30 September 2019

Zoltav Resources Inc.
("Zoltav" or the "Company")

Half Year Report for the Six Months Ended 30 June 2019

Zoltav (AIM: ZOL), the Russia-focused oil and gas exploration and production company, announces results for the six months ended 30 June 2019.

Financial Summary

- Revenues declined by 24% to RUB 632 million (USD 9.7 million) (H1 2018: RUB 831 million (USD 14 million))

- Total cost of sales was 2% lower at RUB 533.9 million (USD 8.2 million) (H1 2018: RUB 547 million (USD 9.22 million))

- Operational and G&A costs increased by 57% to RUB 133.7 million (USD 2.05 million) (H1 2018: RUB 88 million (USD 1.48 million)), mostly driven by hiring experienced senior geotechnical, buying licences for geological software and hiring new senior management

- Operating profit dropped by 45% to RUB 105 million (USD 1.61 million) (H1 2018: RUB 191 million (USD 3.22 million))

- Zoltav generated RUB 170 million (USD 1.61 million) of losses before tax (H1 2018: RUB 101 million or USD 1.73 million profit before tax)

- Net cash generated from operating activities decreased by 49% to RUB 193 million (USD 2.96 million) (H1 2018: RUB 377 million (USD 6.35 million))

- Total cash at the end of the period was RUB 330 million (USD 5.23 million) (H1 2018: RUB 315 million (USD 5.02 million))

Note: USD comparisons are provided in the above Financial Summary for illustrative purposes only and are calculated using an exchange rate of:
H1 2019: 1 USD = 65.1218 RUB
As at 30 June 2019: 1 USD = 63.0756 RUB
H1 2018: 1 USD = 58.3529 RUB
As at 30 June 2018: 1 USD = 57.6002 RUB
As at 30 December 2018: 1 USD = 69.4706 RUB

Operational Summary – Bortovoy Licence

- Natural production decline from existing well stock on the west Bortovoy fields was steeper in H1 2019 than in preceding periods

- Average net daily production (sold to customers) in H1 2019 was:
    - 26 mmcf/d (0.74 mmcm/d) of gas (H1 2018: 34.9 mmcf/d (0.99 mmcm/d))
    - 207 bbls/d (26 t/d) of oil and condensate (H1 2018: 335 bbls/d (46 t/d))

- Overall in H1 2019, Zoltav produced:
  - 4.7 bcf (632 mmcm) of gas or 0.7 mmboe (107 mtoe) (H1 2018: 6.3 bcf (179 mmcm) or 1.1 mmboe (144 mtoe))
  - 37,389 bbls (4763 t) of oil and condensate: (H1 2018: 60,558 bbls (7,714 t))

- Western Gas Plant continued to be operated efficiently with no shutdowns

- One of two propane compressors was shut between March and June 2019 due to a technical deficiency causing the dew point to drop and decreased output of condensate from natural gas in the amount of 3,925 bbls (500 t)

- Development programme is currently underway to reverse production decline during Q1 2020, including:

  - Zhdanovskoye Well 103 was spudded in May 2019 and put on production post period-end at the end of August 2019
  - Karpenskoye Well 5D was spudded post period-end in September 2019 and is anticipated to be put on production in December 2019

- RUB 250 million capital commitment (RUB 137 million during H1 2019) towards a feasibility study on the East Bortovoy fields, anticipated to be completed by year-end

  - Includes a RUB 100 million budget overrun due to technical condition encountered in Nepriyakhinskoye Well 1
  - Preliminary evaluation continues to indicate that connecting the eastern fields to the existing Western Gas Plant is the most favourable option

Lea Verny, Independent Non-executive Chairman, commented:

"The development programme aimed at reversing the production decline from the West Bortovoy fields during Q1 2020 continued to advance throughout the period. Long-term development plans remain focused on connecting East Bortovoy fields to the Western Gas Plant. The work programme feeding into the technical and economic feasibility study being conducted on this opportunity continued throughout the period under review."

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Market Abuse Regulation (MAR) Disclosure

Certain information contained in this announcement would have been deemed inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 until the release of this announcement.

About Zoltav

Zoltav is an oil and gas exploration and production company focused on Russia.

Zoltav holds the Bortovoy Licence in the Saratov region of South Western Russia, a 3,215 sq km area along the northern margin of the Pre-Caspian basin, one of the largest hydrocarbon basins in the CIS.

