Released : 30.09.2020

RNS Number : 4925A
Volga Gas PLC
30 September 2020

30 September 2020

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 2020.

COVID-19 IMPACT

- Operations were quickly adapted to minimise the risk of Covid-19 infections to staff, contractors and customers, as detailed in the Preliminary announcements of 2019 results.
- Since the start of the pandemic, we are pleased to report that none of the Group's members of staff or contractors have been tested positive for Covid-19.
- Apart from the impact on global oil prices and a seven day production impact caused by temporary reduction in demand for condensate, the impact of Covid-19 on the business has not been significant.

OIL, GAS AND CONDENSATE PRODUCTION

- Group production averaged 3,593 boepd in H1 2019 (H1 2019: 5,634), a 36% decrease.
- Gas and condensate production were 8.8 mmcf/d, and 1,437 bpd, respectively (H1 2019: 20.0 mmcf/d, a 56% decrease and 1,525 bpd, a 6% decrease).
- LPG production contributed a further 188 boepd (H1 2019 352 boepd).
- Oil production averaged 493 bopd (H1 2019: 419 bopd), a 18% increase.

FINANCIAL RESULTS

- Revenues decreased 49% to US$13.4million (H1 2019: US$26.3 million). Revenues net of selling expenses decreased 43% to US$13.3 million (H1 2019: US$23.4 million).
- EBITDA decreased 67% to US$3.1 million (H1 2019: US$9.3 million).
- The Group is recognising a US$7.8 million asset impairment charge (H1 2019: US$3.2 million) primarily reflecting the decline in oil prices between 1 January and 30 June 2020. [].
- With increased unit DD&A charges resulting from the reserve revision recognised in 2019 in addition to the above mentioned charges, the Group is reporting an operating loss of US$8.1 million (H1 2019: operating loss of US$2.6 million).
- Loss before tax of US$7.9 million (H1 2019: loss before tax of US$3.0 million) and net loss after tax of US$8.0 million (H1 2019: net loss of US$2.5 million.
- Cash flow from operations was US$ 3.2 million (H1 2019: US$9.7 million) before working capital outflow of US$0.6 million (H1 2019: outflow of US$0.7 million) and payment of US$1.0 million in income taxes (H1 2019: US$1.6 million).
- Cash used in capital expenditure was US$4.6 million (H1 2019: US$3.3 million) was primarily utilised in the slim hole drilling campaign.
- Cash balance decreased to US$10.6 million as at 30 June 2020 (31 December 2019: US$14.1 million).
- There were no outstanding borrowings as at 30 June 2020 (31 December 2019: nil).

DEVELOPMENT & EXPLORATION ACTIVITY

- In light of the significant reduction in commodity prices experienced during 1H 2020, the Board of Volga Gas decided to focus activity on development of the Uzen field and surrounding prospects using its cost effective slim hole drilling rigs.
- 11 new oil production wells were drilled (8 of which have been completed for production) in the proved areas of the Uzen field, both in the mature Aptian reservoir (where there remain small pockets of untapped oil) and in the less developed and shallower Albian reservoir;
- 3 exploration and appraisal wells close to the Uzen field. These confirmed the presence of oil in a previously unevaluated Upper-Aptian reservoir and also confirmed hydrocarbons in a separate geological block to the east of the existing field as well as a separate structure to the North of Uzen;

DIVIDEND

- In light of the current outlook and the need to target its financial resources towards stabilizing and rebuilding future production levels, the Board has decided to suspend cash dividends for the time being.

POST PERIOD UPDATE

- During July and August 2020, Group production averaged 3,954 boepd. Management guidance of 4,000 boepd for the remainder of 2020.
- At 31 August 2020, the Group net cash balance was at US$12.1 million. The Group remains debt free.

OUTLOOK

- Full year production guidance of 3,850 boepd.
- Slim hole development drilling campaign on the Uzen field and adjacent structures is to continue with the aim of further increasing oil production.
- Exploration on three of the undrilled prospects within its Karpensky Licence is planned during H2 2020.
- Capital expenditure plans for H2 2020 total US$3.1 million.

FORMAL SALE PROCESS

- As announced on 28 September 2020, the Company is continuing to engage in active discussions with a number of parties regarding the sale of the Company (or its entire business and assets). There can be no certainty that an offer will be made, nor as to the terms on which any offer will be made.

