1,397,949</b> |

**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\$147.6 million (H1 2013: US\$111.3 million). This reflects drilling costs and infrastructure and development costs for the crude oil pipeline, the gas pipeline, the oil treatment unit and the gas treatment facility. The total capital expenditure represented 33.2% of revenue. The Group has implemented a capital expenditure programme with a budget US\$123.0 million for drilling expenditures during 2014 and US\$304.0 million for other capital expenditures, totaling US\$427.0 million for 2014.

In addition, Nostrum has budgeted for capital expenditures of approximately US\$1.5 billion to develop its reserves during the years 2013-2017 (with approximately US\$550 million allocated to infrastructure and the remainder to drilling related capital expenditures).

**Drilling**

Drilling expenditures amounted to US\$84.4 million for the reporting period (H1 2013 US\$80.8 million).

**Gas Treatment Facility**

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, the Group is proposing to build a third unit for it by mid-2016. The construction of GTU3 is important for implementing the Group's strategy to increase operating capacity and production of liquid hydrocarbons. Management estimates, based on the production profile of both proved and probable reserves reported in the 2013 Ryder Scott Report and assuming the successful completion of the second phase of the gas treatment facility by the middle of 2016, that the Company's annual production will more than double from the 2013 annual production (with an average of 46,178 boepd in 2013) by the end of 2016. Total costs for the completion of GTU3 are estimated to be not more than US\$500 million (US\$39.9 million of which had already been incurred as at 30 June 2014).

Nostrum has appointed Ferrostaal Industrienlagen GmbH, Kazakhstan Branch (öFIAö) and Rheinmetall International Engineering GmbH (a 50% subsidiary of Ferrostaal GmbH) as the project manager in charge of managing the engineering, procurement, construction and commissioning of GTU3 on behalf of Zhaikmunai.

As at 30 June 2014 Nostrum has agreed terms with its suppliers for the purchase of equipment totaling approximately US\$132.8 million.

**Oil Treatment Units**

Currently Nostrum operates a first crude oil treatment unit, which was built and commissioned at the beginning of 2006. The Group expects to complete a second oil treatment unit by the end of 2015 in order to double its oil treatment capacity. Total capital expenditure for the oil treatment unit is expected to be approximately US\$40-50 million.

### Primary Factors Affecting Results of Operations

The primary factors affecting the Group's results of operations during the Period are the following:

#### Pricing

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 pricing of the Group's dry gas is related to domestic Kazakh prices for gas. During the Period, the price of Brent crude oil experienced significant fluctuations. According to Bloomberg, international Brent oil prices have varied between a low of approximately US\$97.69 per barrel and a high of approximately US\$118.90 per barrel in the first half of 2013, and between US\$104.79 per barrel and US\$115.06 per barrel during the Period.

|  | Six months ended 30 June |        |
|--|--------------------------|--------|
|  | 2014                     | 2013   |
| Average Brent crude oil price (US\$/bbl) | 108.82                   | 107.88 |

The Group has a hedging policy whereby it hedges against adverse oil price movements during times of considerable non-scalable capital expenditure. Based on the contracts Zhaikmunai LLP has entered into with various equipment suppliers for the third gas treatment unit and the fact that further contracts will be entered into in the next several months, Nostrum is closely monitoring the hedging market and may in the near future enter into a hedge to cover a portion or all of its non-scalable capital expenditure linked to the construction of the third gas treatment. On 3 March 2014, in accordance with its hedging policy, Zhaikmunai LLP entered, at nil upfront cost, into a new hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through 29 February 2016. The counterparty to the hedging agreement was Citibank. Based on the hedging contract Zhaikmunai LLP bought a put at \$85/bbl, which protected it against any fall in the price of oil below \$85/bbl. As part of this contract Zhaikmunai LLP also sold a call at \$111.5/bbl and bought a call at \$117.5/bbl which further allowed Zhaikmunai LLP to benefit from oil prices up to \$111.5/bbl and above \$117.5/bbl.

#### Production

The Group's results from operations are directly affected by production because, except for a portion of the dry gas that is utilised in the operations of the gas treatment facility, all of Nostrum's production is sold. The table below sets forth Nostrum's production for the Period and H1 2013.

|                                  | Six months ended 30 June |           |                  |              |
|----------------------------------|--------------------------|-----------|------------------|--------------|
|                                  | 2014                     | 2013      | Variance (boepd) | Variance (%) |
| Total average production (boepd) | 46,569                   | 46,370    | 199              | 0.43%        |
| Total production (boe)           | 8,428,745                | 8,393,036 | 35,709           | 0.43%        |

Nostrum's production growth is primarily driven by the further ramp-up of the gas treatment facility.

In addition, the Group intend to drill 11 new wells (five new exploration/appraisal wells and six new production/water injection wells) in order to maintain production above the 45,000 boepd target and is also planning the development of a third gas treatment unit for the gas treatment facility, both of which the Group's management believes will significantly increase production in the future.

#### Cost of sales

The Group's oil and gas prices are based on a mix of fixed and quotation pricing, and therefore Nostrum's ability to control costs is critical to its profitability. Nostrum's cost of sales comprise various costs including depreciation of oil and gas properties, repair, maintenance and other services, royalties, payroll and related taxes, materials and supplies, management fees, other transportation services, government profit share, environmental levies, and well workover costs.

Depreciation and amortisation costs represent 57.5% of total cost of sales for the Period (H1 2013: 46.7%). These costs fluctuate according to the level of Nostrum's proved developed reserves, the volume of oil and gas it produces and the net book value of its oil and gas properties.

Repair, maintenance and other services are related to the repair and maintenance of the Group's infrastructure, including the gas treatment facility but do not include ongoing repair and maintenance of production and exploration wells. These costs represent 18.2% of the total costs of sales (H1 2013: 18.3%) and fluctuate depending on the planned works on certain objects.

Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 3.8% and 1.3% for the six months ended 30 June 2014 and 2013, respectively.

#### ***Finance costs***

Finance costs in the Period consisted of interest expenses and fees and expenses in relation to the 2010 Notes issued by Zhaikmunai Finance B.V. in October 2010, the 2012 Notes issued by Zhaikmunai International B.V. in November 2012 and the 2014 Notes issued by Nostrum Oil & Gas Finance B.V. in February 2014, unwinding of discount on amounts due to the Kazakh Government and unwinding of discount on abandonment and site restoration liability.

Interest expense in the Period consisted of interest on the 2010 Notes, 2012 Notes, the 2014 Notes and an early redemption premium related to the 2010 Notes repayment. Interest expense in the H1 2013 consisted solely of interest on the 2010 Notes and 2012 Notes. Capitalised borrowing costs (including a portion of the interest expense and amortisation of the arrangement fees) amounted to US\$7.4 million in the Period (H1 2013: US\$7.3 million). Non-capitalised interest amounted to US\$34.7 million in the Period (six months ended 30 June 2013: US\$24.7 million).

#### ***Royalties, Government Share and Taxes payable pursuant to the PSA***

Nostrum operates and produces pursuant to the PSA. The PSA has, during the periods under review, and will continue to have both a positive and negative effect on Nostrum's results of operations as a result of (i) the tax regime applicable to Nostrum under the PSA (discussed below) (ii) increasing royalty expenses payable to the State, (iii) the share of profit oil and the share of gas that Nostrum pays to the State and (iv) recovery bonus payable to the State.

Under the PSA, the Kazakh tax regime that was in place in 1997 applies to the Group for the entire term of the PSA and the Licence (as to VAT and social tax, the regime that was in place as of 1 July 2001 applies). As of 1 January 2009, the new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code did not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Articles 308 and 308-1 of the Tax Code. Despite the stabilisation clauses (providing for general and tax stability) provided for by the PSA, in 2008, in 2010 and again in 2013, Nostrum was required to pay new crude oil export duties introduced by the Kazakh Government. Despite Nostrum's efforts to show that the new export duties were not applicable to it, the State authorities did not accept this position and Nostrum was required to pay the export duties. During January 2009, the Kazakh Government revised and established the rate of the export duties at US\$nil per tonne of crude oil, but reimposed a US\$20 per tonne duty in August 2010, which was increased to US\$40 per tonne in January 2011 and then to US\$60 per tonne in April 2013.