The Bortovoy Licence contains a number of productive gas fields in the west of the Licence, a processing plant and significant exploration prospectivity. It holds proven plus probable reserves under the Society of Petroleum Engineers' Petroleum Resources Management System of 750 bcf of gas and 3.8 mmbbls of oil and condensate.

In 2018, Zoltav produced 12.0 bcf (341 mmcm) of gas or 2.0 mmboe (274 mtoe) and 66,558 bbls (7,715 t) of oil and condensate.

The Company is currently evaluating strategies to commercialise the eastern fields of the Bortovoy Licence.

For further information on Zoltav, or to sign up for our news alert service, visit: www.zoltav.com.

Glossary

bbl	Barrel
bbls	Barrels
bbls/d	Barrels per day
bcf	Billion cubic feet
bcm	Billion cubic metres
boepd	Barrels of oil equivalent per day
CPR	Competent Person's Report
mcf	Thousand cubic feet
mcm	Thousand cubic metres
mmboe	Million barrels of oil equivalent
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
mmcm	Million cubic metres
mmcm/d	Million cubic metres per day
mtoe	Thousand tonnes of oil equivalent
PRMS	Petroleum Resources Management System
t	Tonnes
t/d	Tonnes per day
toepd	Tonnes of oil equivalent per day

Chairman's statement

Natural production decline from the existing well stock on the west Bortovoy fields was steeper in the first half of 2019 than in preceding periods. The western fields produced 25% less gas and 38% less oil and liquids in the period compared to the first half of 2018.

As a result of the current production profile of the western fields, revenues declined by 24% to RUB 632 million in the period (H1 2018: RUB 831 million), with EBITDA reducing by 74% to RUB 106 million (H1 2018: RUB 411 million) as the Company continued to invest heavily in asset development programmes in the west and east of the licence. This resulted in a net loss for the period of RUB 170 million (H1 2018: RUB 72 net profit).

The development programme aimed at reversing the production decline from the West Bortovoy fields during Q1 2020 continued to advance throughout the period. The first sidetrack well in the programme was spudded in May 2019 and was completed successfully and put on production at the end of August 2019. The second sidetrack well was spudded in September 2019 and is anticipated to be put on production in December 2019.

Long-term development plans remain focused on connecting East Bortovoy fields to the Western Gas Plant. The work programme feeding into the technical and economic feasibility study being conducted on this opportunity continued throughout the period under review, with the seventh re-entry in the eight well programme completing at the end of June 2019.

The Company has committed substantial capital - RUB 250 million to date (RUB 137 million during H1 2019) - towards this detailed feasibility study, including a RUB 100 million budget overrun due to the technical condition encountered in Nepriyakhinskoye Well 1 - the final well re-entry and evaluation in the programme, which is ongoing. The feasibility study is anticipated to be completed by year-end.

Lea Verny
Non-executive Chairman
30 September 2019

Review of operations

Production
Production through Zoltav's Western Gas Plant on the Bortovoy Licence, Saratov, averaged 4,552 boepd (621 toepd) during H1 2019, a 26% decline when compared to 6,151 boepd (839 toepd) in H1 2018. The natural production decline from existing well stock was steeper in the first half of 2019 than in preceding periods.

Average net daily production (sold to customers) during H1 2019 was 26 mmcf/d (0.74 mmcm/d) of gas and 207 bbls/d (26 t/d) of oil and condensate (H1 2018: 34.9 mmcf/d (0.99 mmcm/d) of gas and 335 bbls/d (43 t/d) of oil and condensate).

Overall in H1 2019, the Company produced:

- Natural gas: 4.7 bcf (632 mmcm) or 0.7 mmboe (107 mtoe) (H1 2018: 6.3 bcf (179 mmcm) or 1.1 mmboe (144 mtoe)

- Oil and condensate: 37,389 bbls (4,763 t) (H1 2018: 60,558 bbls (7,715 t))

The Western Gas Plant continued to be operated efficiently throughout H1 2019 with no shutdowns. The current well stock producing from the two currently producing Permian fields (Zhdanovskoye and Karpenskoye) consists of twelve gas wells and one oil well working via artificial lift (Karpenskoye Well 17 was stopped in February 2019). The well stock is in natural production decline. One of two propane compressors was shut during March 2019 due to a technical deficiency identified during routine maintenance works. The compressor was returned to full operation at the end of June 2019 following delivery of the necessary parts from abroad. The issue caused the dew point to drop and decreased output of condensate from natural gas in the amount of 3,925 bbls (500 t).