Andrey Zozulya, Chief Executive Officer of Volga Gas, said:
"Whilst the financial results are dominated by an additional impairment charge on the holding value of the Group's assets as a result of the reduction in international oil prices, I am pleased that the Group's operations have remained resilient in the face of the Covid-19 pandemic and continue to generate positive net cash flow. Management would like to pay tribute to the hard work and professionalism of our employees and contractors in maintaining a safe and effective operating environment in this period.

"We are pleased to report continued progress with the slim hole drilling operations, which have more than reversed the declines in oil production from the mature wells on the Uzen field, and look forward to providing the results of the new exploratory wells that will be drilled between now and the end of 2020."

For further information, please contact:

Volga Gas plc	
Andrey Zozulya, Chief Executive Officer	+7 903 385 9889
Vadim Son, Chief Financial Officer	+7 905 381 4377
Tony Alves, Investor Relations consultant	+44 7824 884 342
FTI Consulting	+44 (0)20 3727 1000
Alex Beagley, Fern Duncan	
S.P. Angel Corporate Finance LLP	+44 (0)20 3470 0470
Richard Morrison, Richard Hail, Soltan Tagiev	

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.

The potential indicative management resource estimates are conceptual in nature and are based on mapping and interpretation of seismic data carried out by the Group's in house geological and technical departments. There has been no independent determination of a resource to SPE standards and the Company cautions that there is a risk further exploration will not result in the delineation of a resource or reserve. The data should therefore not be relied upon until the Company can confirm such estimate to a Standard

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 five licence areas in the Volga Region of Russia.

During H1 2020, Volga Gas total production averaged 3,593 boepd compared to H1 2019, production of 5,634 boepd. The main influences in the decline in production were reduction in gas and condensate output from the VM and Dobrinskoye fields following the incursion of formation water into the main production wells that occurred during early 2019. There was also a period during April 2020 when market demand was curtailed for condensate as a result of the impact of Covid-19.

During H1 2020, international oil prices fell significantly, mainly as a result of Covid-19. The Urals oil price fell below US$20 per barrel during April 2020, but since then recovered to above US$40 per barrel and averaged US$39 per barrel (average of approximately US$66 per barrel during H1 2019).

As a consequence, net realisation for Volga Gas' oil and condensate sales decreased by 33% to US$27.77 per barrel (H1 2019: US$41.33 per barrel). There were no exports of oil and condensate in H1 2020 (H1 2019: 34% of the total sales of liquids).

The Russian Ruble exchange rate in H1 2020 was weaker than in H1 2019. Consequently the average gas sales price in H1 2020 was US$1.86 per mcf (H1 2019: US$1.95/mcf).

As a result of both lower sales volumes and lower prices, net revenues for H1 2020 were 43% lower than those reported in H1 2019, after taking into account transport costs and taxes paid on exports. EBITDA for H1 2020 was 67% lower than for H1 2019. Lower production costs were offset by rates of Mineral Extraction Taxes that remained relatively high in spite of the drop in oil prices.

As a further consequence of the decline in oil prices during H1 2020, an asset impairment charge of US$7.8 million has been taken in H1 2020 (H1 2019: US$3.2 million) as well as a US$64,000 asset write off (H1 2109: write offs of US$1.9 million).

Higher unit rates of depletion, depreciation and amortisation based on lower reserves in the gas and condensate fields led to the Group to report an operating loss for H1 2020 of US$8.1 million (H1 2019: operating loss of US$2.6 million). Included in the operating loss in H1 2020 were additional legal expenses of US$0.8 million arising from an investigation conducted by the Group's external legal advisors as a requirement for completion of the audit of the Group's accounts for the year ended 31 December 2019.

Production Operations

Gas and condensate production - Dobrinskoye and VM fields

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

During H1 2020, as in the full year 2019, gas and condensate production was derived from three wells on the VM field and the Dobrinskoye #26 well. Following the incursion of water into the VM wells announced in July 2019, production from the field has been managed conservatively in order to preserve the economic production life. Nevertheless, the current outlook is that the field is in the final 2-3 years of its production life.

While the actual production in H1 2020 reflected the impact of some scheduled plant downtime and maintenance operations undertaken on the Gazprom pipeline into which the sales gas is delivered, as well as a brief interruption to sales as a result of market disruption caused by Covid-19, the overall impact to production for H1 2020 as a whole was not significant.