For the purposes of corporate income tax from 1 January 2007, the Group considers its revenue from oil and gas sales related to the Tournaisian horizon as taxable revenue and its expenses related to the Tournaisian horizon as deductible expenses, except those expenses which are not deductible in accordance with the tax legislation of Kazakhstan. Assets related to the Tournaisian reservoir that were acquired during the exploration phase are then depreciated for tax purposes at a maximum rate of 25.0% per annum. Assets related to the Tournaisian reservoir that were acquired after the commencement of the production phase are subject to the depreciation rate in accordance with the 1997 Kazakh tax regime, which is between 5% and 25% depending on the nature of the asset. Under the PSA, the exploration phase for the remainder of the Chinarevskoye Field expired in May 2014 and a further extension has been applied for. Assets related to the other horizons will depreciate in the same manner as those described above for the Tournaisian reservoir.

Under the PSA, Nostrum is obliged to pay to the State royalties on the volumes of crude oil and gas produced, with the royalty rate increasing as the volume of hydrocarbons produced increases. In addition, Nostrum is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State also increases as annual production levels increase. Pursuant to the PSA, the Group is currently able to effectively deduct a significant proportion of production (known as Cost Oil) from the sharing arrangement

that it would otherwise have to share with the Kazakh Government. Cost Oil reflects the deductible capital and operating expenditures incurred by the Group in relation to its operations. Royalties represented 10.5% of total cost of sales for the Period (H1 2013: 13.3%). As for the government profit share, it represented 3.1% of total cost of sales for the H1 2013, during the same period in 2014 it amounted to a credit of US\$8.0 million mainly due to the fact that the Group has adopted a new work program for oilfield operations and changed the coefficient of natural gas equivalent leading to a reversal of the expense in the amount of US\$22.2 million related to prior periods.

**RELATED PARTIES AND RELATED PARTY TRANSACTIONS**

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The following is a description of the material transactions with related parties to which the Company or its subsidiaries are a party. The Company believes that it has executed all of its transactions with related parties on terms no less favourable to the Group than those it could have obtained from unaffiliated third parties.

Save as disclosed below and in the Note 20 to the interim condensed consolidated financial statements, there were no related party transactions entered into during the reporting period.

On 19 May 2014, SEPOL AG and Nostrum Oil & Gas Coöperatief U.A. (Co-op) entered into a purchase agreement for the acquisition by Co-op of the entire issued share capital of Amersham Oil LLP (the Amersham Acquisition Agreement) for a consideration of €1.69 million. Completion of the sale of these shares under the Amersham Acquisition Agreement is conditional upon clearance being obtained from the competition authorities in the Republic of Kazakhstan (which is expected to occur in the third quarter of 2014).

On 19 May 2014 Crest Capital Management NV, Petra Noé and Co-op entered into a purchase agreement for the acquisition by Co-op of the entire issued share capital of Prolag BVBA (the Prolag Acquisition Agreement) for a consideration of €1, as all services previously provided by Prolag to the Group were internalised within Probel prior to the acquisition of Probel.



## PRINCIPAL RISKS AND UNCERTAINTIES

Key risks are reviewed by the executive committee and the Board of Nostrum Oil & Gas plc on a regular basis and where appropriate, actions are taken to mitigate the key risks that are identified.

The key risks and uncertainties are unchanged from those disclosed in the Group's 2013 Annual Report. The Group believes that its principal risks and uncertainties for the remaining six months are:

### Principal financial risks and uncertainties

| Risk category                       | Description of risk  | Risk management  |
|-------------------------------------|--|--|
| 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 requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise. The treasury policy requires the Group to maintain a minimum level of cash of US\$100 million.   |
| Commodity price risk                | Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of crude oil. Commodity price risk is extremely significant to results of the Group's operations, given that all sales of crude oil are based on the commodity price. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals.   | The Group's hedging policy is that, upon entering into longer term non-scalable capital expenditure commitments, it will hedge up to a maximum of 70% of its liquids production. The instrument the Group has employed in the past is a zero-cost-capped-collar. Such a contract fixes the floor price at a certain predetermined level while limiting the upside risk. The Group intends to maintain the same hedging policy going forward. |
| Foreign currency exchange rate risk | The Group is exposed to foreign currency risk associated with transactions entered into, and assets and liabilities denominated in currencies other than the functional currency of its operating entities, being the US dollar since 1 January 2009. This exposure is primarily associated with transactions, contracts and borrowings denominated in KZT (Kazakh Tenge. Most of the Group's cash inflows as well as its accounts receivable are denominated in US dollars, and most of the Group's expenses are primarily denominated in US dollars. | The Group does not hedge its exposure to foreign exchange rate risk. Foreign exchange risk is limited, as the vast majority of its income is denominated in US dollars and expenditures are largely indirectly linked to US dollars as well. Even if procurement contracts are legally required to be stated in KZT, most material contracts have clauses that stipulate a certain exchange rate of the KZT to the US dollars.               |
| Interest rate risk                  | The Group's interest rate risk principally relates to interest receivable and payable on its cash deposits and borrowings.   | The Group does not hedge interest rate risk, nor does it swap a fixed interest rate for a variable interest rate or vice versa. The Notes bear interest at a fixed coupon. The interest on the 2012 Notes is 7.125% and on the 2014 Notes is 6.375%.   |
| Credit risk                         | Nostrum Oil & Gas sells all of its crude oil pursuant to contracts with one or more oil traders who purchase its production.   | Nostrum Oil & Gas's policy is to mitigate payment risk by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.   |

**Other principal risks and uncertainties**

| <b>Risk category</b>     | <b>Description of risk</b>  | <b>Risk management</b>   |
|--------------------------|---|--|
| Single revenue source    | The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue.  | In 2013 the Group completed the acquisition of subsurface use rights in three oil and gas fields near the Chinarevskoye field and will consider further acquisitions of oil and gas fields.  |
| Development projects     | The Group's planned development projects, in particular GTU3, are subject to customary risks related to delay, non-completion and cost overruns, which could impact future production.  | The Group has engaged Ferrostaal, an experienced international project management firm, to manage its development of GTU3 and is contracting with reputable international equipment suppliers employing proven technologies for the project. |
| Subsoil use agreements   | The Group may have disagreements with the Kazakh government regarding its subsoil operations or compliance with the terms of its subsoil use agreements.  | The Group believes that it is in full compliance with the terms of its subsoil use agreements and maintains an open dialogue with Kazakh governmental authorities in this regard.  |
| Environmental compliance | The legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times. | The Group has strengthened its HSE department over the past 18 months and regularly commissions independent environmental audits to monitor its compliance and best practice in this area.   |
| Tax law uncertainty      | The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create a risk of additional payments of tax from assessments which the Group believes are inapplicable to it.  | The Group regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.  |
| Gas sale price           | The Group could 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.       | Based on the terms of its PSA and applicable law the Group does not believe that such legislation is applicable in its subsoil use of the Chinarevskoye field and has conveyed such a view to the Kazakh government.                         |

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.

**GOING CONCERN**

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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 interim condensed consolidated financial statement.

**RESPONSIBILITY STATEMENT**

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To the best of our knowledge

- a) the interim condensed set of financial statements, which has been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4 R;
- b) the interim management report includes a fair review of the information required by DTR 4.2.7 R; and
- c) the interim management report includes a fair review of the information required by DTR 4.2.8 R.