Management currently estimates that total gas production for the 2019 full year will be in the region of 10.6 bcf (300 mmcm) (2018: 12.0 bcf (341 mmcm)).

Development
Bortovoy

A development programme is underway aimed at reversing the production decline in the western fields.

Zhdanovskoye Well 103 (with a 500 m horizontal ending) was spudded in May 2019 as the first well in a programme of sidetracks on existing well stock. The well was completed successfully and put on production at the end of August 2019, with a starting daily flow rate of 8.6 mmcf/d (0.25 mmcm/d) and a stable daily flow rate of 2.8 mmcf/d (0.08 mmcm/d) of gas with an 8 mm choke. The well was drilled with a 529.6 m horizontal section, the majority of which is within the collector. Management believes that most of the gas and oil is currently being produced from a high permeability fracture and therefore that the production profile of the well can be significantly improved following stimulation. However, further evaluation of the fracture will need to be undertaken prior to stimulation in order to mitigate the risks of water production.

The next well in the programme is Karpenskoye Well 5D which was spudded in September 2019 and is anticipated to be put on production in November 2019. The combination of these wells is anticipated to add at least 11 mmcf/d (0.3 mmcm/d) of gas and 3% more daily condensate production.

With the anticipated contribution from a third sidetrack well to be drilled early next year, management continues to target Q1 2020 for a reversal of the currently declining production trend, with a current 2020 full year estimate of 12.7 bcf (360 mmcm) of gas. However, based on production dynamics and updated geological and hydrodynamic models, management does not anticipate that it will be possible to utilise the Western Gas Plant's full 18.3 bcf (520 mmcm) annual capacity without connecting new fields to the plant.

The Company has committed RUB 250 million to date (RUB 137 during H1 2019) towards a feasibility study on the East Bortovoy fields, including a RUB 100 million budget overrun due mainly to the technical condition encountered in Nepriyakhinskoye Well 1 - the final well re-entry and evaluation in the programme.

At 4,610 m, Nepriyakhinskoye Well 1 is one of the few deep exploration wells on Bortovoy and it requires a heavy, 140 tonne rig for workovers. Unlike other wells re-entered in the programme which were Soviet wells, Nepriyakhinskoye Well 1 was a re-entry of a 2010 exploration well. Despite this, the technical condition of the well was worse than anticipated. The well encountered metallic debris left from previous operations which were not logged and also failed to test key intervals as a result of being unable to definitively isolate upper intervals. As a consequence, the geologists are unable to confirm the Nepriyakhinskoye reserves with adequate certainty from these operations without first repairing the well in a subsequent operation in the future and isolating all intervals previously perforated when the well was drilled in 2010 in order to test the well.

The feasibility study on East Bortovoy is anticipated to be completed by year-end and includes:

- re-processing and re-interpretation of all available seismic materials on the eastern fields;
- eight well re-entries on the Pavlovskoye, Lipovskoye and Nepriyakhinskoye fields;
- borehole perforations, well flow tests and geophysical studies;
- 218 km of pipeline designs and cost estimates; and
- multiple scenarios and simulations of potential production profiles in order to optimise system design and cost estimates.

Preliminary evaluation continues to indicate that connecting the eastern fields to the existing Western Gas Plant, and expanding the plant's annual capacity by up to 73% to 31.8 bcf (900 mmcm) at the same time or later, is the most favourable option among others.

Koltogor

The Koltogor Licences in the Khantiy Mansisk Autonomous Okrug, Western Siberia are not currently a focus of investment, however, management continues to seek out potential routes to monetise these licences.

Group Reserves under PRMS as per latest report of DeGolyer and MacNaughton (May 2014):

		Proved	**Probable**	**Proved and probable**	**Possible**
Bortovoy Licence					
Gas	bcf	352.9	396.8	749.7	640.0
Oil & liquids	mmbbls	2.0	1.8	3.8	2.4
Gas, oil and liquids	mmboe	62.0	69.2	131.2	111.2
Koltogor Licences					
Gas	bcf	0.5	23.5	24.0	55.7
Oil	mmbbls	1.6	73.5	75.1	174.0
Total	mmboe	1.7	77.5	79.2	183.5
Total					
Gas	bcf	353.4	420.3	773.7	695.7
Oil & liquids	mmbbls	3.6	75.3	78.9	176.4

Gas, oil and liquids	mmboe	63.7	146.7	210.4	294.7

Management considers the optimum time for commissioning a further reserve evaluation under PRMS would be after the connection of the easternmost Nepryakhinskoye field to the Western Gas Plant, should a final investment decision be taken in due course to do this.

