Volga Gas plc

Registered Number: 05886534

Annual Report and Accounts

For the year ended 31 December

2018

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 five oil and gas exploration and production licences in the Saratov, Volgograd and Bashkiriya regions.

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* Reconciliation of EBITDA is disclosed in the operational and financial summary on page 14.

Overview of 2018

— Completed construction of LPG recovery unit and commenced production in May 2018

— 2018 production 4% ahead of 2017

— Higher in oil prices and offset impact of weaker Russian Ruble on gas realisations

— Revenues up 24% to US$45.9 million (2017: US$37.1 million)

— EBITDA* up 92% at US$16.9 million (2017: US$8.8 million)

— Profit before tax of US$10.6 million (2017: US$0.17 million)

Strong recovery in financial performance during 2018

— Revenues up 24% to US$45.9 million (2017: US$37.1 million)
— EBITDA* up 92% to US$16.9 million (2017: US$8.8 million)
— Profit before tax of US$10.6 million (2017: US$168,000)
— Cash balance net of bank debt increased to US$13.5 million at 31 December 2018 (2017: US$4.6 million)

Completed construction of LPG extraction plant

— Construction completed in April 2018
— Production of LPG commenced in May 2018
— Commissioning process to conclude during H1 2019

Improved efficiency of Redox gas processing

— Plant throughput optimised to match field production capacity
— Process has been successfully winterised and operations were uninterrupted during cold weather
— Elimination of waste production and significant reduction in process chemical costs

Sidetrack wells on VM and Dobrinskoye

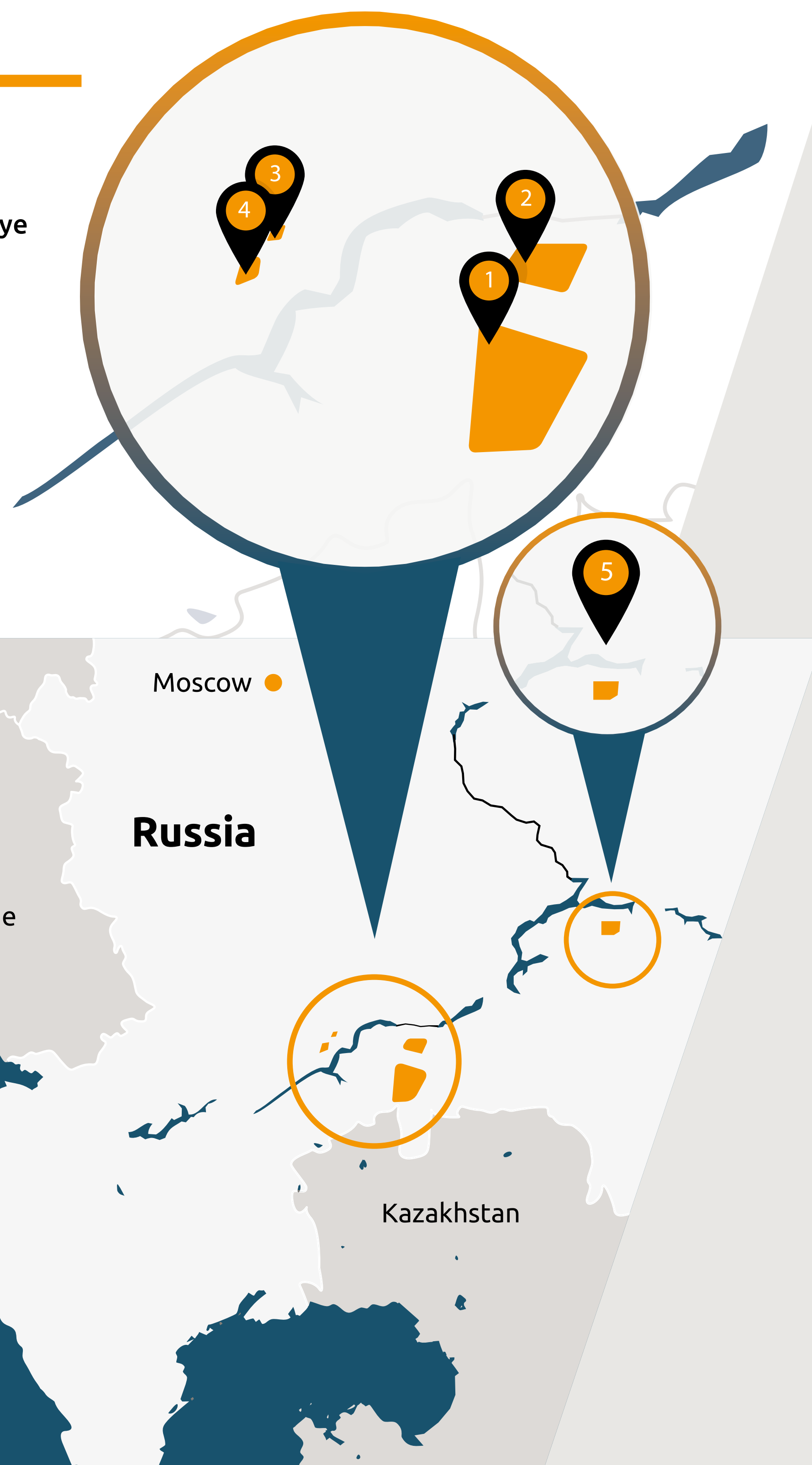
— Successful sidetrack drilled on Dobrinskoye 26 well in December 2018 and commenced production in February 2019
— VM#2 sidetrack well completed in February 2019 and undergoing production test
— Incremental production in 2019 and beyond

* This measure is adjusted EBITDA and represents earnings before interest, tax, DDA impairment and other operating income. Further reconciliation can be found on page 14.

Volga Gas at a Glance

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

1 Karpenskiy
2 Urozhainoye
3 Dobrinskoye
4 Vostochny Makarovskoye
5 Muradymosky



Dobrinskoye gas processing plant

2018 Progress

Completed LPG plant construction and commenced LPG production in May 2018.

Improved the efficiency of Redox-based sweetening and constructed a second reaction vessel.

2019 Objectives

- Modifications to the LPG plant to increase the yield and efficiency of LPG extraction.
- Upgrades to LPG storage capacity.

Vostochny Makarovskoye ("VM") and Dobrinskoye gas/condensate field

2018 Progress

Undertook reservoir and technical studies on the VM field.

Planning for sidetracks on VM#2 and Dobrinskoye #26 wells to mitigate formation water production and restore production.

2019 Objectives

- Complete reservoir and technical studies on the VM field.
- Drilling of the sidetrack wells completed during 1Q 2019. Testing to take place shortly thereafter and recommence production from these wells.

Exploration

2018 Progress

Completed geological studies on the Karpenskiy licence area and commenced data analysis on the new Muradymosky licence.

2019 Objectives

- Develop innovative proposals for low-cost exploratory and development drilling into shallow horizons.

Uzenskoye oil field

2018 Progress

Managed production declines of oil from existing wells, including the new horizontal well.

Upgrade of production facilities, principally to water separation equipment.

2019 Objectives

- Seek to optimise extraction of oil from existing wells.
- Sidetrack of Uzen #4 well to develop further portions of the shallower Albian reservoir.

Commercial

2018 Progress

Test marketing of new LPG product stream.

2019 Objectives

- Extending markets for LPG products.
- Sale of sulphur by-product from gas sweetening.

Chairman's statement

Mikhail Ivanov
Chairman

Dear Shareholder,

During 2018 conditions for the oil and gas industry worldwide were generally favourable with periods of strong pricing. Despite challenging geopolitics and some weakness in the Ruble, domestic energy market conditions have also been stable. Volga Gas has been able to benefit from the improved pricing environment with steady production from its fields. The Group has also benefitted from the switching of the gas sweetening process utilised at its principal production facility, the Dobrinskoye gas processing plant, to a Redox-based system. This has reduced the chemical costs of the operation and has eliminated the need to dispose of bulky spent processing chemicals.

The main accomplishment of 2018 was the completion of the construction of a plant at the gas processing facility to capture for sale the liquid petroleum gases ("LPG") – propane and butane that were hitherto vented and flared. The LPG project commenced producing and selling product in May 2018. Within a few months of operation, the LPG plant contributed more than the 400 barrels of oil equivalent per day of incremental sales volumes targeted by management. With some other improvements, which can be achieved at low cost, we expect to be able to increase these volumes still further. I am also pleased that this project was completed at a cost of US$5.6 million. This is discussed in greater detail by the Chief Executive Officer in the Operational Review.

With stable underlying production, and seven months' contribution from sales of LPG and stronger prices, the Board is pleased to report that revenues have increased 24% to US$45.9 million (2017: US$37.1 million), EBITDA is up 92% to US$16.9 million (2017: US$8.8 million) and operating cash flow before working capital movements more than doubled to US$20.7 million (2017: US$9.1 million). With a modest capital expenditure programme during 2018 the Group has generated free cash inflow** of US$15.6 million (2017: free cash outflow of US$6.2 million). This has enabled the Company to resume dividend payments to shareholders, with an interim US$4.9 million paid in November 2018. The Group ended the year with a healthy cash balance of US$15.2 million (31 December 2017: US$8.6 million). Meanwhile the borrowings of the Group reduced from US$4.0 million at 31 December 2017 to US$1.7 million as at 31 December 2018 and have, subsequent to the year end, been paid off entirely.

As detailed in the 2017 Annual Report, the Board commissioned an updated independent reserves report following water incursion in certain production wells at the VM field and subsequently recognised a 27% reduction in the Group's total proved reserves and a 28% reduction in the proved and probable reserves of oil, gas and condensate. During 2018 studies have been undertaken on the reservoir to optimise future production of the field.

These studies are expected to continue through to mid-2019. Based on the currently available data and on the production performance during 2018, the Board is satisfied that the reserves estimates established on 12 April 2018 remain reasonable. As the Chief Executive details in the Operational Review the drilling of sidetracks to two existing wells was completed by February 2019. Based on preliminary results these should restore production from two recently non-producing wells and thereby increase total productive capacity.

The Board remains confident that its three proven fields form the basis of sustainable production with growth potential in the near term. These assets provide a platform for the Group to grow in the future, through successful exploration and by selective value-accretive acquisitions. The Board believes that Volga Gas has a stable foundation and the financial and operational capability to develop and extend these assets to provide long-term value for our shareholders. As part of a future growth strategy, the Group has acquired at low cost and with limited commitments a new licence block in Bashkiriya region with potential for oil production.

The Board remains committed to prioritising dividend distribution, bearing in mind the requirements of the business and the need to maintain its financial strength. With these considerations, the Board plans to distribute up to 75% of the Group's free cash flow as dividends. The Board is consequently recommending a final dividend of US$0.065 per share, which with the US$0.06 interim dividend declared on 28 September 2018, makes a total distribution of US$0.125 per share in respect of 2018.

With a broadly stable outlook for the oil industry, the finances of the Group will continue to be conservatively managed. Capital investment commitments will continue to be modest and focused on enhancing the profits from the gas and condensate production and optimising the production from the reserves of the Company.

Finally, I would like to update you on the Board. On 14 February 2019, Michael Calvey, a senior partner of Baring Vostok Capital Partners ("Baring Vostok") and a Non-executive Director of Volga Gas, along with three other employees of Baring Vostok were arrested and detained at the order of the Moscow Bassmaniy Court. Baring Vostok believes that its employees have at all times acted in full compliance with the law and each of them is being defended vigorously. These law enforcement actions are not related to the activities of Volga Gas, and both Volga Gas and Baring Vostok continue to operate as usual.

As Mr Calvey is temporarily unable to fulfil his duties as a Director of Volga Gas, the Company has consulted on the nomination and appointment of an alternate. The remainder of the Board supports and has agreed to the appointment of an alternate. A proposed alternate has been identified by Baring Vostok and the regulatory checks required by the Company's nominated adviser have been successfully completed. While the Company waits for the remaining formalities required under the Company's Articles of Association to be fulfilled to complete the appointment the proposed alternate has been invited to attend Board meetings in a non-voting capacity.

Mikhail Ivanov
Chairman

** Reconciliation of free cash flow is disclosed in the operational and financial summary on page 14.

Chief Executive's Report

Andrey Zozulya
Chief Executive Officer

In 2018, the Group's main focus was to complete the construction and commissioning of the new LPG facility at the Dobrinskoye gas processing plant and to commence production of LPG. The principal construction operations were finished in April 2018 and test production of LPG commenced in May 2018. Since start up, production of LPG has gradually increased as the formal commissioning process continued. During the second half of 2018, LPG contributed approximately 362 boepd to the Group total of 5,560 boepd. With further minor additions and modifications to the LPG plant and infrastructure, management expects to achieve higher levels of LPG extraction during the first half of 2019.

I am pleased to report that the Redox-based sweetening, which was implemented during 2017 at the gas processing plant, is continuing to operate as planned and is providing the expected benefits of lower consumables costs and elimination of waste material that required disposal. The plant has sufficient capacity to process the full gas throughput under the current production management regime on the VM and Dobrinskoye fields.

As discussed in the 2017 Annual Report, there was a reduction in reserves estimates in the VM field following detection of increased formation water, which led management to adopt a conservative production policy to avoid additional water incursion. Nevertheless, total Group production for 2018 averaged 5,144 boepd compared to 4,948 boepd in 2017 reflecting improved processing capacity utilisation on the gas processing plant as well as a seven month contribution from LPG.

In addition the Group's revenues benefitted from overall higher oil prices during 2018 as international crude markets firmed during the middle of the year before weakening towards the end of 2018. These points are covered in more detail in the Financial Review.

During 2018 the Group and its technical advisers carried out studies aimed at optimising recovery of reserves from the VM field and technical and operational solutions to mitigate the impact of the reserves reductions and to maximise gas production through the Dobrinskoye gas plant. While the work continues, management decided to drill sidetracks from two existing non-producing wells in order to reinstate production from these wells. Details are discussed in the Operational Review.

While the focus of activity and investment has been on improving the performance of existing production operations, management has also been developing a strategy for future growth through exploration. In addition to technical work on prospects in the Karpenskiy licence area, the Group has acquired a new licence block in Bashkiriya region with potential for oil production.

2019 objectives and medium-term strategy

Management has the following key objectives in 2019:

- To increase the extraction rates of LPG at the gas processing plant.
- To complete the reservoir and technical studies on the VM field and to commence actions including workovers and reperforations of the well bores to mitigate future formation water production, thereby restoring maximum gas production and the extraction of reserves in place.
- Optimise the production of oil from the new horizontal well Uzen #101 and to manage the more mature oil wells in the field.
- To sustain the profitability and cash generation of operations so as to enable a steady distribution of dividends to shareholders.

Current trading and outlook

Between January and March 2019, Group production averaged 6,117 barrels of oil equivalent per day, in line with management's expectations. Given the anticipated higher levels of planned maintenance downtime in the period for the coming months, management expects to maintain an average daily production of gas, condensate and LPG in the region of 5,400 boepd, resulting in Group production of approximately 5,900 boepd for the full year.

International oil prices strengthened at the start of 2019 and have remained relatively stable.

