Volga Gas plc

Annual Report and Accounts 2013

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Volga Gas plc is an independent oil and gas exploration and production company focused on the Volga Region of Russia. It has 100% interests in four oil and gas exploration and production licences in the Saratov and Volgograd regions.

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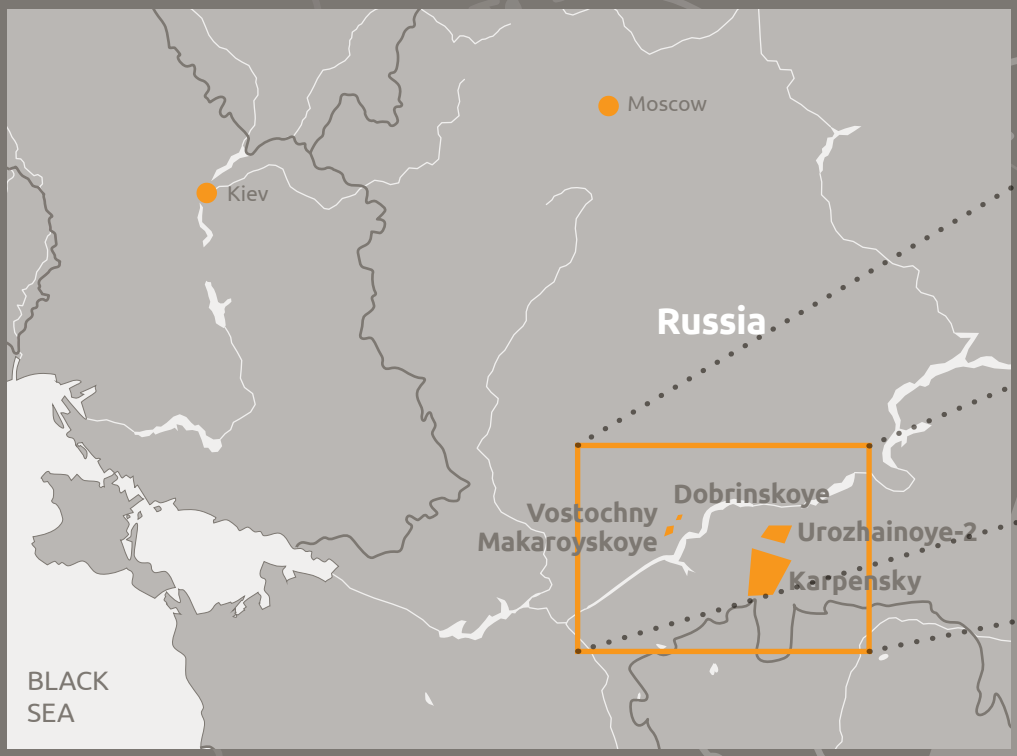
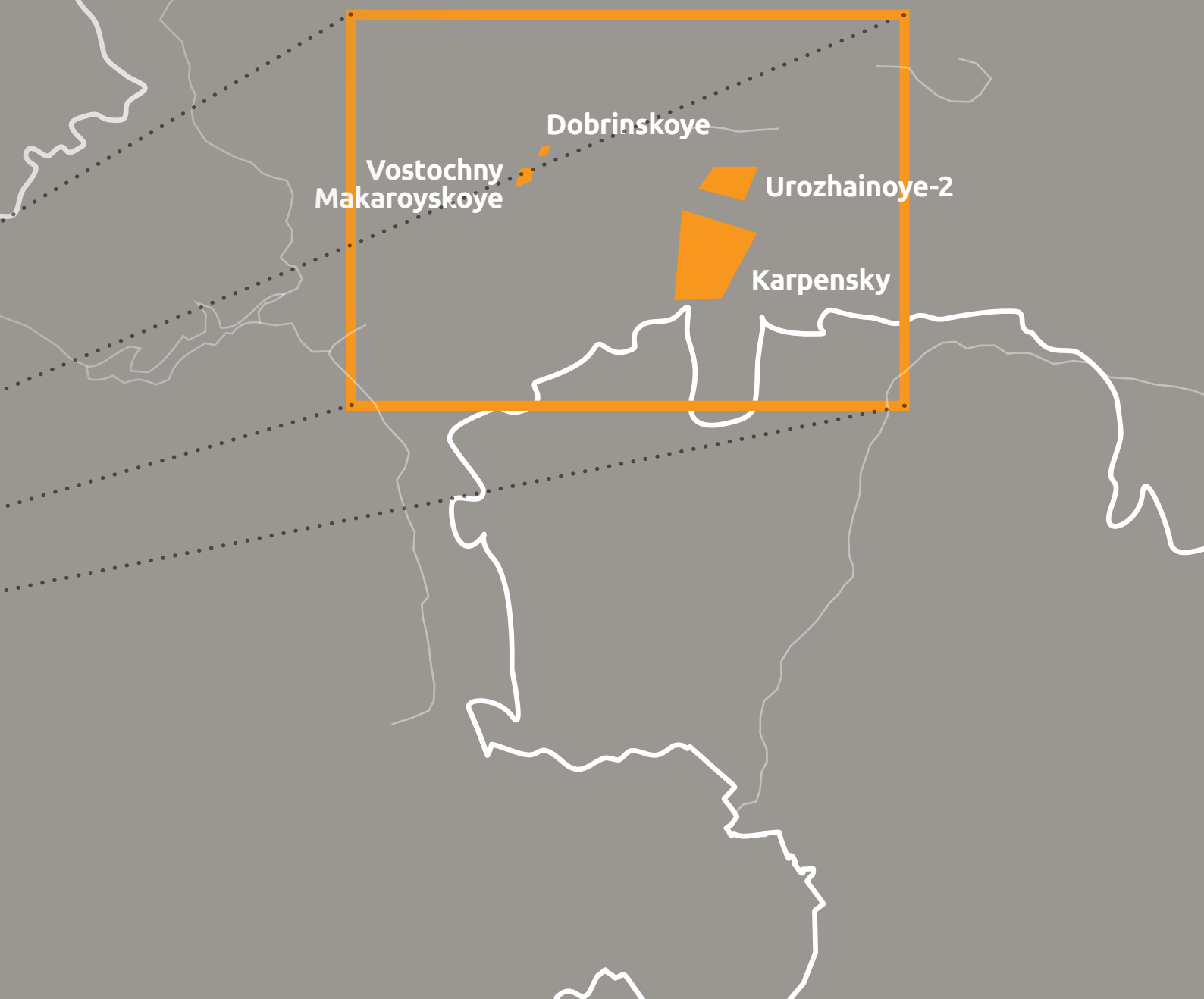


Overview of 2013

- Significant increase in throughput achieved at Dobrinskoye gas processing plant
- Increased production from the Vostochny Makarovskoye gas/condensate field
- New oil production from the Sobolevskoye oil field
- Material growth in revenue and EBITDA
- Bank debt fully repaid in 2013



Volga at a Glance

Our assets are located in an established oil and gas province. The area benefits from the existing rail, road and pipeline infrastructure and proximity to Russia's main energy markets.

The main achievement of 2013 was the gas processing plant capacity expansion which led to a doubling of daily throughput since November 2013 and which will enable full exploitation of the Group's principal gas/condensate fields.

Oil, gas and condensate reserves

	Oil and Condensate (mmbbl)	Gas (bcf)	Total (mmboe)
As at 31 December 2012			
Proved reserves	14.556	155.9	40.534
Proved plus probable reserves	15.86	166.8	43.66
Production: 1 January–31 December 2013	0.547	3.1	1.069
As at 31 December 2013			
Proved reserves	**14.009**	**152.8**	**39.465**
Proved plus probable reserves	**15.313**	**163.7**	**42.591**

Notes:

1. The reserves and production numbers shown exclude all volumes related to the Sobolevskoye field which was not included in the Miller and Lents reserve study of 2012. The numbers for Sobolevskoye are estimated by management not to be material in the context of total Group reserves.
2. There has been no external reassessment of reserves subsequent to the Miller and Lents reserve study of 2012.
3. The above reserve estimates, prepared in accordance with reserve definitions prepared by the Oil and Gas Reserves Committee of the SPE, have been reviewed and verified by Mr Mikhail Ivanov, 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 Mikhail Ivanov holds a M.S. Degree in Geophysics from Novosibirsk State University. He also has an MBA degree from Kellogg School of Management (Northwestern University). He is a member of the Society of Petroleum Engineers.

Dobrinskoye gas processing plant

2013 Progress
Completed the third phase of the gas plant upgrade and received regulatory authorisation. Doubled daily throughput in November 2013 to over 500,000 cubic metres per day (17.8 million cubic feet per day).

2014 Objectives
Complete the final phase of the gas plant upgrade and achieve certification of plant processing capacity of up to 1 million cubic metres per day (35.3 million cubic feet per day).

Vostochny Makarovskoye ("VM") gas/condensate field

2013 Progress
Workover of the VM#1 well led to a major increase in production capacity of the well and of the field.

2014 Objectives
Drilling of two new wells, VM#3 and VM#5 to increase production capacity and utilise the full planned gas plant capacity.

Dobrinskoye gas/condensate field

2013 Progress
Production capacity remained steady. However during 2013 the gas plant capacity was preferentially utilised for production of gas and condensate from the VM field.

2014 Objectives
Manage production from the two existing wells to maximise long term extraction of gas and condensate.

Uzenskoye and Sobolevskoye oil fields

2013 Progress
Managed Uzenskoye production for the fifth year, with production constrained to prevent water cut. Started production from the single well Sobolevskoye field.

2014 Objectives
Maintain/enhance production profile and maximise extraction of oil from existing wells.

Exploration activity

2013 Progress
Completed a review of exploration prospects in the Karpenskiy licence area and several material prospects have been identified. Decision to relinquish Pre-Caspian Licence and of the exploration areas of the Urozhainoye-2 Licence.

2014 Objectives
Potential discretionary exploration drilling of shallow, supra-salt targets during 2014.

Financial Highlights

Revenues up 22% to US$34.6 million (2012: US$28.3 million)

- 48% increase in production, mainly of gas, hence relatively lower revenue growth
- Oil prices stable and gas prices increased

EBITDA up 85% to US$14.8 million (2012: US$8.0 million)

- Lower MET rates applicable to gas and condensate than on crude oil
- EBITDA per barrel of oil equivalent up 26% to US$13.80/boe (2012: $10.96/boe)

Profit before tax of US$9.1 million (2012: loss before tax of US$6.3 million)

- Exploration and evaluation expense of US$2.5 million (2012: US$8.5 million)
- MET refund of US$1.9 million (2012: nil)

Net operating cash inflow of US$15.4 million (2012: US$5.4 million)

- Cash generation reflecting EBITDA

Bank debt fully repaid at 31 December 2013 (bank debt of US$8.0 million at 31 December 2012)

- Net cash inflow before financing activities of US$9.6 million (2012: outflow of US$8.3 million)
- Cash balance at 31 December 2013 of US$8.1 million (2012: US$7.0 million)

Revenue growth

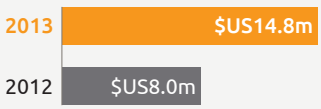
US$34.6m

Pre-tax profit

US$9.1 m

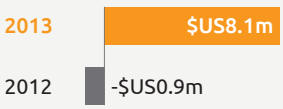
EBITDA growth

US$14.8m



Cash net of bank debt

US$8.1m



Chairman's Statement

Aleksey Kalinin
Chairman

2013 was a pivotal year for Volga Gas, with the main event for the Company being the significant increase in capacity and throughput at the Dobrinskoye gas plant.

Dear Shareholder,
2013 was a pivotal year for Volga Gas, with the main event for the Company being the significant increase in capacity and throughput at the Dobrinskoye gas plant which has enabled full production from the existing wells on the Group's largest field, Vostochny Makarovskoye. This has enabled the Group to exit 2013 producing at a rate of over 4,500 barrels of oil equivalent per day, an increase of 58% over the rate of production at the start of the year. As the majority of the increase came in November 2013, the full year production, revenue and cash flow numbers in 2013, although well ahead of 2012, do not properly reflect the current capabilities of the Group's fields.

With the major portion of production growth in 2013 coming from gas rather than condensate and oil, the growth in revenue was not as marked as that in volume. However, the relatively lower taxation applied in Russia to gas and condensate as opposed to crude oil is a benefit to the profit margin and to the economics of gas production.

It is gratifying to report that even though Volga Gas is still very much on a growth track in terms of production and development, it has remained strongly cash generative. The Group has funded its 2013 capital expenditures and fully repaid its bank debt with cash generated from operations.

The key operational objectives for 2014 will be to complete the final stages of the upgrade to the Dobrinskoye gas plant, obtain the required permits for full commercial operation at the design rate of over 35 million cubic feet per day, and to continue to build on the fields' production capability to make full utilisation of the gas plant capacity. Meanwhile, the current production levels generate sufficient cash to fund the continuing development of the assets which in turn we anticipate will lead to further growth in production and cash flow.

We believe Volga Gas is currently in a position to consider providing cash returns to shareholders. The Board has initiated a process which will enable Volga Gas to have sufficient distributable reserves to enable distributions. You will see in the Notice of Annual General Meeting for 2014, a Special Resolution that relates to this matter.

The Group maintains significant proven reserves in its three principal fields, which were subject to an independent evaluation during 2012. These fields form the basis of growth in production in the near term. Our fields are advantageously located and our costs are sufficiently low for us to achieve good returns at oil and gas prices significantly lower than those we currently experience. Most importantly, these assets provide a strong platform for the Group to grow in the future, both through successful exploration and by selective value accretive acquisitions.

Volga Gas has also identified material exploration prospects within existing acreage that can be tested at low cost.

The Board believes that Volga Gas has a strong asset base and the financial and operational capability to develop and extend these assets to provide long term value growth for our shareholders.

Aleksey Kalinin
Chairman

Chief Executive's Report

Mikhail Ivanov
Chief Executive Officer

Production in 2013 increased 48% and the revenue, EBITDA and profitability of the Group in 2013 reflected this increase.

Volga Gas reached another key milestone in 2013 with the approval received in November 2013 for the upgrade works on the Group's Dobrinskoye gas processing plant, following which the field output was progressively increased to make full use of the production capacity in the Group's existing gas and condensate production wells on the Vostochny Makarovskoye ("VM") and Dobrinskoye fields. Consequently towards the end of 2013 production increased significantly and reached an average rate of over 4,500 barrels of oil equivalent per day in December 2013, an increase of 58% compared to the average rate for December 2012. Thus, while Volga Gas has realised a significant increase in production rates during 2013, the benefit of these increases will continue through 2014 and beyond.

As detailed in the Operational Review below, the majority of the work on our producing assets base remained focused on the two gas fields. On VM, the Group completed a workover on the main producing well, VM#1, the effect of which was to increase significantly the production capacity of that well.

For much of 2013, the Group's gas and condensate production was constrained by the requirement to operate the Dobrinskoye gas processing plant with a throughput of 250,000 cubic metres (8.8 million cubic feet per day). However, in November 2013, after receipt of the regulatory approvals detailed below, throughput was increased and reached up to 530,000 cubic metres per day (18.7 million cubic feet per day) during December 2013. Production of condensate, which is separated from the gas stream at the processing plant, increased in line with the gas production.

Crude oil production, on the other hand, was lower in 2013 than 2012. Production from the Uzenskoye field was reduced as wells on the edge of the field began to exhibit some water cut. The reduction in the Uzenskoye field was partly offset by new production from the single well on the Sobolevskoye field.