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Kai-Uwe Kessel

Chief Executive Officer

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Jan-Ru Muller

Chief Financial Officer

**Nostrum Oil & Gas plc**

Interim condensed consolidated financial statements (unaudited)

*For the six months ended 30 June 2014*

## **INDEPENDENT REVIEW REPORT TO NOSTRUM OIL & GAS PLC**

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### **Introduction**

We have been engaged by Nostrum Oil & Gas plc to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of cash flows, the interim condensed consolidated statement of changes in equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

### **Directors' Responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### **Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of Review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

Date

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 30 June 2014**

| <i>In thousands of US Dollars</i>                  | <b>Notes</b> | <b>30 June 2014<br/>(unaudited)</b> | 31 December 2013<br>(audited) |
|--|--------------|-------------------------------------|-------------------------------|
| <b>ASSETS</b>                                      |              |                                     |                               |
| <b>Non-current assets</b>                          |              |                                     |                               |
| Exploration and evaluation assets                  | 3            | 21,514                              | 20,434                        |
| Goodwill   |              | 30,386                              | 30,386                        |
| Property, plant and equipment                      | 4            | 1,369,448                           | 1,330,903                     |
| Restricted cash                                    |              | 4,618                               | 4,217                         |
| Advances for non-current assets                    |              | 39,492                              | 10,037                        |
| Non-current investments                            | 5            | –                                   | 30,000                        |
|  |              | <b>1,465,458</b>                    | <b>1,425,977</b>              |
| <b>Current assets</b>                              |              |                                     |                               |
| Inventories  |              | 23,489                              | 22,085                        |
| Trade receivables                                  | 6            | 107,242                             | 66,565                        |
| Prepayments and other current assets               |              | 44,540                              | 31,192                        |
| Income tax prepayment                              |              | –                                   | 5,042                         |
| Current investments                                | 5            | 25,000                              | 25,000                        |
| Cash and cash equivalents                          |              | 433,223                             | 184,914                       |
|  |              | <b>633,494</b>                      | <b>334,798</b>                |
| <b>TOTAL ASSETS</b>                                |              | <b>2,098,952</b>                    | <b>1,760,775</b>              |
| <b>EQUITY AND LIABILITIES</b>                      |              |                                     |                               |
| <b>Share capital and Reserves</b>                  |              |                                     |                               |
|  | 7            |                                     |                               |
| Share capital                                      |              | 3,203                               | .                             |
| Treasury capital                                   |              | (61)                                | (30,751)                      |
| Partnership capital                                |              | –                                   | 380,874                       |
| Share premium                                      |              | 102,858                             | .                             |
| Additional paid-in capital                         |              | –                                   | 8,126                         |
| Retained earnings and reserves                     |              | 754,803                             | 474,202                       |
|  |              | <b>860,803</b>                      | <b>832,451</b>                |
| <b>Non-Current Liabilities</b>                     |              |                                     |                               |
| Long-term borrowings                               | 9            | 926,900                             | 621,160                       |
| Abandonment and site restoration provision         |              | 14,485                              | 13,874                        |
| Due to Government of Kazakhstan                    |              | 5,906                               | 6,021                         |
| Deferred tax liability                             |              | 165,431                             | 152,545                       |
| Derivative financial instrument                    | 17           | 6,126                               | .                             |
|  |              | <b>1,118,848</b>                    | <b>793,600</b>                |
| <b>Current liabilities</b>                         |              |                                     |                               |
| Current portion of long-term borrowings            | 9            | 14,913                              | 7,263                         |
| Employee share option plan liability               |              | 15,752                              | 12,016                        |
| Trade payables                                     |              | 41,804                              | 58,518                        |
| Advances received                                  |              | 1,218                               | 36                            |
| Income tax payable                                 |              | 13,654                              | 1,232                         |
| Current portion of Due to Government of Kazakhstan |              | 1,031                               | 1,031                         |
| Other current liabilities                          | 10           | 30,929                              | 54,628                        |
|  |              | <b>119,301</b>                      | <b>134,724</b>                |
| <b>TOTAL EQUITY AND LIABILITIES</b>                |              | <b>2,098,952</b>                    | <b>1,760,775</b>              |

Chief Executive Officer of Nostrum Oil &amp; Gas plc

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*Kai-Uwe Kessel*

Chief Financial Officer of Nostrum Oil &amp; Gas plc

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*Jan-Ru Muller*

*The accounting policies and explanatory notes on pages 25 through 40 are an integral part of these interim condensed consolidated financial statements*

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the six months ended 30 June 2014**

| <i>In thousands of US Dollars</i>   | <b>Notes</b> | <b>Six months ended 30 June</b> |                         |
|---|--------------|---------------------------------|-------------------------|
|   |              | <b>2014 (unaudited)</b>         | <b>2013 (unaudited)</b> |
| <b>Revenue</b>  |              |                                 |                         |
| Revenue from export sales   |              | <b>389,919</b>                  | 378,090                 |
| Revenue from domestic sales   |              | <b>55,058</b>                   | 64,409                  |
|   | <b>11</b>    | <b>444,977</b>                  | 442,499                 |
| Cost of sales   | <b>12</b>    | <b>(98,549)</b>                 | (135,331)               |
| <b>Gross profit</b>   |              | <b>346,428</b>                  | 307,168                 |
| General and administrative expenses   | <b>13</b>    | <b>(27,506)</b>                 | (25,425)                |
| Selling and transportation expenses   | <b>14</b>    | <b>(63,505)</b>                 | (60,814)                |
| Finance costs   | <b>15</b>    | <b>(35,749)</b>                 | (25,622)                |
| Finance costs - reorganisation  | <b>16</b>    | <b>(16,575)</b>                 | .                       |
| Employee share option plan fair value adjustment  |              | <b>(4,585)</b>                  | (2,537)                 |
| Foreign exchange loss, net  |              | <b>(2,203)</b>                  | (210)                   |
| Loss on derivative financial instrument   | <b>17</b>    | <b>(6,126)</b>                  | .                       |
| Interest income   |              | <b>680</b>                      | 549                     |
| Other expenses  |              | <b>(14,064)</b>                 | (10,646)                |
| Other income  |              | <b>2,988</b>                    | 2,354                   |
| <b>Profit before income tax</b>   |              | <b>179,783</b>                  | 184,817                 |
| Income tax expense  | <b>18</b>    | <b>(88,025)</b>                 | (73,119)                |
| <b>Profit for the period</b>  |              | <b>91,758</b>                   | 111,698                 |
| <b>Total comprehensive income for the period</b>  |              | <b>91,758</b>                   | 111,698                 |
| Profit for the period attributable to the holders of Common Units/shares (in thousands of US Dollars) |              | <b>91,758</b>                   | 111,698                 |
| Weighted average number of Common Units/shares  |              | <b>184,551,496</b>              | 185,375,504             |
| Basic and diluted earnings per Common Unit/share (in US Dollars)                                      |              | <b>0.50</b>                     | 0.60                    |

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

Chief Executive Officer of Nostrum Oil & Gas plc

\_\_\_\_\_  
*Kai-Uwe Kessel*

Chief Financial Officer of Nostrum Oil & Gas plc

\_\_\_\_\_  
*Jan-Ru Muller*

*The accounting policies and explanatory notes on pages 25 through 40 are an integral part of these interim condensed consolidated financial statements*



