28 September 2017

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

Volga Gas, the oil and gas exploration and production group operating in the Volga region of Russia, announces its interim results for the six months ended 30 June 2017.

HIGHLIGHTS

OIL, GAS AND CONDENSATE PRODUCTION

- Group production averaged 6,182 boepd in H1 2017 (H1 2016: 5,933), a 4% increase.
- Gas and condensate production in H1 2017 were 25.3 mmcf/d, and 1,438 bpd, respectively (H1 2016: 23.6 mmcf/d, a 7% increase and 1,569 bpd, a 8% decrease), with production in May and June 2017 being reduced significantly during final testing and implementation of Redox-based sweetening at the gas plant.
- Oil production averaged 524 bopd in H1 2017 (H1 2016: 432 bopd), a 22% increase.
- Management expects short term production to rise from the level of 2,698 boepd reported for August to average over 4,300 boepd for the remainder of 2017, giving an average of approximately 5,000 boepd for the full year 2017.

FINANCIAL RESULTS

- Higher production volumes, stronger oil prices and a recovery in the Ruble exchange rate led to 45% increase in revenues to US$23.1 million (H1 2016: $15.9 million).
- EBITDA increased 93% to US$7.4 million in H1 2017 (H1 2016: US$3.8 million)
- Profit before tax increased 157% to US$3.8 million (H1 2016: US$1.5 million).
- Cash used in capital expenditure of US$4.3 million in H1 2017 (H1 2016: US$1.7 million)
- Cash flow from operations of US$ 7.2 million (H1 2016: US$3.9 million) before working capital outflow of US$4.1 million (H1 2015: inflow of $3.1 million). The net cash outflow from working capital was primarily from payments for capital expenditure incurred in 2016.
- Cash balance of US$13.8 million as at 30 June 2017 (US$19.7 million as at 31 December 2016) after payment of US$5.0 million of dividends (H1 2016: nil).
- Total borrowings of US$4.1 million (31 December 2016: US$4.0 million), the increase arising from exchange rate movements.

DEVELOPMENT ACTIVITY

- Successful introduction of Redox based gas sweetening process at the Dobrinskoye gas plant to increase profitability and reduce waste.
- Average processing throughput currently 0.35 million cubic metres per day of gas set to rise to 0.5 million cubic metres per day of gas net of increased downtime by the end of 2017..
- Construction of LPG unit is on budget and is expected to complete in October 2017, with plant to be commissioned in Q4 2017 and to commence commercial production in Q1 2018
- Drilling the Uzen 101 horizontal production was concluded on 28 July 2017 and production testing is continuing on the well. The results will be announced as soon as the tests have completed.

Andrey Zozulya, Chief Executive Officer of Volga Gas, said:
"We are very pleased to have delivered these solid financial results. Volga Gas is implementing a series of important changes to the Group's operations which will have a significant beneficial impact on the long term profitability. These include the implementation of Redox processing and construction of a LPG unit at the Dobrinskoye gas plant. Together with the successful horizontal well development at the Uzen field, management looks forward to delivering maximum production from the existing assets and to building opportunities for further growth in shareholder value."

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Editors' notes:

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

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

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

Glossary

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

Interim Management Report

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

During H1 2017 Volga Gas achieved its highest monthly production rate of 8,176 boepd in January. While this was not sustained throughout the period, mainly as a result of testing and implementation of the new Redox-based gas sweetening process at the gas plant, the overall production volume in H1 2017 was nevertheless 4% above that of H1 2016.

In contrast to H1 2016, international oil prices were generally stable at approximately $50 per barrel during H1 2017. As a consequence, net realisation for Volga Gas' oil and condensate sales increased by 58% to US$37.64 per barrel (H1 2016: US$23.84 per barrel). Domestic sales prices have generally been slightly higher than would be achieved from exports after taking into account export taxes and transportation costs. Consequently export volumes of oil and condensate in H1 2017 were 23% of the total sales of liquids (H1 2016: 35%).

The Russian Ruble has staged a similar recovery to that of the oil price. This, combined with an 8% increase in netback RUR gas prices led to an average gas sales price in H1 2017 of US$2.04 per mcf (H1 2016: US$1.44/mcf).

