28 September 2018

Volga Gas plc
('Volga Gas' or 'the Company' or 'the Group')

INTERIM RESULTS

Volga Gas, the oil and gas exploration and production group operating in the Volga region of Russia, announces its interim results for the six months ended 30 June 2018.

OIL, GAS AND CONDENSATE PRODUCTION

- Group production averaged 4,727 boepd in H1 2018 (H1 2017: 6,182), a 24% decrease although this was 29% higher than the 3,733 boepd achieved in H2 2017. Included in the H1 2018 total was a small amount of LPG which commenced test production in May 2018.
- Gas and condensate production in H1 2018 were 16.8 mmcf/d, and 1,114 bpd, respectively (H1 2017: 25.3 mmcf/d, a 34% decrease and 1,438 bpd, a 23% decrease), following lower processing capacity utilisation on implementation of Redox-based gas sweetening in June 2017.
- Oil production averaged 729 bopd in H1 2018 (H1 2017: 524 bopd), a 39% increase.
- During H2 2018, management expects short term Group production to remain at approximately 4,500 boepd excluding LPG which is expected to add 400 boepd under full operation.

FINANCIAL RESULTS

- Stronger oil prices partly offset lower production volumes, limiting the decrease in revenues to US$21.5 million (H1 2017: US$23.1 million). With no exports of oil or condensate in H1 2017 revenues net of selling expenses were US$21.1 million (H1 2017: US$21.2 million).
- EBITDA in H1 2018 was US$6.8 million (H1 2017: US$7.4 million).
- With increased DD&A charges partly offset by lower G&A expenses, operating profits were 40% lower in H1 2018 at US$2.6 million (H1 2017: US$4.4 million).
- After recognising a US$3.3 million gain on a favourable court judgement, profit before tax increased 11% to US$4.2 million (H1 2017: US$3.8 million).
- Cash flow from operations of US$ 10.3 million (H1 2017: US$7.2 million) before working capital inflow of US$28,000 (H1 2017: outflow of US$4.1 million).
- Cash used in capital expenditure of US$2.0 million in H1 2018 (H1 2017: US$4.3 million) was primarily related to the LPG project.
- Cash balance increased to US$15.0 million as at 30 June 2018 (31 December 2017: US$8.6 million as at).
- Total borrowings of US$2.8 million as at 30 June 2018 (31 December 2017: US$4.0 million), following repayments and the translation of the loan balance at the weaker Ruble rate.

DEVELOPMENT ACTIVITY

- LPG plant construction has been completed. Commissioning and test production commenced in May 2018 and continues.
- After further minor upgrades there is increased flexibility with the Redox based processing which will enable higher capacity utilisation of up to 25 mmcf/d, before maintenance downtime.
- Successful workover was undertaken on the well VM#1 which has reduced the water influx into this producing well.
- Sidetracks are planned for wells VM#2 and Dobrinskoye #26 to restore production on these currently non-producing wells.
- Reservoir studies continue for long term optimisation of production from VM.

INTERIM DIVIDEND

- In light of the strengthened financial position, the ongoing cash flow and the future requirements of the Group the Board has declared an interim dividend of US$0.06 per Ordinary Share which will be paid on 2 November 2018 to shareholders on the register on 12 October 2018.

Andrey Zozulya, Chief Executive Officer of Volga Gas, said:
"We are pleased to deliver a solid set of financial results for H1 2018 and to have been able to strengthen the financial position of the Group such that we are in a position to resume distributions to shareholders. Completion of the LPG unit at the Dobrinskoye gas plant marks the conclusion of the latest stage of the development of Volga Gas' assets. Management looks forward to delivering maximum production, profit and cash flow from the existing assets and to building opportunities for further growth in shareholder value."

For further information, please contact:

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Editors' notes:

Volga Gas is an independent oil and gas exploration and production company operating in the Volga region of Russia. The company has 100% interests in its four licence areas.

The information contained in this announcement has been reviewed and verified by Mr. Andrey Zozulya, Director and Chief Executive Officer of Volga Gas plc, for the purposes of the Guidance Note for Mining, Oil and Gas companies issued by the London Stock Exchange in June 2009. Mr. Andrey Zozulya has a degree in Geophysics and Engineering from the Groznensky Oil & Gas Institute and is a member of the Society of Petroleum Engineers.