In the current environment, and at current production rates which now include LPG, management expects the Group's financial performance in 2019 to improve on that of 2018. Meanwhile, new capital expenditure commitments remain significantly less than projected cash generation, so I am pleased to announce that the Board has agreed to increase in its sustainable dividend policy for shareholders from the previously announced 50% of net income up to 75% of the Group's free cash flow being distributed as dividends.

Andrey Zozulya
Chief Executive Officer

Operational Review

Operations overview

As outlined on the previous page, Group production in 2018, at an average daily rate of 5,144 boepd, was 4% higher than the 4,948 boepd achieved in 2017. The production performance is in line with management expectations and reflects the production management strategy adopted on the VM field in light of the observed water incursion into certain of the production wells.

With the successful implementation of Redox-based processing and minor improvements to the process achieved during early 2018, the gas plant has sufficient capacity to process planned production from the two gas/condensate fields. In addition, the LPG plant was brought on stream with minimal disruption to production and contributed on average 223 boepd to 2018 production albeit only from May 2018, with a year end exit production rate of 393 boepd.

While production levels in 2018 were close to those of 2017, international oil prices enjoyed a period during 2018 of considerable strength with the Urals oil price reaching an average level of over US$70 per barrel in 2018 compared to US$53 per barrel in 2017. These stronger international prices fed through into domestic prices in which the Group's oil and condensate sales are made and led to a healthy improvement in revenues for the Group.

Taking into account selling expenses, netback revenues (defined as revenues less selling expenses as shown in the Income statements) in 2018 of US$43.4 million were 25% higher than the US$34.8 million in 2017.

Overall production costs were lower, with benefits of savings from the lower process chemicals costs and the weaker Ruble exchange rate, partly offset by higher personnel and administrative expenses.

In addition higher oil prices and the scheduled adjustments to the rate formulas led to higher rates of Mineral Extraction Tax. Nevertheless EBITDA for 2018 was 92% higher at US$16.9 million (2017: US$8.8 million). Sales of LPG of US$2.8 million in 2018 (2017: nil) were a useful contribution to this growth since the direct costs of these sales are relatively low and there is no additional MET as this tax is levied on hydrocarbons extracted from the ground rather than product sales.

Volga Gas has established sustainable cash generation, providing the basis of shareholder returns and future investment in growth.

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. The VM field was developed with wells drilled by Volga Gas, while the Dobrinskoye wells were acquired from previous licensees.

By the end of 2016, the initial development drilling on the VM field was essentially completed, with a total of four wells in the principal reservoir, the Evlano Livinskiy carbonate, and a further well in the secondary Bobrikovskiy sandstone reservoir. The field has been in full commercial production since then. During 2018 production from VM was derived from three wells, VM#1,VM#3 and VM#4 while small volumes were also derived from the Dobrinskoye #26 well which since April 2018 has not been in commercial production.

Production during 2018 averaged 18.8 mmcf/d of gas and 1,183 bpd of condensate and 223 bpd of LPG (2017: 19.1 mmcf/d of gas and 1,163 bpd condensate and no LPG), a total of 4,537 boepd (2017: 4,353 boepd). During the first half of 2018, there were a number of periods of downtime at the processing plant for minor modifications to the sweetening process and for general maintenance and also some well maintenance operations. During the second half of 2018, production was sustained at a higher level apart from periods in July and September 2018 when there were scheduled maintenance operations at the Gazprom pipeline.

Management estimates the current productive capacity of the three producing wells on the VM field to be approximately 22.5 mmcfd of gas plus 1,370 bpd of condensate and 370 boepd of LPG, a total of 5,490 boepd. This rate is consistent with the strategy of reservoir management adopted after the detection of water influx in certain wells.

Technical and operational studies continue to find solutions to mitigate the impact of the reserves reductions recognised in April 2018, including conducting well interventions on the VM field, workovers and reperforations of the well bores. While the work on the reservoir is yet to be completed, management has decided to proceed with two well sidetracks. The first of these was carried out on the non-producing Dobrinskoye #26 well to develop a likely undepleted portion of the reservoir. The drilling was completed in December 2018 with encouraging signs that it will be more productive than expected by management. Test production is planned during Q2 2019. Drilling of a sidetrack on the VM#2 well which was also non-producing, was completed on 17 February 2019. Flow testing conducted during March 2019 resulted in gas flow but with high water cut. As the well logging indicated gas pay in the well, management believes the water is flowing from an aquifer below the reservoir through a local fault. A further workover to install a cement plug to cut off this water influx is planned. Results of this further intervention will be announced in due course. Management believes there would be no current impact on reserve estimates.

Operational Review continued

The proven and probable reserves estimates as at 31 December 2017 were independently assessed by OOO Geostream Assets Management. Based on observed field performance and the results of technical studies to date, management believes these estimates remain valid and no further revisions to reserves are currently indicated. The reserves estimates adopted for 31 December 2018 reflect the starting reserves less the volumes produced during the year.

Gas, condensate and LPG sales

Since December 2016, the Group has been making its gas sales directly to Gazprom. Compared to the previous arrangements, this has resulted in an increase in the net realisations, although the Group now pays a transit tariff for delivery via the Gazprom pipeline network to the point of sale and a sales commission. These form part of the selling expenses.

During 2018, the Ruble experienced a sudden devaluation. Since the gas pricing was fixed in Ruble terms, in US Dollar terms the average gas sales realisations were 3% lower in 2018 at US$1.99/mcf (2017: US$2.06).

In November 2015, Volga Gas established export channels for condensate as an alternative to domestic sales in periods of low domestic demand. However, in both 2017 and 2018, domestic market conditions were generally more favourable and consequently condensate exports in 2018 were 12% of total sales (2017: 15%).

During 2018, the average condensate netback price (after accounting for export taxes and transportation costs) increased 26% to US$43.32 per barrel (2017: US$34.37).

Production of LPG commenced on a pilot basis in May 2018 and during the year ended 31 December 2018 a total of 6,903 tonnes of LPG was sold – principally to buyers in the Volga region – realising US$412 per tonne or US$35.07 per barrel of oil equivalent. As we gain more experience in marketing LPG and become more established producers, the returns are expected to improve relative to condensate.

Average unit production costs on the gas condensate fields decreased to US$4.21 per boe in 2018 (2017: US$5.39). The decline in the Ruble, in which effectively all the costs are denominated, and improved throughput rates in 2018 which reduced the impact of the fixed cost element of the operating expenses and benefits of lower chemical costs all contributed.

Gas processing plant

From June 2017, the plant was switched over entirely to Redox-based processing. During the initial months of the new process, between June and August 2017, the plant throughput was kept at relatively low levels as the process management was optimised. Throughput increased gradually through the remainder of 2017, from the average rate of 213,000 m^3/day (7.5 mmcf/d) in June 2017 to reach 533,000 m^3/day (18.8 mmcf/d) in December 2017.

Early in 2018, two further oxidising vessels were added to the current plant configuration. This led to improvements in efficiency, reduced operational downtime and higher effective operating capacity. During 2018 plant throughput of up to 25 mmcf/d was achieved – sufficient to process the output from the fields. In addition further improvements to the process enabled the plant to operate with minimal interruptions during the 2018–19 winter months.

The key development at the gas plant in 2018 was the completion in April 2018 of the construction of a new unit for the capture, storage and sale of LPG. The plant commenced test production in May and has been in operation since then. LPGs, primarily comprising propane and butane, are currently either included in the sales gas stream or flared. The LPG project provides an additional product stream which by November 2018 increased total sales volumes by more than management's 400 boepd target.

The total capital cost of the LPG project to date was US$5.6 million. Management is targeting further improvements in the efficiency of LPG extraction to increase the yields from the gas stream.

Oil production and development

The Group's oil production is derived from the Uzen field. During 2018 production averaged 607 bopd (2017: 595 bopd). The Uzen field has been producing oil from a cretaceous Aptian reservoir at a depth of approximately 1,000 metres since 2009 and is now at a late stage of maturity of production. The original mature wells produced at an average rate of 422 bopd in 2018 (2018: 595 bopd).

In 2017 the Group drilled a new horizontal well #101 on the Uzen field to develop the proved reserves in the shallower Albian reservoir. Since December 2017, this well has been in continuous production. During 2018, well #101 produced at an average rate of approximately 185 bopd.

Future drilling on the Uzen field is likely to be limited to development of other portions of the Albian reservoir through sidetracks from well #101. This is likely to happen after 2019.

Exploration

During 2018, the Group continued to focus on income-generating investments so exploration activity was confined to internal technical studies.

Nevertheless, 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. In addition, the Group has acquired at low cost and with little committed capital expenditure a new exploration project, the Muradymovsky License Area, in the Bashkiriya region in an area of active oil production. Studies on this indicate the potential for material new reserves that could be brought rapidly into production. However, Volga Gas has not to date prepared estimates of any reserves or resources in this licence.

In parallel, management has been developing a strategy to test multiple shallow oil prospects using an innovative slim hole drilling technique. This has not yet reached the stage of becoming a firm proposal to put to the Board for investment, but management recognises the importance of having a portfolio of low-cost opportunities to add potentially material new reserves.

However, the immediate priority is to maximise the value and cash generation from proven reserves in existing operations.

Oil, gas and condensate reserves as of 1 January 2019

In February 2018, Volga Gas commissioned an updated reserve report of the Group's oil, gas and condensate reserves which were adopted by the Company as a its statement of reserves, leading to significant revisions to previous reserve estimates which were detailed in the 2017 Annual Report. Based on studies undertaken in 2018 and on the production performance of the Group's fields during the year, management believes that no further revisions to reserves are presently indicated. Accordingly the change in the Group's reserves as shown in the table below reflect the volumes produced during the year ended 31 December 2018.

Oil, gas and condensate reserves

	Oil and condensate (mmbbl)	Gas (bcf)	LPG (tonnes) (000)	Total (mmboe)
As at 31 December 2017				
Proved reserves	9.827	57.4	148	21.125
Proved plus probable reserves	11.125	77.6	205	26.470
Production: 1 January – 31 December 2018	0.653	6.9	7	1.878
As at 31 December 2018				
Proved reserves	**9.174**	**50.5**	**141**	**19.247**
Proved plus probable reserves	**10.472**	**70.7**	**198**	**24.592**

Notes:
1. Volga Gas (through its wholly owned subsidiaries PGK and GNS) is the operator and has a 100% interest in five licences to explore for and produce oil, gas and condensate in the Volga region.
2. The reserve estimates as at 31 December 2017 were independently assessed in an updated study conducted by OOO Geostream Assets Management dated 12 April 2018. The full reserve report is available on the Company's website: www.volgagas.com.
3. The reserve estimates were prepared in metric units: tonnes for oil, condensate and LPG and standard cubic metres for gas. The conversion ratios from tonnes to barrels applied in the table above were 7.833 barrels per tonne of oil, 8.75 barrels per tonne of condensate and 11.75 barrels per tonne of LPG. One cubic metre equates to 35.3 cubic feet and one barrel of oil equivalent is given by 6,000 standard cubic feet of gas.
4. The above reserve estimates, prepared in accordance with the PRMS reserve definitions prepared by the Oil and Gas Reserves Committee of the SPE, have 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 Zozulya holds a degree in Geophysics and Engineering from the Groznensky Oil & Gas Institute and is a member of the Society of Petroleum Engineers.

Andrey Zozulya
Chief Executive Officer

Financial Review

Vadim Son
Chief Financial Officer

Results for the year

In 2018, the Group generated US$45.9 million in turnover (2017: US$37.1 million) from the sale of 649,541 barrels of crude oil and condensate (2017: 644,506 barrels), 6,904 tonnes of LPG (2017: nil) and 6,471 million cubic feet of natural gas (2017: 6,378 million cubic feet).

During 2018, 12% by volume of condensate sales were exported (2017: 15%). After accounting for export costs, comprising export tax and transportation, the combined netback revenue for all condensate sales during 2018 was US$43.32 per barrel (2017: US$34.37). The netback from condensate exports was almost identical to the net realisation from domestic sales (2017: export netback US$32.66 and domestic sales US$35.05 per barrel). In 2018 as in 2017 all oil sales were in the domestic market. The average sales price for oil in 2018 was US$45.59 per barrel (2017: US$37.24).

The gas sales price during 2018 averaged US$1.99 per thousand cubic feet (2017: US$2.06 per thousand cubic feet), the decrease being attributable to movement in the Ruble/US Dollar exchange rate which more than offset the increase in the Ruble selling prices. In 2018, as in 2017, the Group's gas sales were direct to Gazprom.

In 2018, the total cost of production decreased to US$8.3 million (2017: US$9.3 million), driven mainly by the devaluation of the Ruble as well as some cost savings from chemicals used for gas sweetening.

Unit field operating costs were lower at US$4.61 per boe (2017: US$5.46 per boe), also mainly as a result of Ruble devaluation. Production-based taxes increased to US$13.2 million (2017: US$10.9 million) reflecting the impact of higher oil Mineral Extraction Tax ("MET") rates as well as the impact of further formula changes that came into effect on 1 January 2018. MET paid in 2018 represented 30.4% of netback revenues (2017: 31.4% of netback revenues).

Production activities generated a gross profit of US$16.1 million in 2018 (2017: US$8.2 million).

Operating and administrative expenses in 2018 were US$4.9 million (2017: US$5.8 million), reflecting the weaker Ruble as well as the non-recurrence in 2018 of certain one-off expenses incurred in 2017.

The Group experienced a 92% increase in EBITDA (defined in the operational and financial summary on page 14 as operating profit before non-cash charges, including exploration expenses, depletion and depreciation) to US$16.9 million (2017: US$8.8 million).

The unit rate of Depletion, Depreciation and Amortisation ("DD&A") decreased to US$4.53 per boe (2017: US$5.02 per boe) principally as a result of Ruble devaluation as well as modest additions to fixed assets. The DD&A charge in 2018 was US$8.2 million (2017: US$8.6 million) reflecting the modest increase in production partly offsetting the lower unit DD&A rate.

With no significant exploration and evaluation expenses in 2018 (2017: nil) or other provisions (2017: nil), the Group recorded an operating profit for 2018 of US$10.3 million (2017: US$113,000). Included in Operating Profit in 2018 was a US$3.1 million court award granted in the Group's favour against a drilling contractor, partly offset by the write-off of US$1.5 million capitalised costs relating to the sidetrack of the Uzen #4 well which was the subject of the dispute.

Including net interest income of US$0.4 million (2017: US$0.2 million) and other net gains of US$1.4 million (2017: net loss of US$142,000) the Group recognised a profit before tax of US$10.6 million (2017: US$0.17 million).

Net profit after tax was US$8.4 million (2017: US$330,000) after a current tax charge of US$2.2 million (2017: US$243,000) and a deferred tax credit of US$17,000 (2017: deferred tax credit of US$405,000).

Cash flow

Group cash flow from operating activities increased almost threefold to US$18.3 million (2017: US$6.3 million). Net working capital movements contributed cash outflow of US$0.7 million in 2018 (2017: net outflow of US$2.3 million). Included in cash flow from operations was the receipt during 2018 of a sum of US$3.1 million (2017: US$0.3 million) being a court awarded settlement of a legal dispute. During 2018 there were payments of profit tax of US$1.8 million (2017: US$0.5). With lower capital expenditures in 2018, the net outflow from investing activities was US$2.3 million (2017: US$12.6 million). With dividend payments of US$4.9 million in 2018 (2017: US$5.0 million) and loan repayments of US$1.8 million (2017: US$0.2 million), net cash outflow from financing activities was US$6.7 million (2017: US$5.2 million), leading to a net increase in cash by US$6.6 million (2017: net decrease of US$11.1 million).

