Volga Gas plc

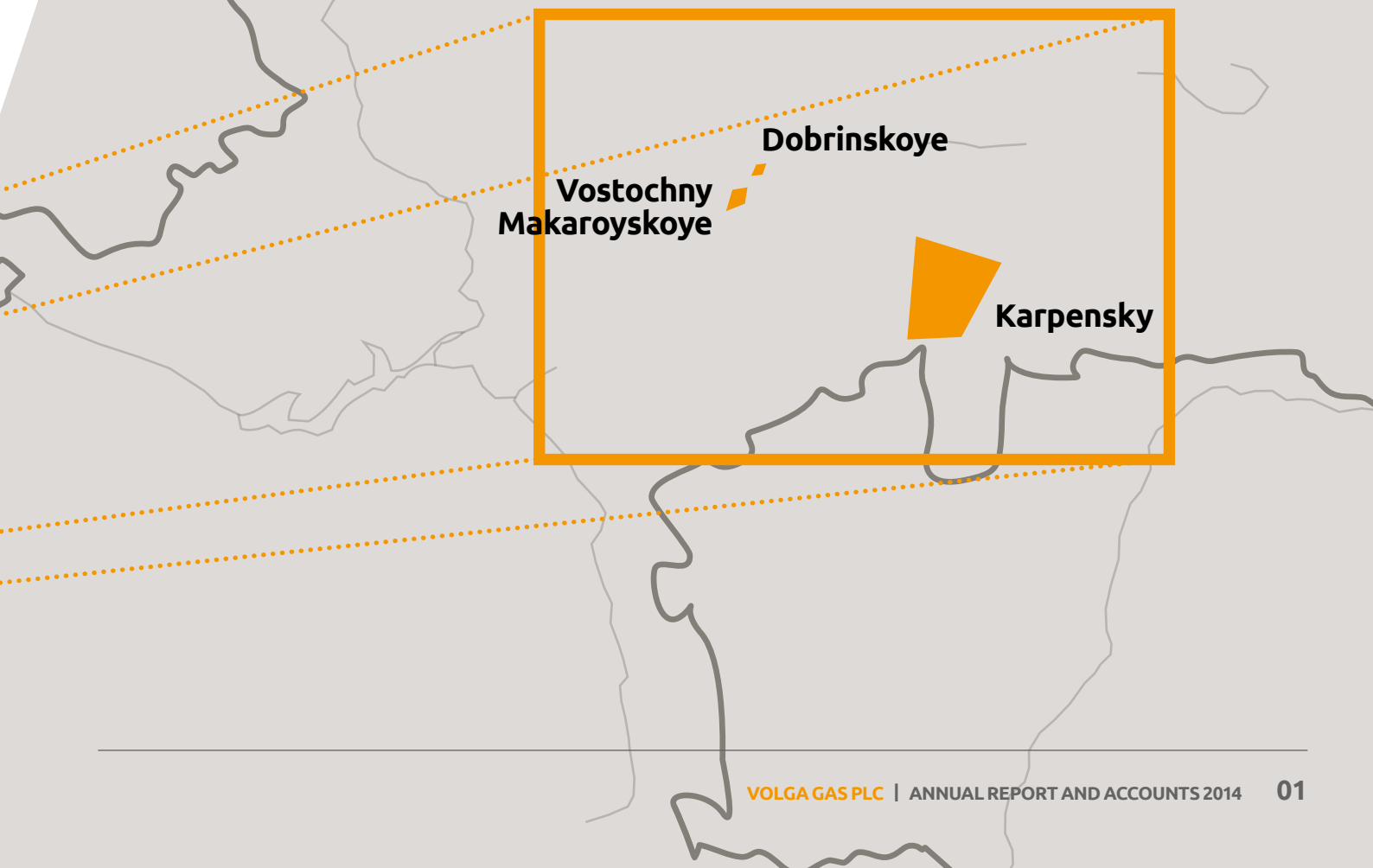
Annual Report and Accounts 2014

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.

Contents

Overview of 2014

- Sustained throughput at over 500,000 cubic metres per day at the Dobrinskoye gas processing plant
- Increased annual production by 45%
- Record levels of revenue and EBITDA
- Net cash increased from US$8.1 million to US$15.8 million



Volga at a Glance

Panorama of the Dobrinskoye gas processing plant.

During 2014 Volga Gas achieved its first full year of production at full operational capacity of its gas/condensate wells, laying the foundation for sustained production from its principal fields.

Dobrinskoye gas processing plant

2014 Progress
Completed the final phase of the gas plant upgrade, increasing processing capacity to 1 million cubic metres per day (35.3 million cubic feet per day).

2015 Objectives
Complete an engineering study for a further upgrade to the gas processing plant for extraction of liquid petroleum gases ("LPG").

Vostochny Makarovskoye ("VM") gas/condensate field

2014 Progress
Commenced drilling of new well, VM#3.

2015 Objectives
Complete drilling of well VM#3, sidetrack VM#4 and drill VM#5 to increase production capacity and utilise the full gas plant capacity.

Dobrinskoye gas/ condensate field

2014 Progress
Managed production from the two existing wells.

2015 Objectives
Continue to maintain production from the two existing wells to maximise long-term extraction of gas and condensate.

Uzenskoye and Sobolevskoye oil fields

2014 Progress
Managed Uzenskoye production for the sixth year, with production constrained to prevent water cut.

2015 Objectives
Maintain/enhance production profile and maximise extraction of oil from existing wells. Possible re-drill of Sobolevskoye to tap undeveloped reserves.

Exploration activity

2014 Progress
Identified potential shallow exploratory targets in the Karpenskiy Licence Area.

2015 Objectives
Potential discretionary exploration drilling of shallow, supra-salt targets during 2015–16.

Chairman's Statement

Aleksey Kalinin
Chairman

Dear Shareholder,
2014 was a significant year for Volga Gas, in which the Group achieved its first full year of gas and condensate production with its wells producing up to their current capacity. The average production rate for 2014 was 4,244 barrels of oil equivalent per day ("boepd"), a 43% increase over the average 2,965 boepd achieved in 2013. With strong cash generation arising from this production, it was gratifying to see the financial position strengthen sufficiently for the Company to make its first interim dividend payment and still report a significant increase in net cash during the year.

The Group now faces a number of challenges, not the least of which is the general economic situation in Russia, where the dramatic fall in international oil prices is likely to have a significant impact on the domestic economy at least in the short term. While the weakness of the Russian Ruble, largely matching the drop in the oil price, is likely to enable the Group's profitability to be maintained, our profits for future periods as reported in US Dollars may be significantly lower than in recent years. The declining Ruble has also led to a significant shrinking of the Group balance sheet as assets have been adjusted to the exchange rate prevailing on 31 December 2014.

Since the year end production based taxes have increased significantly – especially as applied to condensate, which hitherto had been taxed at a rate comparable to gas, but is now taxed closer to the level applied to oil. While there is nothing that can be done by the Group to change the tax rates, management is considering ways to optimise the business. A key project that is currently under consideration is the installation of additional units at the Dobrinskoye gas plant to extract liquid petroleum gases ("LPG"). Initial studies suggest that this could be a rewarding investment for the Group and a significant enhancement to the value of the reserves. More details on this can be found in the Chief Executive's report on page 6 and in the Operational Review on page 8.

Most importantly, Volga Gas benefits from low operating costs and, with its fields based close to market, is able to operate profitably even with significantly reduced oil and gas prices. The strong balance sheet, with no debt and a liquidity position of US$15.8 million built up from retained cash flow, provides a solid foundation for the Group to continue the development of its fields and to maximise its production profile.