In aggregate, production in 2013 was 2,958 barrels of oil equivalent per day ("boepd"), which represents a 48% increase on 2012. The revenue and EBITDA performance of the Group in 2013 reflected this increased production, although as the majority of the volume growth was in gas, the revenue growth was not as large. Nevertheless, as an indication of rising profitability, EBITDA per barrel of oil equivalent sold increased 26% from US$10.96 in 2012 to US$13.80 in 2013. See the Financial Report on page 10 for details.

In 2013, exploration activity was limited, although a number of significant exploration prospects in the Group's Karpenskiy licence area have been identified for future exploration drilling.

Our key operational objectives in 2014 are to complete the remaining work on the Dobrinskoye gas plant upgrade, with the aim of fulfilling the regulatory requirements to enable the Group to operate at a processing capacity of 1 million cubic metres per day (35 million cubic feet per day) and to bring the VM field into full scale production. The latter involves development drilling of two wells during 2014, the first of which is already under way.

Finance

The Group maintained a strong level of cash generation from operating activities throughout 2013, enabling it to fund its capital expenditure for the year from operating cash flow and to make full repayment of its bank loans, which at 31 December 2012 were US$8.0 million. As at 31 December 2013, the Group had net cash of US$8.1 million and no debt.

Although the planned investments in 2014 are expected to be less than operating cash flow, the Group considers a moderate level of borrowing to be appropriate as part of the longer-term capital structure. As the Group's assets have established a track record of reliable cash generation, with prospects for continued significant growth in the near future, the Board believes it appropriate to consider distributions to shareholders and is taking measures to enable this.

Current trading

In January and February 2014, Group production averaged 4,563 boepd comprising 1,900 bpd of oil and condensate and 16.0 mmcf/d of gas and, in spite of some softening in the US dollar equivalent realisations for sales as a result of the weakening ruble, monthly revenues and gross cash margins are significantly ahead of the average run rate for 2013. Higher cash flows have continued to drive increases in the Group's cash balances ahead of the planned capital expenditure.

Condensate separation unit

Dobrinkoye gas plant

Outlook

Key activities for 2014 will be focused on delivering increased production from the VM field enabling full utilisation of the capacity at the Dobrinskoye gas plant. It is our current expectation that works on the final stage of the upgrade will be completed during H1 2014 when, subject to obtaining the necessary permits, we expect to achieve full operation at a capacity of up to 1 million cubic metres per day (35.3 million cubic feet per day).

Having mobilised a drilling rig in January, drilling of the new development well VM#3 on the VM field has commenced and is expected to be completed in the first half of 2014. This will be followed by a further well, VM#5 shortly thereafter. The total capital expenditure budgeted for 2014 is US$13.8 million and is expected to be funded entirely from existing cash resources and cash generated from operations.

We look forward to delivering a rising stream of production and further financial growth.

Mikhail Ivanov
Chief Executive Officer

Operational Review

Operations overview

The key event for the Group in 2013 was the increase in throughput at the Dobrinskoye gas processing plant in November 2013, after receipt of the formal approval of the upgrade works. This enabled production of gas and condensate towards the end of 2013 to reflect the productive capacity of the wells on the Group's VM and Dobrinskoye fields, more than doubling the production rates achieved hitherto.

The overall level of production in 2013, at 2,958 boepd, was 48% above the 1,995 boepd achieved in 2012. This is a result of a full year's production from the VM field which commenced full time production in November 2012 and was further boosted by the increase in plant throughput achieved in November 2013. Production of condensate followed in line with gas as they are extracted simultaneously and separated at the gas processing plant.

Oil production was lower in 2013 than in 2012, averaging 826 bopd in 2013 compared to 1,109 bopd in 2012. The reasons for the decline in production are detailed below.

As a consequence of the significant increase in production in 2013, revenues and EBITDA levels in 2013 were well ahead of 2012, although with the rapidly increasing proportion of gas in the mix, the revenue growth was not quite as impressive as production growth. Full details are discussed in the Financial Review below.

Gas processing plant

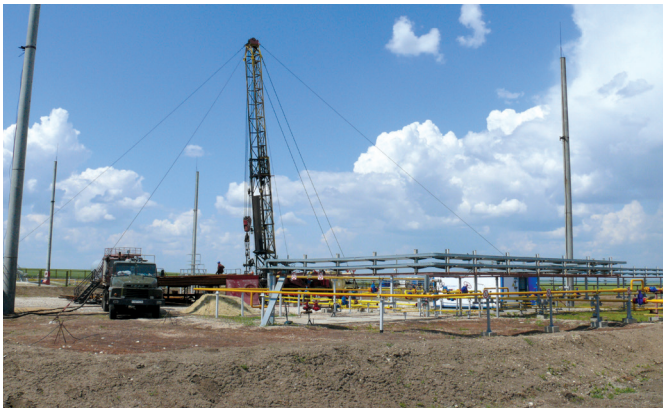
The major part of the construction work for the upgrade of the Dobrinskoye gas processing plant was undertaken in 2012, including enhanced H_2S extraction, expansions to condensate separation and increased condensate storage capacity. During 2013, the majority of the remaining construction work required to increase the processing capacity to the planned level of 1 million cubic metres per day (37 mmcf/d) was completed in October 2013.

In November 2013, the Group received regulatory approval for the upgrade works on the Dobrinskoye gas processing plant. Following the installation of certain additional minor modules, as required by the state construction agency, Gosstroi, final approval of the completed upgrade will be sought, which will allow GNS to utilise the plant at full plant capacity on a permanent basis. Pending this, the Company has been operating at test rates utilising the full current well capacity.

Since November 2013 the Group increased the output from wells on the VM and Dobrinskoye gas fields and during December 2013 reached an average production rate of 432,000 cubic metres per day (15.2 mmcf/d), although during the period production rates of up to 530,000 cubic metres per day (18.7 mmcf/d) were achieved.

During 2013, the Group has also been investigating means of enhancing the gas processing by the use of alternative chemicals. Following successful trials conducted during the year modifications to the process are beginning to deliver material savings on the cost of chemicals used in the process. As a result of these savings and the substantial fixed cost portion of the operating costs, unit production costs in the future on the gas production are expected to reduce significantly.

The Group spent approximately US$3.6 million on the upgrade project during 2013 and the required investment to complete the project is expected to be no more than US$2.0 million. The Group is currently evaluating the merits of additional processing to extract an LPG stream from the gas, primarily propane and butane, which currently is delivered into the sales gas pipeline.



VM#1 well workover in operation

Gas/condensate production

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. Prior to November 2013 the plant was permitted to operate at a capacity of 250,000 cubic metres per day (8.8 mmcf/d), so the fields were not producing at their full capacity. Moreover, during 2013 the continuing upgrade works to upgrade the plant meant that the plant's downtime was slightly higher than would be expected under normal operations. However, as mentioned above, since November 2013, production has increased to levels that more closely reflect the estimated current production capacity of the wells which is over 500,000 cubic metres per day (17.8 mmcf/d) of gas and 120 tonnes per day (1,050 barrels per day) of condensate.

During 2013, production derived from both fields averaged 8.7 mmcf/d of gas and 682 bpd of condensate (2012: 3.3 mmcf/d of gas and 346 bpd of condensate). In total, there are three producing wells on VM and two producing wells on Dobrinskoye.

Gas continues to be sold to Trans Nafta under contract. An increase in the Rouble contract gas sales price took effect on 1 January 2013 and a further price increase took effect in July 2013. The average gas sales price for 2013 was the equivalent of US$2.73 per thousand cubic feet, net of VAT (2012: US$2.32). During 2013 the average condensate sales price was US$47.00 per barrel (2012, US$45.70 per barrel).

Average unit production costs on the gas-condensate fields remained relatively high at US$8.27 per boe in 2013 (2012: US$10.70) primarily as a result of a significant element of fixed plant costs and chemicals consumed in the gas processing unit. With the increasing plant utilisation, however, the unit costs have reduced compared to 2012 and with higher utilisation and cost savings on chemicals, management anticipates further reductions in unit costs.

During 2013, a workover was conducted on the VM#1 production well, perforating an additional 23 metres of the pay zone in the well. Following the successful workover operations, a production test on a 10 mm choke on the well achieved a higher than expected maximum flow rate of 274,000 cubic metres (9.7 million cubic feet) per day of gas and 794 barrels per day of condensate. This is approximately twice the production level that was previously achieved with the well. Estimated production capacity from the

existing wells is now up to 20.0 mmcf/d of gas and over 1,000 bpd of condensate.

On the Dobrinskoye field, sidetracks were drilled on both production wells during 2011 and 2012 and there were no significant development operations conducted on the field during 2013.

In January 2014, the Group mobilised a drilling rig to commence a two well development drilling programme on the VM field. The first well is VM#3 which is located in the centre of the field. The well is expected to reach its target depth in the first half of 2014. The second well, to be drilled subsequently is VM#5.

Oil production

Having completed its fifth year of full time production, the Yuzhny Uzenskoye oil field is the Group's longest established field. It continues to produce under natural reservoir pressure drive and with no water cut. As the oil has been produced, the oil:water contact in the reservoir has risen and since the start of 2013, wells at the edge of the field have exhibited some water cut and were shut in. As a consequence, oil production from the field has been managed at lower production rates. In addition, during the spring and, exceptionally, during the Autumn of 2013 weather related downtime had a further impact on production from the field. Consequently, production from Yuzhny Uzenskoye during 2013 reduced to 735 bopd (2012: 1,109 bopd).

In June 2013, following a successful flow test and workover, the Sobolevskaya #11 well in the Urozhainoye-2 licence was put on production. Since starting production, this well has produced a total of 31,637 barrels of oil (2012: nil). Between August and December 2013 the well has been producing steadily at a rate of 170 bopd. The well was originally drilled by a previous licencee. The Group acquired the rights to produce from the well for a nominal consideration in 2011.

Production from the Yuzhny Uzenskoye and Sobolevskoye fields, whilst of modest scale, remains very profitable for the Group and a useful contributor of cash flow.

Condensate storage tanks

Condensate storage tanks

Exploration

The Group has identified a number of exploration targets in the Karpenskiy Licence Area at shallow horizons of between 1,000 and 2,000 metres depth. These provide low cost opportunities to add potentially material oil reserves. The Group's current priority is the development of its gas and condensate fields and a return to active exploration is to be considered for 2015 and beyond.

The Group has fulfilled all its licence commitments on the Karpenskiy Licence Area and further drilling in the area is discretionary. Following completion of exploration activities on the Pre-Caspian and Urozhainoye-2 licence areas, the Group decided to relinquish the Pre-Caspian licence entirely as well as the exploration areas of Urozhainoye-2, although in the latter block an area covering the producing Sobolevskoye oil field has been retained.

Oil, gas and condensate reserves as of 1 January 2014

During 2012, an independent evaluation of the Company's oil, gas and condensate reserves was conducted by Miller and Lents Ltd.

The independent assessment of the reserves and net present value of future net revenue ("NPV") attributable to the Company's three principal fields, Dobrinskoye, Vostochny Makarovskoye and Uzenskoye, as at 1 August 2012, was prepared in accordance with reserve definitions prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE").

The table on page 2 shows the Proven and Probable reserves as evaluated by Miller & Lents as at 1 August 2012, adjusted by management for subsequent production.

Mikhail Ivanov
Chief Executive Officer

Financial Review

Financial and operational summary

Sales volumes	2013	2012	2011
Oil and condensate (barrels)	547,257	529,501	546,818
Gas (mcf)	3,128	1,193	1,348
Total (boe)	**1,068,585**	**728,334**	**771,479**

Operating Results (US$ 000)	2013	2012	2011
Oil and condensate sales	26,067	25,526	25,425
Gas sales	8,554	2,769	3,146
Revenue	**34,621**	**28,295**	**28,571**
Production costs	(5,946)	(3,776)	(3,126)
Production based taxes	(8,095)	(8,951)	(9,537)
Depletion, depreciation and other	(2,611)	(2,280)	(2,641)
Other	(1,800)	(1,562)	(991)
Cost of sales	**(18,451)**	**(16,569)**	**(16,295)**
Gross profit	**16,170**	**11,726**	**12,276**
Exploration expense	(2,519)	(8,475)	(200)
Provision for VAT recovery	–	(2,945)	–
Operating and administrative expenses	(4,029)	(6,024)	(5,991)
Write-off of development assets	(1,439)	(188)	(5,612)
Operating profit/(loss)	**8,183**	**(5,906)**	**473**

Net realisation	2013	2012	2011
Oil and condensate (US$/barrel)	47.63	48.21	46.50
Gas (US$/mcf)	2.73	2.32	2.33

Operating data (US$/boe)	2013	2012	2011
Production costs	5.56	5.18	4.05
Production based taxes	7.58	12.29	12.36
Depletion, depreciation and other	2.44	3.13	3.42

EBITDA calculation (US$ 000)	2013	2012	2011
Operating profit/(loss)	8,183	(5,906)	473
Exploration expense	2,519	8,475	200
DD&A and other non-cash expense	4,050	5,413	8,253
EBITDA	**14,752**	**7,982**	**8,926**
EBITDA per boe (US$/boe)	13.80	10.96	11.57

Results for the year

In 2013, the Group generated US$34.6 million in turnover (2012: US$28.3 million) from the sale of 547,257 barrels of crude oil and condensate (2012: 529,501 barrels) and 3,128 million cubic feet of natural gas (2012: 1,193 million cubic feet). Oil and condensate sales were made into the domestic market during the period. The average price realised for liquids was the equivalent of US$47.63 per barrel (2012: US$48.21 per barrel). The gas sales price during 2013 averaged US$2.73 per thousand cubic feet (2012: US$2.32 per thousand cubic feet). With sales made exclusively into the regional market in the Volga region at the wellhead, our oil and condensate sales prices closely reflect international prices, adjusted for export taxes and transportation costs. Production activities generated a gross profit of US$16.2 million in 2013 (2012: gross profit of US$11.7 million).

In 2013, the total cost of production increased to US$5.9 million (2012: US$3.8 million), with the incremental costs primarily incurred in gas processing expenses. Production based taxes were US$8.1 million (2012: US$8.9 million) reflecting the increase in the proportion of gas in the Group's production and lower rates of Mineral Extraction Tax ("MET") charged on gas condensate compared to crude oil. MET in 2013 represented 23.0% of revenues (2012: 31.6% of revenues). The gross profit margin in 2013 was 46.7% (2012: 41.4%).

Operating and administrative expenses in 2013 were US$4.0 million (2012: US$9.9 million, including a provision of US$2.9 million for disputed recovery of VAT).

The Group experienced a significant increase in EBITDA (defined as operating profit before non-cash charges, including the VAT provision, exploration expense, depletion and depreciation) to US$14.8 million (2012: US$8.0 million) as a result of the higher revenues partly offset by higher expenses. As a reflection of increasing cost efficiency with rising throughput at the gas plant EBITDA per barrel of oil equivalent sold in 2013 was US$13.80 (2012: US$10.96).

After recording an exploration and evaluation expense of US$2.5 million (2012: US$8.5 million), and other non-cash expenses of US$1.4 million (2012: US$0.2 million) the Group recorded an operating profit for 2013 of US$8.2 million (2012: operating loss of US$5.9 million). The exploration and evaluation charge in 2013 was primarily related to the write off of the remaining assets associated with the Pre-Caspian Licence area which has been relinquished.