**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the six months ended 30 June 2014**

| <i>In thousands of US Dollars</i>                             | <b>Notes</b> | <b>Six months ended 30 June</b> |                         |
|---|--------------|---------------------------------|-------------------------|
|   |              | <b>2014 (unaudited)</b>         | <b>2013 (unaudited)</b> |
| <b>Cash flow from operating activities:</b>                   |              |                                 |                         |
| Profit before income tax                                      |              | 179,783                         | 184,817                 |
| <i>Adjustments for:</i>                                       |              |                                 |                         |
| Depreciation, depletion and amortisation                      | 12,13        | 57,337                          | 63,931                  |
| Finance costs - reorganisation                                | 16           | 16,575                          | .                       |
| Finance costs   | 15           | 35,749                          | 25,622                  |
| Interest income   |              | (680)                           | (549)                   |
| Foreign exchange gain on investing and financing activities   |              | (4,152)                         | (12)                    |
| Loss on disposal of property, plant and equipment             |              | 33                              | .                       |
| Loss on derivative financial instrument                       |              | 6,126                           | .                       |
| <b>Operating profit before working capital changes</b>        |              | <b>290,771</b>                  | <b>273,809</b>          |
| <i>Changes in working capital:</i>                            |              |                                 |                         |
| Change in inventories   |              | (1,404)                         | 5,080                   |
| Change in trade receivables                                   |              | (40,677)                        | (36,246)                |
| Change in prepayments and other current assets                |              | (13,348)                        | 1,527                   |
| Change in trade payables                                      |              | 18,595                          | (4,570)                 |
| Change in advances received                                   |              | 1,182                           | .                       |
| Change in due to Government of Kazakhstan                     |              | (516)                           | (515)                   |
| Change in other current liabilities                           |              | (23,035)                        | (4,807)                 |
| Payments under Employee share option plan                     |              | 4,506                           | 1,587                   |
| <b>Cash generated from operations</b>                         |              | <b>236,074</b>                  | <b>235,865</b>          |
| Income tax paid   |              | (58,764)                        | (68,473)                |
| <b>Net cash flows from operating activities</b>               |              | <b>177,310</b>                  | <b>167,392</b>          |
| <b>Cash flow from investing activities:</b>                   |              |                                 |                         |
| Interest received   |              | 680                             | 549                     |
| Purchase of property, plant and equipment                     |              | (147,601)                       | (111,338)               |
| Purchase of exploration and evaluation assets                 |              | (6,380)                         | .                       |
| Placement of bank deposits                                    |              | -                               | (19,500)                |
| Redemption of bank deposits                                   |              | 30,000                          | 50,000                  |
| <b>Net cash used in investing activities</b>                  |              | <b>(123,301)</b>                | <b>(80,289)</b>         |
| <b>Cash flow from financing activities:</b>                   |              |                                 |                         |
| Finance costs paid  |              | (29,639)                        | (26,022)                |
| Issue of notes  | 9            | 400,000                         | .                       |
| Expenses paid on arrangement of notes                         |              | (6,525)                         | .                       |
| Repayment of notes  |              | (92,505)                        | .                       |
| Transfer to restricted cash                                   |              | (402)                           | (502)                   |
| Repurchase of GDRs  |              | -                               | (3,858)                 |
| Treasury shares reissued                                      |              | 440                             | 1,431                   |
| Distributions paid  | 7            | (59,979)                        | .                       |
| Funds borrowed - reorganisation                               | 16           | 2,350,405                       | .                       |
| Funds repaid - reorganisation                                 |              | (2,350,405)                     | .                       |
| Finance costs - reorganisation                                |              | (16,575)                        | .                       |
| <b>Net cash from / (used in) financing activities</b>         |              | <b>194,815</b>                  | <b>(28,951)</b>         |
| Effects of exchange rate changes on cash and cash equivalents |              | (515)                           | .                       |
| <b>Net increase in cash and cash equivalents</b>              |              | <b>248,309</b>                  | <b>58,152</b>           |
| Cash and equivalents at the beginning of the period           |              | 184,914                         | 197,730                 |
| <b>Cash and equivalents at the end of the period</b>          |              | <b>433,223</b>                  | <b>255,882</b>          |

Chief Executive Officer of Nostrum Oil &amp; Gas plc

Kai-Uwe Kessel

Chief Financial Officer of Nostrum Oil &amp; Gas plc

Jan-Ru Muller

*The accounting policies and explanatory notes on pages 25 through 40 are an integral part of these interim condensed consolidated financial statements*

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 30 June 2014**

| <i>In thousands of US Dollars</i>                | Notes | Share capital | Share premium | Partnership capital | Treasury capital | Additional paid-in capital | Other reserves | Retained earnings | Total     |
|--|-------|---------------|---------------|---------------------|------------------|----------------------------|----------------|-------------------|-----------|
| <b>As at 1 January 2013 (audited)</b>            |       | –             |               | 380,874             | (9,727)          | 6,095                      | 3,437          | 314,425           | 695,104   |
| Profit for the period                            |       | .             | .             | .                   | .                | .                          | .              | 111,698           | 111,698   |
| <b>Total comprehensive income for the period</b> |       | –             | –             | –                   | –                | –                          | –              | 111,698           | 111,698   |
| Buyback of GDRs                                  |       | .             | .             | .                   | (3,858)          | .                          | .              | .                 | (3,858)   |
| Sale of treasury capital                         |       | .             | .             | .                   | 480              | 951                        | .              | .                 | 1,431     |
| Profit distribution                              |       | .             | .             | .                   | .                | .                          | .              | (63,179)          | (63,179)  |
| <b>As at 30 June 2013 (unaudited)</b>            |       | –             | –             | 380,874             | (13,105)         | 7,046                      | 3,437          | 362,944           | 741,196   |
| Profit for the period                            |       | .             | .             | .                   | .                | .                          | .              | 107,821           | 107,821   |
| <b>Total comprehensive income for the period</b> |       | –             | –             | –                   | –                | –                          | –              | 107,821           | 107,821   |
| Buyback of GDRs                                  |       | .             | .             | .                   | (18,307)         | .                          | .              | .                 | (18,307)  |
| Sale of treasury capital                         |       | .             | .             | .                   | 661              | 1,080                      | .              | .                 | 1,741     |
| <b>As at 31 December 2013 (audited)</b>          |       | –             | –             | 380,874             | (30,751)         | 8,126                      | 3,437          | 470,765           | 832,451   |
| Profit for the period                            |       | .             | .             | .                   | .                | .                          | .              | 91,758            | 91,758    |
| <b>Total comprehensive income for the period</b> |       | –             | –             | –                   | –                | –                          | –              | 91,758            | 91,758    |
| Sale of treasury capital                         |       | .             | .             | .                   | 440              | 769                        | .              | .                 | 1,209     |
| Profit distribution                              | 7     | .             | .             | .                   | .                | .                          | .              | (64,615)          | (64,615)  |
| <i>Group reorganisation:</i>                     |       |               |               |                     |                  |                            |                |                   |           |
| Replacement of GDRs                              |       | .             | .             | (380,874)           | 30,311           | (8,895)                    | 253,458        | .                 | (106,000) |
| Share capital                                    |       | 3,203         | 102,858       | .                   | (61)             | .                          | .              | .                 | 106,000   |
| <b>Effect of the group reorganisation</b>        | 7     | 3,203         | 102,858       | (380,874)           | 30,250           | (8,895)                    | 253,458        | –                 | –         |
| <b>As at 30 June 2014 (unaudited)</b>            |       | 3,203         | 102,858       | –                   | (61)             | –                          | 256,895        | 497,908           | 860,803   |

Chief Executive Officer of Nostrum Oil &amp; Gas plc

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*Kai-Uwe Kessel*

Chief Financial Officer of Nostrum Oil &amp; Gas plc

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*Jan-Ru Muller*


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*The accounting policies and explanatory notes on pages 25 through 40 are an integral part of these interim condensed consolidated financial statements*

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**1. GENERAL****Overview**

Nostrum Oil & Gas Plc (the Company or the Parent) is a public limited company established on 3 October 2013 under the Companies Act 2006 and registered in England and Wales with registered number 8717287. The registered address of Nostrum Oil & Gas plc is: 4th Floor, 53-54 Grosvenor Street, London, UK, W1K 3HU.

The Parent became the holding company of the remainder of the Group (via its subsidiary Nostrum Oil Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange (LSE) on 20 June 2014 (Note 7). 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 & Gas 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 interim condensed consolidated financial statements were authorized for issue by Kai-Uwe Kessel, Chief Executive Officer of Nostrum Oil & Gas plc and by Jan-Ru Muller, Chief Financial Officer of Nostrum Oil & Gas plc on 28 August 2014.

These interim condensed consolidated financial statements include the financial position and the results of the operations of Nostrum Oil & Gas plc and its wholly owned subsidiaries Zhaikmunai Netherlands B.V. (formerly Frans Van Der Schoot B.V.), Zhaikmunai Finance B.V., Zhaikmunai International B.V., Nostrum Oil & Gas Finance B.V., Claydon Industrial Limited (Claydonö), Jubilata Investments Limited (Jubilataö), Zhaikmunai LLP, Condensate Holding LLP (Condensateö), Nostrum Oil & Gas Coöperatief U.A., Probel Capital Management N.V., Nostrum Oil & Gas UK Ltd. and Nostrum Oil B.V.. Nostrum Oil & Gas plc and its wholly-owned subsidiaries and Amersham Oil LLP, Prolag BVBA, Grandstil LLC and Investprofi LLC are hereinafter referred to as the Groupö. The Group's operations comprise of a single operating segment and three exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

As at 30 June 2014, the Group employed approximately 985 employees.