The Group holds significant proven reserves in its three principal fields. These fields form the basis of sustainable and growing production in the near term. Our fields are advantageously located and our costs are sufficiently low for us to achieve positive returns at current oil and gas prices. 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.

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.

In the light of the current financial conditions prevailing in Russia and given the Group's requirement to fund the proposed LPG project, which as outlined by the Chief Executive on pages 6 and 7 is expected to enhance the profitability of the Group's gas and condensate production, the Board has decided that it is in the best interests of the shareholders for a final dividend to be at a level which can be sustained and grown as the profits increase in the future. Accordingly, the Board is recommending a final dividend of US$0.0125 per ordinary share bringing the total dividend for the year to US$0.05 per ordinary share.

You will be aware that in June 2014 the Board was exploring strategic options for the business, including seeking potential offerors for the Company by means of a "formal sale process" under which the Board of Volga Gas is able to have discussions with third parties interested in such a transaction on a confidential basis. Whilst there was some interest received, the subsequent developments in the external conditions led the Board to conclude that an acceptable proposal would not be received. The formal sale process was accordingly concluded in January 2015. The Board continues to seek to maximise the value of the Company for shareholders.

Aleksey Kalinin
Chairman

Financial Highlights

Revenues up 14% to US$39.4 million (2013: US$34.6 million)
- 10% increase in oil and condensate volumes
- 81% increase in gas sales volumes

EBITDA up 18% to US$17.4 million (2013: US$14.8 million)
- Production costs reduced to US$5.04 per barrel of oil equivalent (2013: US$5.56/boe)
- Lower Mineral Extraction Taxes on gas compared to oil

Profit before tax of US$16.3 million (2013: US$9.6 million)
- No exploration or asset impairment charges in 2014 (2013: US$ 3.9 million)
- Other income (mainly foreign exchange) gain of US$3.3 million (2013: US$1.6 million)

Net operating cash inflow of US$16.2 million (2013: US$15.4 million)
- Cash generation reflecting EBITDA

Net cash increased to US$15.8 million at 31 December 2014 (2013: US$8.1 million)
- Cash used in capital expenditure decreased to $5.5 million (2013: US$6.2 million)
- After payment of interim dividend of US$3.0 million in October 2014

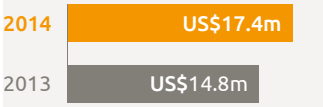
Maiden dividend paid in 2014 (2013: nil)
- Interim cash dividend of US$0.0375 per ordinary share paid in October 2014
- Final dividend of US$0.0125 per ordinary share proposed

Revenue growth

US$39.4M

EBITDA growth

US$17.4M

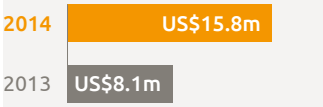


Pre-tax profit

US$16.3M

Cash net of bank debt

US$15.8M



Chief Executive's Report

Mikhail Ivanov
Chief Executive Officer

As the Chairman has noted, 2014 was the first full year in which Volga Gas produced its gas and condensate wells at capacity with the gas plant operating fully to expectations and enabling the Group to record a 43% increase in production compared to 2013. This increased production combined with steady oil and gas prices – at least for the first ten months of 2014 – enabled the Group to enjoy strong cash flow and strengthen its financial position, while providing the flexibility to manage the effects of the subsequent downturn in international oil prices.

As detailed in the Operational Review on pages 8 and 9, the majority of the work on our producing assets base remained focused on our main field, Vostochny Makarovskoye ("VM"). On VM, the Group commenced the drilling of a new producing well, VM#3. Although, as detailed below, the well was not completed during 2014, we now expect it to be producing in mid-2015.

Crude oil production, on the other hand, continued to decline. Production from the Uzenskoye field was further reduced to prevent a rising water cut. In addition, production from the single well Sobolevskoye field ceased. While it is now a minor part of the Group's business, Volga Gas had made very good returns from these assets and continues to benefit from the cash generation they provide.

In 2014 as 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.

2015 Objectives – VM Development and LPG Project

The Group's key operational objectives in 2015 are to complete the drilling of the VM#3 and VM#4 wells on the VM field and to complete the Front End Engineering and Design work for an LPG extraction project. The aim is to increase production from the VM field so as to maximise the utilisation of the 1 million m^3 per day (35 mmcf/d) processing capacity of the gas plant.

Based on initial studies, the LPG project could enable the Group to achieve a significant enhancement of the value of the gas plant output and the investment required for this could be recovered within three years from the increased income and improved profitability.

Finance

The Group maintained a strong level of cash generation from operating activities throughout 2014, enabling it to fund its capital expenditure for the year from operating cash flow and to make its maiden interim dividend payment of $0.0375 per ordinary share in October 2014, while increasing its cash balance from US$8.1 million to US$15.8 million during the year.

Capital expenditure in 2014 was less than originally planned mainly because the operational difficulties experienced on drilling the VM#3 well led to a delay in the completion of that well and deferral of further drilling into 2015.

Although the planned field development expenditures in 2015 and beyond are expected to be funded from operating cash flow, the Group may consider a moderate level of borrowing to be appropriate to fund significant value accretive investments like the LPG project.

Current trading

As announced on 19 February 2015, during January and February 2015 disruption to the domestic oil market in Russia following the recently implemented tax changes had an impact on the ability of purchasers of condensate from Volga Gas to take delivery and subsequently led to the temporary suspension of production at the Company's VM and Dobrinskoye gas fields. Consequently for this period actual production was significantly below the capacity of the fields. Since 16 February 2015, Group production has resumed at close to full production capacity of approximately 4,500 barrels of oil equivalent per day ("boepd").

The major tax changes implemented at the start of 2015 included a significant reduction in the rate of export tax coupled with a rise in Mineral Extraction Taxes on oil and condensate. However the domestic market prices in Russia, which hitherto reflected full netback pricing, have not risen to match the drop in export taxes. Meanwhile MET charges are calculated with reference to export prices and this has led to the Group experiencing higher than anticipated MET charges relative to income since the start of 2015.

Outlook
It is our current expectation that the VM#3 well will be completed during H1 2015. In addition, we have mobilised a second rig to drill a sidetrack to the VM#4 well, which was originally drilled in 2008 but was not productive. The sidetrack will be deviated towards the centre of the field where it is expected to intersect productive reservoir. Further drilling, notably the VM#5 well, is also anticipated for later in 2015. Assuming successful drilling of the new wells, management expects to increase production to above 5,000 boepd by the end of 2015.

Clearly with significantly lower oil prices and a sharply devalued Ruble, the revenues as reported in US Dollars would not reflect this progress. However, with its costs almost entirely in Rubles, the Group is expected to remain profitable and cash generative even without a significant recovery in oil prices and in spite of the increased rate of production taxes that have come into effect.

The total capital expenditure budgeted for 2015 is approximately US$14 million. All of this expenditure is discretionary and can be deferred or cancelled if necessary. Management expects the 2015 capital expenditure 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

Condensate sales loading point.

Gas processing trains.

Dobrinskoye gas plant.

Operational Review

Operations overview
After the Group received formal approval of the upgrade works at the Dobrinskoye gas processing plant in November 2013, production of gas and condensate from the Group's VM and Dobrinskoye fields increased to reflect their existing productive capacity, more than doubling the production rates achieved hitherto.

The overall level of production in 2014, at 4,244 boepd, was 43% above the 2,958 boepd achieved in 2013. This was driven by increased gas and condensate production from the VM and Dobrinskoye fields partly offset by declines in total oil production.

Average oil production was lower in 2014 than in 2013, averaging 689 bopd in 2014 compared to 826 bopd in 2013. The reasons for the decline in oil production are detailed below.