Dividend

In November 2018 the Company paid an interim dividend of US$0.06 per ordinary share (2017: total dividends of US$0.062 per share in respect of 2016). As indicated in the 2017 Annual Report, the Board has decided to base dividends on cash generation as well as earnings and, subject to the requirements of the Group, of distributing up to 75% of free cash flow. Consequently the Board is recommending a final dividend of US$0.065 per ordinary share which, subject to approval of the Company's Annual General Meeting on 20 May 2019, is to be paid on 28 May 2019 to shareholders on the register on 3 May 2019.

Capital expenditure

During 2018 capital expenditure of US$2.8 million was incurred (2017: US$12.4 million), of which US$2.6 million was incurred on development and producing assets (2017: US$12.3 million) and US$0.2 million on exploration and evaluation (2017: US$0.1 million). Capital expenditure in 2018 comprised completion of the construction of the LPG plant and minor upgrades to the gas processing plant and minor items of maintenance capital expenditure on the Uzen oil field and the VM field.

Profitability by product

While the Group operates as a single business segment, as described in Note 2.7 to the accounts on pages 42 and 43, management estimates the relative profitability, which for this purpose is defined to be gross profit less selling expenses, by product to be as follows:

	2018		2017	
US$ 000	Oil	Gas, LPG and condensate	Oil	Gas and condensate
Revenue	**10,473**	**35,402**	8,075	28,991
MET	**(5,575)**	**(7,619)**	(3,816)	(7,120)
Depreciation	**(944)**	**(7,276)**	(967)	(7,613)
Other Cost of sales	**(1,325)**	**(7,023)**	(1,067)	(8,253)
Selling expenses	**(59)**	**(2,414)**	(189)	(2,032)
Gross profit net of selling expenses	**2,570**	**11,070**	2,036	3,973

Balance sheet and financing

As at 31 December 2018, the Group held cash and bank deposits of US$15.2 million (2017: US$8.6 million). All of the Group's cash balances are held in bank accounts in the UK and Russia. Approximately 61% (2017: 48%) of the Group's cash is held in US Dollars and 38% (2017: 50%) held in Russian Rubles.

In December 2016, the Group drew down from a RUR 240 million (US$4.0 million) bank facility, which was utilised to fund purchases of equipment for the LPG project. Repayments commenced in monthly instalments in December 2017. Total debt as at 31 December 2018 was US$1.7 million (2017: US$4.0 million). Subsequent to the year end, the remaining balance of the debt has been repaid in full.

As at 31 December 2018, the Group's intangible assets were US$3.3 million (2017: US$3.8 million). Property, plant and equipment decreased to US$45.1 million (2017: US$62.3 million), reflecting capital expenditures lower than depreciation in 2018 as well as the impact of foreign exchange adjustments. The carrying values of the Group's assets relating to its main cash-generating units have been subject to impairment testing. The result of the impairment tests, including sensitivity analysis around the central economic assumptions and taking into account the reduction in oil and gas reserves, as detailed in Note 4(b) to the accounts, showed no present requirement for impairment.

For the year ending 31 December 2018, the Group recorded a currency retranslation expense of US$11.8 million (2017: income of US$3.5 million) in its other comprehensive income, relating to the movement of the Ruble against the US Dollar.

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 volatility in international oil prices and the Ruble. The Group may consider additional debt facilities to fund the longer-term development of its existing licences and operational facilities as appropriate. However, management expects to continue to generate positive free cash flow enabling further distributions to shareholders.

The Group's financial statements are presented on a going concern basis, as outlined in Note 2.1 to the accounts.

Vadim Son
Chief Financial Officer

Financial Review continued

Five-year operational and financial summary

Sales volumes	2018	2017	2016	2015	2014
Oil and condensate (barrels '000)	**650**	644	828	439	604
Gas (mcf)	**6,471**	6,378	9,320	4,545	5,671
LPG ('000 tonnes)	**6,904**	–	–	–	–
Total (boe)	**1,809**	1,707	2,381	1,196	1,549

Operating results (US$ 000)	2018	2017	2016	2015	2014
Oil and condensate sales	**30,154**	23,952	25,380	11,041	27,220
Gas sales	**12,880**	13,114	14,032	6,786	12,203
LPG sales	**2,841**	–	–	–	–
Revenue	**45,875**	37,066	39,412	17,827	39,423
Field operating costs	**(5,865)**	(6,379)	(9,367)	(6,016)	(7,805)
Production-based taxes	**(13,194)**	(10,936)	(10,255)	(5,877)	(8,344)
Depletion, depreciation and amortisation	**(8,220)**	(8,580)	(5,037)	(2,345)	(4,656)
Other production expenses	**(2,483)**	(2,941)	(1,601)	(1,352)	(1,709)
Cost of sales	**(29,762)**	(28,836)	(26,260)	(15,590)	(22,514)
Gross profit	**16,113**	8,230	13,152	2,238	16,909
Selling expenses	**(2,473)**	(2,221)	(4,052)	(319)	–
Exploration expense	**–**	–	(265)	(635)	–
Write-off of development assets	**(1,513)**	(65)	(1,798)	(2,950)	–
Operating, administrative and other expenses	**(4,921)**	(5,831)	(4,526)	(3,377)	(4,157)
Other operating income	**3,120**	–	–	–	–
Operating profit/(loss)	**10,326**	113	2,511	(5,043)	12,752

Net realisation	2018	2017	2016	2015	2014
Oil and condensate (US$/barrel)	**46.39**	37.19	30.65	25.16	45.07
Gas (US$/mcf)	**1.99**	2.06	1.51	1.49	2.15
LPG (US$/tonne)	**411.50**	–	–	–	–

Operating data (US$/boe)	2018	2017	2016	2015	2014
Production and selling costs	**3.24**	3.74	3.93	5.03	5.04
Production-based taxes	**7.29**	6.40	4.31	4.91	5.39
Depletion, depreciation and other	**4.54**	5.03	2.12	1.98	3.01

EBITDA calculation (US$ 000)	2018	2017	2016	2015	2014
Operating profit/(loss)	**10,326**	113	2,511	(5,043)	12,752
Exploration expense	**–**	–	265	635	–
DD&A and write-off development assets	**9,733**	8,645	6,857	5,319	4,656
Other operating income	**(3,120)**	–	–	–	–
EBITDA	**16,939**	8,758	9,633	911	17,408
EBITDA per boe	**9.36**	5.13	4.05	0.76	11.24

Free cash inflow (US$ 000)	2018	2017	2016	2015	2014
Net cash flow from operating activities	**18,252**	6,346	13,283	1,160	16,246
Net cash flow from investing activities	**(2,071)**	(12,552)	(5,033)	(8,671)	(5,520)
Free cash inflow	**16,181**	(6,202)	8,250	(7,511)	10,726

Netback realisation for oil and condensate is calculated by deducting selling expenses from oil, gas and condensate sales.
EBITDA is calculated from Operating Profit as shown in the Group Income Statement, adding back:
— Depletion, depreciation and amortisation, as disclosed in Note 6, analysis of Cost of Sales; and
— Write-off of development assets, as disclosed in Note 6, analysis of Total Expenses; and deducting
— Other Operating income as disclosed in Note 6(g)

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.

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 and condensate production in Russia effectively reduce the exposure to international market prices for oil. In addition, the Ruble exchange rate has tended to move with the oil price, reducing the overall volatility of oil prices when translated into Russian Rubles.

Market risks

The Group's revenues generated from oil and condensate production have typically been from sales to local domestic customers. There have been periods when the local market has been unable to purchase condensate, causing temporary suspension of production and loss of revenues. Since November 2015, the Group has developed export channels for its condensate into regional export markets to mitigate this risk. Gas sales are made to Gazprom. The region in which the Group operates is reliant on external gas supplies. Consequently the risk of insufficient demand for the Group's gas is considered low. Gas sales have generally been conducted as expected, subject to occasional constraints during pipeline maintenance operations.

Oil and gas production taxes

The Group's sales generated from oil and gas production are subject to Mineral Extraction Taxes ("MET"), which form a material proportion of the total costs of sales. The rates of these taxes are subject to changes by the Russian government, which relies heavily on such taxes for its revenues. Changes to rate formulas which came into effect during in recent years have materially increased the rates on crude oil, condensate and natural gas. As of 2019, the Russian government's policy is to transfer the burden of taxes from export taxes to MET and the formulas for both taxes are to change to put this into effect over a five-year period. It is uncertain that domestic oil sales prices will rise sufficiently to reflect in full the reduction in export taxes to compensate for the increase in MET on oil production sold in the domestic market.

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 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. However, the Group's current plans involve limited expenditure in exploration-related activities.

In February 2018, the Group commissioned an updated reserve evaluation based on reporting standards set by the Society of Petroleum Engineers. The reserve report, delivered to and adopted by management on 12 April 2018, resulted in a downward revision by approximately 27% to the Group's reserves as at 31 December 2017. Management considers the independent reserve estimate to be in line with the currently available field data and accordingly has chosen to adopt the estimates as the statement of the Group's oil, gas and condensate reserves. In addition, management considers the performance of the fields during 2018 to be consistent with the latest reserve evaluations and proposes no further revisions to be currently required. The reserve estimate as at 31 December 2018 is accordingly only adjusted for the volumes produced in the year ended 31 December 2018. The Group's reserve statement is shown in the Operational Review on pages 7 and 8. The impact of the reserve revision in 2018 has been to increase the depletion, depreciation and amortisation charge of the Group with consequent reductions in the profit and net book value of the Group's assets. While the reserve revisions do not appear to have triggered an impairment subsequent, future reserve evaluations may lead to further revisions which may impair the assets. Furthermore, if the 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 both the future profitability and the balance sheet carrying values of 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, including waste materials generated by the sweetening process formerly in use at the Dobrinskoye gas processing plant. 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 regard 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

Principal Risks and Uncertainties continued

Environmental risk continued

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 administrative expenses is in US Dollars, Euros and Pounds Sterling. Revenues are predominantly received in RUR, so 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, fluctuations in the exchange rate of the RUR against the US Dollar 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.
- The imposition of sanctions upon certain entities in Russia.

The Group's operations and financial management have not been impacted directly by any sanctions to date.

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 2018, the Group had US$15.2 million (2017: US$8.6 million) of cash and cash equivalents, of which US$13.8 million was held in bank accounts in Russia (2017: $7.9 million). As at 31 December 2018, total bank debt was US$1.7 million (2017: US$4.0 million). The remaining balance of bank debt was repaid in January 2019. The Group has fully drawn on the debt facilities available as at 31 December 2018 and 31 December 2017. 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 2018 the Group had budgeted capital expenditures of US$3.3 million, of which the significant items were US$1.7 million for drilling of sidetrack wells and other development activities. There were approximately US$1.1 million of accounts payable relating to capital expenditures and other expenses incurred in the year ended 31 December 2018 (2017: US$1.6 million).

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 the ordinary course of its 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. 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 and has a policy of maintaining a minimum level of liquidity to cover forward obligations. Further short-term debt facilities may be arranged to provide financial headroom for future development activities.

Bribery

The Company is subject to numerous requirements and standards, including the UK Bribery Act. In addition the Group is subject to anti-bribery and anti-corruption laws and regulations in all jurisdictions in which it operates. Failure to comply with regulations and requirements, such as failure to implement adequate systems to prevent bribery and corruption, could result in prosecution, fines or penalties imposed on the Company or its officers or suspension of operations. The Group's mitigation measures include compliance-related activities, training, monitoring, risk management, due diligence and regular review of policies and procedures. We prohibit bribery and corruption in any form by all employees and by those working for, or connected with the business. Employees are expected to report actual, attempted or suspected bribery or other issues related to compliance to their line managers or through our confidential reporting process, which is available to all staff as well as third parties.

Fraud

The Group has been exposed to fraudulent transfers of funds from its bank accounts and is at various times at risk to attempted fraud. The Group has established enhanced protections of its information technology infrastructure, operational systems and procedures against fraudulent activities.

Other risks/Brexit

By the end of 2018, the terms and conditions of the UK's exit from the EU on 29 March 2019 had not been agreed with the EU, it therefore remained unclear where the UK was heading with Brexit. The Company is not significantly commercially exposed to the outcome of the Brexit negotiations between the UK and EU (e.g. soft or hard exit, deal or no deal, second referendum):

- **Customers and supply chain**: The Company conducts no trade between the UK and the EU.
- **Employees**: The Group has no employees based in the UK. Therefore, there is no impact of Brexit on the Company's employees.
- **Financing**: The Company does not have significant external financing in place and the day to day requirements are met from its cash balances in Russia. The transfer of money is unlikely to be affected by Brexit and therefore this is not a significant issue.
- **Regulations**: There are no specific regulations which could potentially have significant impact on the Company in case of Brexit.

The Company continues to monitor the political and economic events and forecasts to manage any potential impacts to its business including its employees.

Vadim Son,
Chief Financial Officer

The Strategic Report, which comprises pages 1 to 17, was approved by the Board on 5 April 2019 and signed on its behalf by

Andrey Zozulya
Chief Executive Officer

Board of Directors

Mikhail Ivanov
Non-executive Chairman

Appointed to the Board:
25 July 2006
Appointed as Chairman:
5 June 2015
Committee membership:
–

Mr Ivanov was Chief Executive Officer of the Company from its foundation until 5 May 2015. Mr Ivanov was also a partner and director of Oil and Gas Projects at Baring Vostok Capital Partners. He has a long history of involvement in the oil sector. He 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.

Andrey Zozulya
Chief Executive Officer, Executive Director

Appointed to the Board:
5 May 2015
Committee membership:
–

Mr Zozulya is a Russian citizen and has over 20 years' experience in the oil sector in Russia, both with major oil and oil service companies, including over ten years with Schlumberger. He also has experience of operating in the Saratov region in which Volga Gas' operations are based. He has a degree in Geophysics and Engineering from the Groznensky Oil & Gas Institute and is a member of the Society of Petroleum Engineers.

Michael Calvey
Non-executive Director

Appointed to the Board:
29 September 2006
Committee membership:
A N

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.

Ronald Freeman
Non-executive Director

Appointed to the Board:
14 March 2007
Committee membership:
A N R

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 acquisitions 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).

Aleksey Kalinin
Non-executive Director

Appointed to the Board:
29 September 2006
Committee membership:
R

Mr Kalinin served as Chairman of the Board from 14 March 2007 until 5 June 2015, remaining as a Non-executive Director. 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.

Vladimir Koshcheev
Non-executive Director

Appointed to the Board:
29 September 2006
Committee membership:
–

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.

Stephen Ogden
Non-executive Director

Appointed to the Board:
14 March 2007
Committee membership:
A N R

Mr Ogden was previously a non-executive director of United Confectioneries (Russia), Heineken Russia, Metropolis Media (former Yugoslavia)) and the Prospera Property Fund (Turkey). 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 and politics from Durham University, England, and is a qualified British chartered accountant.