Average production of gas, condensate and LPG for H1 2020 were 8.8 mmcf/d, 1,437 bpd and 188 boepd respectively (H1 2019: 20.0 mmcf/d, 1,525 bpd and 352 boepd respectively). The comparative reductions in production volumes reflect field capacity declines.

It is notable that while overall production has declined sharply, the ratio of condensate to gas has increased dramatically. This is believed to be an effect of the lower pressure in the field reservoir and was anticipated by the independent reservoir engineers.

The netback gas sales price in Ruble terms during H1 2020 was RUR 4,221 per thousand cubic metres excluding VAT (H1 2019: RUR 4,163). The Ruble weakened during H1 2020 with the collapse of international oil prices. Consequently, the average selling price for gas for H1 2020 equated to US$1.86 per mcf (H1 2019: US$1.95/mcf). After selling expenses, the net realisation for gas was US$1.80 per mcf (H1 2019: US$1.84 per mcf).

In contrast to H1 2019, when approximately 63% of condensate was sold to export customers, there were effectively no exports during H1 2020.

Unit production costs on the gas-condensate fields and gas plant were approximately US$3.07 per boe (H1 2019: US$3.63), reflecting cost reductions implemented in H1 2020 and weakening of the Ruble in which costs are denominated.

Oil production - Uzenskoye field

While this is still a minor proportion of total Group production, the Group's oil production is beginning to be re-built.

During H1 2020, oil production averaged 493 bopd (H1 2019: 419 bopd). While the mature wells on the Uzen field continue on their sharp decline trajectory, new production from slim hole wells have been contributing to overall oil production since November 2019 and currently constitute more than half of the total oil production.

Unit production costs on the Uzen oil field were approximately US$7.79 per barrel (H1 2019: US$7.46).

Development

VM and Dobrinskoye Fields

As detailed in the 2019 Interim Report and the 2019 Annual Report, the production capacity and estimates of remaining reserves in the VM and Dobrinskoye fields were materially downgraded during 2019. Following the significant drop in oil prices during H1 2020, the Board decided to defer any further investment in the fields beyond the minimum necessary to preserve operational integrity.

Gas plant

The Redox based gas sweetening process continues to operate efficiently. Further minor upgrades to the operation initiated during 2019 were completed during H1 2020. Processing capacity at the plant is currently well in excess of wellhead capacity.

LPG plant

The LPG plant has been operating efficiently. Upgrades to the plant, including new heat exchanger and a turbo expander, which were sanctioned early in 2019 were completed before the end of that year.

Uzen oil field

The focus of investment during 2020 has been on a continuation of the slim hole drilling programme, which commenced during 2019, within the oil resources in and around the Group's Uzen field in the Karpenskiy licence area. This campaign was conducted using two rigs, one owned by the Group and one rented. The operations are all conducted by the in-house drilling department, in which the management has been carefully building up expertise in all key activities to deliver safe and efficient drilling operations.

In summary, the key activities of H1 2020 comprised eleven new oil production wells, eight of which have been completed for production. There were drilled in the proved areas of the Uzen field, both in the mature Aptian reservoir, where there remain small pockets of untapped oil, and in the less developed and shallower Albian reservoir.

In parallel, the Group developed a method of drilling wider bore slim well ("fat slim holes") to fit 4 inch casing, which is suitable for installation of electrical submersible pumps and for fracking. These have already been successfully applied to three wells (Uz-33, Uz-31, Uz-19).

The benefit of this activity has been to offset the sharp declines in production from the Group's mature conventionally drilled wells. As outlined above, oil production in H1 2020 averaged 493 barrels per day, which compared to 419 bopd for H1 2019, a 17.7% increase. Currently more than 50% of Uzen field production is from slim hole wells, having commenced in November 2019.

Exploration activity around the Uzen field

During H1 2020, three exploration and appraisal wells were drilled in the vicinity of the Uzen fields into reservoirs that are not currently included in the Group's reserve estimates.

Two of these wells targeted the Upper Aptian reservoir in the main Uzen complex. Oil was first encountered in this unevaluated horizon by a slim hole well drilled during 2019. These wells, plus the original well have all been completed and are in production.