As a consequence of the significant increase in production in 2014, revenues and EBITDA levels in 2014 were well ahead of 2013, 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 on page 10.

Gas processing plant
Since November 2013, the Dobrinskoye gas processing plant has been consistently operating at rates of over 500,000 cubic metres per day (17.7 million cubic feet per day ("mmcf/d")) with the exception of periods of planned shut-down for maintenance. During 2014 a number of minor additional modules, as required by the state construction agency, Gosstroi, were installed on the plant. During 2014 the Group incurred approximately US$2.7 million (2013: US$ 3.6 million) of capital expenditure on the gas plant.

During 2014, 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 savings on the cost of chemicals used in the process.

The Group has conducted a preliminary evaluation of the feasibility of additional processing to extract an LPG stream from the gas, primarily propane and butane. The initial studies suggest that there are significant benefits from this project, from the extraction of additional higher-value product, that are otherwise either flared or sent down the gas pipeline with the sales gas. In addition, consideration is being given to a modification of the sulphur extraction process that would significantly reduce the cost of chemicals. The initial economic modelling suggests that the capital investment on this project can be recovered within three years from the incremental revenue and cost savings.

In November 2014, the Group commissioned a front end engineering and design study which will form the basis of a final investment decision on this project by the Board during 2015.

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. Since November 2013, production 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("bpd") of condensate.

VM#1 well workover in operation

During 2014, production derived from both fields averaged 15.5 mmcf/d of gas and 966 bpd of condensate (2013: 8.7 mmcf/d of gas and 682 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 at a fixed Ruble contract gas sales price. With the devaluation of the Ruble during 2014, the US Dollar equivalent of the price declined during 2014. The average gas sales price for 2014 was the equivalent of US$2.15 per thousand cubic feet, net of VAT (2013: US$2.73). During 2014 the average condensate sales price was US$45.07 per barrel (2013: US$47.00 per barrel).

Oil, gas and condensate reserves

	Oil & Condensate (mmbbl)	Gas (bcf)	Total (mmboe)
As at 31 December 2013			
Proved reserves	14.009	152.8	39.465
Proved plus probable reserves	15.313	163.7	42.591
Production: 1 January–31 December 2014	0.581	5.7	1.571
As at 31 December 2014			
Proved reserves	**13.428**	**147.1**	**37.894**
Proved plus probable reserves	**14.732**	**158.0**	**41.020**

Notes:
1. There has been no external reassessment of reserves subsequent to the Miller and Lents reserve study of 2012.
2. The reserves and production numbers shown above 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 Group reserves.
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 MS 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.

Average unit production costs on the gas-condensate fields declined to US$6.49 per boe in 2014 (2013: US$8.27) primarily as the significant element of fixed plant costs were spread over higher production rates. Management anticipates further reductions in unit costs as capacity utilisation rises towards 100%.

During 2014, the main development activity was the drilling of the VM#3 production well. Following slow progress with the drilling, it eventually became clear that the drilling contractor had encountered mechanical difficulties, with the drill pipe being stuck at a depth of 2,556 metres. Subsequent attempts by the drilling contractor to release the stuck drill pipe were not successful and operations were temporarily suspended in September 2014. The Group subsequently agreed with the drilling contractor a cost-effective means of completing the VM#3 production well. Operations recommenced in January 2015 with the aim of completing the well in time to commence production during the first half of 2015. As the well is being drilled on a turnkey contract basis the cost has not been materially affected.

In January 2015, a second rig was mobilised to drill a sidetrack to the VM#4 well, which is currently not producing. There are, in addition, contingent plans to drill a further well, VM#5 later in 2015.

Oil production
Having completed its sixth 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 minimal 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 declining production rates. There remains a shallower undeveloped reservoir which may be brought into production by re-using existing wells on the field.

In June 2013, following a successful flow test and workover, the Sobolevskaya #11 well in the Urozhainoye-2 licence was put on production. However, in August 2014 production from the well ceased. An undeveloped oil pool has been identified within the Sobolevskaya field. The 2015 capital budget includes a sidetrack from the #11 well to develop this resource.

The Group's oil production, whilst of modest scale, remains very profitable for the Group and a useful contributor of cash flow.

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 later in 2015 and beyond. The Group has fulfilled all its licence commitments on the Karpenskiy Licence Area and further drilling in the area is discretionary.

Oil, gas and condensate reserves as of 1 January 2015
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 Group's three principal fields, Dobrinskoye, Vostochny Makarovskoye and Uzenskoye, as at 1 August 2012, was prepared in accordance with reserve definitions set by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE").

Condensate storage tanks.

The table on page 8 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

Results for the year
In 2014, the Group generated US$39.4 million in turnover (2013: US$34.6 million) from the sale of 603,950 barrels of crude oil and condensate (2013: 547,257 barrels) and 5,671 million cubic feet of natural gas (2013: 3,128 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$45.07 per barrel (2013: US$47.63 per barrel). The gas sales price during 2014 averaged US$2.15 per thousand cubic feet (2013: US$2.73 per thousand cubic feet), the fall being entirely attributable to the devaluation of the Ruble. With sales made exclusively into the market in the Volga region at the wellhead, our oil and condensate sales prices reflect international prices, adjusted for export taxes and transportation costs. Production activities generated a gross profit of US$16.9 million in 2014 (2013: gross profit of US$16.2 million).

In 2014, the total cost of production increased to US$7.8 million (2013: US$5.9 million), with the incremental costs primarily incurred in volume related costs at the Group's gas processing plant. Production based taxes were US$8.3 million (2013: US$8.1 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 compared to crude oil. MET in 2014 represented 21.2% of revenues (2013: 23.0% of revenues). The gross profit margin in 2014 was 42.9% (2013: 46.7%).

Operating and administrative expenses in 2014 were US$4.2 million (2013: US$4.0 million).

The Group experienced a significant increase in EBITDA (defined as operating profit before non-cash charges, including exploration expense, depletion and depreciation) to US$17.4 million (2013: US$14.8 million) as a result of the higher revenues partly offset by higher expenses. As a reflection of the increasing proportion of gas in the sales mix. EBITDA per barrel of oil equivalent sold in 2014 was US$11.24 (2013: US$13.81).

After recording no exploration and evaluation expense (2013: US$2.5 million), or other asset impairment expenses (2013: US$ 1.4 million) the Group recorded an operating profit for 2014 of US$12.8 million (2013: US$8.2 million).

After including net interest income of US$0.2 million (2013: net interest expense of US$0.2 million) and other gains, predominantly from foreign exchange, of $3.3 million (2013: net other gains of US$1.6 million), the Group recognised a profit before tax of US$16.3 million (2013: US$9.6 million) and reported net profit after tax of US$13.1 million (2013: US$8.6 million) after taking a deferred tax charge of US$3.3 million (2013: US$1.0 million). Included in Other income in 2014 was a foreign exchange gain of US$3.2 million arising from US Dollar cash balances held by Russian subsidiaries which have the Ruble as functional currency (2013: US$0.3 million loss on foreign exchange).

Cash flow
Group cash inflow from operating activities was US$16.2 million (2013: US$15.4 million). Net working capital movements contributed to a cash inflow of US$0.5 million in 2014 (2013: US$1.2 million outflow from working capital movements). With slightly lower capital expenditures in 2014, the net outflow from investing activities was US$5.5 million (2013: US$6.2 million). Net cash outflow from financing activities was US$3.0 million (2013: outflow of US$8.1 million).