Consequently, net revenues for H1 2017 were 49% above those reported in H1 2016, after taking into account transport costs and taxes paid on exports. In addition the Group is pleased to report a 95% increase in EBITDA, a 153% increase in pre-tax profit compared to H1 2016 as well as strong net cash balances after paying US$5.0 million of dividends in May 2017.

Production Operations

Gas and condensate production – Dobrinskoye and VM fields

The Dobrinskoye and VM fields are managed as a single business unit. Production from the fields is processed at the gas plant located next to the Dobrinskoye field, extracting the condensate and processing the gas to pipeline standards before input into Gazprom's regional pipeline system via an inlet located at the plant. During H2 2016, throughput at the plant increased to the designed capacity of 1 million m^3 per day (35.3 mmcf/d). Between September 2016 and mid-March 2017, the plant was operated at full capacity. However, between mid-March 2017 and June 2017, a proportion of the capacity was diverted to conduct final testing of the Redox gas sweetening process and, during June 2017, production was further reduced while the switch to Redox processing was implemented.

Consequently, average production of gas and condensate for H1 2017 were 25.3 mmcf/d and 1,438 bpd respectively (H1 2016: 23.6 mmcf/d and 1,569 bpd). The slight reduction in the condensate ratio is principally due to the switch to production entirely from the VM field, pending a workover on the Dobrinskoye well. While the Dobrinskoye field well remains productive, the VM field has more than sufficient productive capacity to meet present requirements.

At the end of 2016, the gas sales arrangements were changed, with sales being made directly to Gazprom's distribution system. This led to improved netback sales prices in Ruble terms to approximately RUR 3,846 per thousand cubic metres excluding VAT (2016: RUR 3,559). Combined with the recovery of the Ruble, the average selling price for gas for H1 2017 was the equivalent of US$2.04 per mcf (H1 2016: US$1.44/mcf).

During H1 2017, 23% of condensate sales were exports (H1 2016: 53%), with the rest being sold in the domestic market at the plant gate. The average domestic condensate sales price was US$34.01 per barrel (H1 2016: US$23.30 per barrel). The average export sale price was $48.94 in H1 2017 (H1 2016: $28.61). After paying export taxes and transportation costs, the average net realization for exports was less than for domestic sales. However, the export channels which have been used since December 2015, enable production to be maintained uninterrupted through periods of disruption to the domestic market which occur from time to time.

Unit production costs on the gas-condensate fields were approximately US$6.06 per boe (H1 2016: US$3.90). This reflects overall higher costs but the main influence was the significant recovery in the Ruble exchange rate. The successful implementation of Redox sweetening will materially reduce the costs of consumables which have been a major component of operating costs.

MET formula rates applying to gas and condensate production were broadly unchanged at 25.5% of revenue during H1 2017 (H1 2016: 26.9%) as the formula rates of MET were matched by increases in sales prices.

Oil production – Uzenskoye field

During H1 2017, oil production averaged 524 bopd (H1 2016: 432 bopd). During April 2017, thaw made the field roads to Uzen impassable to oil trucks for long periods and production was significantly impeded. Nevertheless, the effect was less than in the previous year. The existing production is now from mature wells which are being managed to sustain production for maximum overall extraction.

Sales prices realised from crude oil averaged US$37.73/bbl net of VAT in H1 2017 (H1 2016: US$25.68/bbl). Production costs increased to $5.85/bbl (H1 2016: $4.46/bbl) largely as a result of exchange rate movements. MET formula rates applying to oil production increased in line with international oil prices. As a result, the MET expense in H1 2017 increased to 46% of revenues (H1 2016: 43%).

Development

VM Field

The upstream development of the VM field was effectively concluded by early 2016 and, other than routine maintenance operations on the production wells and minor upgrades to the surface based production control systems, there was little development activity on the VM field required during H1 2017.

Management believes that with the existing well stock the field can be effectively produced with a production plateau of one million m^3/day (35.3 mmcf/d) of gas plus associated condensate.