This announcement contains inside information as defined in EU Regulation No. 596/2014 and is in accordance with the Company's obligations under Article 17 of that Regulation.

Glossary

Bopd	Barrels of oil per day
Boepd	Barrels of oil equivalent per day, in which 6,000 cubic feet of natural gas is equated to one barrel of oil
Bpd	Barrels per day
mcf	thousands of standard cubic feet
mcm	thousands of standard cubic metres
mcm/d	thousands of standard cubic metres per day
m^3	standard cubic metre
mmcf/d	millions of standard cubic feet per day
mmcm/d	millions of standard cubic metres per day
RUR	Russian Rouble

Interim Management Report

Volga Gas and its subsidiaries (together, the "Group") are involved in the production of and exploration for oil and gas in four licence areas in the Volga Region of Russia.

The most important operational event of H1 2018 was the completion of construction and commencement of commissioning and production from the LPG unit at the Dobrinskoye gas processing plant. While this is expected to become a material contributor to future profits, given that production of LPG commenced only on a test basis in May 2018, the impact on the financial results of H1 2018 was minimal. This is covered in more detail below.

During H1 2018 Volga Gas achieved a higher average production rate of 4,727 boepd than that 3,733 boepd that was achieved during H2 2017. However, in the comparative period of H1 2017, production was 6,182 boepd. The lower production rates were initially driven by the switch at the Dobrinskoye gas processing plant from the Sulfanox to the Redox based sweetening process. During implementation of this switch the plant utilisation rates had to be kept at a low level and were gradually raised to the levels achieved in H1 2018.

In addition, as reported on 12 April 2018 with the 2017 results, during late 2017 and early 2018 there were signs of water encroachment in certain of the production wells on the VM field. This led to a significant reduction in reserves estimates – also announced on 12 April 2018 – and, pending completion of a technical review into optimising recovery of the remaining reserves, management has decided to take a conservative approach to production to minimise the risk of further water incursion.

During H1 2018, international oil prices were significantly stronger at over US$70 per barrel compared to US$50 per barrel during H1 2017. As a consequence, net realisation for Volga Gas' oil and condensate sales increased by 29% to US$43.80 per barrel (H1 2017: US$34.04 per barrel). The domestic market provided better net realisations than exports, taking into account export taxes and transport costs. Consequently there were no exports of oil and condensate in H1 2018 (H1 2017: 23% of the total sales of liquids).

The Russian Ruble weakened in March 2018, which offset the 4.0% increase in the Ruble gas price. Consequently the average gas sales price in H1 2018 was US$2.07 per mcf (H1 2017: US$2.04/mcf).

Net revenues for H1 2018 were almost unchanged from those reported in H1 2017, after taking into account transport costs and taxes paid on exports. In addition EBITDA for H1 2018 was 9% lower than for H1 2017, with lower production costs offset by increased rates of Mineral Extraction Taxes. However, higher rates of depletion, depreciation and amortisation resulting from the reduction in reserves recognised as at 31 December 2017 led to the Group's operating profits for H1 2018 being 40% lower than the number reported for H1 2017.

Production Operations

Gas and condensate production – Dobrinskoye and VM fields

The Dobrinskoye and VM fields are managed as a single business unit. Production from the fields is processed at the gas plant located next to the Dobrinskoye field, extracting the condensate and processing the gas to pipeline standards before input into Gazprom's regional pipeline system via an inlet located at the plant.

During H1 2018, gas and condensate production was derived primarily from the three most productive wells on the VM field. As evidenced by the production numbers achieved in June 2018, the effective capacity of the wells is in the region of 24 mmcf/d of gas, plus associated condensate. The actual production in H1 2018 reflected the impact of plant downtime required for normal maintenance operations and for hooking up the LPG units.

In contrast, during H1 2017 the gas plant was operated at close to full physical capacity utilising the old Sulfanox sweetening process. While this enabled high production, Sulfanox was both expensive in terms of chemicals utilisation and required careful disposal of bulky spent materials.