Dividend
In July 2014, the Board announced the adoption of a policy to distribute approximately 50% of consolidated net profit after tax as a cash dividend. A maiden interim dividend of US$0.0375 per share was paid on 24 October 2014. In light of the material reduction in the oil price in recent months, adverse financial conditions currently prevailing in Russia and the Group's plans for significant new investment in the LPG project the Board has decided to restrain the level of dividend payments. Accordingly, the Board is recommending a final dividend of US$0.0125 per ordinary share, bringing the total payment for the year to US$0.05 per ordinary share (2013: nil).

Capital expenditure
During 2014 capital expenditure of US$5.9 million was incurred (2013: US$5.9 million). In both 2014 and 2013 all of the capital expenditure was on development and producing assets. The most significant individual components of the capital expenditure in 2014 relate to the Dobrinskoye gas plant and drilling on the VM field.

Balance sheet and financing
As at 31 December 2014, the Group held cash and bank deposits of US$15.8 million (2013: US$8.1 million) with no debt. All of the Group's cash balances are held in bank accounts in the UK and Russia and the majority of the Group's cash is held in US Dollars.

As at 31 December 2014, the Group's intangible assets decreased to US$3.7 million (2013: US$6.4 million). Property, plant and equipment, decreased to US$57.8 million (2013: US$98.3 million), primarily reflecting the impact of foreign exchange adjustments.

On 9 July 2014 the capital reduction approved by shareholders at the Company's Annual General Meeting on 6 June 2014 became effective following confirmation by the High Court, the filing of the Court Order and a Statement of Capital with Companies House and the fulfilment of certain minor undertakings given to the Court. As a result, the Share Premium Account of the Company, amounting to US$165.9 million, was cancelled and the equivalent sum credited to the Company's Profit and Loss Account, thereby creating distributable reserves.

The Group's committed capital expenditures are less than expected cash flow from operations and cash-on-hand and such expenditures can be managed in light of the sharp reduction in international oil prices and the devaluation of the Ruble. The Group may consider additional debt facilities to fund the longer-term development of its existing licences and operational facilities as appropriate.

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

Tony Alves
Chief Financial Officer

Five year financial and operational summary

Sales volumes	2014	2013	2012	2011	2010
Oil & condensate (barrels)	603,950	547,257	529,501	546,817	407,050
Gas (mcf)	5,671	3,128	1,193	1,348	-
Total (boe)	**1,549,117**	**1,068,585**	**728,334**	**771,479**	**407,050**

Operating Results (US$ 000)	2014	2013	2012	2011	2010
Oil and condensate sales	27,220	26,067	25,526	25,425	13,052
Gas sales	12,203	8,554	2,769	3,146	–
Revenue	**39,423**	**34,621**	**28,295**	**28,571**	**13,052**
Production costs	(7,805)	(5,946)	(3,776)	(3,126)	(436)
Production based taxes	(8,344)	(8,095)	(8,951)	(9,537)	(5,254)
Depletion, depreciation and other	(4,656)	(2,611)	(2,280)	(2,641)	(1,037)
Other	(1,709)	(1,799)	(1,562)	(991)	(113)
Cost of sales	**(22,514)**	**(18,451)**	**(16,569)**	**(16,295)**	**(6,840)**
Gross profit	**16,909**	**16,170**	**11,726**	**12,276**	**6,212**
Exploration expense	–	(2,519)	(8,475)	(200)	(23,937)
Provision for VAT recovery	–	–	(2,945)	–	–
Operating & administrative expenses	(4,157)	(4,029)	(6,024)	(5,991)	(4,773)
Write-off of development assets	–	(1,439)	(188)	(5,612)	–
Operating profit/(loss)	**12,752**	**8,183**	**(5,906)**	**473**	**(22,498)**

Net realisation	2014	2013	2012	2011	2010
Oil & condensate (US$/barrel)	45.07	47.63	48.21	46.50	32.06
Gas (US$/mcf)	2.15	2.73	2.32	2.33	–

Operating data (US$/boe)	2014	2013	2012	2011	2010
Production costs	5.04	5.56	5.18	4.05	1.07
Production based taxes	5.38	7.58	12.29	12.36	12.91
Depletion, depreciation and other	3.01	2.44	3.13	3.42	2.55

EBITDA calculation (US$ 000)	2014	2013	2012	2011	2010
Operating profit/(loss)	12,752	8,183	(5,906)	473	(22,498)
Exploration expense	–	2,519	8,475	200	23,937
DD&A and other non-cash expense	4,656	4,050	5,413	8,253	1,037
EBITDA	**17,408**	**14,752**	**7,982**	**8,926**	**2,476**
EBITDA per boe	11.24	13.81	10.96	11.57	6.08

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 2015 will materially 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 moderate 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, the significant devaluation of the RUR against the US Dollar would negatively impact 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 2014 the Group had US$15.8 million of cash and cash equivalents of which US$8.6 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 2014 the Group has budgeted 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 and may be deferred or cancelled in the light of the Group's cash generation and liquidity position.

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 committed capital investment for the foreseeable future. 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

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.

Appointed to the Board: 14 March 2007

Committee membership: Remuneration

Mikhail Ivanov Chief Executive Officer, Executive Director

Until 31 December 2014, Mr Ivanov was a Partner and Director of Oil and Gas Projects at Baring Vostok Capital Partners. Mr Ivanov has a long history of involvement in the oil sector. Mikhail worked for over ten years at Schlumberger, 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 Schlumberger, he founded and headed two companies that focused on oil production and service. Mr Ivanov holds an MS degree in Geophysics from Novosibirsk State University and an MBA from the Kellogg School of Management of Northwestern University. He is an elected member of the Society of Petroleum Engineers.

Appointed to the Board: 14 March 2007

Committee membership: n/a

Antonio Alves Chief Financial Officer, Executive Director

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 read Mathematics at Cambridge University between 1977 and 1983 both as an undergraduate and a post-graduate research student.

Appointed to the Board: 12 January 2009

Committee membership: n/a

Ronald Freeman Non-Executive Director

Mr Freeman is a member of the Executive Committee of the Atlantic Council of the United States (Washington DC), and a past independent director on the boards of Sberbank, Severstal, and Troika Dialog. 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).

Appointed to the Board: 14 March 2007

Committee membership: Audit, Nomination, Remuneration

Stephen Ogden Non-Executive Director

Mr Ogden is a Non-Executive Director of the West African shopping mall operator Persianas. He was previously a Non-Executive Director of United Confectioneries (Russia), Heineken Russia and Metropolis Media (former Yugoslavia). Mr Ogden 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 & politics from Durham University, England, and is a qualified British chartered accountant ("FCA"). Mr Ogden is a co-founder and treasurer of the charitable Rwanda Cricket Stadium Foundation, which is building Rwanda's first proper cricket ground.

Appointed to the Board: 14 March 2007

Committee membership: Audit, Nomination, Remuneration

Vladimir Koshcheev Non-Executive Director

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.

Appointed to the Board: 14 March 2007

Committee membership: n/a

Michael Calvey Non-Executive Director

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.

Appointed to the Board: 14 March 2007

Committee membership: Audit, Nomination

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 quoted on the AIM market of the London Stock Exchange, it is neither required to comply with the UK Corporate Governance Code that was published 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
- Dividend policy, share buy-backs or other distributions
- 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 established 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 established 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 established 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 2014 (2013: four times) with the following attendance:

	2014	2013
Aleksey Kalinin	4	4
Mikhail Ivanov	4	4
Tony Alves	4	4
Ronald Freeman	3	3
Stephen Ogden	4	4
Vladimir Koshcheev	3	4
Michael Calvey	4	4

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 Calvey, Ivanov and Koshcheev 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 5 June 2015, 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
27 March 2015

Report of the Directors

The directors present their report together with the Group's audited consolidated financial statements for the period from 1 January 2014 to 31 December 2014.

