



Volga Gas plc

FINAL RESULTS
2014

Mikhail Ivanov, CEO
Tony Alves, CFO

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Key share data

Major shareholders (as disclosed)

Baring Vostok Private Equity Funds III & IV	58.66%
Quorum Funds	5.98%
Nicholas Mathys	4.24%
BNP Paribas Investment Partners	4.12%
Blackrock Investment Management	3.81%
JP Morgan Asset Management	3.41%
Management/Directors	2.10%

Debt – $nil as at 31 December 2014

Cash – $15.8 million as at 31 December 2014

VGAS share price, UK p

12 month min 56p | max 140p | at 30/03/15 75p

Shares in issue: 81,017,800

Market capitalisation: £61m

www.volgagas.com

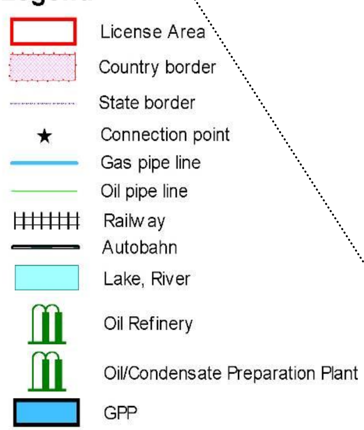
VGAS share price chart

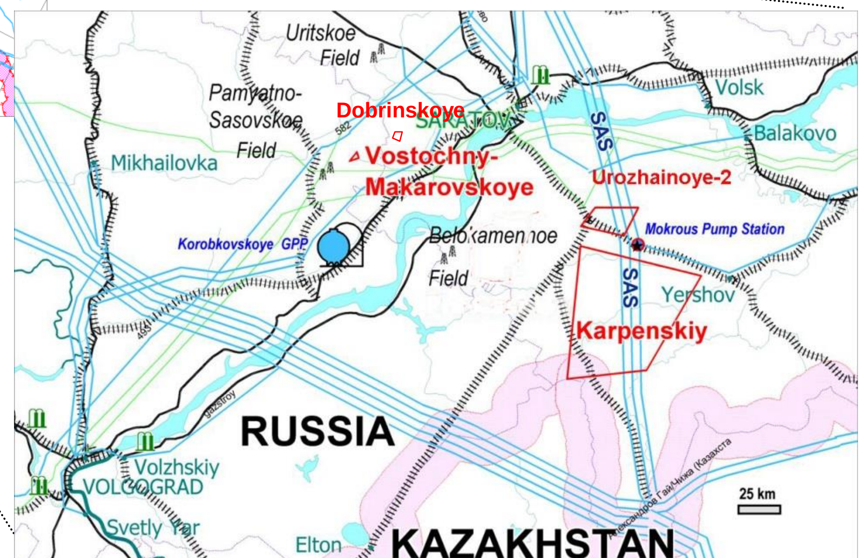
Source: London Stock Exchange

Where we operate

Source: Incotec

Legend





Source: Incotec

Financial highlights of 2014

- Revenue 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
- Pre-tax profit of US$16.3 million (2013: US$9.1 million)
  - No exploration or asset impairment charges in 2014 (2013: US$ 3.9 million)
  - Other income (mainly foreign exchange) gain of US$3.3 million (2013: US$1.6 million)
- Net cash flow from operations of US$16.3 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 recommended

Business overview

Production

- Gas & condensate production in two fields: Vostochny Makarovskoye and Dobrinskoye
- Oil production from one field: Uzenskoye
- Remaining 2P reserves* 41 million barrels of oil equivalent (“mmboe”)
- 2014 average production 4,244 boe/d (2013: 2,958 boe/d)

Gas Processing Plant

- Operated consistently at rate of over 500 mcm/d (18 mmcf/d) throughout 2014
- Completed minor modification to meet regulatory requirements
- Effective available capacity is 1.0 mmcm/d (35.3 mmcf/d)

Development plans for 2015-16

- Focus on drilling new production wells on the VM field
- Rig mobilised in January 2015 for operations
- Target to increase well production to utilise full plant capacity

Strategy

- Priority will be to focus on completing development and achieving higher levels of production and cash generation
- LPG project at the gas plant to enhance future revenues from the gas stream
- Future exploration potential in the Karpenskiy licence area

** Management estimate as at 31 December 2014. Source – as per Miller & Lents reserve report of 1 August 2012, less subsequent production*