After including net interest expense of US$0.2 million (2012: US$0.2 million) and other gains of $1.6 million net of foreign exchange (2012: net other and foreign exchange losses of US$0.2 million), the Group recognised a profit before tax of US$9.6 million (2012: loss before tax of US$6.3 million) and reported net profit after tax of US$8.6 million (2012: net loss after tax of US$7.4 million) after taking a deferred tax charge of US$1.0 million (2012: US$1.1 million).

No dividends have been paid or proposed for the year (2012: nil).

Cash flow

Group cash flow from operating activities was US$15.4 million (2012: US$5.4 million). Net working capital movements contributed to a cash outflow of US$1.2 million in 2013 (2012: US$2.4 million inflow from working capital movements). With reduced capital expenditures in 2013, the net outflow from investing activities was US$6.2 million (2012: US$13.7 million). Net cash outflow from financing activities was US$8.1 million (2012: inflow of

Condensate loading

VM #1 well site

US$4.8 million) as a result of amortisation payments and prepayment of the final balance of the bank loan.

Capital expenditure

During 2013 a total of US$6.2 million was utilised in investing activities (2012: US$13.7 million). In 2013 all of the capital expenditure was on development and producing assets (2012: US$10.3 million on producing and development assets and US$3.4 million on exploration and appraisal). The most significant individual components of the capital expenditure in 2013 relate to the Dobrinskoye gas plant upgrade.

Balance sheet and financing

As at 31 December 2013, the Group held cash and bank deposits of US$8.1 million (2012: US$7.0 million) with no debt (31 December 2012: US$8.0 million bank debt). The bank loan was drawn during 2012 and was subject to monthly repayments from October 2012. In December 2013 the remaining balance of the bank loan was repaid in full. All of the Group's cash balances are held in bank accounts in the UK and Russia.

As at 31 December 2013, the Group's intangible assets decreased to US$6.4 million (2012: US$9.6 million) after the write off of assets relating to the PreCaspian Licence. Property, plant and equipment, decreased to US$98.3 million (2012: US$103.7 million, primarily reflecting the impact of foreign exchange adjustments.

Management believes that the Group's continuing capital expenditures less than cash flow from operations and cash-on-hand. The Group will consider additional debt facilities to fund the longer-term development of its existing licences as appropriate.

The Group's financial statements are presented on a going concern basis.

Tony Alves
Chief Financial Officer

Principal Risks and Uncertainties

The Group is subject to various risks relating to political, economic, legal, social, industry, business and financial conditions.

The following risk factors, which are not exhaustive, are particularly relevant to the Group's business activities:

Volatility of oil prices

The supply, demand and prices for oil are influenced by factors beyond the Group's control. These factors include global and regional demand and supply, exchange rates, interest and inflation rates and political events. A significant prolonged decline in oil and gas prices could impact the profitability of the Group's activities. Additionally, the Group's production is predominantly sold in the domestic Russian markets which are influenced by domestic supply and demand factors, the level of Russian export taxes and regional transportation costs.

Substantially all of the Group's revenues and cash flows come from the sale of oil, gas and condensate. If sales prices should fall below and remain below the Group's cost of production for any sustained period, the Group may experience losses and may be forced to curtail or suspend some or all of the Group's production, at the time such conditions exist. In addition, the Group would also have to assess the economic impact of low oil and gas prices on its ability to recover any losses the Group may incur during that period and on the Group's ability to maintain adequate reserves.

The Group does not currently hedge its crude oil production to reduce its exposure to oil price volatility as the structure of taxes applied to oil production in Russia effectively reduce the exposure to international market prices for oil.

Oil and gas production taxes

The Group's sales generated from oil and gas production are subject to Mineral Extraction Taxes, which form a material proportion of the total costs of sales. The rates of these taxes are subject to changes by the Russian government. Changes to rates which come into effect during 2014 will increase the rates on crude oil, condensate and natural gas.

Exploration and reserve risks

Whilst the Group will seek to apply the latest technology to assess exploration licences, the exploration for, and development of, hydrocarbons is speculative and involves a high degree of risk. These risks include the uncertainty that the Group will discover sufficient commercially exploitable oil or gas resources in unproven areas of its licences. Unsuccessful exploration efforts may result in impairment to the balance sheet value of exploration assets.

During 2012, the Group commissioned a reserve evaluation based on reporting standards set by the Society of Petroleum Engineers. If the actual results of producing the Group's fields are significantly different to expectations, there may be changes in the future estimates of reserves. These may impact the balance sheet values of the Group's Intangible Assets and the Group's Property, Plant and Equipment.

Environmental risk

The oil and gas industry is subject to environmental hazards, such as oil spills, gas leaks, ruptures and discharges of petroleum products and hazardous substances. These environmental hazards could expose the Group to material liabilities for property damages, personal injuries, or other environmental harm, including costs of investigating and remediating contaminated properties.

The Group is subject to stringent environmental laws in Russia with regards to its oil and gas operations. Failure to comply with such laws and regulations could subject the Group to material administrative, civil, or criminal penalties or other liabilities. Additionally, compliance with these laws may, from time to time, result in increased costs to the Group's operations, impact production, or increase the costs of potential acquisitions.

The Group liaises closely with the Federal Service of Environmental, Technological and Nuclear Resources of the Saratov and Volgograd Oblasts on potential environmental impact of its operations and conducts environmental studies both as required by, and in addition to, its licence obligations to mitigate any specific risk. The Group's operations are regularly subject to independent environmental audit.

The Group did not incur any material costs relating to the compliance with environmental laws during the period.

Risk of operating oil and gas properties

The oil and gas business involves certain operating hazards, such as well blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution and releases of toxic substances. Any of these operating hazards could cause serious injuries, fatalities, or property damage, which could expose the Group to liabilities. The settlement of these liabilities could materially impact the funds available for the exploration and development of the Group's oil and gas properties. The Group maintains insurance against many potential losses and liabilities arising from its operations in accordance with customary industry practices, but the Group's insurance coverage cannot protect it against all operational risks.

Foreign currency risk

The Group's capital expenditures and operating costs are predominantly in Russian rubles ("RUR") while a minority of costs are also in US dollars. Revenues are predominantly received in RUR so consequently the operating profitability is not materially exposed to short-term exchange rate movements. The functional currency of the Group's operating subsidiaries is the RUR and the Group's assets and liabilities are predominantly RUR denominated. As the Group's presentational currency is the US dollar, changes in the relative exchange rates among US dollar and RUR could positively or negatively affect the Group's financial statements.

Business in Russia

Amongst the risks that face the Group in conducting business and operations in Russia are:

- Economic instability, including in other countries or the global economy that could lead to consequences such as hyperinflation, currency fluctuations and a decline in per capita income in the Russian economy.
- Governmental and political instability that could disrupt, delay or curtail economic and regulatory reform, increase centralised authority or result in nationalisations.
- Social instability from any ethnic, religious, historical or other divisions that could lead to a rise in nationalism, social and political disturbances or conflict.
- Uncertainties in the developing legal and regulatory environment, including, but not limited to, conflicting laws, decrees and regulations applicable to the oil and gas industry and foreign investment.
- Unlawful or arbitrary action against the Group and its interests by the regulatory authorities, including the suspension or revocation of their oil or gas contracts, licences or permits or preferential treatment of their competitors.
- Lack of independence and experience of the judiciary, difficulty in enforcing court or arbitration decisions and governmental discretion in enforcing claims.
- Unexpected changes to the federal and local tax systems.
- Laws restricting foreign investment in the oil and gas industry.

Legal systems

Russia, and other countries in which the Group may transact business in the future, have or may have legal systems that are less well developed than those in the United Kingdom. This could result in risks such as:

- Potential difficulties in obtaining effective legal redress in the court of such jurisdictions, whether in respect of a breach of contract, law or regulation, including an ownership dispute.
- A higher degree of discretion on the part of governmental authorities.
- The lack of judicial or administrative guidance on interpreting applicable rules and regulations.
- Inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions.
- Relative inexperience of the judiciary and courts in such matters.

In certain jurisdictions, the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the jurisdictions in which the Group operates.

Liquidity risk

At 31 December 2013 the Group had US$8.0 million of cash and cash equivalents of which US$7.7 million was held in bank accounts in Russia. The Group intends to fund its ongoing operations and development activities from its cash resources and cash generated by its established operations. At 31 December 2013 the Group has had approved capital expenditures of approximately US$14 million primarily for the continuing development of gas and condensate production. The Board considers that the Group will have sufficient liquidity to meet its obligations. All current and planned capital expenditures are discretionary.

Through its ordinary course activities, the Group is exposed to legal, operational and development risk that could delay growth in its cash generation from operations or may require additional capital investment that could place increased burden on the Group's available financial resources.

Capital risk

The Group manages capital to ensure that it is able to continue as a going concern whilst maximising the return to shareholders. The Group is not subject to any externally imposed capital requirements. The Board regularly monitors the future capital requirements of the Group, particularly in respect of its ongoing development programme. During 2012 management decided that having established a track record of reliable cash generation it was appropriate to introduce a modest proportion of debt into the capital structure and as such a loan of US$10 million was taken and which was fully repaid by 31 December 2013. Management expects that the cash generated by the operating fields will be sufficient to sustain the Group's operations and planned capital investment for the foreseeable future and that in the near term there would be scope to provide cash returns to shareholders. Further short-term debt facilities may be arranged to provide financial headroom for future development activities.

Tony Alves
Chief Financial Officer

Board of Directors

Aleksey Kalinin
Non-Executive Chairman

Appointed to the Board: 14 March 2007
Committee membership: Remuneration

Mr Kalinin is a Senior Partner of Baring Vostok Capital Partners. He joined Baring Vostok in 1999 from Alfa Capital, where he served for six years as the Director of the Department for Direct Investments. Aleksey represents the interests of Baring Vostok's funds on the Board of Directors of a wide range of portfolio companies.

He has a doctorate from the Moscow Power Engineering Institute, where he conducted scientific research, lectured for 12 years and served as the Director of the Youth Center for Scientific and Technical Creativity. Mr Kalinin is 54 years old.

Mikhail Ivanov
Chief Executive Officer, Executive Director

Appointed to the Board: 14 March 2007
Committee membership: n/a

Mr Ivanov is a Partner and Director of Oil and Gas Projects at Baring Vostok Capital Partners. Mr Ivanov brings with him a long history of involvement in the oil sector. Mikhail worked for over ten years at Shlumberger, the international oil services company, where he served as head of its Iran operations and was responsible for business development in Russia.

Prior to joining Shlumberger, he founded and headed two companies that focused on oil production and service. In 2009 he was appointed non-executive director of Zhaikmunai Group Limited. Mr Ivanov holds an M.S. degree in Geophysics from Novosibirsk State University and an M.B.A. from the Kellogg School of Management of Northwestern University. He is an elected member of SPE. Mr Ivanov is 44 years old.

Antonio Alves
Chief Financial Officer, Executive Director

Appointed to the Board: 12 January 2009
Committee membership: n/a

Mr Alves has had experience with the independent oil and gas industry for over 20 years as one of the leading equity analysts covering the sector. Prior to joining Volga Gas, he was head of oil and gas research for KBC Peel Hunt and was closely involved with the Company's 2007 IPO. He previously held positions with Investec Securities, The Bell Group International and Schroders.

He is a Member of the Securities Institute and of the Petroleum Exploration Society of Great Britain. He read mathematics at Cambridge University between 1977 and 1983 both as an undergraduate and a post-graduate research student. Mr Alves is 54 years old.

Ronald Freeman
Non-Executive Director

Appointed to the Board: 14 March 2007
Committee membership: Audit, Nomination, Remuneration

Mr Freeman is a non-executive board director of Severstal (Cherepovets, Russia) and a member of the Supervisory Board of Sberbank. He is also Chairman of the Executive Committee of the Atlantic Council (Washington DC), a member of the International Advisory Committee of Columbia Law School (New York); and, co-chairman of the finance committee of the UK-US Fulbright Commission (London). From 1973 to 1991 and from 1997 until his retirement from Citigroup as co-head of European Investment Banking in 2000, he was an investment banker specialising in financing and mergers and acquisition for companies in the oil and gas industry with Salomon Brothers, now a unit of Citigroup. From 1991 to 1997, he was head of the Banking Department of the European Bank for Reconstruction and Development (London). Prior to that, he practiced law with Baker & McKenzie (Paris) and served as a management consultant in the Paris office of McKinsey & Company.
Mr Freeman was born in New York and has dual US and UK citizenship. He has a B.A from Lehigh University and an LL.B. from Columbia Law School (1964). He was admitted to the Bar of the State of New York. He is 74 years old.

Stephen Ogden
Non-Executive Director

Appointed to the Board: 14 March 2007
Committee membership: Audit, Nomination, Remuneration

Mr Ogden is the Founder and Managing Partner of the First Montenegro Stone Property Fund, and a non-executive director of shopping mall operator Persianas Nigeria. Mr Ogden was previously a non-executive director of United Confectioneries (Russia), Heineken Russia and Metropolis Media (former Yugoslavia). He was Chief Financial Officer of the Bochkarev Brewery in St. Petersburg from 1997 to 2002. Prior to becoming Chief Financial Officer of Bochkarev, Mr Ogden was an auditor with KPMG and PricewaterhouseCoopers, and Financial Controller of CS First Boston (Moscow).

Mr Ogden has a joint honours degree in economics and politics from Durham University, England, and is a qualified British chartered accountant ('FCA'). Mr Ogden is active in British politics. He is a former Conservative Councillor of Altrincham, Cheshire and his name is on the approved list of Conservative Parliamentary candidates. Mr Ogden is a co-founder and treasurer of the charitable Rwanda Cricket Stadium Foundation. Mr Ogden is 46 years old.

Michael Calvey
Non-Executive Director

Appointed to the Board: 14 March 2007
Committee membership: Audit, Nomination

Mr Calvey is a Senior Partner of Baring Vostok Capital Partners and a Director of Baring Private Equity International and is on the Boards of several of Baring Vostok's portfolio companies. He began working in Moscow in 1994 as one of the members of the consulting committee of the First NIS Regional Fund. He is a member of the investment committees of three Baring Vostok funds. He is also a member of the Investment Committees of the Baring Asia and Baring India funds. Before 1994, Mr Calvey lived in London and New York, where he worked at the European Bank for Reconstruction and Development ("EBRD") and Salomon Brothers. At EBRD he was responsible for investments in the energy sector of Central and Eastern Europe. At Salomon Brothers Mr Calvey worked on mergers and acquisitions and capital market projects in the oil and gas sector. He is a member of the Boards of the Atlantic Council and the Emerging Markets Private Equity Association, and is a member of the Advisory Board of the Centre for International Business and Management at Cambridge University. Mr Calvey is 46 years old.

Vladimir Koshcheev
Non-Executive Director

Appointed to the Board: 14 March 2007
Committee membership: n/a

Mr Koshcheev currently acts as President of Joint Stock Company "NPO POG". Until 2009 he was President of Pervaya Investizionno–Stroitelnaya Company LLC, Spinaker LLC. He has been Chairman of CJSC AKSM since 2002. Mr Koshcheev was President of Privolzhskaya Neftyanaya Company LLC between 2003 and 2005 and was previously a shareholder in and acted as President of Vesla.

Mr Koshcheev received a specialist diploma from Moscow State Technical University in 1978 and he is a member of the Russian Academy of Natural Sciences. Mr Koshcheev is 57 years old.