Results and dividend

The Group's results are set out on pages 24 to 29 and show net profit of US$13.1 million for the year to 31 December 2014 (2013: net profit of US$8.6 million). An interim dividend of US$0.0375 per ordinary share was paid on 24 October 2014. The directors propose to pay a final dividend of US$0.0125 per ordinary share bringing the total payment to $0.05 per ordinary share for the year ended 31 December 2014 (2013: nil). The final dividend will be paid on 10 June 2015, subject to approval at the Annual General Meeting of the Company on 5 June 2015, to shareholders on the register on 15 May 2015.

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 admitted to trading on the AIM market of the London Stock Exchange 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 four licence areas in the Saratov and Volgograd regions: Karpenskiy, Vostochny-Makarovskoye, Dobrinskoye, and Urozhainoye-2. During the year, the Group relinquished the exploration areas of the Urozhainoye-2 Licence but retains a portion as production licence area including the Sobolevskoye oil field.

The Group's business strategy is to further 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 2014 are:

- Significant increase in production from the Vostochny Makarovskoye field.
- Initiation of engineering studies for further upgrades to the Dobrinskoye gas plant, including LPG extraction.

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 13.

Key performance indicators

Given the nature of the business and that the Group has only three 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 Calvey, Ivanov and Koshcheev 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 1p each	
	31 December 2014	31 December 2013
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	205,000
Vladimir Koshcheev	419,210	469,210
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.

Substantial shareholders

On 27 March 2015 the following parties had notifiable interests of 3% or greater in the nominal value of the Company's issued 1p 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
Quorum Fund Ltd	4,841,961	5.98
Zürcher Kantonal Bank AG	3,434,000	4.24
BNP Paribas Investment Partners S.A.	3,336,860	4.12
BlackRock Investment Management (UK) Limited	3,094,791	3.81
JP Morgan Asset Management (UK) Limited	2,761,720	3.41

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 2014 no further options (2013: nil) 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 (2013: 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 Group 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 Group 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 2014 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 2015.

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 other than a US$10 million facility that was drawn in 2012 and repaid in full in 2013.

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 auditor
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 auditor is 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 auditor is aware of that information.

Auditor
The Group's auditor, KPMG LLP has indicated its willingness to continue in office and a resolution concerning its reappointment will be proposed at the next Annual General Meeting.

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 for Companies 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 auditor does not involve consideration of these matters and accordingly, the auditor accepts 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 Rule 26 of the AIM Rules for Companies.

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
27 March 2015

Directors' Remuneration Report

In common with the Board's commitment to compliance with the appropriate aspects of the UK Corporate Governance 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 the Corporate Governance statement on page 16.

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 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.

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 2014 US$ 000	Aggregate Remuneration for the Year 31 December 2013 US$ 000
Executive directors						
M. Ivanov	400	–	–	–	400	398
A. Alves	289	21	–	–	310	310
Non-executive						
A. Kalinin	–	–	–	–	–	–
R. Freeman	–	–	–	50	50	50
S. Ogden	–	–	–	50	50	50
V. Koshcheev	–	–	–	–	–	–
M. Calvey	–	–	–	–	–	–

Directors' Remuneration Report continued

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.

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 2014 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, up to 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 2014, options over no further shares became eligible for vesting (2013: nil).

By order of the Board

Tony Alves
Company Secretary
27 March 2015

Independent Auditor's Report
to the Members of Volga Gas plc

We have audited the financial statements of Volga Gas plc for the year ended 31 December 2014. 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 pages 19 and 20, 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 2014 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 LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
30 March 2015

Group Income Statement

(presented in US$ 000)

Year ended 31 December	Notes	2014	2013
Continuing operations			
Revenue		39,423	34,621
Cost of sales	5	(22,514)	(18,451)
Gross profit		**16,909**	**16,170**
Exploration and evaluation expense	5	–	(2,519)
Operating and administrative expenses	5	(4,157)	(4,029)
Write off of development assets		–	(1,439)
Operating profit		**12,752**	**8,183**
Interest income	6	245	45
Interest expense		–	(281)
Other gains and losses – net	7	3,290	1,648
Profit for the year before tax		**16,287**	**9,595**
Deferred income tax	8	(3,229)	(1,036)
Profit for the year before non-controlling interests		**13,058**	**8,559**
Attributable to:			
The owners of the Parent Company		**13,058**	**8,559**
Basic and diluted profit per share (in US Dollars)			
	9	0.16	0.11
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$ 1,472,000 (2013: US$1,187,000)

Group Statement of Comprehensive Income

(presented in US$ 000)

Year ended 31 December	Notes	2014	2013
Profit for the year attributable to equity shareholders of the Company		**13,058**	**8,559**
Other comprehensive income items that may be reclassified to profit and loss:			
Currency translation differences		(48,955)	(8,242)
Total comprehensive (expense)/income for the year		**(35,897)**	**317**
Attributable to:			
The owners of the Parent Company		**(35,897)**	**317**

The accompanying notes on pages 30 to 44 are an integral part of these financial statements.

Group Balance Sheet

(presented in US$ 000)

At 31 December	Notes	2014	2013
Assets			
Non-current assets			
Intangible assets	10	3,746	6,438
Property, plant and equipment	11	57,819	98,272
Other non-current assets	12	68	709
Deferred tax assets	8	706	750
Total non-current assets		**62,339**	**106,169**
Current assets			
Cash and cash equivalents	13	15,767	8,081
Inventories	14	1,099	1,793
Other receivables	15	918	2,869
Total current assets		**17,784**	**12,743**
Total assets		**80,123**	**118,912**
Equity and liabilities			
Equity			
Share capital	16	1,485	1,485
Share premium (net of issue costs)	16	–	165,873
Other reserves	17	(70,816)	(21,861)
Accumulated profits/(losses)	18	145,114	(30,779)
Equity attributable to the shareholders of the Parent		**75,783**	**114,718**
Total equity		**75,783**	**114,718**
Non-current liabilities			
Asset retirement obligation		189	325
Deferred tax liabilities	8	2,478	-
Total non-current liabilities		**2,667**	**325**
Current liabilities			
Trade and other payables	19	1,673	3,869
Total current liabilities		**1,673**	**3,869**
Total equity and liabilities		80,123	118,912

Approved by the Board of Directors on 27 March 2015 and signed on its behalf by

Mikhail Ivanov
Chief Executive Officer

Tony Alves
Chief Financial Officer

The accompanying notes on pages 30 to 44 are an integral part of these financial statements.