Gas plant

Since August 2016, the gas plant as then configured was sustainably operated at its full capacity of one million m^3/day (35.3 mmcf/d). However, the operations required the use of expensive and non-regenerable reagents for gas sweetening, which led to high production costs and the need to dispose of waste material.

During 2016, a number of alternatives were tested and by the end of 2016, management decided that a switch to a Redox-based sweetening process would be optimal and requiring only minor modifications to the existing plant equipment. Between April and June 2017, industrial scale testing of the Redox process was undertaken while the modifications were carried out. In June the plant was switched over entirely to Redox-based processing.

During the initial months of the new process, the plant throughput is expected to be kept at relatively low levels as the process management is optimised. Throughput is expected to be increased gradually and to reach management's short term throughput target of 500,000 m^3/day by the end of 2017.

LPG plant

The other key development at the gas plant is the construction of cryogenic separation of liquid petroleum gases ("LPG"), which is currently either flared as part of the condensate stabilization process or included with the sales gas. By July,2017, the majority of long lead items of equipment had been delivered and construction is currently at an advanced stage. The LPG project is expected to be put on test production in during Q4 2017 and commercial production of LPG to commence in Q1 2018. The LPG project will provide an additional product stream which is expected to increase total sales volumes by approximately 10% and to enhance profitability. The project is expected to be completed within the budgeted capital cost of US$4.3 million.

Uzen oil field

The main field development activity of H1 2017 was on the producing oil field, Uzenskoye. Drilling of the new horizontal well #101 commenced as planned on 27 April 2017. Although mainly being drilled to develop the proved but currently undeveloped Albian reservoir in the Uzen field, the well was initially sidetracked to investigate potential unproven structures. While one possible target was dry, a second small oil accumulation was

encountered. Initial estimates put the potential additional reserves at between 0.2 and 0.5 mbbls of recoverable oil. While positive, this would be only a minor increment to Group reserves.

Drilling operations on the horizontal section of well #101 were concluded as anticipated on 28 July 2017 having completed a horizontal section of total length of 627 metres. Logging while drilling indicated a total productive zone in the well of 506 metres, exhibiting average porosity of 32% and oil saturation of 68%. The horizontal section of the well was lined and the productive zones have had water-swell packers installed to maximise the well stability.

As a result of the extra sidetracks drilled and additional precautions taken to deliver a stable and secure production well, the costs of drilling well #101 increased to approximately US$7.3 million compared to a budget cost of US$3.8 million.

Financial Review

Results of Operations

For the six months ended 30 June 2017, Group revenue increased 45% to US$23.1 million (H1 2016: US$15.9 million) reflecting, as previously stated, significantly higher production volumes, higher oil prices and a recovery in the Russian Ruble. With more modest increases in production costs and Mineral Extraction Taxes, the Group achieved a 71% increase in gross profit to US$9.5 million (H1 2016: US$5.5 million) for the period.

With a lower proportion of exports, selling expenses (comprising export taxes and transportation costs) were US$1.9 million in H1 2017 (H1 2016: US$1.7 million). With no exploration expenses (H1 2016: US$0.2 million) and administrative expenses of US$3.2 million (H1 2016: US$1.8 million), the Group recorded a 143% rise in operating profit to US$4.4 million (H1 2016: loss of US$1.8 million).

After interest income of US$152,000 (H1 2016: income of $41,000) and other expenses including foreign exchange of US$0.7 million (H1 2016 net losses of US$0.4million), the Group reported a 157% rise in profit before tax to US$3.8 million (H1 2016: US$1.5 million). As the bank loan was drawn specifically for the construction of the LPG project, interest during construction has been capitalised. For the period, there was a tax provision of US$0.6 million (H1 2016: US$0.6 million), leading to a net profit after tax of $3.2 million for H1 2016 (H1 2016: $0.9 million).

EBITDA, calculated as operating profit before exploration expenses, depletion and depreciation was 94% higher at US$7.4 million (H1 2016: US$3.8 million).

During H1 2017 23% of condensate sales volumes (H1 2016: 53%) and 23.4% of oil export volumes (H1 2016: nil) were exports. Consequently, during H1 2017 selling expenses of US$1.1 million (H1 2016: US$1.7 million), comprising export taxes and transportation costs, were incurred on oil and condensate export sales.