Corporate Governance Statement

Introduction
The Board's overriding objective is to ensure that the Group delivers long-term capital appreciation for its shareholders.

Compliance
As Volga Gas plc is listed on AIM, it is neither required to comply with the UK Corporate Governance Code that was published in September 2012 by the Financial Reporting Council (the "Code) nor issue a statement of compliance with it. Nevertheless, the Board fully supports the principles set out in the Code and seeks to follow these as best practice wherever this is appropriate; having regard to the size of the Company, the resources available to it and the interpretation of the Code in the Quoted Companies Alliance Corporate Governance Code for Small and Mid-sized Quoted Companies.

Details are provided below of how the Company applies the elements of the Code that are deemed appropriate.

Board of directors
Role of the Board
The Board's role is to provide leadership to the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic aims and ensures that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management's performance in meeting these objectives. The Board sets and monitors the Group's values and standards and ensures that the Group's obligations to shareholders and other stakeholders are understood and met.

The Board has a formal schedule of matters reserved for its approval, including:
- Strategic and policy considerations
- Annual budget, including capital expenditure
- Interim and final financial statements
- Management structure and appointments
- Mergers, acquisitions, disposals
- Capital raising
- Significant changes in accounting policies
- Appointment or removal of directors or the company secretary

Board composition
The Board currently comprises two executive directors and five non-executive directors, of whom three are deemed to be independent and two non-independent:
- Aleksey Kalinin – Non-Executive Chairman
- Mikhail Ivanov – Executive Director and CEO
- Tony Alves – Executive Director, CFO and Company Secretary
- Ronald Freeman – Independent Non-Executive
- Stephen Ogden – Independent Non-Executive
- Vladimir Koshcheev – Independent Non-Executive
- Michael Calvey – Non-Executive

There is a clear division of responsibilities between the executive and non-executive directors.

Board balance and independence
The Board recognises that Messrs Kalinin and Calvey are not independent by virtue of their direct management responsibilities for the limited partnerships comprising Baring Vostok Private Equity Funds III and IV, the Company's controlling shareholder ("Controlling Shareholder"). However, in light of the value, experience and contacts which they afford to the Company at this stage of its development and by virtue of the Relationship Agreement, which, inter alia, ensures that the Controlling Shareholder does not exercise undue influence over the Company or prevent it from acting independently of the Controlling Shareholder, the Board believes that the continued presence of Messrs Kalinin and Calvey on the board is beneficial for the Company. Mr Kalinin also serves as Chairman of the Board and was not considered to be independent on his appointment.

Notwithstanding under the provisions of the UK Corporate Governance Code as a Smaller Company the Company meets the requirements to have at least two independent non-executives on the Board.

All directors are permitted access to independent professional advice in the course of execution of their duties, at the Company's expense.

The Board has established the following committees:

Audit Committee
The Audit Committee was appointed in March 2007 and comprises three directors:
Mr Ogden – Chairman
Mr Freeman
Mr Calvey

The Audit Committee is responsible for selecting the Group's independent auditors, pre-approving all audit and non-audit related services, reviewing with management and the independent auditors the Group's financial statements, significant accounting and financial policies and practices, audit scope and adequacy of internal audit and control systems. The Audit Committee keeps the independence and objectivity of the auditor under review and a formal statement of independence is received from the external auditor each year. The audit committee meets at least twice each year.

Remuneration Committee
The Remuneration Committee was also appointed in March 2007 and comprises three directors:
Mr Freeman – Chairman
Mr Ogden
Mr Kalinin

The Remuneration Committee is responsible for reviewing the performance of the directors and for determining compensation of the Company's key employees, including the chief executive officer, chief financial officer, and other key personnel as may be determined from time to time by the Remuneration Committee. The Remuneration Committee meets at least twice each year.

The Directors' Remuneration Report is set out on pages 21 to 22.

Nomination Committee
The Nomination Committee was appointed in March 2007 and comprises three directors:
Mr Freeman – Chairman
Mr Ogden
Mr Calvey

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendations to the Board concerning plans for succession for both executive and non-executive directors including the Chief Executive and other senior management, preparing a description of the role and capabilities required for a particular appointment and identifying and nominating candidates to fill Board positions as and when they arise.

Board meetings

The Board met four times during the year ended 31 December 2013 (2012: five times) with the following attendance:

	2013	2012
Aleksey Kalinin	4	5
Mikhail Ivanov	4	6
Tony Alves	4	6
Ronald Freeman	3	6
Stephen Ogden	4	6
Vladimir Koshcheev	4	4
Michael Calvey	4	6

Indemnification of directors

In accordance with the Company's Articles of Association and to the extent permitted by the law of England and Wales, directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which the directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year. This policy has been renewed for the next financial year.

Re-election of directors

The Company requires that all directors stand for re-election at intervals of no more than three years. Accordingly Messrs Alves, Freeman and Ogden will retire at the forthcoming AGM and will seek re-election by shareholders.

Internal controls

The directors acknowledge their responsibility for the system of internal controls for the Group and for reviewing its effectiveness. Any system of internal control can only provide reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated.

The Group's risk and controls framework covers all material risks and controls including those of an operational, financial, and compliance nature. Internal control procedures consist, inter alia, of formal delegations of expenditure authority by the Board to executive management, and controls relating to key stages of transactions including supplier approval, contract signature, and payment release.

The directors consider that the frequency of Board meetings and level of detail presented to the Board for its consideration in relation to the operations of the Group provide an appropriate process to identify, evaluate and manage significant risks relevant to its operations on a continuous basis, and this process is considered to be in accordance with the revised guidance on internal control published in October 2005 ("Turnbull Guidance").

In addition to formal Board meetings, management prepare detailed financial and operational reports on a monthly basis which is disseminated and discussed within the Board.

Investor relations

The Company places considerable importance on communication with shareholders and engages them on a wide range of issues. The Group has an ongoing programme of dialogue and meetings between the executive directors and institutional investors, fund managers and analysts. At these meetings a wide range of relevant issues including strategy, performance, management and governance are discussed within the constraints of the information already made public.

The Company is equally interested in the views and concerns of private shareholders and to this end ensures that the executive directors present the Company at forums where private investors are present.

Shareholders have the opportunity to meet and question the Board at the AGM which will be held on 6 June 2014, at which the chairman, the chairman of the Audit Committee and all executive directors will be available. The notice of the AGM is posted to all shareholders at least 21 working days before the meeting. Financial and other information is available on the Company's website (www.volgagas.com).

By order of the Board

Tony Alves
Company Secretary
31 March 2014

Report of the Directors

The directors present their report together with the Group's audited consolidated financial statements for the period from 1 January 2013 to 31 December 2013.

Results and dividend

The Group's results are set out on pages 24 to 28 and show net profit of US$8.6 million for the year to 31 December 2013 (2012: net loss of US$7.4 million). The directors do not propose to pay a dividend for the year ended 31 December 2013 (2012: nil).

Principal activities, business review and future developments

Volga Gas is a public limited company registered in England and Wales with registered number 5886534, was incorporated in the United Kingdom on 25 July 2006 and listed on AIM on 25 April 2007. Volga Gas operates primarily through subsidiary companies as set out in Note 2.2 to the accounts. The principal activity of the Group is the exploration, development and production of its gas, condensate and oil fields in the Volga Region of European Russia. During the year, the Group owned 100% interests in five licence areas in the Saratov and Volgograd regions: Karpenskiy, Vostochny-Makarovskoye, Dobrinskoye, Pre-Caspian and Urozhainoye-2. Since the year end, the Group has relinquished the Pre-Caspian Licence and the exploration areas of the Urozhainoye-2 Licence.

The Group's business strategy is to continue the development of the Vostochny Makarovskoye field and to manage production on the Dobrinskoye and Uzenskoye fields whilst at the same time exploring the potentially prospective structures on the Group's licence areas. The Group also regularly evaluates acquisition opportunities as part of its overall growth strategy.

Highlights of the Group's activities for the period ended 31 December 2013 are:

- Completion of a programme to upgrade the gas processing facility at the site of the Dobrinskoye gas/condensate field.
- Receipt of construction approvals enabling significant increases in gas plant throughput.
- Significant increase in production from the Vostochny Makarovskoye field.

The Group's activities are described in greater detail in the Chief Executive's Report on page 6 and in the Operational Review on pages 8 and 9. The principal risks associated with the Group's activities are set out in the Financial Review on pages 10 to 11.

Key performance indicators

Given the nature of the business and that the Group has only two operating fields, the directors are of the opinion that further analysis using KPI's is not appropriate for an understanding of the development, performance or position of our business at this time. The directors are of the opinion that the Operational Review on pages 8 and 9 provides the relevant information.

Going concern

Having made appropriate enquiries and having examined the major areas that could affect the Group's financial position, the directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly they consider it appropriate to adopt the going concern basis in preparing the financial statements as described in note 1.

Directors

The directors who served during the year were:
Aleksey Kalinin, Non-Executive Chairman
Mikhail Ivanov, Chief Executive Officer
Michael Calvey, Non-Executive
Tony Alves, Chief Financial Officer
Ronald Freeman, Non-Executive
Vladimir Koshcheev, Non-Executive
Stephen Ogden, Non-Executive

Messrs Kalinin, Koshcheev and Freeman will retire by rotation and offer themselves for re-election in accordance with the Company's Articles of Association.

Directors' interests

The directors serving during the year had the following beneficial interests in the shares of the Company:

	Ordinary shares of 0.01p each	
	31 December 2013	31 December 2012
Aleksey Kalinin[1]	–	–
Mikhail Ivanov	1,000,000	1,000,000
Tony Alves	25,000	25,000
Ronald Freeman	55,000	55,000
Stephen Ogden	205,000	105,000
Vladimir Koshcheev[2]	469,210	600,000
Michael Calvey[1]	–	–

1 Mr Calvey and Mr Kalinin are Co-Managing Partners of Baring Vostok Capital Partners Limited, a related party to Baring Vostok Nominees Limited and Dehus Dolmen Nominees Limited. As such Mr Calvey and Mr Kalinin have an indirect beneficial interest in the Company.
2 On 23 January 2014, Mr Koshcheev disposed of 50,000 shares and his beneficial interest in the Company consequently reduced to 419,210 shares.

Substantial shareholders

On 28 March 2014 the following parties had notifiable interests of 3% or greater in the nominal value of the Company's issued 0.01p ordinary shares:

	Number of shares	Percentage
Baring Vostok Nominees Ltd[1]	39,620,000	48.90
Dehus Dolmen Nominees Ltd[2]	7,906,889	9.76
JP Morgan Asset Management (UK) Limited	4,404,600	5.55
BlackRock Investment Management (UK) Limited	2,464,008	3.04
BNP Paribas Investment Partners S.A.	2,450,000	3.02
Zürcher Kantonal Bank AG	2,435,000	3.00

1 Baring Vostok Nominees Ltd is a nominee vehicle which holds the interests of the limited partnerships which comprise Baring Vostok Private Equity Fund III.
2 Dehus Dolmen Nominees Ltd is a nominee vehicle which holds the interests of the limited partnerships which comprise Baring Vostok Private Equity Fund IV.

Options granted
An Executive Share Option Plan was adopted by the Company in July 2008 following which options over a total of 1,706,196 shares were granted to Mikhail Ivanov and to Tony Alves. During 2013 no further options (2012: options over 379,154 shares) were eligible for vesting. The details of these option grants are disclosed in the Remuneration Report below.

Interests in contracts
There were no contracts or arrangements during the period in which a director of the Company was materially interested and which were significant in relation to the business of the Company.

Creditors payment policy and practice
The Group aims to pay all its creditors promptly. For trade creditors it is the Group's policy to:
(i) agree the terms of the payment at the start of the business with that supplier;
(ii) ensure that suppliers are aware of the terms of the payment; and
(iii) pay in accordance with contractual and other obligations

Political and charitable contributions
No political or charitable contributions were made in the year (2012: nil).

Employment policies
The Group is committed to pursuing an equal opportunities employment policy, covering recruitment and selection, training, development, appraisal and promotion. The Group recognises the diversity of its employees, its customers, and the community at large and seeks to use employees' talents to the fullest. This approach extends to the fair treatment of people with disabilities, in relation to their recruitment, training and development. Full consideration is given to staff members who become disabled during employment.

Employee communication
The Group is committed to effective communications, which it maintains through regular information releases and staff briefings. Formal communications with employees take place through these channels. With respect to the Group's operations in Russia and the recruitment of Russian employees, announcements, contracts, interviews and advertisements are conducted in the English and Russian languages, as applicable.

Health, safety and the environment
The Group's policy and practice is to comply with health, safety and environmental regulations and requirements of the countries in which it operates, to protect its employees, contractors, assets and the environment.

The Company closely monitors its environmental obligations under the terms of its licence agreements. In particular, portions of the Karpenskiy Licence Area are located in the Saratovskiy Federal Nature Reserve and Tulipannaya Steppe Natural Sanctuary, which are protected by Russian environmental law. In accordance with Russian environmental law, all economic activity within the protected area is approved by the Russian government. The Company has ensured that all its activities minimise the impact on this sensitive environment.

UK Bribery Act
The Company has adopted Anti-Corruption and Anti-Bribery Policies and a framework of adequate procedures for managing the Volga Gas Group's responsibilities in relation to the UK Bribery Act 2010.

Share capital
The Company has authorised ordinary share capital of 330,720,100 shares of 1p each. Under a special resolution by the shareholders of the Company on 8 June 2013 the directors have authority to allot shares up to an aggregate nominal value of £1,000,000 of which £150,000 could be issued non-pre-emptively, in accordance with sections 570 and 573 of the Companies Act 2006. This authority will expire the earlier of (i) 15 months from the passing of the Resolution, or (ii) the conclusion of the Annual General Meeting of the Company to be held in 2013.

Capital risk management
The Group's objectives when managing the balance of equity and debt capital are (a) to safeguard the Group's ability to continue as a going concern, (b) provide returns for shareholders and benefits for other stakeholders and (c) to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. To date the Group has been funded entirely by equity capital.

Corporate Governance
The Company's statement on Corporate Governance can be found in the Corporate Governance Statement on pages 16 to 17 of these financial statements and form part of this report by reference.

Statement of disclosure of information to auditors
As at the date of this report the serving directors confirm that:
- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors
The Group's auditors, KPMG Audit Plc has instigated an orderly wind down of business. The Board has decided to put KPMG LLP forward to be appointed as auditors and a resolution concerning the appointment will be put forward to the forthcoming Annual General Meeting of the Company.

Report of the Directors continued

Statement of directors' responsibilities in respect of the annual report, strategic report and the directors' report and the financial statements

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

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Electronic communications

The maintenance and integrity of the Volga Gas plc website (www.volgagas.com) is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The Company's website is maintained in compliance with AIM Rule 26.

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

On behalf of the Board

Tony Alves
Chief Financial Officer
31 March 2014

Directors' Remuneration Report

In common with the Board's commitment to compliance with the Combined Code, the Company has adopted the Principles of Good Governance relating to directors' remuneration. The Company discloses certain information relating to directors' remuneration in this report, which is not audited.

Remuneration Committee

The Company established a Remuneration Committee in April 2007, as set out in Corporate Governance on pages 16 to 17.