Find out more
www.volgagas.com

Committee key:

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- – N/A

Corporate Governance Statement

Introduction

This Corporate Governance Statement ("CGS") has been prepared by the Chairman of the Volga Gas plc (the "Company") in accordance with the recommendations of the QCA Corporate Governance Code 2018 (the "Code"). The CGS explains how the 10 Principles of the QCA Code are applied by the Company and where it departs from the QCA Code an explanation of the reasons for doing so is provided.

Role of the Chairman and application of the QCA Code

The Chairman is responsible for dealing with the strategic direction and long-term strategy of the Company, including managing Board appointments/removals, delegation of Board's powers, agreeing membership and terms of reference of Board Committees and task forces, and addressing matters referred to the Board by the Board Committees.

In ensuring good governance Volga Gas has adopted the Quoted Companies Alliance Corporate Governance Code 2018 and applies the ten principles of the QCA Code as set out in this statement.

QCA Code Recommendation	Application by the Company
Principle 1 **Establish a strategy and business model which promote long-term value for shareholders** — The board must be able to express a shared view of the company's purpose, business model and strategy. — It should go beyond the simple description of products and corporate structures and set out how the company intends to deliver shareholder value in the medium to long term. — It should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the company from unnecessary risk and securing its long-term future.	— Volga Gas is a production focused upstream oil and gas business, operating in the Volgograd and Saratov regions. The strategy is to maximise the cash generating capability of its resources to provide returns to shareholders through both dividends and value appreciation. — The Company is planning to invest and develop its operating business to deliver long-term, sustainable growth, thus insuring value generation for our shareholders. — Delivery of the strategy necessitates sound technical and operational planning and execution and risk management. — Further details of the Company's strategy may be found on the following section of the website: www.volgagas.com/about-us — Further details of the Company's values and principles can be found here: https://www.volgagas.com/corporate-responsibility/corporate-social-responsibility
Principle 2 **Seek to understand and meet shareholder needs and expectations** — Directors must develop a good understanding of the needs and expectations of all elements of the company's shareholder base. — The board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.	— The Company's policy on investor relations is set out on page 24. — The Board is committed to maintaining good communication and having constructive dialogue with its shareholders. The Directors believe that Volga Gas has a successful and well-established programme which facilitates shareholder engagement. Significant developments are disseminated through the Regulatory Information Service (RIS) and timely updates of the Company's website. The Board views the AGM as an effective forum for communication between the Company and its shareholders and encourages their participation in its agenda. — In addition to compliance with the requirement to disseminate all information on a timely basis, the Company issues monthly reports on production and provides regular operational updates on the RNS. — The Company retains a financial public relations adviser and an investor relations consultant, whose contact details are reproduced on each RNS announcement and are available here: www.volgagas.com/investors/shareholder-information — The Company encourages all shareholders to attend its Annual General Meeting where they can meet and question the Directors and express ideas or concerns. The Directors undertake presentations and roadshows to institutional investors as appropriate and periodically participate in recorded interviews that are available to view on the corporate website.

QCA Code Recommendation	Application by the Company
Principle 3 **Take into account wider stakeholder and social responsibilities and their implications for long-term success** — Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others). The board needs to identify the company's stakeholders and understand their needs, interests and expectations. — Where matters that relate to the company's impact on society, the communities within which it operates or the environment have the potential to affect the company's ability to deliver shareholder value over the medium to long-term, then those matters must be integrated into the company's strategy and business model. — Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder groups.	— The Company recognises that the successful execution of its business model requires well-functioning relationships with governments, regulatory authorities, local communities, contractors and customers. Details of the Company's policy and statements of business principles and ethics may be found here: www.volgagas.com/corporate-responsibility/corporate-social-responsibility The Company also maintains a regular dialogue with its external stakeholders particularly its agents and business partners around the world which help drive business development. The Company works closely with its advisors to ensure it operates in conformity of its listing regulations as well as the social, legal, religious and cultural requirements of the countries in which it operates. — Management of health, safety and environmental risks is paramount. Details of the company's policies may be found here: www.volgagas.com/corporate-responsibility/health,-safety-environment
Principle 4 **Embed effective risk management, considering both opportunities and threats, throughout the organisation** — The board needs to ensure that the company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including the company's supply chain, from key suppliers to end-customer. — Setting strategy includes determining the extent of exposure to the identified risks that the company is able to bear and willing to take (risk tolerance and risk appetite).	— The Company's risk profile and risk management strategies are detailed on pages 15 to 17.
Principle 5 **Maintain the board as a well-functioning, balanced team led by the chair** — The board members have a collective responsibility and legal obligation to promote the interests of the company, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board. — The board (and any committees) should be provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight. — The board should have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. Independence is a board judgement. — The board should be supported by committees (e.g. audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively. — Directors must commit the time necessary to fulfill their roles.	— Of the seven Board members, the following are considered to be independent: Ronald Freeman, Vladimir Koshcheev and Stephen Ogden. The Board has considered the length of service on the Board, and have determined that in terms of interest, perspective and judgement all three remain independent. The biographies of the members of the Board can be found on pages 15 and 16. — All Directors are expected to devote the necessary time commitments required by their position and are expected to attend at least four Board meetings each year. The Company will report annually on the number of Board and Committee meetings held during the year and the attendance record of individual Directors. — The Board is expected to meet at least every three months. The record of Board meetings and attendances in 2018 are detailed on page 24.

Corporate Governance Statement continued

QCA Code Recommendation	Application by the Company
Principle 6 **Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities** — The board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The board should understand and challenge its own diversity, including gender balance, as part of its composition. — The board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a board. — As companies evolve, the mix of skills and experience required on the board will change, and board composition will need to evolve to reflect this change.	— The details of each Director may be found on pages 18 and 19. — The Directors who have been appointed to the Company have been chosen because of the range of skills and experience they offer and which are appropriate for the strategy and objectives for the company. In appointing new Directors, the Board has agreed that appointments will be made by the Nominations Committee.
Principle 7 **Evaluate board performance based on clear and relevant objectives, seeking continuous improvement** — The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors. — The board performance review may be carried out internally or, ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team. — It is healthy for membership of the board to be periodically refreshed. Succession planning is a vital task for boards. No member of the board should become indispensable.	Evaluation of the performance of Directors, the Board and its committees is undertaken as follows: — The Executive Directors are evaluated by the Non-executive Directors in informal sessions. The goal of the Board evaluation process is to identify and address opportunities for improving the performance of the Board and to solicit honest, genuine and constructive feedback. — The Chairman is evaluated by the other Non-executive Directors taking into account the views of the Executive Directors. The Board considers the evaluation process is best carried out internally at the Company's current size, however the Board will keep this under review and may consider independent external evaluation reviews if the necessity arises in the future. — The evaluation process is focused on the improvement of Board performance, through open and constructive dialogue and the development and implementation of action plans. The Board will report on its evaluation and actions in its Annual Report. — Succession planning is considered by the Board as a whole. The Board will annually review and make recommendations relating to talent management and succession planning for the Board and the managing director. — The Committees are evaluated by the Non-executive Directors along with the Chief Executive. — The Board as a whole evaluates its own performance by consolidating and discussing the reviews set out above.
Principle 8 **Promote a corporate culture that is based on ethical values and behaviours** — The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage. — The policy set by the board should be visible in the actions and decisions of the chief executive and the rest of the management team. Corporate values should guide the objectives and strategy of the company. — The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the company. — The corporate culture should be recognisable throughout the disclosures in the annual report, website and any other statements issued by the company.	— It is the Board's view that the Company's corporate culture is consistent with its objectives, strategy and business model and a good example of this is how Principle 3 of the QCA Code (Wider Stakeholder and Social Responsibilities) has been adopted by the Company. The Board has the means to determine that ethical values and behaviours are recognised and respected via the management team. — Details of the corporate culture and ethical values are to be found on www.volgagas.com/corporate-responsibility/corporate-social-responsibility — The Code of Business Conduct and the Statement of Ethics are available via links on the same page.

QCA Code Recommendation	Application by the Company
Principle 9 **Maintain governance structures and processes that are fit for purpose and support good decision-making by the board** — The company should maintain governance structures and processes in line with its corporate culture and appropriate to its: • size and complexity; and • capacity, appetite and tolerance for risk. — The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the company.	— The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chairman with the assistance of the Chief Executive Officer sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items, in particular strategic issues. — The Chairman promotes a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. — The Chief Executive Officer (CEO) is responsible for running the business and implementing the decisions and policies of the Board. The CEO is also responsible for ensuring the Company's communication with shareholders is timely, informative and accurate with due regard to commercial sensitivity and regulatory requirements. — The Chief Financial Officer (CFO) is responsible for the Company's finances. Currently, the CFO is not part of the Board. — The Non-executive Directors are appointed not only to provide independent oversight and constructive challenge to the Executive Directors but are also chosen to provide strategic advice and guidance. — All Directors are able to allocate sufficient time to the Company to discharge their duties. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The search for Board candidates is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board. — The details of the structure of the Board and the roles of identified members and Board Committees are available on https://www.volgagas.com/corporate-responsibility/corporate-governance
Principle 10 **Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders** — A healthy dialogue should exist between the board and all of its stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the company. — In particular, appropriate communication and reporting structures should exist between the board and all constituent parts of its shareholder base. This will assist: • the communication of shareholders' views to the board; and • the shareholders' understanding of the unique circumstances and constraints faced by the company. — It should be clear where these communication practices are described (annual report or website).	— The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. Details of all shareholder communications are provided on the Group's website. The Board holds meetings with larger shareholders and regards the Annual General Meeting as a good opportunity to communicate directly with all shareholders. — Results of shareholder meetings and details of votes cast will be publicly announced through the regulatory system and displayed on the Company's website with suitable explanations of any actions undertaken as a result of any significant votes against resolutions. — Details of the work of the Board Committees may be found below. — Historical Annual Reports and other governance-related material, including notices of all general meetings over the last five years are located on • https://www.volgagas.com/investors/company-reports-presentations • www.volgagas.com/investors/shareholder-documents
Consider relationship agreement where there is a dominant shareholder.	There is a relationship agreement between Volga Gas plc and Baring Vostok. The terms of this agreement, which have not been varied, are set out on page 164 in the Volga Gas Admission Document www.volgagas.com/media/22128/VGAS-Admission-Document.pdf

Corporate Governance Statement continued

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 page 28.

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 Officer 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 five times during the year ended 31 December 2018 (2017: six times) with the following attendance:

	2018	2017
Mikhail Ivanov	**5**	5
Andrey Zozulya	**5**	5
Michael Calvey	**5**	5
Ronald Freeman	**5**	5
Aleksey Kalinin	**5**	5
Vladimir Koshcheev	**5**	5
Stephen Ogden	**5**	6

Indemnification of Directors

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

Re-election of Directors

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

Internal controls

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

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

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

In addition to formal Board meetings, management prepare detailed financial and operational reports on a monthly basis which are 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 represent the Company at forums where private investors are present.

Shareholders have the opportunity to meet and question the Board at the Annual General Meeting which will be held on 20 May 2019, at which the Chairman, the Chairman of the Audit Committee and all Executive Directors are expected to 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

Caros Consulting Ltd
Company Secretary
5 April 2019

Report of the Directors

The Directors present their report together with the Group's audited consolidated financial statements for the period from 1 January 2018 to 31 December 2018.

Results and dividend

The Group's results are set out on pages 32 to 38 and show a net profit of US$8.4 million for the year ended 31 December 2018 (2017: net profit of US$0.3 million). On 2 November 2018, the Company paid an interim dividend of $0.06 per ordinary share. The Directors propose a final dividend of US$0.065 per share in line with the Board's policy of distributing up to 75% of the Group free cash flow, being the sum of cash generated from operating activities less the cash utilised in investing activities, as dividends.

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 five licence areas in the Saratov, Volgograd and Bashkiriya regions: Karpenskiy, Vostochny Makarovskoye, Dobrinskoye, Urozhainoye-2 and Muradymosky.

The Group's business strategy is to maximise the economics of production from the Vostochny Makarovskoye, Dobrinskoye and Uzenskoye fields and to explore the potentially prospective structures on the Group's licence areas. The Group also evaluates acquisition opportunities as part of its overall strategy of growing value for its shareholders.

Highlights of the Group's activities for the period ended 31 December 2018 are:

- Completion of construction of the LPG extraction at the Dobrinskoye gas plant and commencement of LPG production.
- Improvement in the efficiency of the Redox gas sweetening process implemented during 2017.
- Drilling of a sidetrack on Dobrinskoye #26 well followed by one on the VM#2 well completed in February 2019.

The Group's activities are described in greater detail in the Chief Executive's Report on page 5 and in the Operational Review on pages 6 and 7. The principal risks associated with the Group's activities are set out in the Principal risks and uncertainties section on pages 12 to 14.

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 KPIs 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 6 and 7 provides the relevant information.

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 2018	31 December 2017
Mikhail Ivanov	**1,000,000**	1,000,000
Andrey Zozulya	**271,000**	270,000
Michael Calvey[1]	**–**	–
Ronald Freeman	**55,000**	55,000
Aleksey Kalinin[1]	**–**	–
Vladimir Koshcheev	**269,201**	419,210
Stephen Ogden	**205,000**	205,000

1 Mr Calvey and Mr Kalinin are co-managing partners of Baring Vostok Capital Partners Limited, a related party to Baring Vostok Investments PCC Limited , Baring Vostok Nominees Limited and Dehus Dolmen Nominees Limited. As such Mr Calvey and Mr Kalinin have an indirect beneficial interest in the Company.

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 2.1.

Directors

The Directors who served during the year were:
Mikhail Ivanov, Chairman
Andrey Zozulya, Chief Executive Officer
Michael Calvey, Non-executive
Ronald Freeman, Non-executive
Aleksey Kalinin, Non-executive
Vladimir Koshcheev, Non-executive
Stephen Ogden, Non-executive

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

Report of the Directors continued

Substantial shareholders

On 5 April 2019, 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
Mr Nicholas Mathys	**11,360,000**	14.02
Dehus Dolmen Nominees Ltd[2]	**7,906,889**	9.76
Baring Vostok Investments PCC Limited[3]	**4,800,460**	5.93
BlackRock Investment Management (UK) Limited	**3,094,791**	3.82
Tera Resources Co., Limited	**2,828,089**	3.49
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.
3 Baring Vostok Investments PCC Limited is a closed-end investment company registered in Guernsey and advised by Baring Vostok Capital Partners Group Limited, which also advises the Baring Vostok Private Equity Funds.

Options granted

All outstanding options granted under a previous Executive Share Option Plan lapsed on 31 May 2017. No further options have subsequently been granted and no options remain outstanding.

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 Group.

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 (2017: 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.

Market Abuse Regime ("MAR")

On 1 July 2016 the MAR came into effect. The Company has updated its procedures and records in respect of insider information and dealings by persons discharging managerial responsibilities ("PDMRs"), or their connected persons in compliance with the new regime.

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 7 June 2018, 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 2019.

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 primarily by equity capital. It is the Group's policy to fund its capital investments primarily from retained cash and cash generated from operations, although modest levels of debt may continue to be utilised when the Board considers it appropriate.