Average realizations for the six months to 30 June 2017 were US$34.87 per barrel for domestic sales of oil and condensate (H1 2016: US$23.84 per barrel). Condensate export sales were at an average price of US$48.94 per barrel (H1 2016: US$28.86). Gas sales during H1 2017 amounted to US$9.2 million (H1 2016: US$6.1 million) reflecting higher sales volumes and an 8% increase in the Ruble sales price and strengthening in the US$:Ruble exchange rate. The US dollar equivalent average gas price was US$2.05/mcf in H1 2016 (H1 2016 US$1.44/mcf).

For the six months to 30 June 2017, Mineral Extraction Tax accounted for 25.57% of revenues (H1 2016: 26.9%).

Production costs in H1 2017 were 20.7% of revenues (H1 2016: 27.2%) reflecting the benefits of higher production. The Depletion and Depreciation charge was 12.9% of revenues (H1 2016: 11.0%).

Cash flow from operating activities before working capital movements in H1 2017 was US$7.2 million (H1 2016: US$3.9 million), in line with EBITDA. After negative working capital movements of US$4.1 million (H1 2016: positive US$3.1 million), net cash inflow from operations was US$3.2 million (H1 2016: inflow of US$7.0 million).

Capital Expenditure

For the six months ended 30 June 2017, the Group incurred capital expenditures of US$7.4 million (H1 2016: US$0.7 million) the majority of which was on drilling on the Uzen oil field. With settlements of accounts payable for capital expenditure due in H2 2017, cash used in the

purchase of PP&E during H1 2017 was US$4.2 million (H1 2016: US$1.7 million), while US$0.1 million was used to purchase intangible assets being mainly geological studies.

Cash Position and Balance Sheet

The Group had cash balances at 30 June 2017 of US$13.8 million (31 December 2016: US$19.7 million), and borrowings of US$4.1 million (31 December 2016: $4.0).

Dividends

On 26 May 2017, the Company paid US$5.0 million in dividends to its shareholders (H1 2016: nil).

Outlook

After the successful implementation of Redox sweetening at the Dobrinskoye gas plant, throughput will gradually be brought back to the planned average rate of 650 mcm/d (23 mmcfd), although for the remainder of the year it is likely to remain between 400 and 500 mcm/d (15-18 mmcf/d). Together with associated condensate and the oil produced from the existing wells at Uzen, management expects production for the period September to December 2017 to average 4,300 boepd. With overall production in H2 2017 lower than in H1 2017, the full year average production rate is expected to be approximately 5,000 boepd.

Pending successful flow testing on the Uzen 101 well and commissioning of the LPG plant there could be further additions to production early in 2018. Management will report on these matters at the appropriate time.

Realised prices for oil and condensate are expected to continue tracking international oil prices as adjusted for export tax and transportation. Exports of condensate are currently suspended while the gas and condensate throughputs are being rebuilt as the domestic market provides both higher netbacks and has sufficient demand. The contract gas price increased by 3.9% Ruble terms from 1 July 2017.

With the lower production in H2 2017 as outlined above, revenues for the full year 2017 are expected to be broadly similar to the levels achieved in 2016.

Production costs for gas and condensate are expected to reduce by at least US$2.0 million annually from savings on the costs of chemical reagents and elimination of the costs of disposing of waste materials, when the Redox processing is fully operational in 2018. Meanwhile with lower throughput, the fixed operating costs are likely to keep unit cost numbers in H2 2017 at a similar level to H1 2017.

Capital expenditure during H2 2017 required to complete existing projects is expected to be US$7.0 million, taking the total capital expenditure for the year to US$14.4 million.

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

Principle Risks and Uncertainties

The risks described on pages 13-14 and in Note 3 - Financial Risk Management on pages 34-36 of the 2016 Annual Report, a copy of which can be obtained from www.volgagas.com, remain extant.