The Remuneration Committee advises the Board on Group compensation policy as it relates to executive directors and other key members of management, and may obtain advice from independent remuneration consultants appointed by the Company. The Remuneration Committee comprises Ronald Freeman (Chairman), Stephen Ogden and Aleksey Kalinin, who are all deemed to be non-executive directors. Executive directors may be invited to attend meetings of the Remuneration Committee but do not vote on their own remuneration or incentives. The Remuneration Committee meets as required.

Remuneration policy

The Company's policy is to maintain levels of compensation for the Group that are comparable and competitive with peer group companies, so as to attract and retain individuals of the highest calibre, by rewarding them as appropriate for their contribution to the Group's performance.

Executive Directors' employment agreement and terms of appointment

The terms of each executive director's appointment are set out in their service agreements. Each executive director agreement is based on similar terms, with no fixed duration. Each service agreement sets out details of basic salary and share options as applicable.

All executive director employment agreements can be terminated either by the director concerned or by the Company on giving six months' notice during the first 24 months of service and thereafter by giving three months' notice.

The executive directors do not participate in any Group pension scheme and their remuneration is not pensionable. However, one of the executive directors has elected to receive part of his remuneration by way of contributions to a personal pension plan. The executive directors are eligible for payment of cash bonuses and participation in any share-based incentive plan the Board implements.

Basic salaries

The basic salary of each executive director is established by reference to their responsibilities and individual performance.

Non-executive Directors' terms, conditions and fees

The non-executive directors have been engaged under the terms of their letters of appointment. These engagements are for two years and can be terminated upon one month's notice by either party. Reappointment is subject to the Company's Articles of Association which provide that one third of the directors shall be required to retire each year.

Fees

The fees paid to non-executive directors are determined by the Board and reviewed periodically to reflect current rates and practice commensurate with the size of the Company and their roles.

The remuneration of the non-executive directors is a matter for the chairman of the Board and the chief executive officer. In the event of the appointment of an independent non-executive chairman his remuneration would be a matter for the chairman of the Remuneration Committee and the chief executive officer.

Audited Information – Directors detailed emoluments

	Salary US$ 000	Pension Contribution US$ 000	Share Based Compensation US$ 000	Fees US$ 000	Aggregate Remuneration for the Year 31 December 2013 US$ 000	Aggregate Remuneration for the Year 31 December 2012 US$ 000
Executive Directors						
M. Ivanov	398	–	–	–	**398**	400
A. Alves	232	78	–	–	**310**	317
Non-Executive						
A. Kalinin	–	–	–	–	**–**	–
R. Freeman	–	–	–	50	**50**	50
S. Ogden	–	–	–	50	**50**	50
V. Koshcheev	–	–	–	–	**–**	–
M. Calvey	–	–	–	–	**–**	–

Directors' Remuneration Report continued

Directors' interests in the share capital of the Company

The Directors' interests in the share capital of the Company are disclosed in the Report of the Directors on page 18. There has been no change in the interest of any director between 1 January 2013 and the date of this report.

Directors' share options

The Company adopted an Executive Share Option Plan ("ESOP") on 14 July 2008, which was subsequently amended on 17 December 2008. Under the terms of this Plan, a maximum of 2,843,661 shares (equivalent to approximately 5% of the then issued share capital) may be allocated and subject to performance criteria and vesting periods as specified by the Remuneration Committee.

During 2008, the Company granted options to acquire 1,137,464 ordinary shares to Mikhail Ivanov under the terms of the ESOP. The options may be exercised at a price of 405p per share and vest in equal portions on May 2010, 2011 and 2012 and will remain outstanding until May 2017. On 17 December 2008, Tony Alves was granted options to acquire up to 568,732 ordinary shares in the Company at an exercise price of 100p per share. The options vested over a period of up to four years subject to the satisfaction of performance conditions related to the market price of the Company's shares. The vested options will remain exercisable until eight years from the date of grant. During 2013, options over no further shares became eligible for vesting (2012: 379,154 shares).

By order of the Board

Tony Alves
Company Secretary
31 March 2014

Independent Auditors' Report to the Members of Volga Gas plc

We have audited the financial statements of Volga Gas plc for the year ended 31 December 2013. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Adrian Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
31 March 2014

Group Income Statement
(presented in US$ 000)

Year ended 31 December	Notes	2013	2012 Restated
Continuing Operations			
Revenue		34,621	28,295
Cost of sales	5	(18,451)	(16,569)
Gross profit		**16,170**	**11,726**
Exploration and evaluation expense	5	(2,519)	(8,475)
Operating and administrative expenses	5	(4,029)	(8,969)
Write off of development assets	5	(1,439)	(188)
Operating profit/(loss)		**8,183**	**(5,906)**
Interest income	6	45	185
Interest expense		(281)	(415)
Other losses – net	7	1,648	(172)
Profit/(loss) for the year before tax		**9,595**	**(6,308)**
Current income tax	8	–	–
Deferred income tax	8	(1,036)	(1,113)
Profit/(loss) for the year		**8,559**	**(7,421)**
Attributable to:			
The owners of the Parent Company		**8,559**	**(7,421)**
Basic and diluted loss per share (in US dollars)	9	0.11	(0.09)
Weighted average number of shares outstanding		*81,017,800*	*81,017,800*

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the Parent Company income statement. The loss for the Parent Company for the year was US$1,338,000 (2011: US$1,432,000)

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

Year ended 31 December	2013	2012
Profit/(loss for the year attributable to equity shareholders of the Company	**8,559**	**(7,421)**
Other comprehensive income:		
Currency translation differences	(8,242)	6,677
Total comprehensive income (expense) for the year	**317**	**(744)**
Attributable to:		
The owners of the Parent Company	**317**	**(744)**

The accompanying notes on pages 29 to 44 are an integral part of these financial statements.

Group Balance Sheet
(presented in US$ 000)

At 31 December	Notes	Group 2013	Group 2012
Assets			
Non-current assets			
Intangible assets	10	6,438	9,646
Property, plant and equipment	11	98,272	103,703
Other non-current assets	12	709	798
Deferred tax assets	8	750	2,062
Total non-current assets		**106,169**	**116,209**
Current assets			
Cash and cash equivalents	13	8,081	7,049
Inventories	14	1,793	1,235
Other receivables	15	2,869	2,330
Total current assets		**12,743**	**10,614**
Total assets		**118,912**	**126,823**
Equity and liabilities			
Equity			
Share capital	16	1,485	1,485
Share premium (net of issue costs)	16	165,873	165,873
Other reserves	17	(21,861)	(13,619)
Accumulated loss	21	(30,779)	(39,338)
Equity attributable to the shareholders of the parent		**114,718**	**114,401**
Non-controlling interests		–	–
Total equity		**114,718**	**114,401**
Non-current liabilities			
Asset retirement obligation		325	350
Long-term debt	18	–	1,586
Total non-current liabilities		**325**	**1,936**
Current liabilities			
Trade and other payables	19	3,869	4,083
Short-term debt	18	–	6,403
Total current liabilities		**3,869**	**10,486**
Total equity and liabilities		**118,912**	**126,823**

Approved by the Board of Directors on 31 March 2014 and signed on its behalf by

Mikhail Ivanov
Chief Executive Officer

Tony Alves
Chief Financial Officer

The accompanying notes on pages 29 to 44 are an integral part of these financial statements.

Group Cash Flow Statement
(presented in US$ 000)

Year ended 31 December	Notes	2013	2012
Profit/(loss) for the year before tax		**9,595**	**(6,308)**
Adjustments to loss before tax:			
Depreciation		2,616	2,280
Exploration and evaluation expense		2,519	8,359
Write off of development assets	5	1,188	–
Loan repayment by offset of gas sales		–	(1,132)
Other non-cash expenses		342	57
Foreign exchange differences		302	(262)
Operating cash flow prior to working capital		**16,652**	**2,994**
Working capital changes			
Decrease/(increase) in trade and other receivables		(870)	3,156
Increase/(decrease) in payables		315	(177)
Increase in inventory		(644)	(528)
Cash flow from operations		**15,363**	**5,445**
Income tax paid		–	(3)
Net cash flow generated from operating activities		**15,363**	**5,442**
Cash flows from investing activities			
Expenditure on exploration and evaluation	10	–	(3,408)
Purchase of property, plant and equipment	11	(6,229)	(10,319)
Net cash used in investing activities		**(6,229)**	**(13,727)**
Cash flows from financing activities			
Loans received		–	10,124
Loans repaid		(8,097)	(5,294)
Net cash provided by financing activities		**(8,097)**	**4,830**
Effect of exchange rate changes on cash and cash equivalents		(5)	405
Net decrease in cash and cash equivalents		**1,032**	**(3,050)**
Cash and cash equivalents at beginning of the year	13	7,049	10,099
Cash and cash equivalents at end of the year	13	**8,081**	**7,049**

The accompanying notes on pages 29 to 44 are an integral part of these financial statements.

Company Balance Sheet

(presented in US$ 000)

Company registration number: 05886534

At 31 December	Notes	Company 2013	Company 2012
Assets			
Non-current assets			
Investments	21	152,234	152,234
Intercompany receivables		15,697	16,040
Total non-current assets		**167,931**	**168,274**
Current assets			
Cash and cash equivalents	13	201	1,017
Other receivables		29	62
Total current assets		**230**	**1,079**
Total assets		**168,161**	**169,353**
Equity and liabilities			
Equity			
Share capital	16	1,485	1,485
Share premium (net of issue costs)	16	165,873	165,873
Other reserves	17	5,233	5,233
Accumulated loss	18	(5,797)	(4,610)
Total equity		**166,794**	**167,981**
Current liabilities			
Intercompany payables		**1,357**	**1,357**
Trade and other payables	20	10	15
Total current liabilities		1,367	1,372
Total equity and liabilities		**168,161**	**169,353**

Approved by the Board of Directors on 31 March 2014 and signed on its behalf by

Mikhail Ivanov
Chief Executive Officer

Tony Alves
Chief Financial Officer

The accompanying notes on pages 29 to 44 are an integral part of these financial statements.

Group Statement of Changes in Shareholders' Equity
(presented in US$ 000)

Attributable to the equity shareholders of the Company	Share Capital	Share Premium	Currency Translation Reserves	Share Grant Reserves	Accumulated Loss	Total Equity
Opening equity at 1 January 2012	**1,485**	**165,873**	**(25,529)**	**5,233**	**(31,917)**	**115,145**
Loss for the year	–	–	–	–	(7,421)	(7,421)
Transactions with owners						
Share capital issued	–	–	–	–	–	–
Share issue costs	–	–	–	–	–	–
Share-based payments	–	–	–	–	–	–
Total transactions with owners	–	–	–	–	–	–
Currency translation differences	–	–	6,677	–	–	6,677
Total comprehensive income	–	–	6,677	–	(7,421)	(744)
Closing equity at 31 December 2012	**1,485**	**165,873**	**(18,852)**	**5,233**	**(39,338)**	**114,401**
Opening equity at 1 January 2013	**1,485**	**165,873**	**(18,852)**	**5,233**	**(39,338)**	**114,401**
Profit for the year	–	–	–	–	8,559	8,559
Transactions with owners						
Share capital issued	–	–	–	–	–	–
Share issue costs	–	–	–	–	–	–
Share-based payments	–	–	–	–	–	–
Total transactions with owners	–	–	–	–	–	–
Currency translation differences	–	–	(8,242)	–	–	(8,242)
Total comprehensive income	–	–	(8,242)	–	8,559	317
Closing equity at 31 December 2013	**1,485**	**165,873**	**(27,094)**	**5,233**	**(30,779)**	**114,718**

Company Statement of Changes in Shareholders' Equity
(presented in US$ 000)

	Share Capital	Share Premium	Share-based Payment Reserves	Accumulated Loss	Total Equity
Opening equity as at 1 January 2012	**1,485**	**165,873**	**5,233**	**(3,272)**	**169,319**
Loss for the year				(1,338)	(1,338)
Share capital issued	–	–	–	–	–
Share Issue costs	–	–	–	–	–
Share-based payments	–	–	–	–	–
Closing equity at 31 December 2012	**1,485**	**165,873**	**5,233**	**(4,610)**	**167,981**
Opening equity as at 1 January 2013	**1,485**	**165,873**	**5,233**	**(4,610)**	**167,981**
Loss for the year	–	–	–	(1,187)	(1,187)
Share capital issued	–	–	–	–	–
Share Issue costs	–	–	–	–	–
Share-based payments	–	–	–	–	–
Closing equity at 31 December 2012	**1,485**	**165,873**	**5,233**	**(5,797)**	**166,794**

The accompanying notes on pages 29 to 44 are an integral part of these financial statements.

Notes to the IFRS Consolidated Financial Statements

For the year ended 31 December 2013

(presented in US$ 000)

1. General information

Volga Gas plc (the "Company" or "Volga") is a public limited company registered in England and Wales with registered number 5886534. The Company was incorporated on 25 July 2006. The principal activities of the Company and its subsidiaries (the "Group") are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in the Volga Region of the Russian Federation. Its registered office is at Ground floor, 17-19 Rochester Row, London, SW1P 1QT. The Company's shares are listed on the Alternative Investment Market of the London Stock Exchange.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 31 March 2014.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

Both the Parent Company financial statements and the Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the European Union ("EU"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations, and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

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

No income statement is presented for Volga Gas plc as permitted by Section 408 of the Companies Act 2006.

The Group's business activities, together with the factors likely to affect its future development, performance and position set out in the Strategic Report on pages 5 to 13; the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on page 10. In addition, the Group's objectives, policies and processes for measuring capital, financial risk management objectives, details of financial instruments and exposure to credit and liquidity risks are described in note 3. Having reviewed the future cash flow forecasts of the Group, the directors have concluded that the Group will continue to have access to sufficient funds in order to meet its obligations as they fall due for at least the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Following a review by management, it was decided, as of 2013, to allocate property tax expenses from Other Operating and Administrative costs to Cost of Sales as this more accurately reflects the nature of the expenses. The respective prior year costs have been restated accordingly.

Disclosure of impact of new and future accounting standards

(a) New and amended standards and interpretations adopted by the Group:

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2013 that have a material impact on the Group.

(b) Amended standards and interpretations not relevant to the Group:

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2013, but are not currently relevant for the Group:

- Amendment to IAS 12,"Income taxes" on deferred tax

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group. The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- IFRS 10 "Consolidated financial statements" (effective 1 January 2014)
- IFRS 12 "Disclosures of interests in other entities" (effective 1 January 2014)
- IFRS 11, "Joint arrangements" (effective 1 January 2014)
- IAS 27 (revised 2011) "Separate financial statements" (effective 1 January 2014)
- IAS 28 (revised 2011) "Associates and joint ventures" (effective 1 January 2014)
- IAS 32 "Offsetting financial assets and liabilities" (effective 1 January 2014)
- Transition guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12, effective 1 January 2014). The amendments simplify the transition to these new standards and provide additional relief from disclosures.

The Group is yet to assess the full impact of these new standards and amendments but does not expect them to have a material impact on the financial statements.

2.2 Consolidation

(a) Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are entities in which the Group directly or indirectly owns more than 50% of the voting stock or otherwise has the power to govern the financial and/or operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

The Company and its subsidiaries outside the Russian Federation maintain their financial statements in accordance with IFRSs as adopted by the EU. The Russian subsidiaries of the Group maintain their statutory accounting records in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The consolidated financial statements are based on these statutory accounting records, appropriately adjusted and reclassified for fair presentation in accordance with International

Notes to the IFRS Consolidated Financial Statements continued

2. Summary of significant accounting policies continued
Financial Reporting Standards as adopted by the EU.

A list of the Company's subsidiaries is provided in Note 21.