Corporate Governance

The Company's statement on Corporate Governance can be found in the Corporate Governance Statement on pages 20 to 24 of these financial statements and forms 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 in accordance with Section 489 of the Companies Act 2006, a resolution concerning its reappointment will be proposed at the next Annual General Meeting.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company 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. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and they 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, relevant and reliable;
— state whether they have been prepared in accordance with IFRSs as adopted by the EU;
— assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
— use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

Caros Consulting Ltd
Company Secretary
5 April 2019

Directors' Remuneration Report

In common with the Board's commitment to compliance with the appropriate aspects of the QCA Corporate Governance Code 2018, 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 20. 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's 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. The Executive Directors are eligible for payment of cash bonuses and participation in any share-based incentive plan the Board implements. For the year ended 31 December 2018, the Chief Executive Officer may, on meeting certain specified operational and financial objectives agreed with the Remuneration Committee, be awarded a bonus payment of up to 100% of his basic salary.

Directors' detailed emoluments

	Salary US$ 000	Benefits US$ 000	Bonus US$ 000	Fees US$ 000	Aggregate Remuneration for the Year 31 December 2018 US$ 000	Aggregate Remuneration for the Year 31 December 2017
Executive Directors						
A. Zozulya	181	13	162	–	**356**	325
Non-executive Directors						
M. Calvey	–	–	–	–	**–**	–
R. Freeman	–	–	–	50	**50**	50
M. Ivanov	–	–	–	120	**120**	120
A. Kalinin	–	–	–	–	**–**	–
V. Koshcheev	–	–	–	–	**–**	–
S. Ogden	–	–	–	50	**50**	50

Directors' emoluments comprised salaries and benefits of US$194,000 (2017: US$195,000), bonuses of US$162,000 (2017: US$130,000) and Non-executive Directors' fees of US$220,000 (2017: US$220,000). There were no share grant expenses in 2018 or 2017. During the year ended 31 December 2018, Mr Zozulya was awarded a performance-related bonus of US$162,000 which was paid in cash.

Basic salaries

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

Non-executive Directors' terms, conditions and fees

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

Fees

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

The remuneration of the Non-executive Directors is a matter for the Chairman of the Board and the Chief Executive Officer.

In the event of the appointment of an independent Non-executive Chairman his remuneration would be a matter for the Chairman of the Remuneration Committee and the Chief Executive Officer.

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 25. There have been no changes in the interest of any Director between 1 January 2019 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. During the lifetime of the ESOP no options were exercised and on 31 May 2017 all remaining outstanding options granted under the ESOP lapsed. No further options were subsequently granted and there were no share options in issue.

By order of the Board

Caros Consulting Ltd
Company Secretary
5 April 2019

Company registration number: 05886534

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

1 Our opinion is unmodified

We have audited the financial statements of Volga Gas plc ("the Company") for the year ended 31 December 2018 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Balance Sheet, Group Cash Flow Statement, Company Balance Sheet, Company Cash Flow Statement, Group Statement of Changes in Shareholders' Equity, Company Statement of Changes in Shareholders' Equity, and the related notes, including the accounting policies in Note 2.

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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2017):

Impairment of tangible and intangible assets

Tangible assets: US$45.3 million (2017: US$62.3 million)
Intangible assets: US$3.1 million (2017: US$3.8).

Refer to page 42 (Summary of significant accounting policies) and pages 54 and 55 (financial disclosures).

Forecast-based estimate

A sustained low oil and gas price environment combined with ongoing changes in the Group's production operations could have a significant impact on the recoverable amount of the Group's tangible and intangible assets. Forecasting the recoverable amount of the Group's cash-generating units, both of which have had impairment indicators identified, is a highly subjective area due to the inherent uncertainty involved in forecasting and discounting future cash flows, specifically around oil and gas prices, USD/RUB exchange rates, reserve estimates. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of US$74.9 million has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 4a) disclose the sensitivity estimated by the Group.

Our procedures included:

- **Historical comparisons:** We assessed the reasonableness of the budgets considering historical accuracy of previous forecasts.
- **Our sector experience:** We challenged whether the Group's key assumptions, such as oil and gas prices, USD/RUB exchange rates and reserve estimates, reflect our knowledge of the business and market, including known or probable changes in the business environment.
- **Benchmarking assumptions**: We challenged, using our own valuation specialists, the key inputs used in the Group's calculation of the discount rate by comparing them to externally derived data, including available sources for comparable companies.
- **Evaluating reserves estimation**: We assessed competence and objectivity of the Group's external experts to satisfy ourselves they were appropriately qualified to carry out estimation of reserves included in the model. We assessed the reliability of the data provided to the external expert.
- **Sensitivity analysis**: We performed sensitivity analysis on the key assumptions noted above.
- **Assessing transparency**: We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of tangible and intangible assets.

Independent Auditor's Report continued

to the members of volga gas plc

2 Key audit matters: our assessment of risks of material misstatement continued

Recoverability of Parent Company's investment in subsidiaries and receivables due from Group companies Investments in subsidiaries: US$27.5 million (2017: US$28.3 million). Loans due from Group companies: US$17 million (2017: US$25.2 million). Refer to page 43 (Summary of significant accounting policies) and pages 54 and 55 (financial disclosures).	**Low risk, high value** The carrying amounts of the Parent Company's investments in subsidiaries and receivables due from Group companies represent 99% (2017: 99%) of the Company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	Our procedures included: — **Tests of detail:** Comparing the carrying amount of all investments and intercompany debtors with the relevant subsidiaries' draft financial statements to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. — **Subsidiary audits:** The Group engagement team has performed the audit work for the trading subsidiaries of the Group, including the impairment review of tangible and intangible assets as described above, and considered the implication of that work on those subsidiaries' profits and net assets.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at US$460k (2017: US$350k), determined with reference to a benchmark of Group revenues, of which it represents 1% (2017: 1%). We consider Group revenues to be the most appropriate benchmark for overall levels of activity within the business are measured in terms of revenue which is also considered one of the more prominent metrics in assessing overall Group performance.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding US$23k (2017: US$18k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

For both the current and prior year, the Group audit team performed the audit of the Group (including the Parent Company financial information) as if it was a single aggregated set of financial information.

The Parent Company materiality determined as 5% of the Parent Company net assets exceeded the level of the materiality determined for the Group as the whole and, as such, materiality for the Parent Company financial statements was set at US$414k (2017: US$315k) to allow for aggregation risk on consolidation.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in Note 2.3 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 27, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8 The purpose of our audit work and to whom we owe our responsibilities

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.

Mark Smith
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

5 April 2019

Group Income Statement
(presented in US$ 000)

Year ended 31 December	Notes	2018	2017
Continuing Operations			
Revenue	5	**45,875**	37,066
Cost of sales	6	**(29,762)**	(28,836)
Gross profit		**16,113**	8,230
Selling expenses	6(b)	**(2,473)**	(2,221)
Operating and administrative expenses	6	**(4,921)**	(5,831)
Write-off of development assets	6	**(1,513)**	(65)
Other operating income	6	**3,120**	–
Operating profit		**10,326**	113
Interest income	7	**425**	197
Interest expense		**–**	–
Other net losses	8	**(192)**	(142)
Profit for the year before tax		**10,559**	168
Current income tax	9	**(2,254)**	(243)
Deferred income tax	9	**99**	405
Profit for the year before non-controlling interests		**8,404**	330
Attributable to:			
The owners of the Parent Company		**8,404**	330
Basic and diluted profit per share (in US Dollars)	10	**0.1037**	0.0041
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$3,158,000 (2017: profit of US$571,000).

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

Year ended 31 December	Notes	2018	2017
Profit for the year attributable to equity shareholders of the Company		**8,404**	330
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Currency translation differences		**(11,786)**	3,452
Reversal of share grant reserve		**–**	5,233
Total comprehensive income for the year		**(3,382)**	9,015
Attributable to:			
The owners of the Parent Company		**(3,382)**	9,015

The accompanying notes on pages 39 to 61 are an integral part of these financial statements.

Group Balance Sheet
(presented in US$ 000)

At 31 December	Notes	2018	2017
ASSETS			
Non-current assets			
Intangible assets	11	**3,304**	3,756
Property, plant and equipment	12	**45,109**	62,329
Deferred tax assets	9	**804**	1,618
Total non-current assets		**49,217**	67,703
Current assets			
Cash and cash equivalents	13	**15,186**	8,617
Inventories	14	**938**	1,228
Trade and other receivables	15	**2,381**	2,529
Total current assets		**18,505**	12,374
Total assets		**67,722**	80,077
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**1,485**	1,485
Other reserves	17	**(89,189)**	(77,403)
Accumulated profits	18	**145,330**	141,787
Equity attributable to the shareholders of the Parent Company		**57,626**	65,869
Non-current liabilities			
Asset retirement obligation		**361**	184
Deferred tax liabilities	9	**2,028**	3,202
Total non-current liabilities		**2,389**	3,386
Current liabilities			
Trade and other payables	19	**6,047**	6,818
Current portion of bank loans	20	**1,660**	4,004
Total current liabilities		**7,707**	10,822
Total equity and liabilities		**67,722**	80,077

Approved by the Board of Directors on 5 April 2019 and signed on its behalf by

Andrey Zozulya
Chief Executive Officer

The accompanying notes on pages 39 to 61 are an integral part of these financial statements.

Group Cash Flow Statement

(presented in US$ 000)

Year ended 31 December	Notes	2018	2017
Profit for the year before tax		**10,559**	168
Adjustments to profit before tax:			
Depreciation of property, plant and equipment	12	**8,324**	8,647
Write-off of development and other assets	8	**1,574**	272
Provision for obsolete inventory		**391**	115
Other net non-cash operating gains	6(c)	**(251)**	(646)
Foreign exchange differences	8	**133**	586
Operating cash flow prior to working capital		**20,730**	9,142
Working capital changes			
Decrease/(increase) in trade and other receivables		**(417)**	901
(Decrease)/increase in payables		**(138)**	(2,880)
(Increase)/decrease in inventory		**(112)**	(308)
Cash flow from operations		**20,063**	6,855
Income tax paid		**(1,811)**	(509)
Net cash flow generated from operating activities		**18,252**	6,346
Cash flows from investing activities			
Expenditure on exploration and evaluation	11	**(211)**	(112)
Purchase of property, plant and equipment	12	**(2,059)**	(12,440)
Net cash used in investing activities		**(2,070)**	(12,552)
Cash flows from financing activities			
Equity dividends paid		**(4,861)**	(5,000)
Bank loans (repaid)/drawn		**(1,839)**	(165)
Net cash (used in)/provided by financing activities		**(6,700)**	(5,165)
Effect of exchange rate changes on cash and cash equivalents		**(2,713)**	270
Net (decrease)/increase in cash and cash equivalents		**6,569**	(11,101)
Cash and cash equivalents at beginning of the year	13	**8,617**	19,718
Cash and cash equivalents at end of the year	13	**15,186**	8,617

The accompanying notes on pages 39 to 61 are an integral part of these financial statements.

Company Balance Sheet

(presented in US$ 000)

Company registration number: 05886534

At 31 December	Notes	2018	2017
ASSETS			
Non-current assets			
Investments	21	**27,473**	28,324
Intercompany loans receivable	23	**15,514**	21,200
Total non-current assets		**42,987**	49,524
Current assets			
Cash and cash equivalents	13	**337**	678
Intercompany receivables	23	**1,465**	3,984
Trade and other receivables	15	**69**	44
Total current assets		**1,871**	4,706
Total assets		**44,858**	54,230
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**1,485**	1,485
Accumulated profit	18	**43,358**	51,377
Total equity		**44,843**	52,862
Current liabilities			
Intercompany payables		**–**	1,363
Trade and other payables	19	**15**	5
Total current liabilities		**15**	1,368
Total equity and liabilities		**44,858**	54,230

Approved by the Board of Directors on 5 April 2019 and signed on its behalf by

Andrey Zozulya
Chief Executive Officer

The accompanying notes on pages 39 to 61 are an integral part of these financial statements.

Company Cash Flow Statement
(presented in US$ 000)

Year ended 31 December	Notes	2018	2017
Profit/(loss) for the period before tax		**(3,158)**	571
Adjustments to profit/(loss) before tax:			
Interest income accrued		**(1,646)**	(1,231)
Other non-cash income		**(264)**	(378)
Foreign exchange differences		**4,010**	278
Operating cash flow prior to working capital		**(1,058)**	(760)
Working capital changes			
Increase in receivables		**(25)**	(19)
Decrease in payables		**(102)**	(258)
Cash flow from operations		**(1,175)**	(1,037)
Income tax paid		**–**	–
Net cash flow used in operating activities		**(1,175)**	(1,037)
Cash flows from investing activities			
Decrease in intercompany receivables		**5,695**	3,300
Net cash from investing activities		**5,695**	3,300
Cash flows from financing activities			
Equity dividends paid		**(4,861)**	(5,000)
Net cash used in financing activities		**(4,861)**	(5,000)
Effect of exchange rate changes on cash and cash equivalents		**–**	–
Net decrease in cash and cash equivalents		**(341)**	(2,737)
Cash and cash equivalents at the beginning of the year	13	**678**	3,415
Cash and cash equivalents at end of the year	13	**337**	678

The accompanying notes on pages 39 to 61 are an integral part of these financial statements.

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

	Notes	Share Capital	Currency Translation Reserves	Share Grant Reserve	Accumulated Profit/(Loss)	Total Equity
Opening equity at 1 January 2018		**1,485**	**(77,403)**	**–**	**141,787**	**65,869**
Profit for the year		**–**	**–**	**–**	**8,404**	**8,404**
Currency translation differences		**–**	**(11,786)**	**–**	**–**	**(11,786)**
Total comprehensive income		**–**	**(11,786)**	**–**	**8,404**	**(3,382)**
Transactions with owners						
Equity dividends paid		**–**	**–**	**–**	**(4,861)**	**(4,861)**
Closing equity at 31 December 2018		**1,485**	**(89,189)**	**–**	**145,330**	**57,626**
Opening equity at 1 January 2017		1,485	(80,855)	5,233	141,224	67,087
Profit for the year		–	–	–	330	330
Reversal of share grant reserve		–	–	(5,233)	5,233	–
Currency translation differences		–	3,452	–	–	3,452
Total comprehensive income		–	3,452	(5,233)	5,563	3,782
Transactions with owners						
Equity dividends paid		–	–	–	(5,000)	(5,000)
Total transactions with owners		–	–	–	(5,000)	(5,000)
Closing equity at 31 December 2017		1,485	(77,403)	–	141,787	65,869

The accompanying notes on pages 39 to 61 are an integral part of these financial statements.

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

	Notes	Share Capital	Currency Translation Reserves	Share Grant Reserve	Accumulated Profit/(loss)	Total Equity
Opening equity at 1 January 2018		**1,485**	**–**	**–**	**51,377**	**52,862**
Loss for the year		**–**	**–**	**–**	**(3,158)**	**(3,158)**
Equity dividends paid		**–**	**–**	**–**	**(4,861)**	**(4,861)**
Closing equity at 31 December 2018		**1,465**	**–**	**–**	**43,358**	**44,843**
Opening equity at 1 January 2017		1,485	–	5,233	50,573	57,291
Profit for the year		–	–	–	571	571
Equity dividends paid		–	–	–	(5,000)	(5,000)
Reversal of share grant reserve				(5,233)	5,233	–
Closing equity at 31 December 2017		1,485	–	–	51,377	52,862

The accompanying notes on pages 39 to 61 are an integral part of these financial statements.