An additional exploration well in a separate geological block to the east of the existing field confirmed hydrocarbons although it was found to be gas rather than oil in that location. An additional well is planned on the same structure to establish the potential for oil in this structure.

Drilling has been concluded on the North-Uzen structure. The well recently reached its final target at a depth of 1,350 metres. Evidence of oil was found by logging and core sampling. The commercial significance of this will be evaluate after open hole flow testing which will be conducted shortly.

Management expects this activity to add new reserves and an independent reserve estimate in accordance with SPE standards is planned to be conducted for the 2020 year end.

Exploration strategy

During H1 2020, the Group also made technical preparations for its forthcoming exploratory drilling, including upgrades to mud circulation systems, coring, logging, open and cased hole testing. These new wells are planned to test separate structures with potential recoverable oil, estimated by management, of 0.3 to 8.1 million barrels. The combined unrisked resources in these prospects are estimated by management to total approximately 14 million barrels.

Management believes that slim hole drilling could be employed also at the Muradymosky licence in Bashkiriya. In present circumstances, the Board has decided to confine the Group's activities to its core operational areas.

Financial Review

Results of Operations

For the six months ended 30 June 2020, Group revenues were US$13.3 million (H1 2019: US$23.6 million) driven by lower volumes lower prices for oil and condensate. Production costs were approximately 40% lower than in H1 2019, mainly as a result cost savings initiatives as well as lower volume related expenses. The cost savings were achieved primarily through reductions in the workforce both directly employed by the Group and contractors partly as a result of reduced activity levels at the Group's gas processing plant. However, Mineral Extraction Tax rates increased in spite of lower oil prices as a result of increases in the MET rates formula. Consequently, MET represented 38.2% of revenues (H1 2019: 27.4%)

Depletion and Depreciation decreased as a result of lower production volumes. Nevertheless, gross profits for H1 2020 decreased to US$2.6 million (H1 2019: US$8.2 million.

Exports of oil and condensate were at zero level during H1 2020 (H1 2019: 63% of volume). As a consequence selling expenses were just US$0.1 million in H1 2020 (H1 2019: US$3.0 million). During H1 2020, selling expenses effectively only comprised transportation costs and fees associated with gas sales.

Write off of development assets and impairment charges

Following the reduction in oil and condensate pricing an impairment test conducted on the basis of economic assumptions pertaining on 30 June 2020 indicated additional impairments to the carrying value of the Group's PP&E. An impairment charge of US$7.8 million has been included in the Income Statement for H1 2020 (H1 2019: US$3.2 million). There was a write off of US$64,000 of development assets in H1 2020 (H1 2019: US$1.9 million). The write off in H1 2019 related mainly to an unsuccessful sidetrack well to Uzen #4 and VM #2.

Income

Administrative expenses of US$2.7 million in H1 2020 (H1 2018: US$2.7 million) included approximately US$0.8 million of legal fees relating to an investigation carried out by the Company's legal counsel at the request of the former auditor. These additional expenses offset the significant reduction in overheads enacted by management. Consequently, the Group recorded an operating loss of US$8.1 million (H1 2019: profit of US$2.6 million).

Net interest income was US$100,000 (H1 2019: US$147,000). After recording other net gains of US$39,000 (H1 2019: other net losses of US$0.5 million), the Group reported loss before tax of US$7.9 million (H1 2019: loss before tax of US$3.0 million).

For the period, there was a current tax provision of US$0.4 million (H1 2019: US$1.9 million) offset by a deferred tax credit of US$0.4 million (H1 2019: credit of US$1.4 million), leading to a net loss after tax of $8.0 million for H1 2020 (H1 2019: net loss after tax of $2.5 million).

EBITDA, calculated as operating profit before exploration expenses, depletion and depreciation, asset write offs and impairment charges was US$3.1 million (H1 2019: US$9.4 million) as below:

	2020	**2019**
Operating (loss)/profit	(8,082)	(2,633)
Write off of development assets and impairments	7,820	5,097
Depletion Depreciation and Amortization	3,323	6,858
EBITDA	**3,061**	**9,322**

Realisations and profitability

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

	H1 2020		H1 2019	
US$'000	Oil	Gas, condensate & LPG	Oil	Gas & condensate
Revenue	2,769	10,609	3,581	22,764
MET	(1,263)	(3,842)	(2,063)	(5,160)
Depreciation	(556)	(2,767)	(414)	(6,512)
Production costs	(701)	(1,677)	(583)	(3,452)
Selling expenses	(9)	(103)	(34)	(2,941)
Gross profit net of selling expenses	240	2,220	488	4,699