2.3 Segment reporting
Segmental reporting follows the Group's internal reporting structure.

Operating segments are defined as components of the Group where separate financial information is available and reported regularly to the chief operating decision maker ("CODM"), which is determined to be the Board of Directors of the Company. The Board of Directors decide how to allocate resources and assesses operational and financial performance using the information provided.

The CODM receives monthly IFRS based financial information for the Group and its development and production entities. There were three development and production entities during both 2012 and 2013. Management has determined that the operations of these production and development entities are sufficiently homogenous (all are concerned with upstream oil and gas development and production activities) for these to be aggregated for the purpose of IFRS 8, "Operating Segments". The Group has other entities that engage as either head office or in a corporate capacity or as holding companies. Management has concluded that due to application of the aggregation criteria that separate financial information for segments is not required.

No geographic segmental information is presented as all of the companies 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.

There is no concentration of sales with any major customer that is required to be separately disclosed.

2.4 Foreign currency translation
(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and the Group's presentation currency.

The functional currency of the Group's subsidiaries that are incorporated in the Russian Federation is the Russian rouble ("RUR"). It is the Management's view that the RUR best reflects the financial results of its Cyprus subsidiaries because they are dependent on entities based in Russia that operate in an RUR environment in order to recover their investments. As a result, the functional currency of the subsidiaries continues to be the RUR.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to cash and cash equivalents, borrowings and other foreign exchange gains and losses are presented in the income statement within "Other gains and losses".

(c) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
(i) assets and liabilities for each balance sheet item presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(iii) all resulting exchange differences are recognised in other comprehensive income.

The major exchange rates used for the revaluation of the closing balance sheet at 31 December 2013 were
- GBP1.6488 : US$ (2012: GBP1 : US$1.6242)
- EUR1.374 : US$ (2012: 1.3215)
- US$1 : 32.729 RUR. (2012: US$1 : RUR. 30.558)

2.5 Oil and gas assets
The Company and its subsidiaries apply the successful efforts method of accounting for Exploration and Evaluation ("E&E") costs, in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources". Costs are accumulated on a field-by-field basis.

Capital expenditure is recognised as property, plant and equipment or intangible assets in the financial statements according to the nature of the expenditure and the stage of development of the associated field, i.e. exploration, development, production.

(a) Exploration and evaluation assets
Costs directly associated with an exploration well, including certain geological and geophysical costs, and exploration and property leasehold acquisition costs, are capitalised as intangible assets until the determination of reserves is evaluated. If it is determined that a commercial discovery has not been achieved, these costs are charged to expense after the conclusion of appraisal activities. Exploration costs such as geological and geophysical that are not directly related to an exploration well are expensed as incurred.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development assets. No depreciation or amortisation is charged during the exploration and evaluation phase.

(b) Development assets
Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells into commercially proven reserves, is capitalised within property, plant and equipment. When development is completed on a specific field, it is transferred to producing assets as part of property, plant and equipment. No depreciation or amortisation is charged during the development phase.

(c) Oil and gas production assets
Production assets are accumulated generally on a field by field basis and represent the cost of developing the commercial reserves discovered and bringing them into production together with E&E expenditures incurred in finding commercial reserves and transferred from the intangible E&E assets as described above.

2. Summary of significant accounting policies continued
The cost of production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised and the cost of recognising provisions for future restoration and decommissioning.

Where major and identifiable parts of the production assets have different useful lives, they are accounted for as separate items of property, plant and equipment. Costs of minor repairs and maintenance are expensed as incurred.

(d) Depreciation/amortisation
Oil and gas properties are depreciated or amortised using the unit-of-production method. Unit-of-production rates are based on proved and probable reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

(e) Impairment – exploration and evaluation assets
Exploration and evaluation assets are tested for impairment prior to reclassification to development tangible assets, or whenever facts and circumstances indicate that an impairment condition may exist. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

(f) Impairment – proved oil and gas production properties
Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped together where the cash flows of each field are interdependent, for instance where surface infrastructure is used by one or more fields in order to process production for sale.

(g) Decommissioning
Provision is made for the cost of decommissioning assets at the time when the obligation to decommission arises. Such provision represents the estimated discounted liability (the discount rate used currently being at 10% per annum) for costs which are expected to be incurred in removing production facilities and site restoration at the end of the producing life of each field. A corresponding item of property, plant and equipment is also created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure attributable to changes in the estimates of the cash flow or the current estimate of the discount rate used are reflected as an adjustment to the provision and the property, plant and equipment. The unwinding of the discount is recognised as a finance cost.

2.6 Other business and corporate assets
Property, plant and equipment not associated with exploration and production activities are carried at cost less accumulated depreciation. These assets are also evaluated for impairment when circumstances dictate.

Land is not depreciated. Depreciation of other assets is calculated on a straight line basis as follows:

Machinery and equipment	6–10 years
Office equipment in excess of US$5,000	3–4 years
Vehicles and other	2–7 years

2.7 Financial assets
The Group classifies its financial assets in the following categories:

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. This category comprises derivatives unless they are effective hedging instruments. The Group had no financial assets in this class as at 31 December 2013 or 31 December 2012.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category comprises trade and other receivables, term bank deposits and cash and cash equivalents in balance sheet.

2.8 Inventories
Crude oil inventories are stated at the lower of cost of production and net realisable value. Materials and supplies inventories are recorded at average cost and are carried at amounts which do not exceed the expected recoverable amount from use in the normal course of business. Cost comprises direct materials and, where applicable, direct labour plus attributable overheads based on a normal level of activity and other costs associated in bringing inventories to their present location and condition.

2.9 Trade and other receivables
Trade and other receivables are recorded initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2.10 Cash and cash equivalents
Cash and cash equivalents include cash in hand, and deposits held at call with banks.

2.11 Share capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the IFRS Consolidated Financial Statements continued

2. Summary of significant accounting policies continued

2.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.14 Employee benefits

(a) Share-based compensation

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The option plan currently in place for certain of the Directors is an equity settled share option plan.

The Company measures the equity instruments granted to employees at the fair value at grant date. The fair value of fully-vested shares is expensed immediately. The fair value of shares with vesting requirements is estimated using Black-Scholes' option pricing model. This value is recognised as an expense over the vesting period on a straight-line basis. The estimate is revised, as necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

(b) Social obligations

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave, sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

2.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of oil and gas in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of oil or gas is recognised when the oil/gas is delivered to customers and title has transferred. In 2013 and 2012 , the Group's revenue related to sales of crude oil and condensate collected directly by customers and gas sales made at the entry to the gas distribution system.

2.16 Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

2.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market Risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the Russian Ruble. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

3. Financial risk management continued

At 31 December 2013, if the US dollar had weakened/strengthened by 5% against the RUR with all other variables held constant, post-tax profit for the year would have been US$50,250 (2012: US$40,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of RUR denominated trade payables and financial assets. At 31 December 2013, if the US dollar had weakened/strengthened by 5% against the Euro ("EUR") with all other variables held constant, post-tax profit for the year would have been US$1,200 (2012: US$197,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR denominated interest charges and financial liabilities. At 31 December 2013, if the US dollar had weakened/strengthened by 5% against the pound sterling ("GBP") with all other variables held constant, post-tax profit for the year would have been US$1,500 (2012: US$5,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of GBP denominated trade payables and financial assets.

The following table shows the currency structure of financial assets and liabilities:

At 31 December 2013	Rubles US$ 000	US Dollars US$ 000	Euros US$ 000	Sterling US$ 000	Total US$ 000
Financial assets					
Cash and cash equivalents	6,836	1,226	17	2	8,081
Total financial assets	**6,836**	**1,226**	**17**	**2**	**8,081**
Financial liabilities (before provision for UK taxes)	2,979	–	–	–	2,979

At 31 December 2012	Rubles US$ 000	US Dollars US$ 000	Euros US$ 000	Sterling US$ 000	Total US$ 000
Financial assets					
Cash and cash equivalents	2,790	4,165	25	69	7,049
Total financial assets	**2,790**	**4,165**	**25**	**69**	**7,049**
Financial liabilities (before provision for UK taxes)	4,068	3,987	4,002	11	12,068

No foreign exchange forward contracts were used in 2013 or 2012.

(ii) Price risk

The Group is not exposed to price risk as it does not hold financial instruments of which the fair values or future cash flows will be affected by changes in market prices.

(iii) Cash flow and fair value interest rate risk

As the Group currently has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

The Group's maximum credit risk exposure is the fair value of each class of assets, presented in note 3.1(a)(i) of US$8,081,000 and US$7,049,000 at 31 December 2013 and 2012 respectively.

The Group's principal financial asset is cash and credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. It is the Group's policy to monitor the financial standing of these assets on an ongoing basis. Bank balances are held with reputable and established financial institutions.

The Group's oil and condensate sales are undertaken on a prepaid basis and accordingly the Group has no trade receivables and consequently no credit risk associated with the related trade receivables. Gas sales accounting for 24.7% of Group revenues in 2013 (2012: 9.8%) are made to OOO Trans Nafta. As at 31 December 2013 there were trade receivables of US$1.8 million (31 December 2012: nil) primarily relating to gas sales.

Rating of financial institution (S&P)	31 December 2013	31 December 2012
A+	313	1,147
BBB+	7,132	5,296
BBB-	489	517
Other	147	89
Total bank balance	**8,081**	**7,049**

(c) Liquidity risk

Cash flow forecasting is performed by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. The Group believes it has at least sufficient liquidity headroom to fund its currently planned exploration and development activities.

Notes to the IFRS Consolidated Financial Statements continued

3. Financial risk management continued

The Group expects to fund its capital investments, as well as its administrative and operating expenses, through 2013 using a combination of cash generated from its oil and gas production activities, existing working capital and, when appropriate, medium term bank borrowings. If the Group is unsuccessful in generating enough liquidity to fund its expenditures, the Group's ability to execute its long-term growth strategy could be significantly affected. The Group may need to raise additional equity or debt finance as appropriate to fund investments beyond its current commitments.

(d) Capital risk

The Group manages capital to ensure that it is able to continue as a going concern whilst maximising the return to shareholders. The Group is not subject to any externally imposed capital requirements. The Board regularly monitors the future capital requirements of the Group, particularly in respect of its ongoing development programme. During 2012 management decided that having established a track record of reliable cash generation it was appropriate to introduce a modest proportion of debt into the capital structure and as such a loan of US$10m was taken and which was fully repaid by 31 December 2013. Management expects that the cash generated by the operating fields will be sufficient to sustain the Group's operations and future capital investment for the foreseeable future. Further short-term debt facilities may be arranged to provide financial headroom for future development activities.

3.2 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group has no financial assets and liabilities that are required to be measured at fair value.

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Carrying value of fixed assets, intangible assets and impairment

Fixed assets are assessed for impairment when events and circumstances indicate that an impairment condition may exist. The carrying value of fixed assets is evaluated by reference to their value in use and primarily looks to the present value of management's best estimate of the cash flows expected to be generated from the asset. In identifying cash flows management firstly determine the cash generating unit or group of assets that give rise to the cash flows. The cash generating unit is the lowest level of asset at which independent cash flows can be generated.

The estimation of forecast cash flows involves the application of a number of significant judgements and estimates to a number of variables including production volumes, commodity prices, operating costs, capital investment, hydrocarbon reserves estimates, inflation and discount rates. For the purposes of impairment testing, the discount rate used is 15% per annum. In addition, judgement is applied in determining the cash generating unit to be assessed for impairment.

(b) Estimation of oil and gas reserves

Estimates of oil and gas reserves are inherently subjective and subject to periodic revision. In addition, the results of drilling and other exploration or development activity will often provide additional information regarding the Group's reserve base that may result in increases or decreases to reserve volumes. Such revisions to reserves can be significant and are not predictable with any degree of certainty. Management considers the estimation of reserves to represent a significant judgement in the context of the financial statements as reserve volumes are used as the basis for assessing the useful life of oil and gas assets, applying depreciation to oil and gas assets and in assessing the carrying value of oil and gas assets. Decreases in reserve estimates can lead to significant impairment of oil and gas assets where revisions (positive or negative) can have a significant effect on depreciation rates from period to period. Management have considered the sensitivity of this key assumption and in order for an impairment issue to present itself to the Group, reserve estimates would need to reduce by more than 25%.

(c) Income taxes

Significant judgement is frequently required in estimating provisions for deferred taxes. This process involves an assessment of temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the balance sheet.

5. Cost of sales and administrative expenses – Group

Cost of sales and administrative expenses are as follows:

Year ended 31 December	2013 US$ 000	2012 Restated US$ 000
Cost of sales	18,451	16,569
Exploration and evaluation expenses	2,519	8,475
Operating and administrative expenses	4,029	9,890
Write-off of development assets	1,439	188
Total operating and administrative expenses	**26,438**	**34,201**

Total expenses are analysed as follows:

Year ended 31 December	2013 US$ 000	2012 Restated US$ 000
Mineral extraction tax	8,095	8,951
Exploration and evaluation	2,519	8,475
Salaries and staff benefits	3,048	3,025
Depreciation and amortisation	2,611	2,280
Directors' emoluments and other benefits	808	817
Field operating expenses	5,946	3,776
Audit fees	286	257
Taxes other than payroll and mineral extraction	86	79
Legal and consulting	374	994
Write-off of development assets	1,439	188
Provision against VAT recovery	–	2,945
Fines and penalties	343	977
Other	883	1,437
Total	**26,438**	**34,201**

(a) Exploration and evaluation

The principal component of the 2012 exploration and evaluation expense is the impairment charge on the carrying value of intangible assets relating to the two unsuccessful exploration wells completed during 2012 . This includes licence acquisition costs as well as the cost of seismic studies and costs of drilling and testing operations. For 2013, the principal component was impairment of the carrying value of the Pre-Caspian licence which was relinquished after the year end.

(b) Staff and salaries

The average monthly number of employees (including Executive Directors) employed by the Group was:

Year ended 31 December	2013	2012
Exploration and production	128	121
Administration and support	23	24
Total	**151**	**145**

Their aggregate remuneration (excluding executive directors) comprised:

	2013 US$ 000	2012 US$ 000
Wages and salaries	2,277	2,452
Payroll taxes and social contribution	700	534
Staff benefits	71	39
Total	**3,048**	**3,025**

Notes to the IFRS Consolidated Financial Statements continued

5. Cost of sales and administrative expenses – Group continued

The average monthly number of employees employed by the Company was:

Year ended 31 December	2013	2012
Administration and support	2	2

Only directors are employed by the Company.

(c) Directors' emoluments and other benefits
Directors' emoluments comprised salaries of US$630,000 (2012: US$636,000), pension contributions of US$78,000 (2012: US$81,000) and fees of US$100,000 (2012: US$100,000). There were no share grant expenses in 2013 (2012: nil).

(d) Audit Fees – Group and Company
Disclosure of the fees paid to the Company's auditors and its associates is given in Note 22.

(e) Depreciation
Substantially all depreciation relates to oil and gas assets and is included within cost of sales.

(f) Provision for disputed VAT
During 2012, the Group paid a sum of US$2.9 million in settlement of a disputed VAT claim. Recovery of this is subject to a continuing court process in Russia. Management continues to pursue its recovery.

(g) Taxes other than payroll and mineral extraction
In the year ended 31 December 2013 property taxes relating to producing assets were allocated to Field operating expenses rather than to Taxes other than payroll and mineral extraction. The 2012 comparative numbers have been restated accordingly.