Group Cash Flow Statements

(presented in US$ 000)

Year ended 31 December	Notes	2014	2013
Profit for the year before tax		**16,287**	**9,595**
Adjustments to loss before tax:			
Depreciation		4,683	2,608
E&E expense		–	2,519
Write off of development assets		–	1,188
Other non-cash expenses		–	342
Foreign exchange differences		(5,297)	310
Operating cash flow prior to working capital		**15,673**	**16,562**
Working capital changes			
Increase/(decrease) in trade and other receivables		1,621	(870)
Decrease in payables		(971)	315
Decrease in inventory		(77)	(644)
Cash flow from operations		**16,246**	**15,363**
Income tax paid		–	-
Net cash flow generated from operating activities		**16,246**	**15,363**
Cash flows from investing activities			
Expenditure on exploration and evaluation	10	–	-
Purchase of property, plant and equipment	11	(5,520)	(6,229)
Net cash used in investing activities		**(5,520)**	**(6,229)**
Cash flows from financing activities			
Equity dividends paid		(3,038)	-
Loans repaid		–	(8,097)
Net cash provided by financing activities		**(3,038)**	**(8,097)**
Effect of exchange rate changes on cash and cash equivalents		(2)	(5)
Net increase in cash and cash equivalents		**7,686**	**1,032**
Cash and cash equivalents at beginning of the year	13	8,081	7,049
Cash and cash equivalents at end of the year	**13**	**15,767**	**8,081**

The accompanying notes on pages 30 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	2014	2013
Assets			
Non-current assets			
Investments	20	152,234	152,234
Intercompany receivables	22	4,606	15,697
Total non-current assets		**156,840**	**167,931**
Current assets			
Cash and cash equivalents	13	6,786	201
Other receivables	15	31	29
Total current assets		**6,817**	**230**
Total assets		**163,657**	**168,161**
Equity and liabilities			
Equity			
Share capital	16	1,485	1,485
Share premium (net of issue costs)	16	–	165,873
Share grant expense reserve	17	5,233	5,233
Accumulated profit/(loss)	18	155,566	(5,797)
Total equity		**162,284**	**166,794**
Current liabilities			
Intercompany payables		1,357	1,357
Trade and other payables	19	16	10
Total current liabilities		**1,373**	**1,367**
Total equity and liabilities		**163,657**	**168,161**

Approved by the Board of Directors on 27 March 2015 and signed on its behalf by

Mikhail Ivanov
Chief Executive Officer

Tony Alves
Chief Financial Officer

The accompanying notes on pages 30 to 44 are an integral part of these financial statements.

Company Cash Flow Statements

(presented in US$ 000)

Year ended 31 December	Notes	2014	2013
Profit/(loss) for the period before tax		**(1,472)**	**(1,187)**
Adjustments to loss before tax:			
Non-cash items		–	–
Operating cash flow prior to working capital		**(1,472)**	**(1,187)**
Working capital changes			
(Increase)/decrease in receivables		(2)	33
Increase/(decrease) in payables		6	(5)
Cash flow from operations		**(1,468)**	**(1,159)**
Income tax paid		–	–
Net cash flow generated from operating activities		**(1,468)**	**(1,159)**
Cash flows from investing activities			
Decrease in intercompany receivables	22	11,091	343
Net cash from investing activities		**11,091**	**343**
Cash flows from financing activities			
Equity dividends paid		(3,038)	–
Net cash used in financing activities		**(3,038)**	**–**
Effect of exchange rate changes on cash and cash equivalents		–	–
Net increase/(decrease) in cash and cash equivalents		**6,585**	**(816)**
Cash and cash equivalents at the beginning of the year	13	201	1,017
Cash and cash equivalents at end of the year	**13**	**6,786**	**201**

The accompanying notes on pages 30 to 44 are an integral part of these financial statements.

Group Statement of Changes in Shareholders' Equity

(presented in US$ 000)

	Notes	Share Capital	Share Premium	Currency Translation Reserves	Share Grant Reserve	Accumulated Profit/(Loss)	Total Equity
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
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**
Opening equity at 1 January 2014		**1,485**	**165,873**	**(27,094)**	**5,233**	**(30,779)**	**114,718**
Profit for the year		–	–	–	–	13,058	13,058
Equity dividends paid		–	–	–	–	(3,038)	(3,038)
Cancellation of share premium account	16	–	(165,873)	–	–	165,873	–
Total transactions with owners		**–**	**(165,873)**	**–**	**–**	**162,835**	**(3,038)**
Currency translation differences		–	–	(48,955)	–	–	(48,955)
Total comprehensive income		–	–	(48,955)	–	13,058	(35,897)
Closing equity at 31 December 2014		**1,485**	**–**	**(76,049)**	**5,233**	**145,114**	**75,783**

Company Statement of Changes in Shareholders' Equity

(presented in US$ 000)

	Notes	Share Capital	Share Premium	Share Grant Reserve	Accumulated Profit/(loss)	Total Equity
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)
Closing equity at 31 December 2013		**1,485**	**165,873**	**5,233**	**(5,797)**	**166,794**
Opening equity as at 1 January 2014		**1,485**	**165,873**	**5,233**	**(5,797)**	**166,794**
Loss for the year		–	–	–	(1,472)	(1,472)
Equity dividends paid		–	–	–	(3,038)	(3,038)
Cancellation of share premium account	16	–	(165,873)	–	165,873	–
Closing equity at 31 December 2014		**1,485**	**–**	**5,233**	**155,566**	**162,284**

The accompanying notes on pages 30 to 44 are an integral part of these financial statements.

Notes to the IFRS Consolidated Financial Statements

For the year ended 31 December 2014

(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 admitted to trading on the AIM market of the London Stock Exchange.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 27 March 2015.

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 in pages 4 to 13; the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 10 to 11. 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.

Disclosure of impact of new and future accounting standards

(a) New and amended standards and interpretations:

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2014 that have a material impact on the Group.

In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its investees at 1 January 2014. No modifications of previous conclusions about control regarding the Group's investees were required.

(b) 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 2014 and have not been early adopted:

- IFRS 9 Financial Instruments (effective 1 January 2018)
- Annual Improvements to IFRSs – 2010-2012 Cycle (effective 1 July 2014)
- Annual Improvements to IFRSs – 2011-2013 Cycle (effective 1 July 2014)

The Group is yet to assess the full impact of these new standards and amendments but does not expect them to have an material impact on the financial statements, with the main effect being the requirement for additional disclosures.

2.2 Consolidation

(a) Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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.

2. Summary of significant accounting policies continued

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 Financial Reporting Standards as adopted by the EU.

A list of the Company's subsidiaries is provided in note 20.

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 decides 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 2013 and 2014. 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.

The Group's gas sales, representing a substantial proportion of revenues are made to a single customer. Details are provided in note 3.1 (b).

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 Ruble ("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 2014 were:

- GBP 1.5532: US$ (2013: GBP 1: US$ 1. 6488)
- EUR 1.2148: US$ (2013: 1.374)
- US$ 1:56.2584 RUR. (2013: US$ 1: RUR. 32.729)

Notes to the IFRS Consolidated Financial Statements continued

2. Summary of significant accounting policies continued

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.

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 field 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. Summary of significant accounting policies continued

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 2014 or 31 December 2013.

(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.

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.

Notes to the IFRS Consolidated Financial Statements continued

2. Summary of significant accounting policies continued

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 the 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 2014 and 2013 , 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.

2.17 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.

At 31 December 2014, 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$289,000 (2013: US$50,250) higher/lower, mainly as a result of foreign exchange gains/losses on translation of RUR denominated trade payables and financial assets. At 31 December 2014, 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$1,000 (2013: US$1,200) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR denominated interest charges and financial liabilities. At 31 December 2014, 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$15,000 (2013: US$1,500) higher/lower, mainly as a result of foreign exchange gains/losses on translation of GBP denominated trade payables and financial assets.

3. Financial risk management continued

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

At 31 December 2014	Rubles US$ 000	US Dollars US$ 000	Euros US$ 000	Sterling US$ 000	Total US$ 000
Financial assets					
Cash and cash equivalents	3,167	12,405	15	180	15,767
Total financial assets	**3,167**	**12,405**	**15**	**180**	**15,767**
Financial liabilities (before provision for UK taxes)	1,149	–	–	–	1,149
At 31 December 2013					
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

Group companies utilised short-term foreign exchange forward contracts in 2014 to effect sales of RUR against USD. There were no open contracts as at 31 December 2014. No forward foreign exchange contracts were used in 2013.

(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$15,767,000 and US$8,081,000 at 31 December 2014 and 2013 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 31.0% of Group revenues in 2014 (2013: 24.7%) are made to OOO Trans Nafta. As at 31 December 2014 there were trade receivables of US$0.6 million (31 December 2013: US$1.8 million) primarily relating to gas sales.