Notes to the IFRS Consolidated Financial Statements
For the year ended 31 December 2018
(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 6th floor, 65 Gresham Street, London EC2V 7NQ. 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 5 April 2019.

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 are set out in the Strategic Report on pages 2 to 14; the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 9 and 10. In addition, the Group's objectives, policies and processes for measuring capital, financial risk management objectives, details of financial instruments and exposure to credit and liquidity risks are described in Note 3.

Having reviewed the future cash flow forecasts of the Group in the light of the reductions in oil and gas reserves and in consideration of the current financial condition of the Group, the Directors have concluded that the Group will continue to have 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.

2.2 Financial instruments (policy applicable from 1 January 2018)
Unless specifically disclosed below, the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by IFRS 9 Financial Instruments, the Company has elected not to restate the comparatives.

i. Recognition and initial measurement
A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a receivable without a significant financing component) or a financial liability is initially measured at fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, any directly attributable transaction costs incurred at the acquisition or issuance of the financial instrument. A trade receivable that does not contain a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement
Financial Assets
Upon adoption of IFRS 9 Financial Instruments, financial assets are classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL), as appropriate.

The Company determines the classification of financial assets at initial recognition and they are not subsequently reclassified unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

In 2018 all Company's financial assets were measured at amortised cost.

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss.

Notes to the IFRS Consolidated Financial Statements continued

For the year ended 31 December 2018
(presented in US$ 000)

2. Summary of significant accounting policies continued

Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. Interest income and foreign exchange gains and losses are recognised in profit or loss.

Financial liabilities

All the Company's financial liabilities at initial recognition are recognised at amortised cost. Subsequent to initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method. This method uses the effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Company has transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss, except for equity investments at fair value through other comprehensive income where the gain or loss are recognised in other comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss. In the case of waiver of debt from owners, the gain is recognised in equity as capital reserve.

Impairment

Unless specifically disclosed below, the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by IFRS 9 Financial Instruments, the Company have elected not to restate the comparatives.

The Company recognises loss allowances for expected credit losses on financial assets measured at amortised cost and contract assets. The Company measures loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, other debt securities for which credit risk has not increased significantly since initial recognition and finance lease receivables, which are measured as 12-month expected credit loss.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Company is exposed to credit risk.

2.3 Financial instruments (policy applicable prior to 1 January 2018)

Classification of financial instruments issued by the Company

The Group classifies its financial assets in the following categories:
(a) ***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 2017.

(b) ***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 the balance sheet.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

(a) ***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.

(b) ***Trade and other payables*** are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(c) ***Investments in debt and equity securities***: investments in subsidiaries are carried at cost less impairment.

(d) ***Cash and cash equivalents*** include cash in hand, and deposits held at call with banks.

(e) ***Interest-bearing borrowings*** are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

2.4 Adoption of new and revised pronouncements

As of 1 January 2018, the Company adopted the following pronouncements that have been issued by the International Accounting Standards Board (IASB) and are applicable as listed below:

Effective for annual periods beginning on or after 1 January 2018
- IFRS 9 Financial Instruments (2014).
- IFRS 15 Revenue from Contracts with Customers.
- Amendments to IFRS 15 Revenue from Contracts with Customers: Clarifications to IFRS 15.

The principal changes in accounting policies and their effects are set out below:

i. IFRS 9 Financial Instruments

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and on hedge accounting.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new standard contains three principal classifications categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) and eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 also replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss (ECL) model. Under IFRS 9, loss allowances will be measured on either 12-month ECLs or lifetime ECLs.

The Company generally applied the requirements of IFRS 9 retrospectively with practical expedients and transitional exemptions as allowed by the standard. The Company has not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements. There were no differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39 Financial Instruments.

The initial application of the abovementioned pronouncement does not have any material impact on the financial statements of the Company.

Notes to the IFRS Consolidated Financial Statements continued

For the year ended 31 December 2018
(presented in US$ 000)

2. Summary of significant accounting policies continued

ii. IFRS15 Revenue from Contracts with Customers

IFRS 15 replaces the guidance in IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. IFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The initial application of the abovementioned pronouncement does not have any material impact on the financial statements of the Company.

2.5 Adopted IFRS not yet applied

The following standards pronouncements that have been issued by the IASB will become effective in future financial reporting periods and have not been adopted by the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2019

— IFRS 16 Leases.
— Amendments to IAS 19 Plan Amendment, Curtailment or Settlement.
— IFRIC 23 Uncertainty over Tax Treatments.

Effective for annual periods beginning on or after 1 January 2020

— Amendments to References to Conceptual Framework in IFRS Standards.

Effective for annual periods beginning on or after 1 January 2021

— IFRS 17 Insurance Contracts.

The Company is expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the abovementioned pronouncements is not expected to have any material impact on the financial statements of the Company.

2.6 Consolidation

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.

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 21.

2.7 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 two development and production entities during both 2017 and 2018. These entities both engage in upstream production, gathering and sale of hydrocarbons, with common operational management and control. 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". Common economic drivers for the operations are international oil prices, export and Mineral Extraction Taxes and the costs of drilling, completing and operating wells and production facilities. 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 Group's operating activities are based within a localised area of 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 Volga region of 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).

2.8 Foreign currency translation

(a) Functional and presentation currency

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

The functional currency of the Group's subsidiaries that are incorporated in the Russian Federation is the Russian Rouble ("RUR"). It is 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 2017 were:

— GBP 1: US$1.2708 (2017: 1.3485)
— EUR 1: US$1.1438 (2017: 1. 1956)
— US$ 1:69.4706 RUR (2017: 57.6002)

2.9 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 costs 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.

Notes to the IFRS Consolidated Financial Statements continued

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(presented in US$ 000)

2. Summary of significant accounting policies continued

(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 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.

2.10 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

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

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

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

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

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

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

2.13 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.

2.14 Revenue recognition
2.14.1 Policy applicable from 1 January 2018
Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when or as it transfers control over a product or service to a customer. An asset is transferred when (or as) the customer obtains control of the asset. Details of the revenue recognition policies are disclosed in Note 5.

2.14.2 Policy applicable before 1 January 2018
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 2016 and 2017, the Group's revenue related to sales of crude oil and condensate collected directly by or delivered to customers and gas sales made at the entry to the gas distribution system.

2.15 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.

Notes to the IFRS Consolidated Financial Statements continued

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2. Summary of significant accounting policies continued

2.16 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 RUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

At 31 December 2018, 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$49,885 (2017: US$220,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of RUR-denominated trade payables and financial assets. At 31 December 2018, 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 nil (2017: US$600) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR denominated interest charges and financial liabilities. At 31 December 2018, 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$13,303 (2017: US$6,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of GBP-denominated trade payables and financial assets.

If the US Dollar had weakened/strengthened by 5% against the RUR with all other variables held constant, shareholders' equity would have been US$2.5 million (2017: US$3.3 million) higher/lower, as a result of translation of RUR-denominated assets. The sensitivity of shareholders' equity to changes in the exchange rates between US Dollar against GBP or EUR is immaterial.

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

At 31 December 2018	Rubles US$ 000	US Dollars US$ 000	Sterling US$ 000	Total US$ 000
Financial assets				
Cash and cash equivalents	**5,737**	**9,231**	**218**	**15,186**
Trade and other financial receivables	**1,823**	**–**	**–**	**1,823**
Total financial assets	**7,560**	**9,231**	**218**	**17,009**
Financial liabilities (before provision for UK taxes)	**6,131**	**–**	**–**	**6,131**

At 31 December 2017	Rubles US$ 000	US Dollars US$ 000	Sterling US$ 000	Total US$ 000
Financial assets				
Cash and cash equivalents	4,342	4,178	97	8,617
Trade and other financial receivables	2,251	–	–	2,251
Total financial assets	6,593	4,178	97	10,868
Financial liabilities (before provision for UK taxes)	8,225	–	–	8,225

(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. The Group is not directly exposed to the levels of international marker prices of crude oil or oil products, although these clearly influence the prices at which it sells its oil and condensate. Mineral Extraction Taxes ("MET") are calculated by reference to Urals oil prices and are therefore directly influenced by this. Taking into account the marginal rates of export taxes and MET, management estimates that if international oil prices had been US$5 per barrel higher or lower and all other variables been unchanged, the Group's profit before tax would have been US$1.6 million higher or lower (2017: $1.5 million).

(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$17,009,000 and US$10,868,000 at 31 December 2018 and 2017 respectively.

The Group's principal financial assets are cash and trade receivables. Trade receivables relate to one customer Gazprom Mezhregiongas Volgograd. This customer has been transacting with the Group since 2017. To date this customer's balance has not been ever written off and is not deemed credit-impaired at the reporting date. The probability of default of Gazprom Mezhregiongas Volgograd was assessed as low risk. Payments are made within 30 days and there is no history of defaults. All trade receivables at the reporting date were classified as current (less than 30 days) and therefore no impairment was deemed required.

Credit risk also 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. Any impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Rating of financial institution (Fitch)		31 December 2018 US$ 000	31 December 2017 US$ 000
Barclays Bank	A	**1,412**	762
ZAO Raiffeisenbank	BBB-	**13,769**	7,850
Other		**5**	5
Total bank balance		**15,186**	8,617

The Group's oil, condensate and LPG sales are normally undertaken on a prepaid basis and accordingly the Group has no trade receivables and consequently no credit risk associated with the related trade receivables.

(c) Interest rate risk

The Group's sole interest rate exposure has been related to its bank loan which as of 1 February 2019 has been repaid in full.

(d) Liquidity risk

The remaining contractual maturities as at 31 December 2018 and 31 December 2017 are as follows:

	0 to 3 months	3 to 12 months	Over 1 year	Total
Maturity period at 31 December 2018				
Trade and other payables	**4,471**	**–**	**–**	**4,471**
Bank loan	**1,660**	**–**	**–**	**1,660**
Total	**6,131**	**–**	**–**	**6,131**

	0 to 3 months	3 to 12 months	Over 1 year	Total
Maturity period at 31 December 2017				
Trade and other payables	4,221	–	–	4,221
Bank loan	460	1,379	2,165	4,004
Total	4,681	1,379	2,165	8,225

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 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 2019 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

For the year ended 31 December 2018
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3. Financial risk management continued

(e) Capital risk management

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. During December 2016, one of the Group's operating subsidiaries entered into a loan agreement of RUR 240 million to fund its LPG project (see Note 20). This loan, which has a three-year amortising term, was repaid in full on 1 February 2019. Further short-term debt facilities may be arranged to provide financial headroom for future development activities.

(f) Fair value measurement

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, and trade and other payables. The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

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 and intangible assets are assessed for impairment when events and circumstances indicate that an impairment condition may exist. The carrying value of fixed assets and intangible assets are 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 determines the cash-generating unit or group of assets that give rise to the cash flows. The cash-generating unit ("CGU") is the lowest level of asset at which independent cash flows can be generated. For this purpose, the Directors consider the Group to have two CGUs: the VM and Dobrinskoye fields with the Dobrinskoye gas processing plant are treated as a single CGU, and the Uzen oil field is a separate CGU.

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 and discount rates. Key assumptions and estimates in the impairment models relate to:

- International oil prices: flat real prices reflecting the average levels pertaining during the period between 1 December 2018 and 28 February 2019, a Urals oil price of US$60 per barrel. No forward price escalation is assumed.
- Selling prices for oil, condensate and LPG that reflect international oil prices, less export taxes at the applicable official rates and a price differential of $5 per barrel to reflect transportation costs. Russian export taxes are being phased out over a six-year period starting in 2019 – with the same levy being added to the Mineral Extraction tax formula. It is assumed that domestic prices will continue to track the netback pricing. Based on commercial studies conducted during 2017 and actual commercial experience in 2018, LPG is expected to achieve a premium per tonne over condensate. The models assume price parity per tonne.
- Gas sales price of RUR 4,160 per mcm excluding VAT.
- Production profiles based on remaining reserves in the proved category and approved field development plans. For the purposes of impairment testing, the level of reserves used are those established by the independent consultancy Geostream as adjusted for volumes produced in the year ended 31 December 2018.
- Capital expenditures required to deliver the above production profiles and to maintain the production assets throughout the field life. Total development capital expenditure assumed is US$2.5 million with future maintenance capital expenditure of up to US$2 million per annum. The principal items being the completion of the LPG plant and sidetracks to two gas/condensate wells.
- Cost assumptions are based on current experience and expectations and are broadly in line with unit costs experienced in the year ended 31 December 2018.
- Export and mineral extraction taxes reflect rates set by current legislation, including the phased transfer of export taxes (levied on oil exports) to Mineral Extraction Tax (levied on all oil and condensate production).
- The model reflects real terms cash flows with no inflationary escalation of revenues or costs.
- A real discount rate of 12% per annum is utilised in the models.
- An exchange rate of RUR67 to US$1.00 is assumed.

Under the base case assumptions, the value in use of each CGU was shown to be in excess of its respective carrying value.

In addition to the base case, a number of sensitivity cases have been carried out: varying oil and gas prices by 10%, varying operating expenditure by 10%, varying capital expenditure by 20%, varying reserves by 10% and using a 15% real discount rate. In all of these cases, the net present value under the sensitivities remained above the carrying value of individual CGUs.

Under the base case economic assumptions as outlined above, the reserves at the VM and Dobrinskoye fields would need to drop by a further 30% below the level as at 31 December 2018, and the Uzen oil field reserves would need to drop by 13% below current levels for the value in use to reach the respective carrying value.

Accordingly, as at 31 December 2018, based on the Group's impairment testing of the property, plant and equipment related to each CGU management concluded that no clear impairment was indicated. However, should there be material adverse changes to the assumptions used in future impairment tests, or should there be further reductions in reserve estimates, there may be impairment of one or both of the CGUs.

(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 or production 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. Variation of 10% from the base level of reserves is among the sensitivity tests carried out in impairment testing as described in Note 4(a) above.

An independent assessment of the reserves and net present value of future net revenues ("NPV") attributable to the Group's fields, Dobrinskoye, Vostochny Makarovskoye, Sobolevskoye and Uzenskoye, as at 31 December 2017, was prepared in accordance with reserve definitions set by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE"). The results delivered to management imply a negative revision to reserves of approximately 27% below the level of reserves as at 31 December 2016, as adjusted for production during 2017. The catalyst for this revision was a recalculation of recovery factors following the recent detection of the presence of formation water in certain of the wells in the VM field. Management considered these revised estimates to be reasonable and adopted them as the Group's reserves. In addition, management considers the performance of the fields during 2018 to be consistent with the latest reserve evaluations and proposes no further revisions to be currently required. The reserve estimate as at 31 December 2018 is accordingly only adjusted for the volumes produced in the year ended 31 December 2018. As outlined above, management considers that, for the time being, no clear impairment is indicated, although further downward revisions may necessitate impairment charges in the future.

5. Revenue from contracts with customers

(i) Revenue streams

The Group generates revenue primarily from sales of oil, gas, gas condensate and LPG. Initial application of IFRS 15 Revenue from Contracts with Customers does not have material impact on the Company. The Group has following main revenue streams:

- **Oil and condensate** – The customers for oil and condensate are independent oil traders purchasing supplies which ultimately are delivered to oil refineries either in the Russian Federation or in neighbouring states in Europe.
- **Gas** – The Group's gas sales are to OOO Gazprom Mezhregiongaz Volgograd, the regional subsidiary of the Russian gas major, which uses the gas for onward sale to consumers.
- **LPG** – The customers for oil and condensate are independent traders purchasing supplies which ultimately are marketed to retail, commercial and industrial consumers in the Russian Federation.