(h) Write-off of development assets
The write-off of development assets comprises and impairment of US$1.3 million (2012: nil) of amounts of Property Plant and Equipment associated with redundant assets (note 11) and costs of US$0.1 million (2012: US$0.2 million) incurred during the year in dismantling and site restitution in relation to these assets.

6. Finance income – Group

Finance income comprises interest earned during the period on cash balances with different financial institutions (note 13). Interest expense in 2012 relates to a two year amortising debt facility (note 19).

7. Other gains and losses – Group

Year ended 31 December	2013 US$ 000	2012 US$ 000
Foreign exchange loss	(306)	(234)
Mineral Extraction Tax refund	1,939	–
Other gains/(losses)	15	62
Total other gains and losses	**1,648**	**(172)**

Mineral extraction tax refund related to amounts over-charged in 2009, 2010 and 2011.

8. Current and deferred income tax – Group

Year ended 31 December	2013	2012
Current tax:		
Current income tax	–	–
Adjustments to tax charge in respect of prior periods	–	–
Total current tax	**–**	**–**
Deferred tax:		
Adjustments to tax charge in respect of prior periods	–	(500)
Origination and reversal of timing differences	(1,036)	(613)
Total deferred tax	**(1,036)**	**(1,113)**
Total tax credit/(charge)	**(1,036)**	**(1,113)**

8. Current and deferred income tax – Group continued

The tax charge in the Group income statement differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Year ended 31 December	2013 US$ 000	2012 US$ 000
Profit/(loss) before income tax and minority interest	9,595	(6,308)
Tax calculated at domestic tax rates applicable to (profits)/losses in the respective countries	(1,972)	(1,322)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	716	982
Other tax adjustments	220	(773)
Income tax charge	**(1,036)**	**(1,113)**

The weighted average applicable tax rate was 19.6% (2012: 19.6%).

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

	31 December 2013 US$ 000	Differences recognition and reversal US$ 000	31 December 2012 US$ 000	Differences recognition and reversal US$ 000	31 December 2011 US$ 000
Tax effects of taxable temporary differences:					
Exploration and production assets	(6,488)	(257)	(6,488)	(5,829)	(659)
Property, plant and equipment	(2,571)	(106)	(2,465)	(2,465)	–
Inventories	–	8	(8)	4	(12)
Total	**(9,316)**	**(355)**	**(8,961)**	**(8,290)**	**(671)**
Tax effect of deductible temporary differences:					
Tax losses carry forward	10,153	(437)	10,590	4,874	5,716
Trade and other receivables	(87)	(362)	275	(48)	323
Property, plant and equipment	–	(158)	158	(27)	185
Share grant expenses	–	–	–	(7)	7
Total	**10,066**	**(957)**	**11,023**	**4,792**	**6,231**
Net tax effect of temporary differences	**750**	**(1,312)**	**2,062**	**(3,498)**	**5,560**

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Tax losses in respect of Cyprus and the UK do not expire. The Group has not recognised a deferred tax asset of US$1,461k in respect of tax losses and other short-term timing differences in the UK (2012: US$1,224k).

9. Basic and diluted profit/(loss) per share – Group

Profit per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary and diluted shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares.

Year ended 31 December	2013	2012
Net profit/(loss) attributable to equity shareholders (US$ per share)	0.11	(0.09)
Net profit/(loss) attributable to equity shareholders (US$ 000)	8,559	(7,421)
Basic weighted number of shares	81,017,800	81,017,800

Notes to the IFRS Consolidated Financial Statements continued

10. Intangible assets – Group

Intangible assets represent exploration and evaluation assets such as licenses, studies and exploratory drilling, which are stated at historical cost.

	Work in progress: exploration and evaluation US$ 000	Exploration and evaluation US$ 000	Development and producing assets US$ 000	Total US$ 000
At 1 January 2012	7,158	5,749	31,072	43,979
Additions	3,643	28	427	4,098
Impairments	(7,347)	(136)	–	(7,483)
Transfers	(3,238)	3,238	–	–
Transfers to PP&E	–	–	(31,499)	(31,499)
At 31 December 2012	216	8,879	–	9,095
Accumulated amortisation				
At 1 January 2012	–	–	–	–
Depreciation	–	–	–	–
At 31 December 2012	–	–	–	–
Exchange adjustments	134	417	–	551
At 31 December 2012	**350**	**9,296**	**–**	**9,646**

	Work in progress: exploration and evaluation US$ 000	Exploration and evaluation US$ 000	Development and producing assets US$ 000	Total US$ 000
At 1 January 2013	350	9,296	–	9,646
Additions	–	17	–	17
Impairments	(67)	(2,452)	–	(2,519)
At 31 December 2013	283	6,861	–	7,144
Accumulated amortisation				
At 1 January 2013	–	–	–	–
Depreciation	–	–	–	–
At 31 December 2013	–	–	–	–
Exchange adjustments	(25)	(681)	–	(706)
At 31 December 2013	**258**	**6,180**	**–**	**6,438**

During 2012 management undertook a review of the cost pool allocation of its assets. Following this review the licence acquisition costs and other intangible assets associated with producing oil and gas fields were transferred to Property, plant and equipment (note 11). As a result of this transfer all producing assets are allocated to the same financial statement caption and are therefore consistent with how the results are monitored.

During 2012 certain costs relating to the drilling of appraisal and exploration wells were transferred from PP&E Work in Progress to Intangible Assets Work in Progress: Exploration and Evaluation, in line with the clarified accounting policy on exploration and evaluation assets (see note 2.5(a)). The opening balances and movements in the relevant portions of Intangible Assets and PP&E have been restated to reflect this. As the related costs were expensed entirely in 2012, there was no restatement in the closing balances as at 31 December 2012.

11. Property, plant and equipment – Group

Movements in property, plant and equipment, for the years ended 31 December 2013 and 2012 are as follows:

Cost	Development assets US$ 000	Work in progress US$ 000	Land and buildings US$ 000	Producing assets US$ 000	Other US$ 000	Total US$ 000
At 1 January 2012	20,675	1,079	1,128	39,989	790	63,661
Additions	10,236	–	65	3,574	–	13,875
Disposals	(144)	(984)	–	(238)	(18)	(1,384)
Transfers	(18,051)	(367)	–	18,404	14	–
Transferred from Intangible assets	–	–	–	31,499	–	31,499
At 31 December 2012	12,716	(272)	1,193	93,228	786	107,651
Accumulated depreciation						
At 1 January 2012	–	–	–	(6,147)	(391)	(6,538)
Transferred from Intangible assets	–	–	–	(786)	–	(786)
Depreciation	–	–	–	(2,188)	(113)	(2,301)
Disposals	–	–	–	107	16	123
At 31 December 2012	–	–	–	(9,014)	(488)	(9,502)
Exchange adjustments	1,057	169	69	4,237	22	5,554
At 31 December 2012	**13,773**	**(103)**	**1,262**	**88,451**	**320**	**103,703**

Cost	Development assets US$ 000	Work in progress US$ 000	Land and buildings US$ 000	Producing assets US$ 000	Other US$ 000	Total US$ 000
At 1 January 2013	13,773	(103)	1,262	97,465	808	113,205
Additions	5,579	–	274	73	–	5,926
Impairments	(1,302)	–	–	(17)	–	(1,319)
Transfers	(7,872)	103	–	7,872	–	–
At 31 December 2013	10,178	–	1,536	105,290	808	117,812
Accumulated depreciation						
At 1 January 2013	–	–	–	(9,014)	(488)	(9,502)
Depreciation	–	–	–	(2,545)	(63)	(2,608)
At 31 December 2013	–	–	–	(11,559)	(551)	(12,110)
Exchange adjustments	(1,008)	–	(90)	(6,309)	(23)	(7,430)
At 31 December 2013	**9,170**	**–**	**1,447**	**87,422**	**234**	**98,272**

The opening balance at 1 January 2012 and movements during 2012 of Work in Progress have been restated to allocate costs of certain exploration and appraisal drilling to Intangible Assets Work in Progress: Exploration and Evaluation. See note 10 above.

Impairment of US$1.3 million in 2013 relate to amounts of Property Plant and Equipment associated with redundant assets (note 5). Impairments of US$7.3 million in 2012 relate to the costs of an unsuccessful exploratory well .

12. Non-current assets – Group

As at 31 December	2013 US$ 000	2012 US$ 000
VAT recoverable	633	716
Other non-current assets	76	82
Total other non-current assets	**709**	**798**

Management believes that it may not be able to recover all VAT specific to license and exploration and evaluation contractors' payments within the 12 months of the balance sheet date. Therefore this VAT is classified as a non-current asset.

Notes to the IFRS Consolidated Financial Statements continued

13. Term deposits, cash and cash equivalents – Group and Company

At 31 December	Group 2013 US$ 000	Group 2012 US$ 000	Company 2013 US$ 000	Company 2012 US$ 000
Cash at bank and on hand	2,836	4,484	201	1,017
Short term bank deposits	5,245	2,565	–	–
Total cash and cash equivalents	**8,081**	**7,049**	**201**	**1,017**

An analysis of Group deposits, cash and cash equivalents by bank and currency is presented in the table below:

At 31 December Bank	Currency	Group 2013 US$ 000	Group 2012 US$ 000	Company 2013 US$ 000	Company 2012 US$ 000
United Kingdom					
Barclays Bank PLC	USD	311	1,078	199	948
Barclays Bank PLC	GBP	2	69	2	69
Russian Federation					
Transcredit Bank	RUR	–	71		–
Unicreditbank	RUR	206	234		–
Unicreditbank	USD	283	283		–
ZAO Raiffeisenbank	RUR	6,485	2,466		–
ZAO Raiffeisenbank	USD	629	2,805		–
ZAO Raiffeisenbank	EUR	17	25		–
Other banks and cash on hand	RUR	148	19		–
Total cash and cash equivalents		**8,081**	**7,049**	**201**	**1,017**

14. Inventories – Group

At 31 December	2013 US$ 000	2012 US$ 000
Production consumables and spare parts	1,713	1,124
Crude oil inventory	80	111
Total inventories	**1,793**	**1,235**

15. Other receivables – Group

At 31 December	Group 2013 US$ 000	2012 US$ 000
VAT receivable	138	697
Prepayments	835	1,520
Trade receivables	1,812	–
Other accounts receivable	84	113
Total other receivables	**2,869**	**2,330**

Prepayments are to contractors and relate to initial advances made in respect of drilling, construction and other projects. Trade receivables relate to sales of gas and condensate. A significant increase in sales volumes occurred during the latter months of 2013. The receivables were settled on schedule subsequent to the balance sheet date.

16. Share capital and share premium – Group

The following summarises the movement in the share capital and share premium of the Company for the years ended 2012 and 2013.

	Number of shares	Share capital US$ 000	Share premium US$ 000
At 1 January 2012	81,017,800	1,485	165,873
Issues of shares	–	–	–
At 31 December 2012	**81,017,800**	**1,485**	**165,873**
At 1 January 2013	81,017,800	1,485	165,873
Issues of shares	–	–	–
At 31 December 2013	**81,017,800**	**1,485**	**165,873**

The total number of authorised ordinary shares is 330,720,100 (2012: 330,720,100) with a par value of £ 0.01 per share (2012: £ 0.01 per share).

Share-based compensation

Share options and other share-based awards have been granted to certain directors. There were no shares issued to directors under such schemes during 2013 (2012: nil).

2008 Executive Share Option Plan

On 15 July 2008 the Group announced a new Executive Share Option Plan ("ESOP"). During 2008, the Company granted options to acquire 1,137,464 ordinary shares to Mikhail Ivanov under the terms of the ESOP. The options may be exercised at a price of 405p per share and vest in equal portions on May 2010, 2011 and 2012 and will remain outstanding until May 2017. In January 2009, the Company granted 568,732 share options to Tony Alves under the ESOP. The options vested in eight semi-annual tranches over a period of four years providing certain performance conditions related to the Company's share price are met. The options have an exercise price of £1.00. Under the terms of the plan, during 2012 no further options (2012: 379,154 shares) were eligible for vesting. There were no share grant expenses in 2013 (2012: nil).

The fair value of share options granted and of restricted shares issued is measured by use of the Black-Scholes pricing model with the following assumptions:

Year ended 31 December 2013	2009 Executive Share Option Plan
Share price	99.7p
Exercise price	100.0p–405.0p
Expected volatility	35.0%
Expected life	0–2 years
Risk free rate	2.5%

17. Other reserves – Group

At 31 December	2013 US$ 000	2012 US$ 000
Currency translation adjustment	(27,094)	(18,852)
Share grant expense	5,233	5,233
Total other reserves	**(21,861)**	**(13,619)**

18. Accumulated loss – Group and Company

	Group		Company	
At 31 December	2013 US$ 000	2012 US$ 000	2013 US$ 000	2012 US$ 000
Retained losses	(39,338)	(31,917)	(4,610)	(3,272)
(Loss)/profit for the year	8,559	(7,421)	(1,187)	(1,338)
Accumulated (loss)/profit 31 December	**(30,779)**	**(39,338)**	**(5,797)**	**(4,610)**

Notes to the IFRS Consolidated Financial Statements continued

19. Debt – Group

On 26 March 2012, the Group entered into a loan agreement to provide up to US$10 million by way of a two year amortising credit facility. The balance of the loan was repaid in full by 31 December 2013.

20. Trade and other payables

	Group		Company	
At 31 December	2013 US$ 000	2012 US$ 000	2013 US$ 000	2012 US$ 000
Trade payables	432	771	10	15
Taxes other than profit tax	2,547	1,864	–	–
Customer advances	890	1,448	–	–
Total	**3,869**	**4,083**	**10**	**15**

The maturity of the Company's financial liabilities are all between 0 to 3 months. The maturity period of the Group's financial liabilities, comprising only trade and other payables at 31 December 2013 and 2012 is as follows:

Maturity period at 31 December 2013	0 to 3 months	3 to 12 months	Over 1 year	Total
Trade and other payables	3,869	–	–	3,869

Maturity period at 31 December 2012	0 to 3 months	3 to 12 months	Over 1 year	Total
Trade and other payables	4,058	25	–	4,083
Bank debt – principal amounts	1,600	4,803	1,586	7,989
Bank debt – interest	111	190	16	317

21. Investments – Company

Investments in subsidiaries, comprising ordinary share capital, are accounted for at cost. The Company's subsidiaries are as follows:

Name	Jurisdiction	Nature of Operations	% Owned	From
Woodhurst Holdings Ltd.	Cyprus	Intermediate Holding Company	100%	October 2005
Pre-Caspian Gas Company	Russia	Oil and gas exploration and production	100%	May 2006
Gazneftеservice	Russia	Oil and gas exploration and production	100%	September 2006
Shropak Investments Ltd	Cyprus	Dormant	100%	June 2007
Volga Gas (Cyprus) Ltd.	Cyprus	Intermediate Holding Company	100%	August 2007
Gazservice	Russia	Special purpose entity	99%	October 2008
Volga Gas Finance Ltd.	UK	Intermediate Holding Company	100%	March 2010

To avoid certain legal restrictions on land ownership in October 2008 Pre-Caspian Gas Company acquired a 99% shareholding in ZAO Gazservice. Subsequently, Pre-Caspian Gas Company sold an unimproved plot of land to ZAO Gazservice at cost basis.