Sale and purchase agreements for the acquisition of Amersham Oil LLP (Amershamö) and Prolag BVBA (Prolagö) were entered into on 19 May 2014 by Nostrum Oil & Gas Coöperatief U.A. The legal completion of the acquisition of Amersham and Prolag is scheduled to occur in Q3 2014 but under the terms of the sale and purchase agreements, the Group controls the entities and has the economic risk and benefit in the entities since 19 May 2014.

**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 Contractö) dated 31 October 1997 between the State Committee of Investments of the Republic of Kazakhstan and Zhaikmunai LLP in accordance with the license MG No. 253D for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On 17 August 2012 Zhaikmunai LLP signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields ö Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye ö 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 Ministry of Oil and Gas (the MOGö) of the Republic of Kazakhstan.

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. In April 2014 the Group applied to the MOG for another extension of the exploration period.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision to extend the exploration period until 8 February 2015 and the corresponding supplementary agreement between MOG and Zhaikmunai LLP was signed on 9 August 2013.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. On 21 October 2008 the exploration period was extended for 6 months so as to expire on 28 January 2013. On 27 April 2009 the exploration period was extended until 28 January 2015. On 23 January 2014 the exploration period was further extended until 31 December, 2015.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. On 27 April 2009 the exploration period was extended until 28 July 2012. On 8 July 2011 the exploration period was further extended until 28 July 2014. On 23 January 2014 the exploration period was further extended until 31 December 2015.

**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.

In the first half of 2014 Zhaikmunai LLP changed the calculation of the coefficient of natural gas equivalent from density ratio used in the prior periods to compression ratio. The coefficient of natural gas equivalent is used in determining of the natural gas cost which is the basis for the government profit share calculation.

Also, in the first half of 2014 Zhaikmunai LLP recalculated the government profit share for 2013 following the revision of the work program for the Chinarevskoye oil and gas condensate field operations.

**Seasonality of operations**

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

**2. BASIS OF PREPARATION AND CONSOLIDATION****Basis of preparation**

These interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting 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 interim financial reporting. These interim condensed consolidated financial statements represent a “condensed set of financial statements” as referred to in the DTR issued by the FCA. Accordingly they do not include all the information and disclosures required in the annual

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS as adopted by the European Union.

Certain prior year figures have been reclassified to conform to the 2014 presentation. This had no impact on the profit and loss for the year or net assets / liabilities.

**Group reorganisation**

The Group has been formed through a reorganisation in which Nostrum Oil & Gas plc became a new parent entity of the Group (Note 7). 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 interim condensed 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 interim condensed consolidated financial statements.

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the following new standards and interpretations effective as of 1 January 2014, and which did not have an impact on the Group:

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);*
- *Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32;*
- *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39;*
- *Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36; and*
- *IFRIC 21 Levies.*

**3. EXPLORATION AND EVALUATION ASSETS**

| <i>In thousands of US Dollars</i>                  | <b>30 June 2014<br/>(unaudited)</b> | 31 December 2013<br>(audited) |
|--|-------------------------------------|-------------------------------|
| Subsoil use rights                                 | <b>15,835</b>                       | 15,835                        |
| Expenditures on geological and geophysical studies | <b>5,679</b>                        | 4,599                         |
|  | <b>21,514</b>                       | 20,434                        |

During the six months ended 30 June 2014 the Group had additions to exploration and evaluation assets of US\$ 1,080 thousand which includes capitalized expenditures on geological and geophysical studies (H1 2013: US\$15,835 thousand, represented by capitalized consideration under the acquisition agreements for the Darinskoye, Rostoshinskoye and Yuzhno-Gremyachinskoye oilfields). There was no capitalized interest.

**4. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2014 the Group had additions of property, plant and equipment of US\$ 105,560 thousand (H1 2013: US\$ 115,103 thousand). These additions are mostly associated with drilling costs, capitalised

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

interest of US\$ 7,361 thousand (H1 2013: US\$ 7,268 thousand), and abandonment and site restoration assets of US\$ 36 thousand (H1 2013 US\$ 396 thousand).

**5. CURRENT AND NON-CURRENT INVESTMENTS**

Current investments as at 30 June 2014 were represented by an interest bearing deposit placed on 30 September 2013 for a one-year and one day period with an interest rate of 0.55% per annum which was reclassified from non-current investments. The interest bearing deposit placed on 4 March 2013 for a two-year period has been terminated on 23 April 2014. As at 30 June 2014 no non-current investments were placed by the Group.

Current investments as at 31 December 2013 were represented by an interest bearing short-term deposit placed on 30 September 2013 for a six-month period with interest rate of 0.31% per annum. Non-current investments as at 31 December 2013 were represented by an interest bearing deposit placed on 30 September 2013 for a period of more than one year and an interest bearing deposit placed on 4 March 2013 for a two-year period.

**6. TRADE RECEIVABLES**

As at 30 June 2014 and 31 December 2013 trade receivables were not interest bearing and were mainly denominated in US dollars, their collection period was less than 30 days and they were not impaired.

As at 30 June 2014 and 31 December 2013 the ageing analysis of trade receivables is as follows:

| <i>In thousands of US Dollars</i> | <b>Total</b>   | <b>Neither past due nor impaired</b> | <b>Past due but not impaired</b> |                   |                    |                     |
|-----------------------------------|----------------|--------------------------------------|----------------------------------|-------------------|--------------------|---------------------|
|                                   |                |                                      | <b>&lt;30 days</b>               | <b>60-90 days</b> | <b>90-120 days</b> | <b>&gt;120 days</b> |
| <b>30 June 2014 (unaudited)</b>   | <b>107,242</b> | <b>107,238</b>                       | –                                | –                 | –                  | <b>4</b>            |
| 31 December 2013 (audited)        | 66,565         | 66,561                               | .                                | .                 | .                  | 4                   |

**7. SHARE CAPITAL AND RESERVES****Partnership Capital of Nostrum Oil & Gas LP before the reorganisation**

Other reserves include foreign currency translation reserve accumulated before 2009, when the functional currency of the Group was Kazakhstani Tenge.

Prior to the reorganization the partnership capital of the Group comprised of the partnership capital of Nostrum Oil & Gas LP:

| <i>Number of GDRs</i>                   | <b>30 June 2014 (unaudited)</b> | 31 December 2013 (audited) |
|---|---------------------------------|----------------------------|
| Balance at beginning of the period      | <b>188,182,958</b>              | 188,182,958                |
| Replacement of GDRs                     | <b>(188,182,958)</b>            | .                          |
| <b>Balance at the end of the period</b> | <b>–</b>                        | 188,182,958                |

**Distributions**

During the six months ended 30 June 2014 Nostrum Oil & Gas LP made a distribution of US\$ 0.35 per common unit (H1 2013 US\$ 0.34 per common unit) to the holders of common units representing limited partnership interests which amounted to a total of US\$ 64,615 thousand and was paid in full on 6 June 2014 (H1 2013 a distribution of US\$ 63,179 thousand was announced which was paid in full on 19 July 2013).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****Reorganisation**

On 17 June 2014 the limited partners of Nostrum Oil & Gas LP duly passed all proposed resolutions at the special general meeting of limited partners.

The resolutions passed by the limited partners included a resolution to approve the new corporate structure (the "Scheme") whereby Nostrum Oil & Gas plc was to become the new holding company for the business of Nostrum Oil & Gas LP.

Furthermore the limited partners approved special resolutions to approve the amendment to the limited partnership agreement (to permit implementation of the Scheme) and the dissolution of Nostrum Oil & Gas LP.

On 18 June 2014, following the decision of the board of directors, Nostrum Oil & Gas LP commenced the Group's reorganization. This was implemented by means of an exchange offer made by the Company to the GDR holders of Nostrum Oil & Gas LP, which were entitled to receive 1 share of Nostrum Oil & Gas plc for each GDR of Nostrum Oil & Gas LP.

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 as at the date of the transaction amounting to US\$ 253,458 has been included in the retained earnings and reserves of the Group.

Please refer to Note 16 for information on the costs related to the reorganisation.

**Share capital of Nostrum Oil & Gas plc**

The ownership interests in the Parent consist of subscriber shares expected to be cancelled in Q3 2014, redeemable preference shares expected to be cancelled in Q3 2014 and ordinary shares, which are listed on the London Stock Exchange.