In June 2017, the switch to Redox processing was implemented. In the course of this implementation, plant throughput had to be significantly curtailed while the operation of the new process was optimised. This process took several months but by the end of 2017 the effective plant capacity was restored to approximately18 mmcf/d.

Consequently, average production of gas and condensate for H1 2018 were 16.8 mmcf/d and 1,114 bpd respectively (H1 2017: 25.3 mmcf/d and 1,438 bpd).

The gas sales price in Ruble terms during H1 2018 was RUR 4,025 per thousand cubic metres excluding VAT (H1 2017: RUR 3,846). With the recent weakening of the Ruble especially after March 2018, the average selling price for gas for H1 2018 was the equivalent of US$2.07 per mcf (H1 2017: US$2.04/mcf). After selling expenses, the net realisation for gas was US$1.93 per mcf (H1 2017: US$1.88 per mcf).

During H1 2018 all condensate was sold to domestic customers at the plant gate. The average sales price for condensate was US$43.46 per barrel. This compares to US$34.01 per barrel for domestic condensate sales in H1 2017. In H1 2017, 23% of condensate sales were exports. After paying export taxes and transportation costs, the average net realization for exports was less than for domestic sales.

Unit production costs on the gas-condensate fields and gas plant were approximately US$5.14 per boe (H1 2017: US$4.03). The benefit of the reduction in the costs of consumables with the switch to Redox based sweetening which substantially reduced variable costs was offset by the fixed costs being spread over a smaller amount of production.

Oil production – Uzenskoye field

During H1 2018, oil production averaged 729 bopd (H1 2017: 524 bopd). The interruption to oil deliveries from the Uzen field during the spring thaw in 2018 was less marked than in previous years. In addition, the horizontal well Uzen 101 contributed additional volumes to the overall oil production.

Unit production costs on the Uzen oil field were approximately US$6.20 per barrel (H1 2017: US$5.83).

Development

VM and Dobrinskoye Fields

As reported on 12 April 2018 with the 2017 results, during late 2017 and early 2018 there were signs of water encroachment in certain of the production wells on the VM field. The Company is working with external consultants on a technical review of solutions to mitigate the water encroachment and optimising recovery of the remaining reserves continues.

Meanwhile management has identified short term interventions that are expected to increase the overall field productive capacity, namely:

- In January 2018 workover was completed on well VM1 to isolate water incursion into the well bore and to enable higher production rates to resume.
- Management proposals to drill sidetracks on wells VM2 and Dobrinskoye 26 have been approved by the Board. Management is securing a suitable rig to undertake this operation.

Gas plant

The main development at the gas plant in 2017 was the switch to Redox based gas sweetening, which required relatively minor modifications and upgrades to the existing plant. Following the installation of additional equipment to the plant, management estimates that the effective capacity of the plant has increased to over 25 mmcf/day excluding maintenance downtime. Processing at close to this rate was achieved in June 2018.

LPG plant

The other key development at the gas plant is the construction of cryogenic separation of liquid petroleum gases ("LPG"), which hitherto was either flared as part of the condensate stabilization process or included with the sales gas.

Construction of the LPG project was completed in April 2018 and test production commenced in May. Testing continues with the aim of reaching full production in the coming months.

Uzen oil field

Following the drilling of the horizontal well #101 in 2017, the development activity on the Uzen field has been limited to operations to maintain production from the mature wells and the conversion of non-productive wells into formation water disposal wells which are required to handle the increased water cut from the field.

Management is currently updating its future development plan for the shallower Albian reservoir in which the majority of remaining reserves of the Uzen field are located.

Financial Review

Results of Operations

For the six months ended 30 June 2018, Group revenues were US$21.5 million (H1 2017: US$23.1 million) with higher sales prices for oil and condensate largely offsetting the reduction in volumes. Production costs were approximately level, mainly as a result in savings on gas processing chemicals but Mineral Extraction Tax rates increased with rising oil prices and Depletion and Depreciation increased as a result of the reduction in reserves. Consequently gross profits for H1 2018 decreased to US$5.5 million (H1 2017: US$9.5 million).