Company	31 December 2012 US$ 000	Additions US$ 000	Disposals US$ 000	31 December 2013 US$ 000
Investments in Woodhurst Holdings	150,683	–	–	150,683
Investments in Volga Gas (Cyprus)	1,551	–	–	1,551
Total investments	**152,234**	**–**	**–**	**152,234**

The Company funds its activities in the Russian Federation via Woodhurst Holdings, the Company's Cyprus registered subsidiary.

22. Audit fees – Group and Company

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors and associates:

Year ended 31 December	2013 US$ 000	2012 US$ 000
Fees payable to Company's auditor for the audit of Parent Company and consolidated financial statements	235	215
– audit of the Company's subsidiaries pursuant to legislation	19	27
– Other services pursuant to legislation	–	154
Total	**254**	**396**

23. Related Party Transactions – Group and Company

The Group is controlled by Baring Vostok Private Equity Funds III and IV, which respectively own 48.9% and 9.76% (in aggregate 58.66%) of the Company's shares. The Baring Vostok Private Equity Funds exercise their control through a number of nominee holding companies. The remaining 41.34% of the shares are widely held.

The following transactions concerning purchases of goods and services were carried out by the Group with related parties:

			Year ended 31 December	
Related party	Relationship	Nature of transactions	2013	2012
Baring Vostok Cyprus Limited	Affiliated with controlling shareholder	Rent, services	127	137
Baring Vostok Holding Limited	Affiliated with controlling shareholder	Travel expenses	–	6

Year-end balances arising from transactions with related parties

Due to related parties	31 December 2013 US$ 000	31 December 2012 US$ 000
Baring Vostok (Cyprus) Limited	12	12

All transactions with related parties were made on commercial basis.

The following transactions were carried out between the Company and its wholly-owned subsidiaries:

			Year ended 31 December	
Group Company	Relationship	Nature of transactions	2013	2012
Woodhurst Holdings Limited	100% directly-owned subsidiary	Reduction of/(increase in) of receivables due from Woodhurst	343	(91)

Year-end balances arising from transactions with subsidiaries

	31 December 2013 US$ 000	31 December 2012 US$ 000
Accounts receivable from subsidiaries		
Woodhurst Holdings Limited	15,697	16,040
Accounts receivable to subsidiaries		
Woodhurst Holdings Limited	1,357	1,357

Key management

Key management of the Company is considered to be the directors. Details of key management compensation are presented in the Directors' Remuneration Report and in note 5 (d) above.

Notes to the IFRS Consolidated Financial Statements continued

24. Contingencies and Commitments

24.1 Capital commitments

Pre-Caspian Licence Area

In accordance with the license agreement for the Pre-Caspian license area, PGK was required to commence drilling one additional well before 31 December 2013. Subsequent to 31 December 2013, the licence has been relinquished.

As of the balance sheet date all other licence commitments have been met.

24.2 Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review, but under certain circumstances, reviews may cover longer periods.

At 31 December 2013, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

24.3 Restoration, rehabilitation, and environmental costs

The Group operates in the upstream oil industry in the Russian Federation and its activities may have an impact on the environment. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligation related thereto. The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter interpretation and enforcement of existing legislation, cannot reasonably be estimated at present, but could be material.

Under the current levels of enforcement of existing legislation, management believes there are no significant liabilities in addition to amounts which are already accrued and which would have a material adverse effect on the financial position of the Group.

24.4 Oilfield licences

The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licences. Management of the Group correspond with governmental authorities to agree on remedial actions, if necessary, to resolve any findings resulting from these reviews. Failure to comply with the terms of a licence could result in fines, penalties, licence limitation, suspension or revocation. The Group's management believes any issues of non-compliance would be resolved through negotiations or corrective actions without any materially adverse effect on the financial position or the operating results of the Group.

The principal licences of the Group and their expiry dates are:

Field	Licence Holder	Licence expiry date
Karpenskiy	OOO Pre-Caspian Gas Company	2021
Pre-Caspian	OOO Pre-Caspian Gas Company	2031
Urozhainoye-2	OOO Pre-Caspian Gas Company	2032
Vostochny-Makarovskoye	OOO Gazneftеservice	2026
Dobrinskoye	OOO Gazneftedobycha	2026

Following a review during 2013 of the exploration and evaluation activity conducted to date on the Pre-Caspian licence area, the decision was taken to relinquish the licence. The relinquishment was effective in March 2014.

Notice of Meeting

Notice is hereby given that the annual general meeting (the "AGM") of Volga Gas plc (the "Company") will be held at the London office of Akin Gump Strauss Hauer & Feld at Ten Bishops Square, London E1 6EG on 6 June 2014 at 10.00 a.m. for the following purposes:

Ordinary Resolutions

1. To receive and adopt the Company's accounts for the year ended 31 December 2013 and the directors' report.
2. To reappoint Antonio Alves, who retires by rotation, as a director.
3. To reappoint Ronald Freeman, who retires by rotation, as a director.
4. To reappoint Stephen Ogden, who retires by rotation, as a director.
5. To appoint KPMG LLP as auditors of the Company until the conclusion of the next general meeting at which accounts are laid before the Company.
6. To authorise the directors to determine the remuneration of the auditors of the Company.
7. That the directors be and they are hereby generally and unconditionally empowered to exercise all the powers of the Company to allot shares in the Company and/or to grant rights to subscribe for or to convert any security for shares in the Company (together "Relevant Securities") up to a maximum aggregate nominal amount of £1,000,000 to such persons and at such times and on such terms as they think proper, provided that this authority shall expire the earlier of (i) 15 months from the passing of this resolution, or (ii) the conclusion of the AGM of the Company to be held in 2015 (unless renewed, varied or revoked by the Company prior to or on such date), save that this authority shall allow the Company to make offers or agreements before the expiry of such authority which would or might require Relevant Securities to be allotted after such expiry and the directors shall be entitled to allot Relevant Securities pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors to allot Relevant Securities be and are hereby revoked.

Special Resolutions

8. That the directors be and they are hereby empowered pursuant to Sections 570 and 573 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in Section 560 of the Act) for cash; pursuant to the authority conferred by resolution 7 set out in this Notice convening the AGM (the "Notice") as if Section 561 of that Act did not apply to any such allotment, provided that this power shall be limited to:
   (a) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on any such record date(s), subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter; and
   (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) to any person or persons of equity securities up to an aggregate nominal amount of £150,000.

   And the power conferred hereby shall expire upon the expiry of the general authority conferred by resolution 7 set out in this Notice (unless renewed, varied or revoked by the Company prior to or on such date), save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.
9. That, subject to the confirmation of the High Court of Justice, the share premium account of the Company be cancelled in its entirety and that a corresponding amount be transferred to the credit of the Company's profit and loss account.
10. That the Company be generally and unconditionally authorised for the purposes of section 701 of the Act, to make market purchases (within the meaning of section 693 of the Act) of fully-paid ordinary shares of 1p each ("Shares") on such terms and in such manner as the directors of the Company may decide provided that:
    (i) the maximum number of Shares that may be purchased by the Company pursuant to this authority is 12,144,000 (representing approximately 14.99% of the Company's issued ordinary share capital at the date of this Notice;
    (ii) the minimum price (exclusive of expenses) which may be paid for any such Shares shall not be less than the nominal value of that Share at the time of purchase;
    (iii) the maximum price (exclusive of expenses) which may be paid for any Shares purchased pursuant to this authority is an amount equal to the higher of (a) an amount equal to 105% of the average of the middle market prices shown in the quotations for the Company's Shares in the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is contracted to be purchased; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange; and
    (iv) unless previously varied, revoked or renewed, the authority conferred by this resolution shall expire on the earlier of 30 June 2015 or at the end of the next annual general meeting of the Company to be held in 2015, but the Company may make a contract to purchase Shares under this authority before its expiry which will or may be completed wholly or partly after the expiry of this authority, and may complete such a purchase as if this authority had not expired.

Registered Office:
Ground Floor
17-19 Rochester Row
London
SW1P 1QT

BY ORDER OF THE BOARD
Antonio Maria Alves
Company Secretary
17 April 2014

Notice of Meeting continued

Notes:

1. Resolutions 1-7 are ordinary resolutions. For these resolutions to be passed, a simple majority of the votes cast at the Company's AGM must be in favour of the resolutions. Resolutions 8, 9 and 10 are special resolutions. For these resolutions to be passed, at least three-quarters of the votes cast at the AGM must be in favour of the resolution.
2. Reduction of capital (Resolution 9). The purpose of this resolution 9 is to create distributable reserves for the Company which will enable it to make distributions to shareholders whether in the form of dividends or by buying back shares for cancellation.
3. Share buy-back (Resolution 10). The purpose of this Resolution 10 is to permit the Company to purchase its own shares in the market under the terms described therein. Shares so purchased would be cancelled and the issued share capital of the Company accordingly reduced.
4. Only those members entered on the register of members of the Company at 6.00 p.m. on 4 June 2014 or, in the event that this meeting is adjourned, in the register of members as at 6.00 p.m. on the day two days before the date of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their names at that time. Changes to the entries on the register of members after 6.00 p.m. on 4 June 2014 or, in the event that this meeting is adjourned, in the register of members after 6.00 p.m. on the day two days before the date of the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. A member entitled to attend, speak and vote at the meeting convened by the notice set out above is entitled to appoint a proxy to attend, speak and, on a poll, to vote in his place. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
6. A form of proxy is enclosed. To be effective, it must be deposited at the office of the Company's registrars (Capita Asset Services, PXS 1, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF) so as to be received not later than 48 hours before the time appointed for holding the AGM. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.
7. To change your proxy instructions simply submit a new proxy appointment using the methods set out in notes 4 and 5 above. Note that the cut-off time (in note 4 above) for receipt of proxy appointments also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
   Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Company's registrars. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
8. In order to revoke a proxy instruction you will need to inform the Company using one of the following methods:
   (a) by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registered office address. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or duly a certificated copy of such power of authority) must be included with the revocation notice; or
   (b) by sending an email to info@volgagas.com.
   In either case, the revocation notice must be received by the Company's registrars no later than the cut-off time set out in note 4 above.
9. The register of interests of the directors and their families in the share capital of the Company and copies of contracts of service of directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM.
10. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 no later than forty eight hours before the meeting date. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the Company's registrars no later than forty eight hours before the meeting date.
11. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided they do not do so in relation to the same shares.
12. Under section 319A of the 2006 Act, the Company must cause to be answered any question relating to the business being dealt with at the Annual General Meeting put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
    Members who have any queries about the Annual General Meeting should contact the Company Secretary by email on info@volgagas.com. Members may not use any electronic address or fax number provided in this notice or in any related documents (including the Form of Proxy) to communicate with the Company for any purpose other than those expressly stated.
13. Information regarding the Annual General Meeting, including information required by section 311A of the 2006 Act, and a copy of this notice of Annual General Meeting is available from www.volgagas.com.

Glossary of Technical Terms

2-D seismic	geophysical data that depicts the subsurface strata in two dimensions
3-D seismic	geophysical data that depict the subsurface strata in three dimensions. 3-D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2-D seismic
abandonment	application of a cement plug to close a well and welding of a steel plate to the top of the well; the well is then plugged and abandoned
bbl	the standard barrel of crude oil or other petroleum product is 42 US gallons (approximately 159 litres)
bcf	billion cubic feet
bcm	billion cubic metres
Best estimate	the term "best estimate" is used here as a generic expression for the estimate considered to be the closest to the quantity that will actually be recovered from the accumulation between the date of the estimate and the time of abandonment
boe	barrels of oil equivalent, being for natural gas the energy equivalent on one barrel of oil. The usual ratio is to equate 6,000 cubic feet to one barrel of oil equivalent
condensate	liquid hydrocarbons associated with the production from a primarily natural gas reservoir
field	means an area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition
gas	natural gas
gas processing facilities	together with the laboratory, gathering pipelines and storage facilities (if any), a plant comprising one or more units such that after conditioning the gas will be of pipeline quality as, specified by Gazprom, such units may include dehydration, sweetening and separation of natural gas liquids
gas-water contact	bounding surface in a reservoir above which predominantly gas occurs and below which predominantly water occurs
hydrocarbons	compounds formed from the elements hydrogen (H) and carbon (C) and existing in solid, liquid or gaseous forms
Kungurian Salt	a layer of salt laid down during the lower Permian age which occurs in the Northern Caspian Petroleum Province
licence area	the particular subsoil plot specified in the subsoil licence issued by the applicable Russian federal authority, which the licence holder has the right to use for the purpose and on the terms specified in the subsoil licence. A licence area may contain one or more fields or may encompass only a portion of a field
liquidation	Abandonment
mmbbls	million barrels
mcm	thousand cubic metres
mmBOE	million barrels of oil equivalent
natural gas	hydrocarbons that are gaseous at one atmosphere of pressure at 20°C. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas) and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure
petroleum	naturally occurring liquids and gasses which are predominantly comprised of hydrocarbon compounds
possible reserves	are those unproven reserves that, on the available evidence and taking into account technical and economic factors, have a 10.0% chance of being produced

Glossary of Technical Terms continued

probable reserves	are those reserves in which hydrocarbons have been located within the geological structure with a lesser degree of certainty because fewer wells have been drilled and/or certain operational tests have not been conducted. Probable reserves are those reserves that, on the available evidence and taking into account technical and economic factors, have a better than 50.0% chance of being produced
prospective resources	Are those quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations
proved reserves	include reserves that are confirmed with a high degree of certainty through an analysis of development history and/or volume method analysis of the relevant geological and engineering data. Proved reserves are those that, based on the available evidence and taking into account technical and economic factors, have a better than 90.0% chance of being produced
proved plus probable reserves	sum of the proved reserves and the probable reserves calculated in accordance with SPE standards
reserves	quantities of petroleum which are anticipated to be commercially recoverable from known accumulations from a given date forward
reservoir	a porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs
risk factor	for contingent resources means the estimated chance, or probability, that the volumes will be commercially extracted; for prospective resources means the chance or probability of discovering hydrocarbons in sufficient quantity for them to be tested to the surface, this, then, is the chance or probability of the prospective resource maturing into a contingent resource
SPE standards	reserves definitions consistent with those approved in March 1997 by the Society of Petroleum Engineers and the World Petroleum Congresses
sub-salt	below the Kungurian salt layer
supra-salt	above the Kungurian salt layer

Corporate Directory

Registered Office
Ground Floor, 17-19 Rochester Row
London SW1P 1QT
United Kingdom

Company Secretary
Tony Alves
of the registered office

Nominated Adviser and Joint Broker
Oriel Securities Limited
150 Cheapside
London EC2V 6ET
United Kingdom

Auditors
KPMG Audit plc
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Lawyers and Solicitors to the Company as to English and Russian Law
As to English law:
Akin Gump Strauss Hauer & Feld
8th Floor, Ten Bishops Square
London E1 6EG
United Kingdom

As to Russian law:
Akin Gump Strauss Hauer & Feld LLP
Geneva House 7 Petrovka Street
Moscow 107031
Russian Federation

Registrar
Capita Registrars
The Registry
34 Beckenham Road, Beckenham
Kent BR3 4TU
United Kingdom

Corporate Communications/PR
FTI Consulting
200 Aldersgate, Aldersgate Street
London EC1A 4HD
United Kingdom

volgagas.com

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)20 7729 9090

Volga Gas plc
Ground Floor
17–19 Rochester Row
London
SW1P 1QT

www.volgagas.com