Note on conversion rates

Tonnes of crude oil produced are translated into barrels using conversion rates reflecting oil density from each of the fields. Crude oil and liquid hydrocarbons expressed in barrels are translated from tonnes using a conversion rate of 7.85 barrels per tonne. Translations of cubic feet to cubic metres are made at the rate of 35.3 cubic feet per cubic metre. Translations of barrels of crude oil and liquid hydrocarbons into barrels of oil equivalent ("boe") are made at the rate of 1 barrel per boe and of cubic feet into boe at the rate of 290 cubic feet per boe.

Financial review

Revenue

The Group's revenues in H1 2019 decreased by 24% to RUB 632 million, compared to RUB 831 million in H1 2018.

82.6% of revenues were derived from gas sold to Mezhregiongaz, a Gazprom subsidiary, at the transfer point on entry to the Central Asia – Centre gas pipeline system. The gas prices are fixed in a contract with Mezhregiongaz and are subject to indexation. The Russian Government approved a 3.4% gas price increase and accordingly the Company signed an addendum to its contract with Mezhregiongaz resulting in an average price increase to RUB 3,857 per mcm compared to RUB 3,730 per mcm in H1 2018.

The remaining revenue was from oil and condensate sold directly at the Western Gas Plant through a tender process to a small number of different buyers. Oil and condensate prices were RUB 2,804/bbl (RUB 22,015/t) in H1 2019 compared to RUB 2,624/bbl (RUB 20,595/t) in H1 2018.

Cost of sales and G&A costs

The Group's operational and G&A costs increased by 52% to RUB 133.7 million (H1 2018: RUB 88.2 million), mostly driven by hiring senior geotechnical personnel, buying licences for geological software and hiring new senior management.

Total cost of sales was RUB 533.9 million (H1 2018: RUB 546.8 million). This comprised RUB 134 million of mineral extraction tax (H1 2018: RUB 179 million), RUB 211 million of depreciation and depletion of assets (H1 2018: RUB 220 million) and RUB 189 million of other cost of sales (H1 2018: RUB 148 million).

Other expenses increased heavily to RUB 71 million (H1 2018: RUB 7 million).

Operating profit

Zoltav dropped to an operating loss for H1 2019 of RUB 105 million, compared to operating profit of RUB 191 million in H1 2018.

EBITDA decreased by 74% to RUB 106 million (H1 2018: RUB 411).

Finance costs of RUB 75 million (H1 2018: RUB 93 million) are mainly represented by decreased interest on the refinanced debt of RUB 1.32 billion with PromSvyazbank.

Profit before tax

Zoltav generated RUB 170 million of losses before tax, compared to profit before tax of RUB 101 million in H1 2018.

Taxation

Production based tax for the period was RUB 134 million (H1 2018: RUB 179 million) which is recognised in the cost of sales. The MET tax formula is based on multi-component gas composition, average gas prices and reservoir complexity and maturity. The effective MET rate applicable for the period is remained flat of RUB 27/mcf or RUB 956/mcm (H1 2018: RUB 27/mcf or RUB 949/mcm).

The income tax charge for the period was RUB 11 million (H1 2018: RUB 71 million as tax asset).

Net loss

The Company's financial result dropped significantly to a net loss of RUB 170 million (H1 2018: net profit of RUB 101 million.

Cash

Net cash generated from operating activities was RUB 193 million (H1 2018: RUB 377 million).

The Bortovoy Licence operating subsidiary, Diall Alliance, successfully serviced its credit facility with PJSC Sberbank and repaid a further RUB 144 million of the principal amount and refinanced the whole debt with Promsvyazbank on 13 May 2019 with the following terms:

- RUB 1.32 billion limit and
- a floating rate of Russian Central Bank rate + 1.6%
- a six-month grace period (aligned with the Company's West Bortovoy drilling schedule) on principal repayment

The loan facility contains a technical covenant requiring 75 mmcm of natural gas production a quarter. The covenant doesn't contain any penalties and provides legal grounds for the bank to have a formal discussion with the Company's management.