With minimal exports of oil and condensate, the amounts of export tax and transport expenses were largely eliminated, so selling expenses fell to US$0.5 million in H1 2018 (H1 2017: US$1.9 million) and effectively only comprised transportation costs and fees associated with gas sales. After administrative expenses of US$2.4 million (H1 2017: US$3.2 million), the Group recorded an operating profit of US$2.6 million (H1 2017: US$4.4 million).

Interest income was US$187,000 (H1 2017: US$152,000). After recording other net gains of US$1.4 million (H1 2017: other net losses of US$0.7 million), the Group reported an 11% rise in profit before tax to US$4.2 million (H1 2017: US$3.8 million). Included in other net gains in H1 2018 was a US$3.3 million court award granted in the Group's favour against a drilling contractor, partly offset by the write off of US$1.6 million capitalised costs relating to the sidetrack of the Uzen #4 well which was the subject of the dispute.

As the bank loan was drawn specifically for the construction of the LPG project, interest during construction has been capitalised.

For the period, there were current and deferred tax provisions of US$0.8 million (H1 2017: US$0.6 million), leading to a net profit after tax of $3.3 million for H1 2018 (H1 2017: $3.2 million).

EBITDA, calculated as operating profit before exploration expenses, depletion and depreciation was US$6.8 million (H1 2017: US$7.4 million) as below:

Six months ended 30 June	**2018**	**2017**
Operating profit	2,607	4,365
Depletion Depreciation and Amortization	4,169	2,978
EBITDA	**6,776**	**7,343**

Realisations and profitability

While the Group operates as a single business segment, management estimates the relative profitability by cash generating unit as follows:

	H1 2018		H1 2017	
US$'000	Oil	Gas, condensate & LPG	Oil	Gas & condensate
Revenue	6,278	15,254	3,670	19,448
MET	(3,420)	(3,819)	(1,587)	(4,305)
Depreciation	(557)	(3,611)	(291)	(2,687)
Production costs	(856)	(3,748)	(564)	(4,224)
Selling expenses	(61)	(418)	(157)	(1,766)
Gross profit net of selling expenses	1,384	3,658	1,071	6,466

The unit realisations are summarised in the following table:

Net Realisation	H1 2018	H1 2017
Oil & condensate (US$/bbl)	43.80	34.04
LPG (US$/bboe)	27.88	-
Gas (US$/mcf)	1.93	1.88

LPG sales represent only small volumes of test production. Realisations for batches produced subsequent to 30 June 2018 have been at higher prices.

Unit Costs are summarised in the following table:

Unit cost data (US$ per boe)	H1 2018	H1 2017
Production and selling costs	6.15	5.97
MET	8.76	5.24
Depletion, depreciation and amortisation	5.04	2.65

The unit costs in all three categories have increased for the following reasons:

- Cost savings on chemicals were offset by the fixed costs being shared over a lower amount of total production;
- MET rates have increased as the oil price increased as well as further upward revisions to the MET rate formula;
- Unit Depletion, depreciation and amortization ("DD&A") rates reflect the change in reserves announced on 12 April 2018, with the depletion pool being spread over a lower reserve number.

Cash flow

Cash flow from operating activities before working capital movements in H1 2018 was US$10.3 million (H1 2017: US$7.2 million), which includes the court award included in other income. After positive working capital movements of US$28,000 in H1 2018 (H1 2017: negative US$4.1 million), net cash inflow from operations was US$10.4 million (H1 2017: US$3.2 million).

Capital Expenditure

For the six months ended 30 June 2018, the Group incurred capital expenditures of US$1.8 million (H1 2017: US$7.4 million) primarily on the LPG plant and other minor works on the gas plant. With settlements of accounts payable for capital expenditure, cash used in the purchase of PP&E during H1 2017 was US$2.0 million (H1 2017: US$4.2 million). There were no additions to intangible assets during H1 2018 (H1 2017: US$0.1 million).

Cash Position and Balance Sheet

The Group had cash balances at 30 June 2018 of US$15.0 million (31 December 2017: US$8.6 million), and borrowings of US$2.8 million (31 December 2017: US$4.0 million). The bank loan is currently being amortised with monthly repayments. As management is considering early repayment of the remaining balance the bank loan is included entirely in current liabilities.