After the reorganization the share capital of the Group comprised of the share capital of Nostrum Oil & Gas Plc:

|   | <b>30 June 2014 (unaudited)</b>                    |                    |
|---|--|--------------------|
| <i>Number of shares</i>                 | <b>Subscriber and redeemable preference shares</b> | Ordinary shares    |
| Balance at beginning of the period      | <b>410,002</b>                                     | -                  |
| Share capital                           | -  | 188,182,958        |
| <b>Balance at the end of the period</b> | <b>410,002</b>                                     | <b>188,182,958</b> |

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

**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 30 June 2014 the book value per share amounted to US\$ 4.45 (31 December 2013: US\$ 4.26).

**8. EARNINGS PER SHARE**

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

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

|   | <b>Six months ended 30 June</b> |                  |
|---|---------------------------------|------------------|
|   | <b>2014 (unaudited)</b>         | 2013 (unaudited) |
| Profit for the period attributable to the holders of Common Units/shares (in thousands of US Dollars) | <b>91,758</b>                   | 111,698          |
| Weighted average number of Common Units/shares  | <b>184,551,496</b>              | 185,375,504      |
| <b>Basic and diluted earnings per Common Unit/share (in US Dollars)</b>                               | <b>0.50</b>                     | 0.60             |

**9. BORROWINGS**

Borrowings comprise the following as at 30 June 2014 and 31 December 2013:

| <i>In thousands of US Dollars</i>         | <b>30 June 2014<br/>(unaudited)</b> | 31 December 2013<br>(audited) |
|---|-------------------------------------|-------------------------------|
| Notes issued in 2012 and maturing in 2019 | <b>538,145</b>                      | 536,301                       |
| Notes issued in 2014 and maturing in 2019 | <b>403,668</b>                      | -                             |
| Notes issued in 2010 and maturing in 2015 | -                                   | 92,122                        |
|   | <b>941,813</b>                      | 628,423                       |
| Less amounts due within 12 months         | <b>(14,913)</b>                     | (7,263)                       |
| <b>Amounts due after 12 months</b>        | <b>926,900</b>                      | 621,160                       |

**2010 Notes**

On 19 October 2010 Zhaikmunai Finance B.V. (the "2010 Initial Issuer") issued US\$ 450,000 thousand notes (the "2010 Notes").

On 28 February 2011 Zhaikmunai LLP (the "2010 Issuer") replaced the 2010 Initial Issuer of the 2010 Notes, whereupon it assumed all of the obligations of the 2010 Initial Issuer under the 2010 Notes.

The 2010 Notes bore interest at the rate of 10.50% per year. Interest on the 2010 Notes was payable on 19 April and 19 October of each year, beginning on 19 April 2011. Prior to 19 October 2013, the 2010 Issuer could, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2010 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 110.50% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2010 Notes (including Additional Notes as defined in the indenture relating to the 2010 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2010 Notes could have been redeemed, in whole or in part, at any time prior to 19 October 2013 at the option of the 2010 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2010 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2010 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2010 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2010 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2010 Note at 19 October 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2010 Note through 19 October 2013 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2010 Note.



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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The 2010 Notes were jointly and severally guaranteed (the "2010 Guarantees") on a senior basis by Nostrum Oil & Gas LP and all of its subsidiaries other than the 2010 Issuer (the "2010 Guarantors"). The 2010 Notes were the 2010 Issuer's and the 2010 Guarantors' senior obligations and rank equally with all of the 2010 Issuer's and the 2010 Guarantors' other senior indebtedness. The 2010 Notes and the 2010 Guarantees had the benefit of first priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

On 19 October 2012, Zhaikmunai International B.V. commenced a cash tender offer (the "Tender Offer") to purchase any and all of the 2010 Notes. US\$ 347,604 thousand aggregate principal amount of the 2010 Notes had been tendered into the Tender Offer, representing approximately 77% of the outstanding 2010 Notes, by the time the Tender Offer for 2010 Notes expired on 19 November 2012. The holders of US\$ 200,732 thousand 2010 Notes that accepted the Tender Offer have subscribed to the 2012 Notes of the same amount.

On 14 March 2014 the Group submitted a notice of early redemption on 14 April 2014 of the principal amount of the 2010 Notes plus accrued interest and premium. As at that date the outstanding principal amount of US\$ 92,505 thousand was reclassified to the current portion of long-term borrowings and the related unamortized transaction costs were expensed to profit and loss. The Group has also accrued related early redemption premium in the amount of US\$ 4,857 thousand. On 14 April 2014 Zhaikmunai LLP repaid the outstanding 2010 Notes including interest and premium.

**2012 Notes**

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

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

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013. Prior to 13 November 2016, the 2012 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2012 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2012 Notes (including Additional Notes as defined in the indenture relating to the 2012 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2012 Notes may be redeemed, in whole or in part, at any time prior to 13 November 2016 at the option of the 2012 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2012 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2012 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2012 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2012 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2012 Note at 13 November 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through 13 November 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2012 Note.

The 2012 Notes are jointly and severally guaranteed (the "2012 Guarantees") on a senior basis by Nostrum Oil & Gas plc and all of its subsidiaries other than the 2012 Issuer (the "2012 Guarantors"). The 2012 Notes are the 2012 Issuer's and the 2012 Guarantors' senior obligations and rank equally with all of the 2012 Issuer's and the 2012 Guarantors' other senior indebtedness. The 2012 Notes and the 2012 Guarantees do not have the benefit of first priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****2014 Notes**

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

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

The 2014 Notes bear interest at the rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and 14 August of each year, beginning on 14 August 2014. Prior to 14 February 2017, the 2014 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2014 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 106.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2014 Notes (including Additional Notes as defined in the indenture relating to the 2014 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2014 Notes may be redeemed, in whole or in part, at any time prior to 14 February 2017 at the option of the 2014 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2014 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2014 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2014 Notes on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2014 Notes; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2014 Notes at 14 February 2017 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2014 Notes through 14 February 2017 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2014 Notes.

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

Expenses relating to the 2014 Notes arrangement amounted to US\$ 6,525 thousand.

**10. OTHER CURRENT LIABILITIES**

Other current liabilities comprise the following as at 30 June 2014 and 31 December 2013:

| <i>In thousands of US Dollars</i>                        | <b>30 June 2014<br/>(unaudited)</b> | 31 December 2013<br>(audited) |
|--|-------------------------------------|-------------------------------|
| Taxes payable, other than corporate income tax           | <b>11,082</b>                       | 32,110                        |
| Training obligations accrual                             | <b>9,827</b>                        | 8,986                         |
| Due to employees   | <b>5,609</b>                        | 3,227                         |
| Contingent consideration                                 | –                                   | 5,300                         |
| Accrual for additional payment for acquisition of Probel | –                                   | 1,953                         |
| Pension obligations                                      | <b>217</b>                          | 204                           |
| Other current liabilities                                | <b>4,194</b>                        | 2,848                         |
|  | <b>30,929</b>                       | 54,628                        |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****11. REVENUE**

Six months ended 30 June

| <i>In thousands of US Dollars</i> | <b>2014 (unaudited)</b> | <b>2013 (unaudited)</b> |
|-----------------------------------|-------------------------|-------------------------|
| Oil and gas condensate            | <b>353,510</b>          | 353,386                 |
| Gas and LPG                       | <b>91,467</b>           | 89,113                  |
|                                   | <b>444,977</b>          | <b>442,499</b>          |

During the six months ended 30 June 2014 the revenue from sales to three major customers amounted to US\$ 181,808 thousand, US\$ 77,113 thousand and US\$ 52,595 thousand respectively (H1 2013 US\$ 103,883 thousand, US\$ 87,269 thousand and US\$77,522 thousand respectively).