Vostochny–Makarovskoye gas/condensate field

- VM has 2P reserves* of 126 bcf of gas and 7.5 million barrels of condensate (28.4 mmboe)
- Three production wells drilled, completed and hooked up to the Dobrinskoye gas plant, 5 km from the field site
- Production through gas plant and gas sales started in October 2012
- Successful workover of VM#1 well has more than doubled the estimated productive capacity of this well to 2,700 boe/d
- Currently production capacity is 15 mmcf/d gas plus 1,000 bpd of condensate (3,500 boepd)
- Current plans for thee wells in 2015-16:
  - VM#3 about 200m short of objective
  - VM#4 sidetrack of previously drilled well
  - VM#5 expected to follow after VM#4

VM field site office

VM#1 well workover in operation

VM#1 wellhead and flow line

** Management estimate as at 31 December 2014. Source – as per Miller & Lents reserve report of 1 August 2012, less subsequent production*

Dobrinskoye field

- Dobrinskoye remaining 2P reserves* of 21 bcf of gas and 1.7 million barrels of condensate (5.3 mmboe)
- Two production wells on the field

** Management estimate as at 31 December 2014. Source – as per Miller & Lents reserve report of 1 August 2012, less subsequent production*

Dobrinskoye gas plant

Gas Processing Unit used to process gas from the VM and Dobrinskoye fields

- Originally constructed solely for the Dobrinskoye field, the GPU has been upgraded to process the gas from VM and to increase its throughput capacity
- First two phases of the upgrade project completed by October 2012 enabling VM gas to start flowing
- Remaining works to establish 35 mmcf/d capacity were increase in condensate storage and upgrade to safety flare systems. These works have been substantially completed
- Potential incremental project to extract LPG (propane/butane) currently under evaluation for 2016-17 development



LPG extraction project overview

BASIS OF THE PROJECT

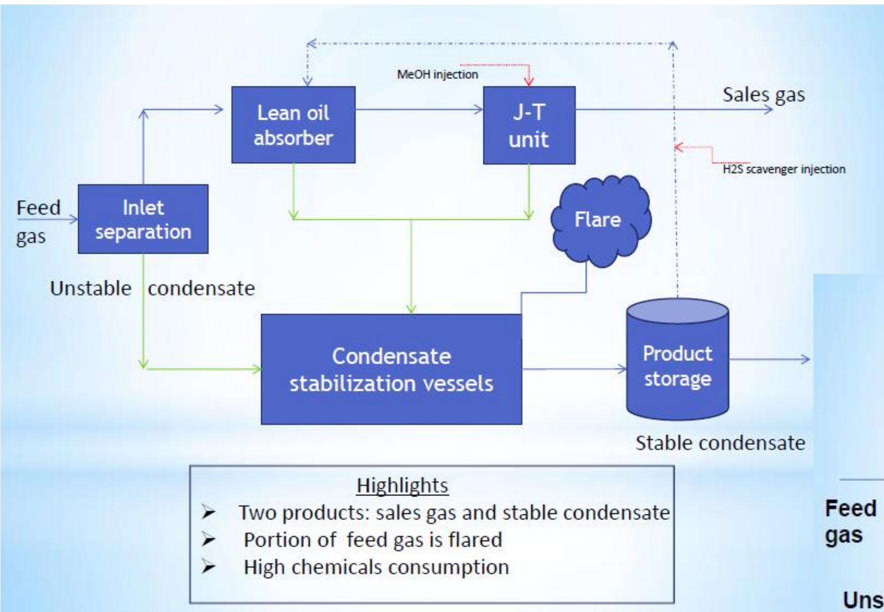
- The production from VM/Dobrinskoye is unusually high in liquid content
- Currently producing ~24kg of stabilised condensate from each 1000 m3 of gas
- Condensate stabilisation => losses of light fractions LPG (propane and butane) which are either flared at the plant or sent down the pipelines and sold at the same price as methane
- Estimate to capture additional 10kg of LPG from each 1000 m3 of gas
- Potential to produce an additional 10 tonnes per day of LPG => additional revenue with no incremental Mineral Extraction Tax payable