Dividends

The Directors did not recommend a dividend in respect of the year ended 31 December 2017. Consequently no equity dividends were paid during H1 2018 (H1 2017: US$5.0 million). Given the strong financial position of the Group and taking in consideration the requirements and cash generation of the Group's operations, the Directors have declared an interim dividend of US$0.06 per Ordinary Share. The dividend will be paid on 2 November 2018 to shareholders on the register on 12 October 2018. Shareholders will receive the dividends in US dollars unless they elect to be paid in Sterling.

Outlook

Management expects Group production from the fields during H2 2018 to be approximately the same as for H1 2018, that is, in the region of 4,500 boe/d. To this may be added the incremental volumes of LPG which during July and August averaged 278 boepd and which at full production is anticipated to amount to 400 boe/d. However, actual production in July and August 2018 averaged 5,216 boepd as higher production rates and gas plant uptime were achieved in August.

Realised prices for oil and condensate are expected to continue tracking international oil prices as adjusted for export tax and transportation. Sales of oil and condensate continues to be concentrated in the domestic market as this provides both higher netbacks and has sufficient demand. The contract gas price in Ruble terms has remained unchanged since 1 July 2018. The further recent weakening of the Ruble will decrease the US Dollar equivalent of the gas sales price and will also decrease the US Dollar equivalent of the operating costs and capital expenditure which are predominantly Ruble denominated.

Production costs and DD&A charges on a unit basis are expected to remain close to the levels reported in H1 2018 during H2 2018.

The principal capital expenditure planned for H2 2018, for the sidetrack to the VM#2 and Dobrinskoye 26 wells is expected to be US$3.0 million, taking the total capital expenditure for the year to US$4.6 million.

The continuing operational focus of management is on managing the existing asset base, seeking further operational and cost efficiencies where possible, to maximize the production and cash generation capabilities so as to lay a foundation for future growth.

Principle Risks and Uncertainties

The risks described on pages 12-14 of the 2017 Annual Report, a copy of which can be obtained from www.volgagas.com, remain extant.

Forward-Looking Statements

Certain statements in this interim report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

VOLGA GAS plc

IFRS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)

AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2018

Group Interim Income Statement (Unaudited)
(presented in US$000, except for profit per ordinary share and number of shares)

Six months ended 30 June	Notes	**2018**	**2017**
Revenue		21,532	23,118
Cost of sales	4	(16,011)	(13,658)
Gross profit		**5,521**	**9,460**
Selling Expenses		(479)	(1,923)
General and administrative expenses	5	(2,435)	(3,172)
Operating profit/(loss)		**2,607**	**4,365**
Interest income		187	152
Other net gains/(losses)	6	1,361	(688)
Profit/(loss) before tax		**4,155**	**3,829**
Provision for deferred tax		(173)	(273)
Provision for current tax		(634)	(344)
Profit/(loss) attributable to equity holders		**3,348**	**3,212**
Basic and diluted profit/(loss) per ordinary share (in US dollars)		0.041	0.040
Weighted average number of shares outstanding		*81,017,800*	*81,017,800*

Group Interim Statement of Comprehensive Income (Unaudited)
(presented in US$000)

Six months ended 30 June	**2018**	**2017**
Profit/(loss) for the Period	**3,348**	**3,212**
Other comprehensive income:		
Currency translation differences	(5,484)	1,752
Total comprehensive income for the period	**(2,136)**	**4,964**

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Group Balance Sheet (Unaudited)
(presented in US$000)

	Notes	**30 June 2018**	**31 December 2017**
Assets			
Non-current assets			
Intangible assets	7	3,447	3,756
Property, plant and equipment	7	53,323	62,329
Deferred tax assets		1,249	1,618
Total non-current assets		**58,019**	**67,703**
Current assets			
Cash, cash equivalents and bank deposits		15,007	8,617
Inventories		621	1,228
Other receivables		2,211	2,529
Total current assets		**17,839**	**12,374**
Total assets		**75,858**	**80,077**
Equity and liabilities			
Equity			
Share capital		1,485	1,485
Currency translation and other reserves		(82,887)	(77,403)
Accumulated profit		145,135	141,787
Total equity		**63,733**	**65,869**
Long term liabilities			
Asset retirement obligation		389	184
Deferred tax liabilities		2,867	3,202
Total long term liabilities		**3,256**	**3,386**
Current liabilities			
Bank loan		2,755	4,004
Accounts payable	8	6,114	6,818
Total current liabilities		**8,869**	**10,822**
Total equity and liabilities		**75,858**	**80,077**