The Company breached the production covenant for Q2 and Q3 of 2019 due to the delay of the drilling programme. The bank accepted the Company's explanation on the covenant breach, has provided a waiver for Q2 2019, and will provide a waiver for Q3 2019 upon the period end and statements review. The Zoltav management team does not foresee a covenant breach in Q4 2019 and also expects Karpenskoye Well 5D to commence production in November 2019.

Total cash at the end of the period was RUB 330 million (H1 2018: RUB 260 million).

Kirill Suetov

Chief Financial Officer
30 September 2019

Interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2019
(in '000s of Russian rubles, unless otherwise stated)

	Note	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Revenue from contracts with customers	3	624,418	830,574
Cost of sales		(533,865)	(546,756)
Gross profit		**90,553**	**283,818**
Administrative and selling expenses		(133,160)	(88,236)
Other income		9,398	2,774
Other expenses		(71,236)	(7,346)
Operating (loss)/ profit		**(104,445)**	**191,010**
Impairment of exploration and evaluation assets		-	(6,483)
Finance income		7,723	9,304
Finance costs		(75,892)	(92,740)
(Loss)/ profit before tax		**(172,614)**	**101,091**
Income tax benefit/ (expense)	4	12,086	(29,483)
(Loss)/ profit for the period attributable to owners of the parent being total comprehensive (loss)/ income		**(160,528)**	**71,608**
		RUB	**RUB**
(Loss)/ earnings per share attributable to owners of the parent			
Basic	9	(1.13)	0.50
Diluted	9	(1.13)	0.50

Kirill Suetov
Chief Financial Officer

30 September 2019

Interim condensed consolidated statement of financial position as at 30 June 2019

(in '000s of Russian rubles, unless otherwise stated)

	Note	As at 30 June 2019 (unaudited)	As at 31 December 2018
Assets			
Non-current assets			
Exploration and evaluation assets	5	3,637,308	3,477,513
Property, plant and equipment	6	3,580,254	3,666,836
Right-of-use assets	7	25,338	-
Total non-current assets		**7,242,900**	**7,144,349**
Current assets			
Inventories		21,312	23,469
Trade and other receivables		95,427	176,498
Other current non-financial assets		21,932	14,389
Cash and cash equivalents	13.3	330,213	260,636
Total current assets		**468,884**	**474,992**
Total assets		**7,711,784**	**7,619,341**
Equity and liabilities			
Share capital	8	970,218	970,218
Share premium		5,498,009	5,498,009
Other reserves		1,343,566	1,343,566
Accumulated losses		(2,610,781)	(2,450,253)
Total equity		**5,201,012**	**5,361,540**
Non-current liabilities			
Borrowings	11	-	692,498
Decommission provision	12	501,930	390,428
Other payables		70,879	68,081
Lease liabilities		22,459	-
Deferred tax liabilities		298,242	316,329
Total non-current liabilities		**893,510**	**1,467,336**
Current liabilities			
Borrowings	11	1,329,583	570,400
Trade and other payables		200,483	97,405
Contract liabilities		671	7,274
Other taxes payables		58,633	96,281
Lease liabilities		3,393	-
Income tax payable		24,499	19,105
Total current liabilities		**1,617,262**	**790,465**
Total liabilities		**2,510,772**	**2,257,801**
Total equity and liabilities		**7,711,784**	**7,619,341**

Interim condensed consolidated statement of cash flows for the six months ended 30 June 2019
(in ‘000s of Russian rubles, unless otherwise stated)