Rating of financial institution (S&P)	31 December 2014	31 December 2013
A+	7,123	313
BBB+	4,971	7,132
BBB–	3,615	489
Other	58	147
Total bank balance	**15,767**	**8,081**

(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.

The Group expects to fund its capital investments, as well as its administrative and operating expenses, through 2015 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.

Notes to the IFRS Consolidated Financial Statements continued

3. Financial risk management continued

(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. 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	2014 US$ 000	2013 US$ 000
Production expenses	9,530	7,777
Mineral extraction taxes	8,344	8,095
Depletion, depreciation and amortisation	4,640	2,579
Cost of Sales	**22,514**	**18,451**

Total expenses are analysed as follows:

Year ended 31 December	2014 US$ 000	2013 US$ 000
Mineral extraction tax	8,344	8,095
Exploration & evaluation	–	2,519
Salaries & staff benefits	2,896	3,048
Depreciation & amortisation	4,656	2,611
Directors' emoluments and other benefits	810	808
Field operating expenses	7,805	5,946
Audit fees	199	286
Taxes other than payroll and mineral extraction	82	86
Legal & consulting	909	374
Write-off of development assets	–	1,439
Fines and penalties	99	343
Other	871	883
Total	**26,671**	**26,438**

(a) Exploration and evaluation: 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	2014	2013
Exploration and production	141	128
Administration and support	23	23
Total	**164**	**151**

Their aggregate remuneration (excluding executive directors) comprised:

	2014 US$ 000	2013 US$ 000
Wages and salaries	2,083	2,277
Payroll taxes & social contribution	761	700
Staff benefits	52	71
Total	**2,896**	**3,048**

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

Year ended 31 December	2014	2013
Chief Executive and Chief Financial Officers	2	2

Only directors are employed by the Company.

Notes to the IFRS Consolidated Financial Statements continued

5. Cost of sales and administrative expenses – Group continued

(c) Directors' emoluments and other benefits

Directors' emoluments comprised salaries of US$688,000 (2013: US$630,000), pension contributions of US$21,000 (2013: US$78,000) and non-executive directors' fees of US$100,000 (2013: US$100,000). There were no share grant expenses in 2014 (2013: nil).

(d) Audit Fees – Group and Company

Disclosure of the fees paid to the Company's auditors and its associates is given in note 21.

(e) Depreciation

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

(f) Write-off of development assets

There was no write off of development assets in the year ended 31 December 2014. In the year ended 31 December 2013, the write-off of development assets comprised and impairment of US$1.3 of amounts of Property Plant and Equipment associated with redundant assets (note 11) and costs of US$0.1 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 banks (note 13).

7. Other gains and losses – Group

Year ended 31 December	2014 US$ 000	2013 US$ 000
Foreign exchange gain/(loss)	3,263	(306)
Mineral Extraction Tax refund	–	1,939
Other gains	27	15
Total other gains and losses	**3,290**	**1,648**

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	2014	2013
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	–	–
Origination and reversal of timing differences	(3,229)	(1,036)
Total deferred tax	**(3,229)**	**(1,036)**
Total tax charge	**(3,229)**	**(1,036)**

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	2014 US$ 000	2013 US$ 000
Profit before income tax and minority interest	16,287	9,595
Tax calculated at domestic tax rates applicable to (profits)/losses in the respective countries	(3,104)	(1,972)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	(287)	716
Other tax adjustments	162	220
Income tax charge	**(3,229)**	**(1,036)**

The weighted average applicable tax rate was 19.1% (2013: 20.6%).

8. Current and deferred income tax – Group continued

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 2014 US$ 000	Differences recognised in profit or loss US$ 000	Differences recognised in other comprehensive income US$ 000	31 December 2013 US$ 000	Differences recognition and reversal US$ 000	31 December 2012 US$ 000
Tax effects of taxable temporary differences:						
Exploration and production assets	(3,897)	27	2,821	(6,745)	(257)	(6,488)
Property, plant & equipment	(1,486)	10	1,075	(2,571)	(106)	(2,465)
Inventories	–	–	–	–	8	(8)
Total	**(5,383)**	**37**	**3,896**	**(9,316)**	**(355)**	**(8,961)**
Tax effect of deductible temporary differences:						
Tax losses carry forward	3,611	(3,340)	(3,202)	10,153	(437)	10,590
Trade and other receivables	–	74	13	(87)	(362)	275
Property, plant and equipment	–	–	–	(158)	158	
Total	**3,611**	**(3,266)**	**(3,189)**	**10,066**	**(957)**	**11,023**
Net tax effect of temporary differences	**(1,772)**	**(3,229)**	**707**	**750**	**(1,312)**	**2,062**

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. As at 31 December 2014, deferred income tax assets of US$706,000 (2013: US$750,000) and deferred ta liabilities of US$2,478,000 (2013: nil) have been recognised . Tax losses in respect of Cyprus and the UK do not expire. The Group has not recognised a deferred tax asset of US$1,711k in respect of tax losses and other short-term timing differences in the UK (2013: US$1,461k).

9. Basic and diluted profit 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	2014	2013
Net profit attributable to equity shareholders (US$ per share)	0.161	0.106
Diluted net profit attributable to equity shareholders	0.159	0.104
Net profit attributable to equity shareholders (US$ 000)	13,058	8,559
Basic weighted number of shares	81,017,800	81,017,800
Diluted number of shares	82,350,767	82,350,767

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	Exploration and evaluation	Total
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**
Exchange adjustments	(25)	(681)	(706)
At 31 December 2013	**258**	**6,180**	**6,438**
At 1 January 2014	258	6,180	6,438
Movements during the year	–	–	–
At 31 December 2014	**258**	**6,180**	**6,438**
Exchange adjustments	(107)	(2,585)	(2,692)
At 31 December 2014	**151**	**3,595**	**3,746**

Notes to the IFRS Consolidated Financial Statements continued

11. Property, plant and equipment – Group

Movements in property, plant and equipment, for the years ended 31 December 2014 and 2013 are as follows:

Cost	Development assets US$ 000	Land & buildings US$ 000	Producing assets US$ 000	Other US$ 000	Total US$ 000
At 1 January 2013	13,773	1,262	97,362	808	113,205
Additions	5,579	274	73	–	5,926
Impairments	(1,302)	–	(17)	–	(1,319)
Transfers	(7,872)	–	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**	**1,446**	**87,422**	**234**	**98,272**

Impairment of US$1.3 million in 2013 relates to amounts of Property Plant and Equipment associated with redundant assets (note 5.)

Cost	Development assets US$ 000	Land & buildings US$ 000	Producing assets US$ 000	Other US$ 000	Total US$ 000
At 1 January 2014	9,170	1,446	98,439	784	109,839
Additions	5,547	–	82	–	5,629
Transfers	(901)	–	901	–	–
At 31 December 2014	**13,816**	**1,446**	**99,422**	**784**	**115,468**
Accumulated depreciation					
At 1 January 2014	–	–	(11,017)	(551)	(11,568)
Depreciation	–	–	(4,635)	(49)	(4,684)
At 31 December 2014	–	–	(15,652)	(600)	(16,252)
Exchange adjustments	(5,293)	(604)	(35,418)	(82)	(41,397)
At 31 December 2014	**8,523**	**842**	**48,353**	**102**	**57,819**

12. Non-current assets – Group

As at 31 December	2014 US$ 000	2013 US$ 000
VAT recoverable	24	633
Other non-current assets	44	76
Total other non-current assets	**68**	**709**

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.