The unit realisations are summarised in the following table:

Net Realisation	H1 2020	H1 2019
Oil & condensate (US$/bbl)	27.77	41.32
LPG (US$/bboe)	23.27	24.12
Gas (US$/mcf)	1.80	1.84

Unit Costs are summarised in the following table:

Unit cost data	2020	2019
Production costs	3.73	3.97
Selling costs	0.18	2.93
MET	8.02	7.11
Depletion, depreciation and amortisation	5.22	6.82

The changes in unit costs have occurred for the following reasons:

- Cost reductions in gas and condensate production facilities as well as weakness in the Ruble;
- MET rates have increased with as further upward revisions to the MET rate formula in spite of lower benchmark oil prices;
- Unit Depletion, depreciation and amortization ("DD&A") rates reflect a lower depletion pool following the impairment charges taken at 31 December 2019.

Cash flow

Cash flow from operating activities before working capital movements in H1 2020 was US$3.2 million (H1 2019: US$9.7 million), reflecting EBITDA. After net working capital outflow of US$0.6 million in H1 2020 (H1 2018: net outflow of US$0.7 million), and income tax payments of US$1.0 million (H1 2018: US$1.6 million), net cash flow from operations was US$1.6 million (H1 2019: US$7.5 million).

Capital Expenditure

For the six months ended 30 June 2020, the Group incurred capital expenditures of US$4.1 million (H1 2018: US$3.3 million), primarily on the slim hole drilling activities with minor maintenance expenditure on the gas plant. With settlements of accounts payable for capital expenditure, cash used in the purchase of PP&E during H1 2020 was US$4.6 million (H1 2019: US$3.3 million). There was no expenditure on exploration and evaluation, during H1 2020 (H1 2019: US$163,000).

Cash Position and Balance Sheet

There were no cash flows in financing activities during H1 2020 (H1 2019: cash outflow of US$7.4 million). The Group had cash balances at 30 June 2020 of US$10.6 million (31 December 2019: US$14.1 million), and no borrowings (31 December 2019: nil).

Dividends

The Directors did not recommend a final dividend in respect of the year ended 31 December 2019. Given the recent operational developments and the need to preserve the Group's financial position, the Directors do not propose to declare an interim dividend for 2020. During H1 2019, equity dividends of US$5.2 million were paid, being a final dividend declared in respect of 2018.

Outlook

Management expects gas, LPG and condensate production from the VM field for the remainder of 2020 to be maintained at rates similar to those achieved in the first 8 months of the year of approximately 3,200 boepd. Meanwhile, additional new slim hole wells are expected to enable oil production to be sustained at approximately 600 bopd for the remainder of 2020.

International oil prices appear to have stabilised at current levels and if this continues for the remainder of the year, sales prices should approximate the average realisations for the first 8 months: US$31.44 per barrel for oil and US$26.80 for condensate.

Principle Risks and Uncertainties

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

Forward-Looking Statements

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

VOLGA GAS plc

IFRS CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)

AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

Six months ended 30 June	Notes	**2020**	**2019**
Revenue		13,378	26,345
Cost of sales	4	(10,806)	(18,183)
Gross profit		**2,572**	**8,162**
Selling Expenses		(112)	(2,975)
General and administrative expenses	5	(2,658)	(2,723)
Impairments charge		(7,820)	(3,157)
Write off of development assets	6	(64)	(1,940)
Operating profit/(loss)		**(8,082)**	**(2,633)**
Interest income		100	147
Other net gains/(losses)	6	39	(492)
Profit/(loss) before tax		**(7,943)**	**(2,978)**
Provision for deferred tax		405	1,886
Provision for current tax		(413)	(1,382)
Profit/(loss) attributable to equity holders		**(7,951)**	**(2,474)**
Basic and diluted profit/(loss) per ordinary share (in US dollars)		(0.0984)	(0.0306)
Weighted average number of shares outstanding		*80,818,452*	*80,833,822*