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Group Interim Cash Flow Statement (Unaudited)
(presented in US$000)

	Notes	Six months ended 30 June 2018	2017
Profit for the period before tax		**4,155**	**3,829**
Less adjustments for:			
Depreciation, depletion and amortization		4,119	3,013
Foreign exchange differences		80	400
Write-off of development asset		1,719	-
Other non-cash operating losses		269	-
Total effect of adjustments		**6,187**	**3,413**
Net cash flow before working capital movements		**10,342**	**7,242**
Working capital changes			
(Increase)/decrease in trade and other receivables		(146)	1,637
Decrease in payables	9	(160)	(5,993)
(Increase)/decrease in inventory		355	289
Income taxes paid		(21)	-
Net cash from operating activities		**10,370**	**3,175**
Cash flows from investing activities			
Purchase of intangible assets		-	(111)
Purchase of property, plant and equipment		(1,992)	(4,181)
Net cash used in investing activities		**(1,992)**	**(4,292)**
Cash flows from financing activities			
Dividends paid		-	(5,000)
Loans repaid		(971)	-
Net cash provided/(used) by financing activities		**(971)**	**(5,000)**
Effect of exchange rate changes on cash and cash equivalents		(1,017)	237
Net increase/(decrease) in cash and cash equivalents		**6,390**	**(5,880)**
Cash and cash equivalents at beginning of the period		8,617	19,718
Cash and cash equivalents at end of the period		**15,007**	**13,838**

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Group Interim Statement of Changes in Equity (Unaudited)
(presented in US$000)

	Share Capital	Currency Translation Reserves	Share Grant Reserves	Accumulated Profit	Total Equity
Opening equity at 1 January 2018	**1,485**	**(77,403)**	**-**	**141,787**	**65,869**
Profit for the period	-	-	-	3,348	3,348
Currency translation differences	-	(5,484)	-	-	(5,484)
Closing equity at 30 June 2018	**1,485**	**(82,887)**	**-**	**145,135**	**63,733**
Opening equity at 1 January 2017	**1,485**	**(80,855)**	**5,233**	**141,224**	**67,087**
Profit for the period	-	-	-	3,212	3,212
Dividends paid				(5,000)	(5,000)
Currency translation differences	-	1,752	-	-	1,752
Closing equity at 30 June 2017	**1,485**	**(79,103)**	**5,233**	**139,436**	**67,051**

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Notes to the IFRS Condensed Consolidated Interim Financial Statements (Unaudited)
(presented in US$000 unless otherwise stated)

1. General information

Volga Gas plc (hereinafter referred to as “Company” or “Volga”) is a public liability company registered in England and Wales with registered number 05886534 and quoted on the AIM market of London Stock Exchange plc. The principal activities of the Company and its subsidiaries (hereinafter jointly referred to as the “Group”) are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in the Volga Region of the Russian Federation. The Company’s registered office is at 6th floor, 65 Gresham Street, London EC2V 7NQ. This condensed consolidated interim financial information was approved for issue on 27 September 2018.

2. Basis of presentation

This condensed consolidated interim financial information for the half-year ended 30 June 2018 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with IFRSs as adopted by the European Union.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Financial Position and performance of the group since the last annual consolidated financial statements.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017 were approved by the board of directors on 12 April 2018 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

Going-concern basis. The group meets its day-to-day working capital requirements through its cash resources. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated interim financial statements.

Exchange rates. The official rate of exchange of the Russian ruble to the US dollar (“USD”) at 30 June 2018 and 31 December 2017 was 62.7565 and 57.6002 Russian Rubles to USD 1.00, respectively. Any re-measurement of Russian Ruble amounts to US dollars or any other currency should not be construed as a representation that such Russian Ruble amounts have been, could be, or will in the future be converted into other currencies at these exchange rates.