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises the revenue at a time when it transfers the title to the products to a customer. This revenue recognition criterion applies to all revenue streams of the Group. Control over a product or service is passed to a customer according to the contract terms:

Revenue stream	Timing of recognition or method used to recognise revenue	Significant payment terms
Oil, condensate and LPG	Title to the products is transferred to a customer at the point of sale. For the majority of domestic sales this is the Uzen field facility (in the case of oil) or the Dobrinskoye gas plant (in the case of condensate or LPG), in which case title passes to the purchaser when the product is loaded into the purchaser's tanker truck. For export sales and occasionally certain domestic sales title transfers at an agreed cross-border railway station, or when the product arrives at the export terminal (according to terms of each purchase order).	The Group receives full payment in advance of collection of the product or delivery at an external point as applicable.
Gas	The Group's sales of natural gas are all made via Gazprom. Delivery of the gas is based on the fiscal metering point at an interface between the gas plant and the Gazprom pipeline system located within the plant site.	Payment is to be received no later than the 27th day of the month following each contract month.

Notes to the IFRS Consolidated Financial Statements continued

For the year ended 31 December 2018
(presented in US$ 000)

5. Revenue from contracts with customers continued

There are no variable elements in consideration, obligation for returns or refunds nor warranty in the provision of goods and services by the Group.

Year ended 31 December	2018 US$ 000	2017 US$ 000
Revenue from contract with customers	45,875	37,066
Total revenues	**45,875**	37,066

(ii) Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition.

Year ended 31 December	2018 US$ 000	2017 US$ 000
Major products lines		
Oil	10,473	8,075
Condensate	19,681	15,877
LPG	2,841	–
Gas	12,880	13,114
Total revenues	**45,875**	37,066

Year ended 31 December	2018 US$ 000	2017 US$ 000
Primary geographical markets		
Russia	42,281	32,909
Europe	3,594	4,157
Total revenues	**45,875**	37,066

Year ended 31 December	2018 US$ 000	2017 US$ 000
Timing of transfer of goods or services		
Products and services transferred at a point in time	32,995	23,952
Products and services transferred over time	12,880	13,114
Total revenues	**45,875**	37,066

(iii) Contract balances

The following table provides information about opening and closing receivables and contract liabilities from contracts with customers. The Group required no adjustments to the opening balances at 1 January 2017 as a result of initially applying IFRS 15.

As at 31 December	Note	2018 US$ 000	2017 US$ 000	2016 US$ 000
Receivables		1,411	1,044	1,804
Contract liabilities		1,577	2,154	2,476

The contract liabilities primarily relate to the advance consideration received from customers for oil, condensate and (in 2018 only) LPG. Receivables relate primarily to gas sales.

6. Cost of sales and administrative expenses – Group

Cost of sales and administrative expenses are as follows:

Year ended 31 December		2018 US$ 000	2017 US$ 000
Production expenses		8,348	9,320
Mineral Extraction Taxes		13,194	10,936
Depletion, depreciation and amortisation	(a)	8,220	8,580
Cost of Sales		**29,762**	28,836

Total expenses are analysed as follows:

Year ended 31 December		2018 US$ 000	2017 US$ 000
Sales related expenses	(b)	2,473	2,221
Field operating expenses	(c)	5,865	6,379
Mineral Extraction Tax		13,194	10,936
Depreciation & amortisation	(a)	8,237	8,613
Write-off of development assets	(h)	1,513	65
Inventory write-off	(d)	391	191
Salaries and staff benefits	(e)	4,632	6,103
Directors' emoluments and other benefits	(f)	677	698
Audit fees	(g)	281	293
Taxes other than payroll and mineral extraction		46	47
Legal and consulting		586	551
Other		774	856
Total		**38,669**	36,953

(a) ***Depreciation***: Substantially all depreciation relates to oil and gas assets and is included within cost of sales.
(b) ***Selling expenses***: Comprise pipeline transit costs and fees related to gas sales as well as export taxes and costs associated with delivering gas condensate sales to export customers.
(c) ***Field operating expenses***: Field operating expenses include certain non-cash items. In the years ended 31 December 2018 and 2017, provisions for the cost of waste removal were reversed, partly offset by other accrued expenses. The resulting net non-cash operating gain in the year ended 31 December 2018 was US$251,000 (2017: US$646,000). The amounts shown as field operating expenses above are net of these sums.
(d) ***Inventory write-off***: In the years ended 31 December 2018 and 31 December 2017, certain obsolete and unused items of production equipment were transferred from producing assets to inventory and then written off.
(e) ***Staff and salaries***: The average monthly number of employees (including Executive Directors) employed by the Group was:

Year ended 31 December	2018	2017
Exploration and production	161	177
Administration and support	59	51
Total	**220**	228

Their aggregate remuneration (excluding Executive Directors) comprised:

	2018 US$ 000	2017 US$ 000
Wages and salaries	3,568	4,850
Payroll taxes and social contribution	992	1,122
Staff benefits	72	131
Total	**4,632**	6,103

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

Year ended 31 December	2018	2017
Chief Executive and Chief Financial Officers	1	1
Non-executive Directors	5	5
Total	**6**	6

Only Directors are employed by the Company.

Notes to the IFRS Consolidated Financial Statements continued

For the year ended 31 December 2018
(presented in US$ 000)

6. Cost of sales and administrative expenses – Group continued

(f) *Directors' emoluments and other benefits*:

	Salary US$ 000	Benefits US$ 000	Bonus US$ 000	Fees US$ 000	Aggregate Remuneration for the Year 31 December 2018 US$ 000	Aggregate Remuneration for the Year 31 December 2017
Executive Directors						
A. Zozulya	181	13	162	–	**356**	325
Non-executive Directors						
M. Calvey	–	–	–	–	**–**	–
R. Freeman	–	–	–	50	**50**	50
M. Ivanov	–	–	–	120	**120**	120
A. Kalinin	–	–	–	–	**–**	–
V. Koshcheev	–	–	–	–	**–**	–
S. Ogden	–	–	–	50	**50**	50
Chief Financial Officer (non-Board)						
V. Son	69	11	21	–	**101**	153

(g) *Audit fees – Group and Company*: Disclosure of the fees paid to the Company's auditor and its associates is given in Note 22.
(h) *Write-off of development assets* – During the year ended 31 December 2018, the Group wrote off assets of US$1,513,000 of capitalised costs relating to the sidetrack to the Uzen#4 well which was the subject of a legal dispute with a drilling contractor in which the Group received a court settlement totalling US$3,120,000 which was recognised as other operating income in 2018.

7. Finance income – Group

Finance income comprises interest earned during the period on cash balances with different banks (Note 13).

8. Other gains and losses – Group

Year ended 31 December	2018 US$ 000	2017 US$ 000
Foreign exchange gain/(loss)	**(133)**	(586)
Other gains	**(59)**	144
Total other gains and losses	**(192)**	(142)

9. Current and deferred income tax – Group

Year ended 31 December	2018 US$ 000	2017 US$ 000
Current tax:		
Current income tax	**(2,172)**	(243)
Adjustments to tax charge in respect of prior periods	**(82)**	–
Total current tax	**(2,254)**	(243)
Deferred tax:		
Origination and reversal of timing differences	**99**	405
Total deferred tax	**99**	405
Total tax credit/(charge)	**(2,155)**	162

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	2018 US$ 000	2017 US$ 000
Profit/(loss) before income tax and minority interest	**10,559**	168
Tax calculated at domestic tax rates applicable to (profits)/losses in the respective countries	**(2,131)**	(35)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	**(44)**	(64)
Tax losses for which no deferred tax asset was recognised	**(25)**	(28)
Recognition of tax effect of previously unrecognised tax losses	**154**	253
Other tax adjustments	**(109)**	36
Income tax charge	**(2,155)**	162

The weighted average applicable tax rate was 21.0% (2017: 21.0%).

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 2018 US$ 000	Differences recognised in profit or loss US$ 000	31 December 2017 US$ 000	Differences recognised in profit or loss US$ 000	31 December 2016 US$ 000
Tax effect of taxable temporary differences:					
Property, plant & equipment	**(3,303)**	**1,593**	(4,896)	(668)	(4,228)
Total	**(3,303)**	**1,593**	(4,896)	(668)	(4,228)
Tax effect of deductible temporary differences:					
Tax losses carry forward	**1,500**	**(746)**	2,246	534	1,712
Provisions	**579**	**(487)**	1,066	443	623
Total	**2,079**	**(1,233)**	3,312	977	2,335
Net tax effect of temporary differences	**(1,224)**	**360**	(1,584)	309	(1,893)

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 2018, deferred income tax assets of US$804,000 (2017: US$1,618,000) and deferred tax liabilities of US$2,028,000 (2017: US$3,202,000) have been recognised. Tax losses in respect of Cyprus and the UK do not expire.

10. 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.

Year ended 31 December	2018	2017
Net profit per share attributable to equity shareholders	**0.1037**	0.004
Diluted net profit per share attributable to equity shareholders	**0.1037**	0.004
Net profit attributable to equity shareholders	**8,404**	330
Basic weighted number of shares	**81,017,800**	81,017,800
Dilutive share options in issue	**–**	–
Diluted number of shares	**81,017,800**	81,017,800

As at 31 December 2017 there were no options outstanding. As at 31 December 2016 outstanding options in amount of 1,137,464 shares were excluded from the weighted average diluted number of shares calculation because their effect would have been anti-dilutive. The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the year during which the options were outstanding.

Notes to the IFRS Consolidated Financial Statements continued

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(presented in US$ 000)

11. Intangible assets – Group

Intangible assets represent exploration and evaluation assets such as licences, studies and exploratory drilling, which are stated at historical cost, less any impairment charges or write-offs.

	Work in progress: exploration and evaluation	Exploration and evaluation	Total
At 1 January 2018	**147**	**3,609**	**3,756**
Additions		**211**	**211**
Write-offs and impairments	**–**	**–**	**–**
At 31 December 2018	**147**	**3,820**	**3,967**
Exchange adjustments	**(25)**	**(638)**	**(663)**
At 31 December 2018	**122**	**3,182**	**3,304**

	Work in progress: exploration and evaluation	Exploration and evaluation	Total
At 1 January 2017	140	3,320	3,460
Additions	–	112	112
Write-offs and impairments	–	(1)	(1)
At 31 December 2017	140	3,431	3,571
Exchange adjustments	7	178	185
At 31 December 2017	147	3,609	3,756

12. Property, plant and equipment – Group

Movements in property, plant and equipment for the year ended 31 December 2018 are as follows:

Cost	Development assets US$ 000	Land and buildings US$ 000	Producing assets US$ 000	Other US$ 000	Total US$ 000
At 1 January 2018	**6,483**	**820**	**80,993**	**747**	**89,043**
Additions	**2,390**	**–**	**231**	**–**	**2,621**
Write-offs and impairments	**(1,574)**	**–**	**–**	**–**	**(1,574)**
Transfers	**(5,621)**	**42**	**5,465**	**114**	**–**
Exchange adjustments	**(640)**	**(144)**	**(14,394)**	**(139)**	**(15,317)**
At 31 December 2018	**1,038**	**718**	**72,295**	**722**	**74,773**
Accumulated depreciation					
At 1 January 2018	**–**	**(42)**	**(25,934)**	**(738)**	**(26,714)**
Depreciation	**–**	**(29)**	**(8,227)**	**(68)**	**(8,324)**
Exchange adjustments	**–**	**10**	**5,232**	**132**	**5,374**
At 31 December 2018	**–**	**(61)**	**(28,929)**	**(674)**	**(29,664)**
Net book value	**1,038**	**657**	**43,366**	**48**	**45,109**
At 31 December 2018					

Movements in property, plant and equipment for the year ended 31 December 2017 are as follows:

Cost	Development assets US$ 000	Land and buildings US$ 000	Producing assets US$ 000	Other US$ 000	Total US$ 000
At 1 January 2017	3,559	780	68,179	598	73,116
Additions	12,332	–	–	–	12,332
Transfers	(9,375)	6	9,175	194	–
Write-offs and impairments	(257)	(8)	(91)	(78)	(434)
Exchange adjustments	224	42	3,730	33	4,029
At 31 December 2017	6,483	820	80,993	747	89,043
Accumulated depreciation					
At 1 January 2017	–	–	(16,619)	(589)	(17,208)
Adjustment for assets written off	–	–	83	78	161
Depreciation	–	(41)	(8,413)	(194)	(8,648)
Exchange adjustments	–	(1)	(985)	(33)	(1,019)
At 31 December 2017	–	(42)	(25,934)	(738)	(26,714)
Net book value					
At 31 December 2017	6,483	778	55,059	9	62,329

13. Cash and cash equivalents – Group and Company

	Group		Company	
At 31 December	2018 US$ 000	2017 US$ 000	2018 US$ 000	2017 US$ 000
Cash at bank and on hand	**15,186**	8,617	**337**	678
Total cash and cash equivalents	**15,186**	8,617	**337**	678

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

At 31 December		Group		Company	
Bank	Currency	2018 US$ 000	2017 US$ 000	2018 US$ 000	2017 US$ 000
United Kingdom					
Barclays Bank PLC	USD	**1,193**	665	**119**	581
Barclays Bank PLC	GBP	**218**	97	**218**	97
Russian Federation					
ZAO Raiffeisenbank	RUR	**5,731**	4,337	**–**	–
ZAO Raiffeisenbank	USD	**8,038**	3,513	**–**	–
Other banks and cash on hand	RUR	**6**	5	**–**	–
Total cash and cash equivalents		**15,186**	8,617	**337**	678

14. Inventories – Group

At 31 December	2018 US$ 000	2017 US$ 000
Production consumables and spare parts	**603**	787
Crude oil inventory	**335**	441
Total inventories	**938**	1,228

Inventory recognised as cost of sales in the year amounted to US$2,474,000 (2017: US$3,930,000). The write-down of inventories to net realisable value amounted to US$378,000 (2017: US$115,000) and is included in operating and administrative expenses.

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15. Trade and other receivables – Group and Company

	Group		Company	
At 31 December	2018 US$ 000	2017 US$ 000	2018 US$ 000	2017 US$ 000
Taxes recoverable	**399**	978	**53**	43
Prepayments	**558**	278		–
Trade receivables	**1,411**	1,260	**16**	–
Other accounts receivable	**13**	13		–
Total other receivables	**2,381**	2,529	**69**	43

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 2016 and 2017.

	Number of shares	Share capital US$ 000
At 1 January 2018	**81,017,800**	**1,485**
Issues of shares	**–**	**–**
At 31 December 2018	**81,017,800**	**1,485**
At 1 January 2017	81,017,800	1,485
Issues of shares	–	–
At 31 December 2017	81,017,800	1,485

The total number of authorised ordinary shares is 330,720,100 (2017: 330,720,100) with a par value of £0.01 per share (2016: £0.01 per share). Subject to the terms of the Company's Articles of Association, each ordinary share has the right of one vote at a General Meeting of the Company and to receive dividends declared by the directors. There are no other classes of shares in the Company either issued or authorised.