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

Six months ended 30 June	Notes	**2020**	**2019**
Profit/(loss) for the Period		**(7,951)**	**(2,474)**
Other comprehensive income:			
Currency translation differences		(4,547)	5,179
Total comprehensive income for the period		**(12,498)**	**2,705**

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

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

As at	Notes	**30 June 2020**	**31 December 2019**
Assets			
Non-current assets			
Intangible assets	7	2,985	3,374
Property, plant and equipment	7	22,858	33,957
Deferred tax assets		1,692	1,459
Total non-current assets		**27,535**	**38,790**

Current assets			
Cash, cash equivalents and bank deposits		10,623	14,116
Inventories		362	594
Other receivables		1,785	1,752
Total current assets		**12,770**	**16,462**
Total assets		**40,305**	**55,252**
Equity and liabilities			
Equity			
Share capital		1,485	1,485
Currency translation and other reserves		(87,642)	(83,095)
Accumulated profit		121,966	129,917
Total equity		**35,809**	**48,307**
Long term liabilities			
Asset retirement obligation		296	315
Deferred tax liabilities			
Total long term liabilities		**296**	**315**
Current liabilities			
Accounts payable	8	4,200	6,630
Total current liabilities		**4,200**	**6,630**
Total equity and liabilities		**40,305**	**55,252**

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 2020	2019
Profit/(loss) for the period before tax		**(7,943)**	**(2,978)**
Less adjustments for:			
Depreciation, depletion and amortization		3,323	6,858
Write-off of development assets and impairment		7,884	5,097
Inventory write-off		23	(93)
Foreign exchange differences		(50)	611
Other non-cash operating losses/(gains)		(27)	224
Total effect of adjustments		**11,153**	**12,697**
Net cash flow before working capital movements		**3,210**	**9,719**
(Increase)/decrease in trade and other receivables		(237)	296
Decrease in payables	9	(544)	(1,306)
(Increase)/decrease in inventory		141	330
Working capital changes		**(640)**	**(680)**
Income taxes paid		(1,003)	(1,591)
Net cash from operating activities		**1,567**	**7,448**
Cash flows from investing activities			
Purchase of intangible assets (exploration & evaluation)		-	(64)
Purchase of property, plant and equipment		(4,552)	(3,259)

Net cash used in investing activities	**(4,552)**	**(3,323)**
Cash flows from financing activities		
Dividends paid	-	(5,237)
Purchase of own shares	-	(356)
Loans repaid	-	(1,782)
Net cash provided/(used) by financing activities	**-**	**(7,375)**
Effect of exchange rate changes on cash and cash equivalents		(508)
Net (decrease)/ increase in cash and cash equivalents	**(3,493)**	**(2,810)**
Cash and cash equivalents at beginning of the period	14,116	15,186
Cash and cash equivalents at end of the period	**10,623**	**12,376**

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	Accumulated Profit	Total Equity
Opening equity at 1 January 2020	**1,485**	**(83,095)**	**129,917**	**48,307**
Profit for the period	-		(7,951)	**(7,951)**
Currency translation differences	-	(4,547)	-	**(4,547)**
Closing equity at 30 June 2020	**1,485**	**(87,642)**	**121,966**	**35,809**
Opening equity at 1 January 2019	**1,485**	**(89,189)**	**145,330**	**57,626**
Profit for the period	-	-	(2,474)	**(2,474)**
Dividends paid	-	-	(5,237)	**(5,237)**
Buyback of shares	-	-	(356)	**(356)**
Currency translation differences	-	5,179	-	**5,179**
Closing equity at 30 June 2019	**1,485**	**(84,010)**	**137,263**	**54,738**

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

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

1. General information

Volga Gas plc (hereinafter referred to as "Company" or "Volga") is a public liability company registered in England and Wales with registered number 05886534 and quoted on the AIM market of London Stock Exchange plc. The principal activities of the Company and its subsidiaries (hereinafter jointly referred to as the "Group") are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in the Volga Region of the Russian Federation. The Company's registered office is at 6th floor, 65 Gresham Street, London EC2V 7NQ. This condensed consolidated interim financial information was approved for issue on 27 September 2019.