THE PROJECT

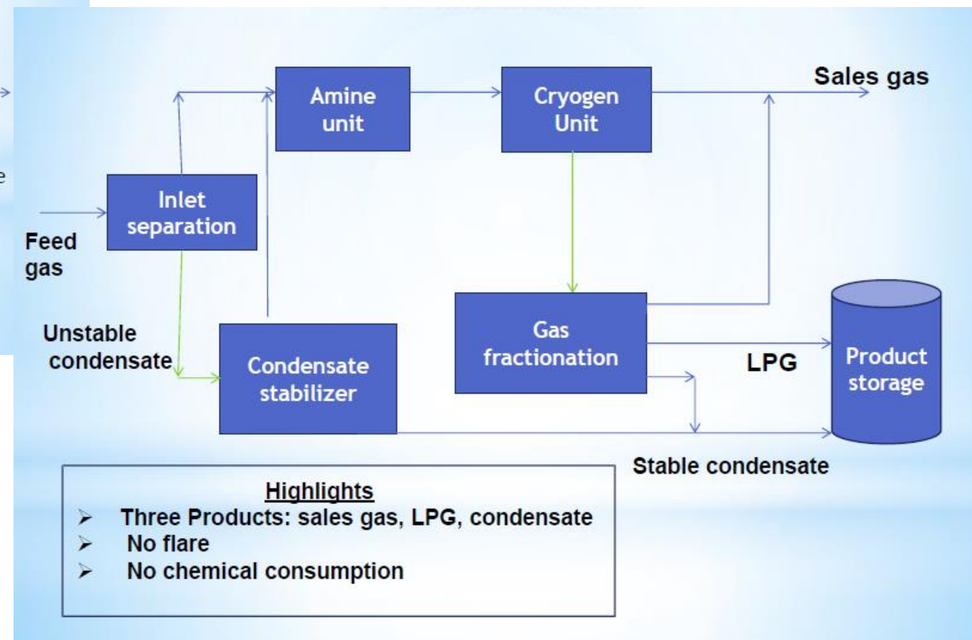
- Construction of new gas processing unit at the existing GPP site
- To include amine-based process for removal of H_2S from produced gas
- Aim to achieve significant reduction in cost of chemicals used in processing (estimate $2 million per annum)
- Modification of existing vessels and facilities to capture and store LPG
- Target incremental EBITDA of $20 million per annum at maximum field production rate

LPG Project Schematic

Current GPU Configuration



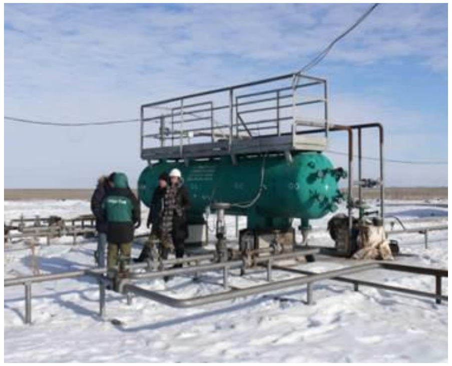
Planned GPU Configuration



Oil production from shallow supra-salt fields

UZENSKOYE FIELD

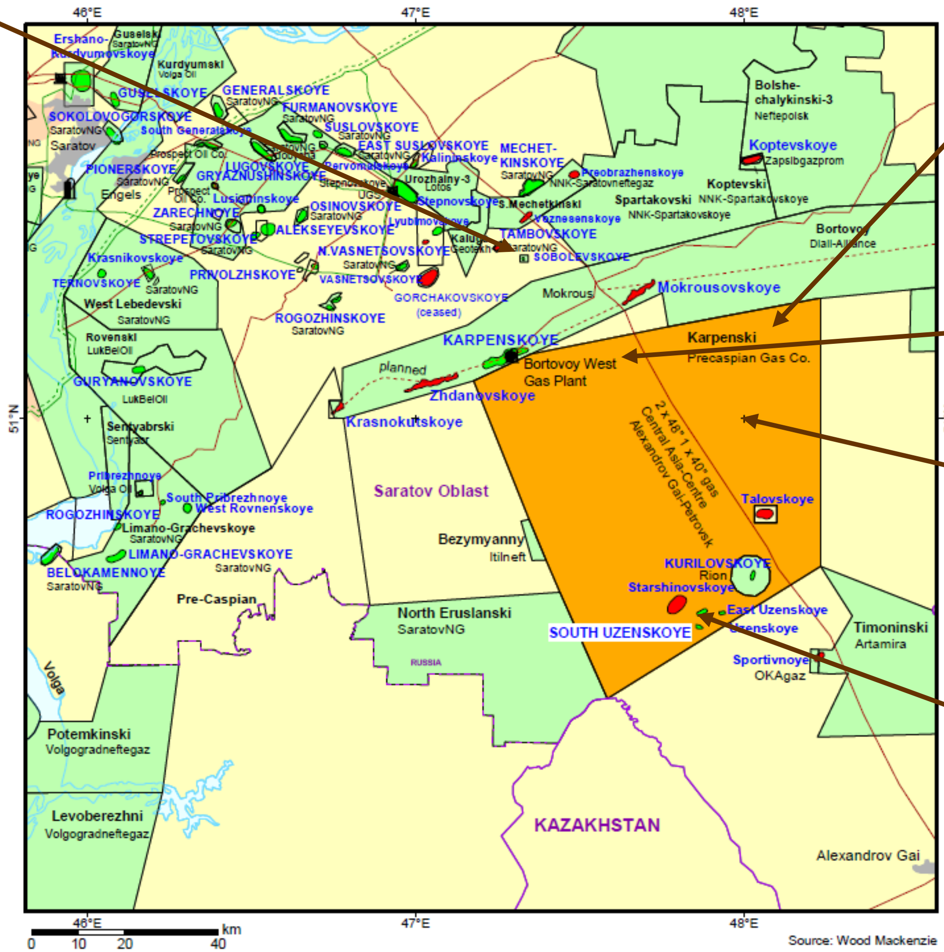
- Remaining 2P reserves* of 4.2 mmbbls
- Produced to date over 2 million barrels
- Current production capacity 600 bopd
- Production currently choked back to prevent water cut
- Secondary reservoir to be developed via future recompletions of existing wells