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

	Group		Company	
At 31 December	2014 US$ 000	2013 US$ 000	2014 US$ 000	2013 US$ 000
Cash at bank and on hand	15,767	2,836	6,786	201
Short-term bank deposits	–	5,245	–	–
Total cash and cash equivalents	**15,767**	**8,081**	**6,786**	**201**

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

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

At 31 December	Currency	Group 2014 US$ 000	Group 2013 US$ 000	Company 2014 US$ 000	Company 2013 US$ 000
Bank					
United Kingdom					
Barclays Bank PLC	USD	6,943	311	6,606	199
Barclays Bank PLC	GBP	180	2	180	2
Russian Federation					
Unicreditbank	RUR	123	206	–	–
Unicreditbank	USD	3,492	283	–	–
ZAO Raiffeisenbank	RUR	2,986	6,485	–	–
ZAO Raiffeisenbank	USD	1,970	629	–	–
ZAO Raiffeisenbank	EUR	15	17	–	–
Other banks and cash on hand	RUR	58	148	–	–
Total cash and cash equivalents		**15,767**	**8,081**	**6,786**	**201**

14. Inventories – Group

At 31 December	2014 US$ 000	2013 US$ 000
Production consumables and spare parts	1,060	1,713
Crude oil inventory	39	80
Total inventories	**1,099**	**1,793**

15. Other receivables – Group

At 31 December	Group 2014 US$ 000	Group 2013 US$ 000	Company 2014 US$ 000	Company 2013 US$ 000
VAT receivable	81	138	31	29
Prepayments	202	835	–	–
Trade receivables	579	1,812	–	–
Other accounts receivable	56	84	–	–
Total other receivables	**918**	**2,869**	**31**	**29**

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. 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 2013 and 2014.

	Number of shares	Share capital US$ 000	Share premium US$ 000
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**
At 1 January 2014	81,017,800	1,485	165,873
Cancellation of share premium	(165,873)		
Issues of shares	–	–	–
At 31 December 2014	**81,017,800**	**1,485**	**–**

On 9 July 2014 the capital reduction approved by shareholders at the Company's Annual General Meeting on 6 June 2014 became effective following confirmation by the High Court, the filing of the Court Order and a Statement of Capital with Companies House and the fulfilment of certain minor undertakings given to the Court. As a result, the Share Premium Account of the Company, amounting to US$165.9 million, was cancelled and the equivalent sum credited to the Company's Profit and Loss Account, thereby creating distributable reserves.

Notes to the IFRS Consolidated Financial Statements continued

16. Share capital and share premium – Group continued
The total number of authorised ordinary shares is 330,720,100 (2014: 330,720,100) with a par value of £ 0.01 per share (2013: £ 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 2014 (2013: 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 vested 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. A total of 195,503 share options vested in eight semi-annual tranches over a period of four years under conditions related to the Company's share price. The options have an exercise price of £1.00. As of 17 December 2012 no further options were eligible for vesting. There were no share grant expenses in 2014 (2013: 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 2014	2009 Executive Share Option Plan
Share price	73.5p
Exercise price	100.0p–405.0p
Expected volatility	56.0%
Expected life	0–2 years
Risk free rate	0.5%

17. Other reserves – Group

At 31 December	2014 US$ 000	2013 US$ 000
Currency translation adjustment	(76,049)	(27,094)
Share grant expense	5,233	5,233
Total other reserves	**(70,816)**	**(21,861)**

18. Accumulated profit/(loss) – Group and Company

	Group		Company	
At 31 December	2014 US$ 000	2013 US$ 000	2014 US$ 000	2013 US$ 000
Retained losses	(30,779)	(39,338)	(5,797)	(4,610)
Profit/(loss) for the year	13,058	8,559	(1,472)	(1,187)
Equity dividends paid	(3,038)	–	(3,038)	–
Cancellation of share premium	165,873	–	165,873	–
Accumulated profit/(loss)	**145,114**	**(30,779)**	**155,566**	**(5,797)**

19. Trade and other payables

	Group		Company	
At 31 December	2014 US$ 000	2013 US$ 000	2014 US$ 000	2013 US$ 000
Trade payables	268	432	16	10
Taxes other than profit tax	881	2,547	–	–
Customer advances	524	890	–	–
Total	**1,673**	**3,869**	**16**	**10**

The maturity of the Group's and of the Company's financial liabilities are all between zero to three months.

20. 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 & gas exploration and production	100%	May 2006
Gazneftеservice	Russia	Oil & 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 2013 US$ 000	Additions US$ 000	Disposals US$ 000	31 December 2014 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.

21. 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	2014 US$ 000	2013 US$ 000
Fees payable to Company's auditor for the audit of Parent Company and consolidated financial statements	167	235
– Audit of the Company's subsidiaries pursuant to legislation	24	19
– Other services pursuant to legislation	27	–
Total	**218**	**254**

22. 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	2014	2013
Baring Vostok Cyprus Limited	Affiliated with controlling shareholder	Rent, services	5	127

Year-end balances arising from transactions with related parties.

	31 December 2014 US$ 000	31 December 2013 US$ 000
Due to related parties		
Baring Vostok (Cyprus) Limited	12	12

All transactions with related parties were made on commercial basis.

Notes to the IFRS Consolidated Financial Statements continued

22. Related Party Transactions – Group and Company continued
The following transactions were carried out between the Company and its wholly-owned subsidiaries:

Group Company	Relationship	Nature of transactions	Year ended 31 December 2014	Year ended 31 December 2013
Woodhurst Holdings Limited	100% directly-owned subsidiary	Reduction of receivables due	11,092	343

Year-end balances arising from transactions with subsidiaries

	31 December 2014 US$ 000	31 December 2013 US$ 000
Accounts receivable from subsidiaries		
Woodhurst Holdings Limited	4,606	15,697
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.

23. Contingencies and Commitments
23.1 Capital commitments
As of the balance sheet date all material licence commitments have been met.

23.2 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 2014, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

23.3 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.

23.4 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
Urozhainoye-2	OOO Pre-Caspian Gas Company	2032
Vostochny-Makarovskoye	OOO Gazneftеservice	2026
Dobrinskoye	OOO Gazneftеservice	2026

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 5 June 2015 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 2014 and the directors' report.
2. To declare a dividend of US$0.0125 per ordinary share for the year ended 31 December 2014.
3. To reappoint Michael Calvey, who retires by rotation, as a director.
4. To reappoint Mikhail Ivanov, who retires by rotation, as a director.
5. To reappoint Vladimir Koshcheev, who retires by rotation, as a director.
6. To appoint Andrey Zozulya as a director.
7. To reappoint KPMG LLP as auditor of the Company until the conclusion of the next general meeting at which accounts are laid before the members of the Company.
8. To authorise the directors to determine the remuneration of the auditor of the Company.
9. 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 2016 (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

10. 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 9 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.
11. 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 2016 or at the end of the next annual general meeting of the Company to be held in 2016, 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
Tony Alves
Company Secretary
24 April 2015

Notice of Meeting continued

Notes:

1. Resolutions 1-9 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 10 and 11 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. Resolution 2 sets the final dividend which, if approved, will be paid on 10 June 2015 to shareholders on the register of members of the Company on 15 May 2015.
3. Share buy-back (Resolution 11). The purpose of Resolution 11 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 3 June 2015 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 3 June 2015 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, 34 Beckenham Road, Beckenham, Kent BR3 4TU) 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 3 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 gases 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% chance of being produced.
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% 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% 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 Broker
Stifel Nicolaus Europe Limited
150 Cheapside
London EC2V 6ET
United Kingdom

Auditor
KPMG LLP
15 Canada Square
London E14 5GL
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

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