**12. COST OF SALES**

Six months ended 30 June

| <i>In thousands of US Dollars</i>        | <b>2014 (unaudited)</b> | <b>2013 (unaudited)</b> |
|--|-------------------------|-------------------------|
| Depreciation, depletion and amortisation | <b>56,679</b>           | 63,213                  |
| Repair, maintenance and other services   | <b>17,934</b>           | 24,770                  |
| Royalties                                | <b>10,381</b>           | 18,028                  |
| Payroll and related taxes                | <b>9,814</b>            | 7,804                   |
| Materials and supplies                   | <b>4,739</b>            | 6,279                   |
| Well workover costs                      | <b>3,773</b>            | 1,745                   |
| Other transportation services            | <b>1,463</b>            | 2,356                   |
| Environmental levies                     | <b>626</b>              | 574                     |
| Management fees                          | <b>–</b>                | 1,587                   |
| Change in stock                          | <b>(727)</b>            | 3,847                   |
| Government profit share                  | <b>(7,950)</b>          | 4,249                   |
| Other                                    | <b>1,817</b>            | 879                     |
|  | <b>98,549</b>           | <b>135,331</b>          |

Decrease in the government profit share and royalties was related to the adoption of new work program for oilfield operations and a change in the coefficient of natural gas equivalent (Note 1).

During six-month period ended 30 June 2014 Zhaikmunai LLP recognized the total reversal of the government profit share in the amount of US\$22,215 thousand related to prior periods and accrued the government profit share of US\$14,265 thousand which resulted in the net reversal of US\$7,950 thousand.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. GENERAL AND ADMINISTRATIVE EXPENSES**

Six months ended 30 June

| <i>In thousands of US Dollars</i> | <b>2014 (unaudited)</b> | <b>2013 (unaudited)</b> |
|-----------------------------------|-------------------------|-------------------------|
| Professional services             | <b>10,869</b>           | 2,326                   |
| Payroll and related taxes         | <b>6,632</b>            | 2,911                   |
| Business travel                   | <b>2,854</b>            | 2,190                   |
| Training                          | <b>1,389</b>            | 2,549                   |
| Sponsorship                       | <b>1,032</b>            | 625                     |
| Insurance fees                    | <b>785</b>              | 999                     |
| Management fees                   | <b>682</b>              | 7,626                   |
| Depreciation and amortization     | <b>658</b>              | 718                     |
| Communication                     | <b>654</b>              | 467                     |
| Bank charges                      | <b>367</b>              | 588                     |
| Lease payments                    | <b>336</b>              | 285                     |
| Materials and supplies            | <b>259</b>              | 276                     |
| Social program                    | <b>150</b>              | 150                     |
| Other taxes                       | <b>73</b>               | 3,379                   |
| Other                             | <b>766</b>              | 336                     |
|                                   | <b>27,506</b>           | <b>25,425</b>           |

**14. SELLING AND TRANSPORTATION EXPENSES**

Six months ended 30 June

| <i>In thousands of US Dollars</i> | <b>2014 (unaudited)</b> | <b>2013 (unaudited)</b> |
|-----------------------------------|-------------------------|-------------------------|
| Transportation costs              | <b>29,198</b>           | 39,485                  |
| Loading and storage costs         | <b>24,137</b>           | 15,990                  |
| Payroll and related taxes         | <b>1,057</b>            | 1,199                   |
| Management fees                   | <b>–</b>                | 475                     |
| Other                             | <b>9,113</b>            | 3,665                   |
|                                   | <b>63,505</b>           | <b>60,814</b>           |

The transportation costs for H1 2013 also included certain loading and storage costs, which were provided by the transportation companies.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****15. FINANCE COSTS**

| <i>In thousands of US Dollars</i>                                   | <b>Six months ended 30 June</b> |                         |
|---|---------------------------------|-------------------------|
|   | <b>2014 (unaudited)</b>         | <b>2013 (unaudited)</b> |
| Interest expense on borrowings                                      | <b>34,701</b>                   | 24,691                  |
| Unwinding of discount on Abandonment and site restoration provision | <b>647</b>                      | 517                     |
| Unwinding of discount on amounts Due to Government                  | <b>401</b>                      | 414                     |
|   | <b>35,749</b>                   | <b>25,622</b>           |

**16. FINANCE COSTS – REORGANISATION**

The finance costs of reorganisation are represented by the costs associated with introduction of Nostrum Oil & Gas plc as the new holding company of the Group and respective reorganisation. These costs include US\$14,389 thousand under the facility agreements with VTB Capital plc (under which US\$3,000,000 thousand were committed and US\$2,350,405 thousand were lent) and US\$2,186 thousand financing costs related to advisory and other services incurred in relation to the reorganisation.

**17. DERIVATIVE FINANCIAL INSTRUMENT**

On March 3, 2014, in accordance with its hedging policy, the Group entered, at nil upfront cost, into a new hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through February 29, 2016. The counterparty to the hedging agreement is Citibank. Based on the hedging contract the Group bought a put at \$85/bbl, which protects it against any fall in the price of oil below \$85/bbl, i.e. Citibank will compensate the difference in price below \$85/bbl. As part of this contract the Group also sold a call at \$111.5/bbl and bought a call at \$117.5/bbl, under which Zhaikmunai LLP is obliged to compensate the difference in price above \$111.5/bbl with an upper limit of \$117.5/bbl, i.e up to \$6/bbl. If the spot price goes above \$117.5/bbl, then Zhaikmunai LLP will be obliged to pay \$6/bbl to Citibank.

| <i>In thousands of US Dollars</i>  | <b>Six months ended 30 June</b> |                         |
|--|---------------------------------|-------------------------|
|  | <b>2014 (unaudited)</b>         | <b>2013 (unaudited)</b> |
| Derivative financial instruments at fair value at January 1                  | –                               | .                       |
| Loss on derivative financial instruments                                     | <b>(6,126)</b>                  | .                       |
| <b>Derivative financial instruments at fair value at June 30 (unaudited)</b> | <b>(6,126)</b>                  | .                       |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. INCOME TAX**

The income tax expense consisted of the following:

| <i>In thousands of US Dollars</i>      | <b>Six months ended 30 June</b> |                         |
|--|---------------------------------|-------------------------|
|  | <b>2014 (unaudited)</b>         | <b>2013 (unaudited)</b> |
| <b>Income tax expenses comprise:</b>   |                                 |                         |
| Current income tax expense             | <b>75,146</b>                   | 76,817                  |
| Deferred income tax expense /(benefit) | <b>12,879</b>                   | (3,698)                 |
| <b>Total income tax expense</b>        | <b>88,025</b>                   | <b>73,119</b>           |

Zhaimunai LLP applies the liability method to recognize deferred income tax expense on temporary differences between the tax bases of assets and their carrying amounts in the financial statements. By application of this method, Zhaikmunai LLP recognizes gains and losses on deferred income tax due to the effect of the changes in the value of the Kazakhstani Tenge on the tax bases of the fixed assets of Zhaikmunai LLP whose functional currency is the US Dollar. This was the primary reason for the increase in the deferred income tax expense in the first half of 2014. These gains and losses are required by IFRS even though the devalued tax basis of the relevant assets will result in a reduced US Dollar of depreciation deductions for tax purposes in the future periods throughout the useful lives of those assets. As a result, the resulting deferred income tax charge does not represent a separate obligation for Zhaikmunai LLP that is due and payable in any of the relevant periods. The estimated average annual effective income tax rate at 30 June 2014 assessed by Zhaikmunai LLP is 42.3% (H1 2013: 38.7%).

**19. EMPLOYEE SHARE OPTION PLAN**

The Group operates one option plan (the Phantom Option Plan), that was adopted by the board of directors of the Company on 20 June 2014. 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).

To date, options relating to 2,811,413 shares remain outstanding (the "Subsisting Options"), each with a Base Value of up to US\$10.00 (the "Base Value").

Each Subsisting Option is a right for its holder to receive on exercise a cash amount equal to the difference between (i) the aggregate Base Value of the shares to which the Subsisting Option relates; and (ii) their aggregate market value on exercise.

**20. RELATED PARTY TRANSACTIONS**

For the purpose of these interim condensed consolidated financial statements transactions with related parties mainly comprise transactions between the members of the Group and the participants and/or their subsidiaries or associated companies, which were made on terms agreed to between the parties that may not necessarily be at market rates.