2. Basis of presentation

This condensed consolidated interim financial information for the half-year ended 30 June 2020 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 2019, 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 2019 were approved by the board of directors on 4 September 2020 and are to be delivered to the Registrar of Companies by 30 September 2020. The report of the auditor on those accounts was qualified. The basis for qualified opinion was that the auditor, KPMG LLP, was unable to obtain audit evidence or explanations, satisfactory to its own requirements, in respect of payments made to sales agents to provide consultancy services and act on behalf of the Group in certain transactions with a major gas purchaser. Full details are included in the Audit Report on pages 26 to 31 of the Company's Annual Report and Accounts for the year ended 31 December 2019.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, 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 2020 and 31 December 2019 was 69.9513 and 61.9057 Russian Rubles to USD 1.00, respectively. Any re-measurement of Russian Ruble amounts to US dollars or any other currency should not be construed as a representation that such Russian Ruble amounts have been, could be, or will in the future be converted into other currencies at these exchange rates.

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

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

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

3. Accounting policies

The accounting policies adopted in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the consolidated financial statements for 2019.

4. COST OF SALES

Cost of sales is analysed as follows:

Six months ended 30 June	2020 US$ 000	2019 US$ 000
Production expenses	2,378	4,035
Mineral extraction taxes	5,105	7,223
Depletion, depreciation and amortization	3,323	6,925
	10,806	**18,183**

5. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are analysed as follows:

Six months ended 30 June	2020 US$ 000	2019 US$ 000
Salaries	1,135	1,608
Taxes other than payroll and MET	19	21
Audit fees	196	167
Legal and Consultancy	867	455
Other	440	473
Total general and administrative expenses	**2,658**	**2,723**

6. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2020 **US$ 000**	**2019** **US$ 000**
Foreign exchange loss	50	(611)
Other expense	(11)	119
Total other net income/(expenses)	**39**	**(492)**

7. PROPERTY PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment US$ 000	Intangible assets US$ 000
As at 1 January 2020	**33,957**	**3,374**
Additions	4,018	-
Depreciation and amortisation	(3,323)	-
Write offs of development assets and impairments	(7,884)	-
Exchange adjustment	(3,910)	(389)
At 30 June 2020	**22,858**	**2,985**

As at 1 January 2019	**45,109**	**3,304**
Additions	3,609	163
Depreciation and amortisation	(6,858)	-
Write offs of development assets and impairments	(5,123)	-
Exchange adjustment	4,274	340
At 30 June 2019	**41,011**	**3,807**

The write off of development assets and impairments comprised the write off of US$64,000 (H1 2019: US$1,944,000) of development assets and impairment charges of US$7,820,000 (H1 2019: US$3,153,000). A final assessment of asset impairment will be made at the 2020 year end on conclusion of an updated independent evaluation of reserves.

The impairment test conducted for the purpose of the balance sheet as at 30 June 2020 was based on the assumptions detailed in Note 4(a) of the accounts for the year ended 31 December 2019, with the exception of the oil price and Ruble exchange rate. The oil price assumptions have been adjusted to match forecasted average prices of $42/bbl in the second half of 2020. After that, the price curve has been applied. An exchange rate of RUR69.95 to US$1.00 was used for the entire forecast period of the impairment testing model.

8. ACCOUNTS RECEIVABLE

	30 June 2020 US$ 000	**31 December 2019 US$ 000**
Prepayments	230	280
Trade receivables	437	875
VAT recoverable	480	430
Other	638	167
Total accounts receivable	**1,785**	**1,752**

9. ACCOUNTS PAYABLE

	30 June 2020 US$ 000	**31 December 2019 US$ 000**
Customer advances	332	1,538
Trade payables	486	993
Taxes other than profit tax	1,865	3,140
Other	1,517	959
Total accounts payable	**4,200**	**6,630**

10. CONTINGENCIES AND COMMITMENTS

The Group has fulfilled all exploration commitments on existing licences. As at 30 June 2020, the Group had contracted to spend US$0.8 million on its remaining capital expenditure programme for 2020, comprising continuing drilling operations on Uzen. The Group has no other material commitments or further capital expenditures during the year ending 31 December 2020.

11. RELATED PARTY TRANSACTIONS

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

Related party transactions are disclosed in Note 23 to the accounts for the year ended 31 December 2019. There were no material related party transactions in the six months to 30 June 2020 nor in the six months to 30 June 2019.

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 2019.

By order of the Board

Andrey Zozulya

Vadim Son

Chief Executive Officer	Chief Financial Officer

END

IR PPUQUBUPUGQB