** Management estimate as at 31 December 2014. Source – as per Miller & Lents reserve report of 1 August 2012, less subsequent production*

Exploration: Karpenskiy Licence

Sobolevskoye
Single well produced in 2013-2014
Possible sidetrack to develop additional undepleted pool.



YUZHNY ERSHOVSKOYE
- **Grafovskaya#1 sub-salt exploration well drilled and tested.**
- **Non-commercial hydrocarbon shows**

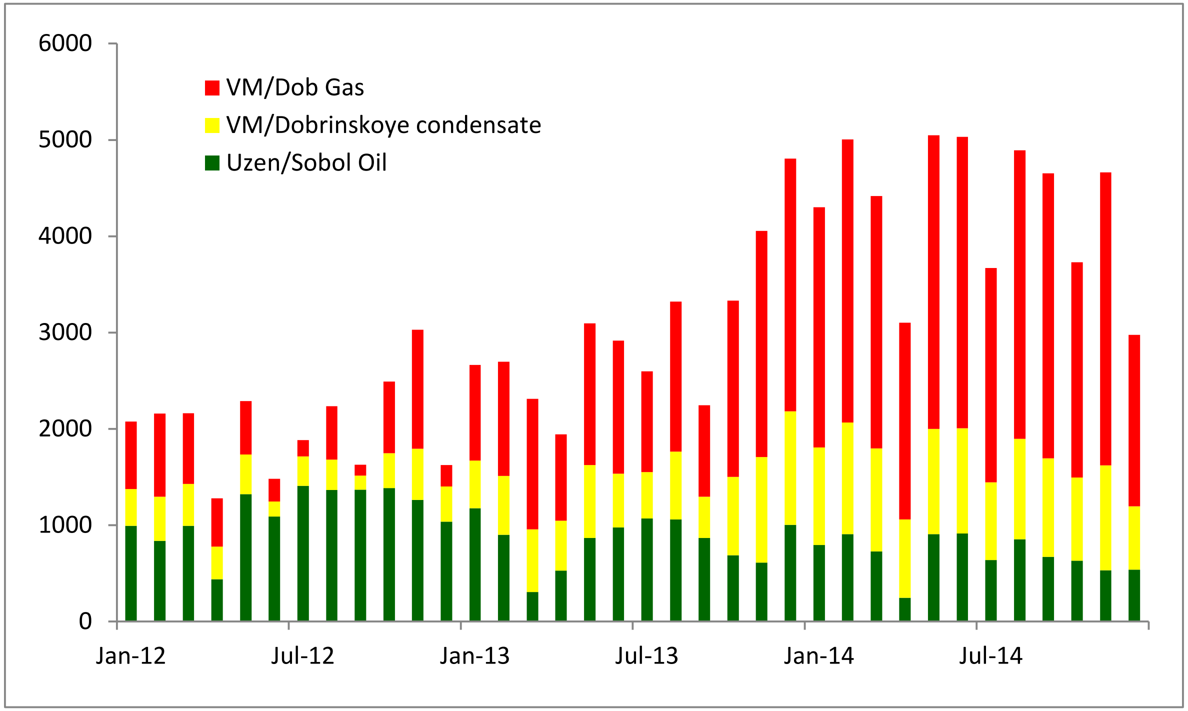
YUZHNY MOKROUSOVSKOYE
- **Novaya supra- and intra-salt prospect.**
- **C3 Prospective Resources of 189 mmboe**

MIRONOVSKAYA
- **3 supra-salt prospects mapped.**
- **Total C3 Prospective Resources of 25 mmbbls.**