Accounts payable to related parties represented by entities indirectly controlled by a shareholder with significant influence over the Group as at 30 June 2014 and 31 December 2013 consisted of the following:

| <i>In thousands of US Dollars</i> | <b>30 June 2014<br/>(unaudited)</b> | 31 December 2013<br>(audited) |
|-----------------------------------|-------------------------------------|-------------------------------|
| <b>Trade payables</b>             |                                     |                               |
| Cervus Business Services          | -                                   | .                             |
| Prolag BVBA                       | -                                   | 240                           |
| Amersham Oil LLP                  | -                                   | 52                            |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

During the six months ended 30 June 2014 and 2013 the Group had the following transactions with related parties represented by entities indirectly controlled by a shareholder with significant influence over the Group:

| <i>In thousands of US Dollars</i>              | <b>Six months ended 30 June</b> |                         |
|--|---------------------------------|-------------------------|
|  | <b>2014 (unaudited)</b>         | <b>2013 (unaudited)</b> |
| <b>Management fees and consulting services</b> |                                 |                         |
| Cervus Business Services                       | <b>1,207</b>                    | .                       |
| Amersham Oil LLP                               | <b>455</b>                      | 650                     |
| Prolag BVBA                                    | <b>130</b>                      | 842                     |
| Probel Capital Management N.V.                 | <b>–</b>                        | 8,197                   |

On 19 May 2014, SEPOL AG and Nostrum Oil & Gas Coöperatief U.A. (Co-op) entered into a purchase agreement for the acquisition by Co-op of the entire issued share capital of Amersham Oil LLP (the Amersham Acquisition Agreement) for a consideration of €1.69 million. Completion of the sale of these shares under the Amersham Acquisition Agreement is conditional upon clearance being obtained from the competition authorities in the Republic of Kazakhstan (which is expected to occur in the third quarter of 2014).

On 19 May 2014 Crest Capital Management NV, Petra Noé and Co-op entered into a purchase agreement for the acquisition by Co-op of the entire issued share capital of Prolag BVBA (the Prolag Acquisition Agreement) for a consideration of €1, as all services previously provided by Prolag to the Group were internalised within Probel prior to the acquisition of Probel.

As at 31 December 2013 management fees and consulting services were payable in accordance with the Technical Assistance Agreements signed between members of the Group and Amersham Oil LLP and Prolag BVBA related to the rendering of geological, geophysical, drilling, technical and other consultancy services.

As at 30 June 2014 management fees and consulting services are payable in accordance with business center and consultancy agreements signed between members of the Group and Cervus Business Services BVBA.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$ 1,628 thousand for the six months ended 30 June 2014 (H1 2013: US\$ 107 thousand). During the period ended 30 June 2013 other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management N.V. and their remuneration forms part of management fees and consulting services above. During 2014 all key management personnel are employed and paid by the Group.

Payments to key management personnel under ESOP for the six months ended 30 June 2014 amounted to US\$768.9 thousand (H1 2013: no payments under ESOP were made).

**21. CONTINGENT LIABILITIES AND COMMITMENTS****Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 June 2014. As at 30 June 2014 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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****Abandonment and site restoration (decommissioning)**

As Kazakh laws and regulations concerning site restoration and cleanup 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. 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 unfavorable 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 30 June 2014 the Group had contractual capital commitments in the amount of US\$ 132,837 thousand (31 December 2013: US\$ 26,842 thousand) mainly in respect to the Group's oil field development activities.

**Operating lease**

The Group entered into a cancellable lease agreement for the main administrative office in Uralsk in October 2007 for a period of 20 years for US\$ 15 thousand per month.

In 2010 the Group entered into several agreements on lease of 650 railway tank wagons for transportation of hydrocarbon products for a period of up to 7 years for KZT 6,989 (equivalent of US\$ 47) per day per one wagon. The lease agreements may be early terminated either upon mutual agreement of the parties, or unilaterally by one of the parties if the other party does not fulfill its obligations under the contract.

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

| <i>In thousands of US Dollars</i>                | <b>30 June 2014<br/>(unaudited)</b> | 31 December 2013<br>(audited) |
|--|-------------------------------------|-------------------------------|
| No later than one year                           | <b>14,098</b>                       | 12,501                        |
| Later than one year and no later than five years | <b>24,238</b>                       | 23,846                        |
| Later than five years                            | -                                   | .                             |

Lease expenses of railway tank wagons for the six months ended 30 June 2014 amounted to US\$ 9,927 thousand (H1 2013: US\$ 6,569 thousand).

**Social and education commitments**

As required by the Contract (as amended by, inter alia, Supplement #9), the Group is obliged to:

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

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



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The outstanding obligations under the current contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 9 August 2013) require the subsurface user to:

- i. spend at least US\$ 53 thousand of investments for education of personnel engaged to work under the contract during the exploration stage;
- ii. spend US\$ 1,450 thousand to finance social infrastructure of the region during the exploration stage (including US\$ 1,000 thousand for funding of development of Astana city in case of commercial discovery);
- iii. invest at least US\$ 17,626 thousand for exploration of the field during the exploration period;
- iv. reimburse historical costs of US\$ 372 thousand to the Government upon commencement of production stage;
- v. create a liquidation fund (special deposit account with local bank) equal to US\$ 206 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 23 January 2014) require the subsurface user to:

- i. spend at least US\$ 155 thousand for education of personnel engaged to work under the contract during the exploration stage;
- ii. spend US\$ 75 thousand to finance social infrastructure of the region;
- iii. invest at least US\$ 20,171 thousand for exploration of the field during the exploration period;
- iv. create a liquidation fund (special deposit account with local bank) equal to US\$ 208 thousand.

The outstanding obligations under the current contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 23 January 2014) requires the subsurface user to:

- i. spend at least US\$ 315 thousand for education of personnel engaged to work under the contract during the exploration stage;
- ii. spend US\$ 75 thousand to finance social infrastructure of the region;
- iii. invest at least US\$ 33,108 thousand for exploration of the field during the exploration period;
- iv. create a liquidation fund (special deposit account with local bank) equal to US\$ 345 thousand;

**Domestic oil sales**

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

**22. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

|                                   | Carrying amount             |                               | Fair value                  |                                  |
|-----------------------------------|-----------------------------|-------------------------------|-----------------------------|----------------------------------|
|                                   | 30 June 2014<br>(unaudited) | 31 December<br>2013 (audited) | 30 June 2014<br>(unaudited) | 31 December<br>2013<br>(audited) |
| <i>In thousands of US Dollars</i> |                             |                               |                             |                                  |
| <b>Financial liabilities</b>      |                             |                               |                             |                                  |
| Interest bearing borrowings       | 941,813                     | 628,423                       | 1,037,320                   | 686,795                          |
| <b>Total</b>                      | <b>941,813</b>              | <b>628,423</b>                | <b>1,037,320</b>            | <b>686,795</b>                   |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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The fair value of the financial assets and liabilities 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. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The management assessed that cash and cash equivalents, current and non-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 contingent consideration liability under acquisition agreement of Darjinskoye and Yuzhno-Gremyachenskoye oil and gas fields (Note 3 and 10) outstanding as at 31 December 2013 was recognized at fair value, which was assessed to be equal to its nominal amount due to its short-term nature and, respectively, categorized as Level 3 within the fair value hierarchy. There were no gains or losses arising during 2013 from fair value measurement of this contingent consideration liability.

The fair value of the derivative financial instrument was determined using the daily mid-market markö, which was assessed on the basis of several pricing models, observable market data and related assumptions. The net loss from valuation of the derivative financial instrument during the six months ended 30 June 2014 was recognized as a separate line in the income statement (Note 17). The derivative financial instrument liability is categorized as Level 3 within the fair value hierarchy.

During the six months ended 30 June 2014 and 2013 there were no transfers between the levels of fair value hierarchy of the Groups' financial instruments.

**23. EVENTS AFTER THE REPORTING PERIOD**

On Monday 28 July 2014 Nostrum Oil & Gas plc announced that the Group has entered into a contract with JSC öOGCC KazStroyServiceö (the öContractorö) for the construction of the third unit of the Group's gas treatment facility for a consideration of US\$150 million (the öConstruction Contractö), in line with the budget for the GTU3 project. As the Contractor is an affiliate of KazStroyService Global B.V., which currently owns approximately 26.6% of the ordinary shares of Nostrum Oil & Gas plc, the Construction Contract is a related party transaction for the purposes of the Listing Rules. Accordingly, the Construction Contract is subject to the requirements of the Listing Rules and is conditional, inter alia, upon approval by the shareholders of Nostrum Oil & Gas plc.