17. Other reserves – Group

At 31 December	2018 US$ 000	2017 US$ 000
Currency translation reserves	**(89,189)**	(77,403)
Total other reserves	**(89,189)**	(77,403)

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations to the presentation currency.

18. Accumulated profit – Group and Company

	Group		Company	
At 31 December	2018 US$ 000	2017 US$ 000	2018 US$ 000	2017 US$ 000
Retained profits	**141,787**	141,224	**51,377**	50,573
(Loss)/profit for the year	**8,404**	330	**(3,158)**	571
Equity dividends paid	**(4,861)**	(5,000)	**(4,861)**	(5,000)
Reversal of share grant reserve	**–**	5,233	**–**	5,233
Accumulated profit/(loss)	**145,330**	141,787	**43,358**	51,377

Dividends

On 2 November 2018, the Company paid an interim dividend of $0.06 per ordinary share. The Directors propose a final dividend of US$0.065 per share (2017: dividends of US$0.062 per ordinary share were paid). Dividends are not recognised as liabilities and there are no tax consequences.

Share grant reserve

As of 31 May 2017 all the remaining share options lapsed. No options were exercised during the year ended 31 December 2017 nor were any options subsequently issued. Consequently, the share grant reserve was released in the year ended 31 December 2017 and added to the accumulated profits.

19. Trade and other payables

	Group		Company	
At 31 December	2018 US$ 000	2017 US$ 000	2018 US$ 000	2017 US$ 000
Trade payables	**1,085**	1,104	**–**	–
Taxes other than profit tax	**2,741**	2,366	**–**	–
Customer advances	**1,577**	2,597	**–**	–
Other payables	**645**	751	**15**	5
Total	**6,047**	6,818	**15**	5

The maturity of the Group's and the Company's financial liabilities are all between zero to three months. Customer advances are prepayments for oil and condensate sales, normally one month in advance of delivery.

20. Bank loan

At 31 December	2018 US$ 000	2017 US$ 000
Current liabilities		
Secured bank loan	**1,660**	4,004
Total Bank Loan	**1,660**	4,004

In December 2016, one of the Group's operating subsidiaries received a bank loan of a total amount of RUR 240 million (US$3.96 million). The loan was repaid in full on 1 February 2019. Interest has been charged at a fixed rate of 11.45% per annum. The bank loan as at 31 December 2018 was secured by charges over the shares of the Group's Russian operating subsidiaries as detailed in Note 21 below.

Changes in liabilities from financing activities

	Bank loans	
	2018 US$ 000	2017 US$ 000
Balance at 1 January	**4,004**	3,960
Changes from financing cash flows		
Repayment of borrowings	**(1,839)**	(165)
Total changes from financing cash flows	**(1,839)**	(165)
The effect of changes in foreign exchange rates	**(505)**	209
Other changes:		
Capitalised borrowing costs	**186**	471
Interest expense	**137**	–
Interest paid	**(323)**	(471)
Total other changes	**–**	–
Balance at 31 December	**1,660**	4,004

21. Investments – Company

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

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

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21. Investments – Company continued

The registered office addresses of the subsidiaries are as follows:

Name	Registered office address
Woodhurst Holdings Ltd	all at:
Shropak Investments Ltd	Archbishop Makarios Avenue, Capital Centre, 9th Floor, 1505 Nicosia, Cyprus
Volga Gas (Cyprus) Ltd	
Pre-Caspian Gas Company	both at:
Geopotential	65, Ulitsa Kiseleva, Saratov, 410012, Russia
Gaznefteservice	24. Ulista Pushkina, Zhirnovsk, Volgograd Region, 403790, Russia
Volga Gas Finance Ltd	6th floor, 65 Gresham Street, London EC2V 7NQ, UK

Company	31 December 2017 US$ 000	Additions US$ 000	Disposal US$ 000	31 December 2018 US$ 000
Investments in Woodhurst Holdings	26,773	–	(1,352)	25,421
Investments in Volga Gas (Cyprus)	1,551	501	–	2,052
Total investments	**28,324**	**501**	**(1,352)**	**27,473**

The Company funds its activities in the Russian Federation via Woodhurst Holdings ("Woodhurst"), the Company's Cyprus registered subsidiary. On 2 November 2018 and also on 10 April 2017, Woodhurst undertook share premium reductions. The investment in Woodhurst was accordingly reduced by the same amount. Details are shown in Note 23.

22. Audit fees – Group and Company

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

Year ended 31 December	2018 US$ 000	2017 US$ 000
Fees payable to Company's auditor for the audit of Parent Company and consolidated financial statements	**234**	229
Fees payable to Company's auditor for the audit of Parent Company and its associated firms for other services	**10**	17
Audit of the Company's subsidiaries pursuant to legislation	**47**	64
Other services pursuant to legislation	**13**	7
Total	**304**	317

23. Related party transactions – Group and Company

The Group is controlled by Baring Vostok Private Equity Funds III and IV (registered office address for both companies: 1 Royal Plaza, Royal Avenue, St Peter Port, Guernsey GY1 2HL), 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.

There were no transactions carried out by the Group with related third party entities during either of the years ended 31 December 2018 or 31 December 2017, nor were there any outstanding balances from transactions carried out in previous years.

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

Group company	Relationship	Nature of transactions	Year ended 31 December 2018 US$ 000	2017 US$ 000
Woodhurst Holdings Limited	100% directly owned subsidiary	Assignment of loan assets to Volga Gas plc	**–**	8,778
		Assignment of investment in Volga Gas Finance Ltd to Volga Gas plc	**–**	13,373
		Reduction of receivables due against payables	**–**	(3,300)
		Share premium reduction by cash payment received in January 2019	**950**	–
		Share premium reduction by offset of payables	**403**	
		Reduction of receivables due for unpaid share premium	**(954)**	
		Reduction of payables due to Volga Gas plc	**954**	–
Volga Gas (Cyprus) Limited	100% directly owned subsidiary	Offset of receivables due from Volga Gas (Cyprus) against unpaid share premium by Volga Gas plc.	**(501)**	–
		Increase in receivables for 2018 management fees invoiced by Volga Gas plc	**129**	
Volga Gas Finance Limited	100% directly owned subsidiary	Payment of income tax for the year ended 31 December 2017 by Volga Gas plc on behalf of Volga Gas Finance Ltd.	**(79)**	–
		Write-off of receivables due for income tax paid by Volga Gas plc.	**79**	
		Assignment of loan assets to Volga Gas plc	**–**	13,373
Pre-Caspian Gas Company	100% indirectly owned subsidiary	Repayment of loans and accrued interest	**408**	
		Interest accrued	**220**	210
Gaznefteservice	100% indirectly owned subsidiary	Repayment of loans and accrued interest	**5,287**	
		Interest accrued	**1,426**	1,014

With an effective date of 10 April 2017, Woodhurst Holdings Limited, assigned loan assets and related interest receivables to Volga Gas plc . With an effective date of 9 June 2017, Woodhurst transferred its investment in Volga Gas Finance to Volga Gas plc. Both of these transactions were undertaken by way of a share premium reduction in Woodhurst Holdings Limited. On 2 November 2018, by resolution, Woodhurst Holdings undertook a further reduction of its share premium by a cash payment of US$950,000, which was paid after the balance sheet date, and by offsetting a receivable from Volga Gas plc of the amount of US$402,900.76.

On 3 October 2017, Volga Gas plc agreed with Volga Gas (Cyprus) to offset receivables due from Volga Gas (Cyprus) against unpaid share premium by Volga Gas plc. The journal entry to record this transaction was erroneously omitted from the 2017 accounts and has been rectified in the 2018 accounts.

On 14 July 2017, Volga Gas Finance Limited assigned its loan receivable assets and accrued interest receivables to Volga Gas plc by way of a dividend in specie.

As a consequence of these transfers, Volga Gas plc had a direct interest in intercompany loans receivable from Pre-Caspian Gas Company and Gaznefteservice. As of the effective dates of these transfers, Volga Gas plc has been accruing interest income on these loans.

For the year ended 31 December 2017, Volga Gas Finance was assessed for income tax of US$79,000. This liability was covered by an advance from Volga Gas plc which was simultaneously expensed by the Company.

Notes to the IFRS Consolidated Financial Statements continued

For the year ended 31 December 2018
(presented in US$ 000)

23. Related party transactions – Group and Company continued

Year-end balances arising from transactions with subsidiaries

	31 December 2018 US$ 000	31 December 2017 US$ 000
Accounts receivable from subsidiaries		
Woodhurst Holdings Limited	**950**	917
Volga Gas (Cyprus) Ltd.	**497**	742
Shropak Investments Ltd	**18**	–
Loans receivable from subsidiaries		
Pre-Caspian Gas Company	**2,287**	2,759
Gaznefteservice	**12,878**	18,441
Interest receivable from subsidiaries		
Pre-Caspian Gas Company	**53**	303
Gaznefteservice	**296**	2,022
Accounts payable to subsidiaries		
Woodhurst Holdings Limited	**1**	1,357
Volga Gas (Cyprus) Ltd	**3**	–

Key management

Key management of the Company is considered to comprise the Directors and the Chief Financial Officer, who is not a Director. Details of key management compensation are summarised below.

Year ended 31 December	2018 US$ 000	2017 US$ 000
Salaries and short-term benefits	**457**	478
Fees paid to Non-executive Directors	**220**	220
Total key management compensation	**677**	698

24. Contingencies and Commitments

24.1 Capital commitments

As of the balance sheet date all material licence work obligations have been met and all of the Group's capital expenditures and work programmes are discretionary. As of the balance sheet date, the Board had approved a work programme for 2019 with a total capital expenditure budget of US$3.3 million, of which US$1.7 million had been contracted. The remainder is expected to be incurred but had not been committed to or contracted as at the balance sheet date.

24.2 Operating leases

The Group has no non-cancellable lease rental obligations.

24.3 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 2018, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

24.4 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 obligations related thereto. The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter interpretation and enforcement of existing legislation, cannot reasonably be estimated at present, but could be material.

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

24.5 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 corresponds 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	2031
Urozhainoye-2	OOO Pre-Caspian Gas Company	2032
Muradymosky	OOO Pre-Caspian Gas Company	2023
Vostochny-Makarovskoye	OOO Gaznefteservice	2026
Dobrinskoye	OOO Gaznefteservice	2026

Volga Gas plc
Annual General Meeting
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 Baring Vostok at 2nd Floor, 25 Old Burlington Street, London W1S 3AN on 20 May 2019 at 10.00 a.m.

Introduction

Volga Gas is not sending out a Form of Proxy with this Notice of Meeting, instead Shareholders are being encouraged to vote online by logging on to www.signalshares.com and following the instructions given. If you have not previously registered for this service, you will require your Investor Code (IVC), which can be found on your certificate.

Annual General Meeting

The AGM is being held to consider the following resolutions:

Ordinary resolutions

1. To receive and adopt the Company's accounts for the year ended 31 December 2018 and the Directors' Report.
2. To declare a final dividend of US$0.065 per ordinary share.
3. To reappoint Vladimir Koshcheev, who retires by rotation, as a Director.
4. To reappoint Mikhail Ivanov, who retires by rotation, as a Director.
5. To reappoint Stephen Ogden, who retires by rotation, as a Director.
6. 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.
7. To authorise the Directors to determine the remuneration of the auditor of the Company.
8. 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 £500,000 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 2020 (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

9. 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 8 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 £100,000.
   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.
10. That the Company be generally and unconditionally authorised for the purposes of Section 701 of the Act to make market purchases (within the meaning of section 693 of the Act) of fully paid ordinary shares of 1p each ("Shares") on such terms and in such manner as the Directors of the Company may decide provided that:
    (i) the maximum number of Shares that may be purchased by the Company pursuant to this authority is 12,144,000 (representing approximately 14.99% of the Company's issued ordinary share capital at the date of this Notice;
    (ii) the minimum price (exclusive of expenses) which may be paid for any such Shares shall not be less than the nominal value of that Share at the time of purchase;
    (iii) the maximum price (exclusive of expenses) which may be paid for any Shares purchased pursuant to this authority is an amount equal to the higher of (a) an amount equal to 105% of the average of the middle market prices shown in the quotations for the Company's Shares in the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that Share is contracted to be purchased; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange; and
    (iv) unless previously varied, revoked or renewed, the authority conferred by this resolution shall expire on the earlier of 30 June 2020 or at the end of the next Annual General Meeting of the Company to be held in 2020, 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:	BY ORDER OF THE BOARD
6th Floor, 65 Gresham Street	Caros Consulting Ltd
London	Company Secretary
EC2V 7NQ	5 April 2019

Notes:

1. Resolutions 1–8 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 9 and 10 are special resolutions. For these resolutions to be passed, at least three-quarters of the votes cast at the AGM must be in favour of the resolution.
2. Share buy-back (Resolution 10). The purpose of Resolution 10 is to permit the Company to purchase its own shares in the market under the terms described therein. Shares so purchased would be cancelled and the issued share capital of the Company accordingly reduced.
3. Only those members entered on the register of members of the Company at close of business on 18 May 2019 or, in the event that this meeting is adjourned, in the register of members as at close of business 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 close of business on 18 May 2019 or, in the event that this meeting is adjourned, in the register of members after close of business 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.
4. 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. 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.
5. You can vote either:
   — by logging on to www.signalshares.com and following the instructions;
   — in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

   If you need help with voting online, or require a hard-copy form of proxy, please contact our Registrars, Link Asset Services, on 0871 664 0391 from the UK (Calls cost 12p per minute plus network extras) or +44 371 664 0301 from outside the UK (calls chargeable at the applicable international rate) or email Link at enquiries@linkgroup.co.uk

   To be effective, the proxy instruction must be received by one of the above methods so as to be received not later than 48 hours before the time appointment for holding the AGM. If used, a hard-copy form of proxy must be deposited at the office of the Company's registrars (Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU). 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.
6. To change your proxy instructions simply submit a new proxy appointment using the methods set out in Note 5 above. Note that the cut-off time (in Note 3 above) for receipt of proxy appointments also applies 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 a 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.
7. 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.
8. 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.
9. 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 (ID: RA10) no later than 48 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 48 hours before the meeting date.

Volga Gas plc
Annual General Meeting continued
Notice of Meeting

10. 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.

11. 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.

12. 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

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 of 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
a plant comprising one or more units such that after conditioning the gas will be of pipeline quality, as specified by Gazprom. Such units 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.

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.

mcm
thousand cubic metres.

mmbbls
million barrels.

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 predominantly comprise hydrocarbon compounds.

possible reserves
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
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 plus probable reserves
sum of the proved reserves and the probable reserves calculated in accordance with SPE standards.

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.

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 2007 by the Society of Petroleum Engineers and the World Petroleum Congresses.

Corporate Directory

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United Kingdom

Company Secretary
Caros Consulting Ltd
15 Lebanon Park
Twickenham TW1 3DF
United Kingdom

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Prince Frederick House
35-39 Maddox Street
London W1S 2PP
United Kingdom

Auditor
KPMG LLP
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Lawyers and solicitors to the Company as to English and Russian law
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As to Russian law:
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Moscow 107031
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