Forward-Looking Statements

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

VOLGA GAS plc

IFRS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)

AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2017

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

Six months ended 30 June	Notes	**2017**	**2016**
Revenue		23,118	15,912
Cost of sales	4	(13,658)	(10,364)
Gross profit		**9,460**	**5,548**
Selling Expenses		(1,923)	(1,725)
Asset impairment expense		-	(243)
General and administrative expenses	5	(3,172)	(1,774)
Operating profit/(loss)		**4,365**	**1,806**
Interest income		152	41
Other net expenses	6	(689)	(356)
Profit before tax		**3,829**	**1,491**
Taxation		(617)	(603)
Profit attributable to equity holders		**3,212**	**888**
Basic and diluted profit) per ordinary share (in US dollars)		0.040	0.011
Weighted average number of shares outstanding		*81,017,800*	*81,017,800*

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

Six months ended 30 June	Notes	**2017**	**2016**
Profit/(loss) for the Period		**3,212**	**888**
Other comprehensive income		-	-
Currency translation differences		1,752	6,964
Total comprehensive income for the period		**4,964**	**7,852**

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

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

	Notes	**30 June 2017**	**31 December 2016**
Assets			
Non-current assets			
Intangible assets	7	3,660	3,460
Property, plant and equipment	7	61,485	55,908
Other non-current assets		-	4
Deferred tax assets		1,577	1,536
Total non-current assets		**66,722**	**60,908**
Current assets			
Cash, cash equivalents and bank deposits		13.838	19,718
Inventories		725	981
Other receivables		1,479	3,007
Total current assets		**16,042**	**23,706**
Total assets		**82,764**	**84,614**
Equity and liabilities			
Equity			
Share capital		1,485	1,485
Currency translation and other reserves		(73,870)	(75,622)
Accumulated profit		139,436	141,224
Total equity		**67,051**	**67,087**
Long term liabilities			
Asset retirement obligation		180	175
Deferred tax liabilities		3,788	3,429
Bank loan		2,927	3,802
Total long term liabilities		**6,895**	**7,406**
Current liabilities			
Bank loan		1,137	158
Accounts payable	8	7,681	9,963
Total current liabilities		**8,817**	**10,121**
Total equity and liabilities		**82,764**	**84,614**

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

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

	Notes	Six months ended 30 June 2017	2016
Profit for the period before tax		**3,829**	**1,491**
Less adjustments for:			
Exploration and evaluation expenses		-	245
Depreciation, depletion and amortization		3,013	1,744
Foreign exchange differences		400	412
Total effect of adjustments		**3,413**	**2,401**
Net cash flow before working capital movements		**7,242**	**3,892**
Working capital changes			
Decrease/(increase) in trade and other receivables	8	1,637	(316)
(Decrease)/increase in payables	9	(5,993)	3,242
Decrease in inventory		289	143
Increase/(decrease) in other non-current assets			-
Net cash from operating activities		**3,175**	**6,961**
Cash flows from investing activities			
Purchase of intangible assets		(111)	-
Purchase of property, plant and equipment		(4,181)	(1,653)
Net cash used in investing activities		**(6,413)**	**(1,653)**
Cash flows from financing activities			
Dividends paid		(5,000)	-
Net cash provided/(used) by financing activities		**(5,000)**	**-**
Effect of exchange rate changes on cash and cash equivalents		237	415
Net (decrease)/ increase in cash and cash equivalents		**(5,880)**	**5,723**
Cash and cash equivalents at beginning of the period		19,718	6,769
Cash and cash equivalents at end of the period		**13,838**	**12,492**

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

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

	Share Capital	Currency Translation Reserves	Share Grant Reserves	Accumulated Profit	Total Equity
Opening equity at 1 January 2017	**1,485**	**(80,855)**	**5,233**	**141,224**	**67,087**
Profit for the period	-	-	-	3,212	3,212
Dividends paid				(5,000)	(5,000)
Currency translation differences	-	1,752	-	-	1,752
Closing equity at 30 June 2017	**1,485**	**(79,103)**	**5,233**	**139,436**	**67,051**
Opening equity at 1 January 2016	**1,485**	**(91,350)**	**5,233**	**140,037**	**55,405**
Profit for the period	-	-	-	888	888
Currency translation differences	-	6,967	-	-	6,967
Closing equity at 30 June 2016	**1,485**	**(84,383)**	**5,233**	**140,925**	**63,260**

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

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

1. General information

Volga Gas plc (hereinafter referred to as "Company" or "Volga") is a public liability company registered in England and Wales with registered number 05886534 and quoted on the AIM market of London Stock Exchange plc. The principal activities of the Company and its subsidiaries (hereinafter jointly referred to as the "Group") are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in the Volga Region of the Russian Federation. The Company's registered office is at 40 Dukes Place, London EC3A 7NH. This condensed consolidated interim financial information was approved for issue on 27 September 2017.