Taxation. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Segmental reporting follows the Group’s internal reporting structure. No geographic segmental information is presented as all of the Group’s operating activities are based in the Russian Federation.

Management has determined therefore that the operations of the Group comprise one class of business, being oil and gas exploration, development and production and the Group operates in only one geographic area – the Russian Federation.

3. Accounting policies

The accounting policies adopted in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the consolidated financial statements for 2017 except for IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers that the Group has adopted with effect from 1 January 2018.

IFRS 9, issued in July 2014, replaced the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaced the current 'incurred loss' model with a forward-looking 'expected credit loss' model. Based on management's analysis performed the standard does not have a material effect on the Group's consolidated financial statements, no transition adjustment has been made and comparative information has not been restated.

IFRS 15, issued in May 2014, established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The core principle of the new standard is that an entity recognises revenue when a customer obtains control of the goods. Based on management's analysis performed the standard does not have a material effect on the Group's consolidated financial statements, no transition adjustment has been made and comparative information has not been restated.

4. COST OF SALES

Cost of sales is analysed as follows:

Six months ended 30 June	**2018 US$ 000**	**2017 US$ 000**
Production expenses	4,604	4,788
Mineral extraction taxes	7,238	5,892
Depletion, depreciation and amortization	4,169	2,978
	16,011	**13,658**

5. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are analysed as follows:

Six months ended 30 June	**2018 US$ 000**	**2017 US$ 000**
Salaries	1,569	2,196
Taxes other than payroll and MET	24	24
Audit fees	151	209
Legal and Consultancy	241	182
Other	450	561
Total general and administrative expenses	**2,435**	**3,172**

6. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2018 US$ 000	**2017 US$ 000**
Foreign exchange loss	(80)	(400)
Proceeds of court judgement	3,290	-
Write off of capitalised costs of Uzen #4 well sidetrack	(1,596)	-
Other expense	(253)	(288)
Total other net income/(expenses)	**1,361**	**(688)**

7. PROPERTY PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment	Intangible assets
As at 1 January 2018	**62,329**	**3,756**
Additions	1,779	-
Depreciation and amortisation	(4,119)	-
Write offs	(1,761)	-
Exchange adjustment	(4,905)	(309)
At 30 June 2018	**53,323**	**3,447**
As at 1 January 2017	**55,908**	**3,460**
Additions	7,265	111
Depreciation and amortisation	(3,013)	-
Write offs	(73)	-
Exchange adjustment	1,398	89
At 30 June 2017	**61,485**	**3,660**

8. ACCOUNTS RECEIVABLE

	30 June 2018 US$ 000	31 December 2017 US$ 000
VAT recoverable	154	300
Prepayments	331	278
Trade receivables	1,708	1,260
Other	18	691
Total accounts receivable	**2,211**	**2,529**

9. ACCOUNTS PAYABLE

	30 June 2018 US$ 000	31 December 2017 US$ 000
Trade payables	706	1,571
Taxes other than profit tax	3,707	2,366
Customer advances	863	2,597
Other	838	284
Total accounts payable	**6,114**	**6,818**

10. CONTINGENCIES AND COMMITMENTS

The Group has fulfilled all exploration commitments on existing licences. As at 30 June 2018, the Group had contracted to spend US$1.0 million on its remaining capital expenditure programme for 2018. It has no material commitments to further capital expenditures during the year ending 31 December 2018.

11. RELATED PARTY TRANSACTIONS

The Group is controlled by Baring Vostok Private Equity Fund III, Baring Vostok Private Equity Fund IV and Baring Vostok Investments PCI, which own 64.6% of the Company's shares as at 30 June 2018.

Related party transactions are disclosed in Note 23 to the accounts for the year ended 31 December 2017. There were no material related party transactions in the six months to 30 June 2018 nor in the six months to 30 June 2017.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that this consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months and their impact on the set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Volga Gas plc are as listed in the Volga Gas plc Annual Report for the year ended 31 December 2017.

By order of the Board

____________________	____________________
Andrey Zozulya	Vadim Son
Chief Executive Officer	Chief Financial Officer