UZENSKOYE
- **Discovered in 2007/8**
- **Developed 2008/9**
- **Produced > 2 mmbbls**

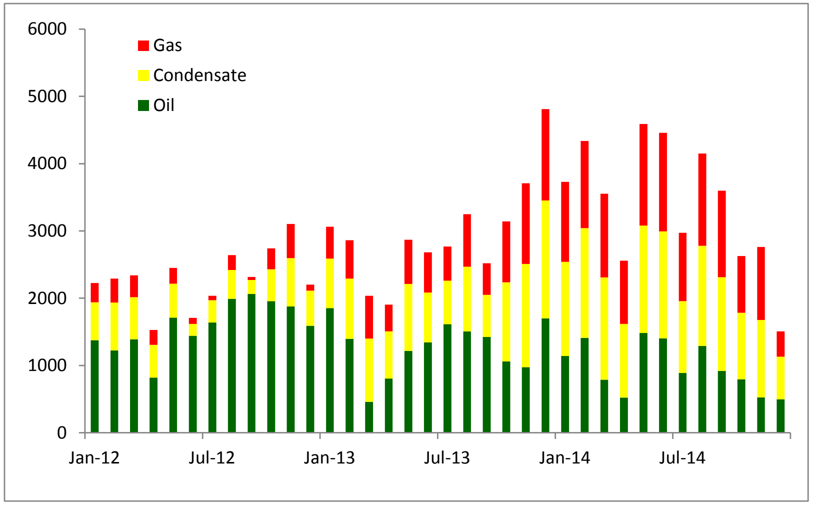
Source: Wood Mackenzie

Monthly average production rates Jan 2013 – Dec 2014 (boepd)

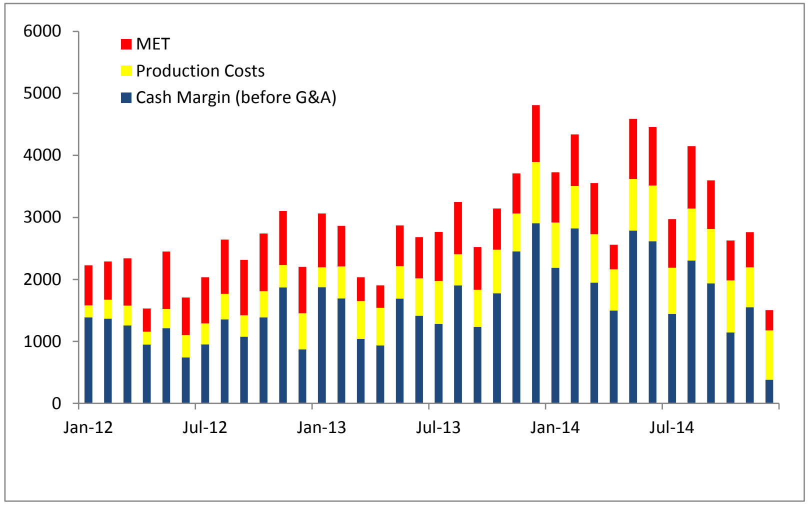


Monthly revenues and cash margins ($k, Jan 2012 – Dec 2014)

Monthly revenue by product (US$ 000)



Monthly revenue and cash margins (US$ 000)



Operational and financial summary : 2010 – 2014

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**
	31.0%	24.7%			
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	(1,708)	(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)**

Operational and financial summary : 2010 – 2014 (cont.)

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	5.39	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

Glossary and technical information

GLOSSARY

bbl	barrel
bopd	barrels of oil per day
bpd	barrels per day
boepd or boe/d	barrels of oil equivalent per day, in which 6,000 cubic feet of natural gas is equated to one barrel of oil
LPG	liquid petroleum gases
mcm/d	thousands of cubic metres per day
mmcf/d	millions of standard cubic feet per day

OIL, GAS AND CONDENSATE RESERVES

- There has been no external reassessment of reserves subsequent to the Miller and Lents reserve study of 2012.
- The reserves and production numbers herein 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.
- The above reserve estimates, prepared in accordance with reserve definitions prepared by the Oil and Gas Reserves Committee of the SPE, have been reviewed and verified by Mr. Mikhail Ivanov, Director and Chief Executive Officer of Volga Gas plc, for the purposes of the Guidance Note for Mining, Oil and Gas companies issued by the London Stock Exchange in June 2009. Mr. Mikhail Ivanov holds a M.S. Degree in Geophysics from Novosibirsk State University. He also has an MBA degree from Kellogg School of Management (Northwestern University). He is a member of the Society of Petroleum Engineers.