2. Basis of presentation

This condensed consolidated interim financial information for the half-year ended 30 June 2017 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRSs as adopted by the European Union.

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

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2016 were approved by the board of directors on 31 March 2017 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

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

Exchange rates. The official rate of exchange of the Russian ruble to the US dollar ("USD") at 30 June 2017 and 31 December 2016 was 59.0855 and 60.6569 Russian Rubles to USD 1.00, respectively. Any re-measurement of Russian Ruble amounts to US dollars or any other currency should not be construed as a representation that such Russian Ruble amounts have been, could be, or will in the future be converted into other currencies at these exchange rates.

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

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

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

3. Accounting policies

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016.

4. COST OF SALES

Cost of sales is analysed as follows:

Six months ended 30 June	2017 US$ 000	2016 US$ 000
Production expenses	4,788	4,336
Mineral extraction taxes	5,892	4,273
Depletion, depreciation and amortization	2,978	1,755
	13,658	**10,364**

5. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are analysed as follows:

Six months ended 30 June	2017 US$ 000	2016 US$ 000
Salaries	2,196	951
Taxes other than payroll and MET	24	19
Audit fees	209	71
Legal and Consultancy	182	120
Other	563	613
Total general and administrative expenses	**3,172**	**1,774**

6. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2017 **US$ 000**	**2016** **US$ 000**
Foreign exchange loss	(400)	(412)
Other (expenses)/income	(289)	56
Total other net expenses	**(689)**	**(356)**

7. PROPERTY PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment	Intangible assets
As at 1 January 2017	**55,908**	**3,460**
Additions	7,265	111
Depreciation and amortisation	(3,013)	-
Write offs	(73)	-
Exchange adjustment	1,398	89
At 30 June 2017	**61,485**	**3,660**
As at 1 January 2016	**48,290**	**2,867**
Additions	493	235
Depreciation and amortisation	(1,749)	-
Transfers to inventories	(218)	-
Exploration and evaluation expense	-	(243)
Exchange adjustment	6,339	383
At 30 June 2016	**53,155**	**3,242**

8. ACCOUNTS RECEIVABLE

	30 June 2017 US$ 000	31 December 2016 US$ 000
VAT recoverable	326	154
Prepayments	454	725
Trade receivables	496	2,067
Other	203	61
Total accounts receivable	**1,479**	**3,007**

9. ACCOUNTS PAYABLE

	30 June 2017 US$ 000	31 December 2016 US$ 000
Trade payables	4,690	4,861
Taxes other than profit tax	1,361	2,266
Customer advances	1,232	2,836
Other	398	-
Total accounts payable	**7,681**	**9,963**

10. CONTINGENCIES AND COMMITMENTS

The Group has fulfilled all exploration commitments on existing licences. As at 30 June 2017, the Group had contracted to spend US$6.7 million on its remaining capital expenditure programme for 2017. It has no material commitments to further capital expenditures during the year ending 31 December 2017.

11. RELATED PARTY TRANSACTIONS

The Group is controlled by Baring Vostok Private Equity Fund III, Baring Vostok Private Equity Fund IV and Baring Vostok Investments PCI, which own 64.6% of the Company's shares as at 30 June 2017.

Related party transactions are disclosed in Note 23 to the accounts for the year ended 31 December 2016. There were no material related party transactions in the six months to 30 June 2017 nor in the six months to 30 June 2016.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors of Volga Gas plc are as listed in the Volga Gas plc Annual Report for the year ended 31 December 2016.

By order of the Board

Andrey Zozulya
Chief Executive Officer

Vadim Son
Chief Financial Officer