	Note	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Cash flows from operating activities			
(Loss)/ profit before tax		**(172,614)**	**101,091**
Adjustments for:			
Depreciation and depletion	6	217,335	222,593
Impairment of exploration and evaluation assets	5	-	6,482
Finance costs		75,892	92,740
Finance income		(7,723)	(9,304)
Loss on disposal of property, plant and equipment, net of income from sale of property, plant and equipment		28,287	237
Expected credit loss		616	4,721
Change in the estimates of decommissioning and environmental restoration provision		38,639	(1,931)
Other income and expenses		460	(1,235)
Operating cash inflows before working capital changes		**180,892**	**415,394**
Decrease /(Increase) in inventories		2,918	(9,040)
Change in trade and other receivables and other current non-financial assets		71,867	14,052
Decrease in trade and other payables and contract liabilities		11,626	359
Change in other tax payables		(37,648)	23,003
Net cash from operating activities before income tax and interests		**229,655**	**443,768**
Interest received		8,768	8,984
Interest paid	11	(52,294)	(75,408)
Income tax paid		(607)	(7)
Net cash from operating activities		**185,522**	**377,334**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		193	2,257
Capital expenditure on exploration and evaluation activities		(114,095)	(144,265)
Purchase of property, plant and equipment		(62,493)	(57,855)
Net cash used in investing activities		**(176,395)**	**(199,863)**
Cash flows from financing activities			
Repayment of lease liabilities principal amount		(1,399)	
Finance lease payments			(173)
Proceeds from borrowings	11	1,320,000	-
Repayment of borrowings	11	(1,257,548)	(150,000)
Net cash flows from/ (used in) financing activities		**61,053**	**(150,173)**
Net increase in cash and cash equivalents		**70,180**	**27,301**
Net foreign exchange difference		(603)	447
Cash and cash equivalents at the beginning of the period		260,636	286,754
Cash and cash equivalents at the end of the period		**330,213**	**314,502**

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2019
(in '000s of Russian rubles, unless otherwise stated)

		Attributable to owners of the Parent					
	Note	**Share capital**	**Share premium**	**Capital reserve**	**Employee share-based compensa-tion reserve**	**Accumulated losses**	**Total equity**
At 1 January 2018		**970,218**	**5,498,009**	**1,343,566**	**22,606**	**(2,562,988)**	**5,271,411**
Employee share-based compensation		–	–	–	(22,606)	22,606	**–**
Transactions with owners		**–**	**–**	**–**	**(22,606)**	**22,606**	**–**
Profit for the period		–	–	–	–	71,608	71,608
Total comprehensive income		**–**	**–**	**–**	**–**	**71,608**	**71,608**
At 30 June 2018 (unaudited)		**970,218**	**5,498,009**	**1,343,566**	**–**	**(2,468,774)**	**5,343,019**
At 1 January 2019		**970,218**	**5,498,009**	**1,343,566**	**–**	**(2,450,253)**	**5,361,540**
Loss for the period		–	–	–	–	(160,528)	**(160,528)**
Total comprehensive loss		**–**	**–**	**–**	**–**	**(160,528)**	**(160,528)**
At 30 June 2019 (unaudited)		**970,218**	**5,498,009**	**1,343,566**	**–**	**(2,610,781)**	**5,201,012**

Notes to the interim condensed consolidated financial statements
(in ‘000s of Russian rubles, unless otherwise stated)

1. Background

1.1 The Company and its operations

Zoltav Group (the Group) comprises Zoltav Resources Inc. (the Company), together with its subsidiaries:

Name	Place of incorporation	Function	Share of the Company in a subsidiary as of 30 June 2019 and 31 December 2018
CenGeo Holdings Limited (hereinafter “CenGeo Holdings”)	Cyprus	Holding company	100%
CJSC SibGeCo (hereinafter “SibGeCo”)	Russia	Operating company	100%
Royal Atlantic Energy (Cyprus) Limited (hereinafter “Royal”)	Cyprus	Holding company	100%
Diall Alliance LLC (hereinafter “Diall”)	Russia	Operating company	100%
Zoltav Resource LLC	Russia	Management company	100%

The Company was incorporated in the Cayman Islands on 18 November 2003. The principal activities of the Company and its subsidiaries is the acquisition, exploration, development and production of hydrocarbons in the Russian Federation. The Company’s shares are listed on the Alternative Investment Market of the London Stock Exchange.

1.2 Russian business environment

The Group’s operations are primarily located in the Russian Federation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

2. Accounting policy

2.1 Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, as adopted by the European Union. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards, as adopted by the European Union.

Operating results for the six-month period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the year ending 31 December 2019.

2.2 Going concern

The consolidated financial statements have been prepared on a going concern basis as the Directors have concluded that the Group will continue to have access to sufficient funds in order to meet its obligations as they fall due for at least the foreseeable future as explained further in the Directors Report. The Group's current liabilities exceed current assets by 1,148,378 as at 30 June 2019. For mitigation factors, please, see Note 13.1.

2.3 Disclosure of impact of new and future accounting standards

Adoption of new and amended standards

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied previously, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New/revised standards and Interpretations adopted as of 1 January 2019	Effective for annual periods beginning on or after
IFRS 16 *Leases*	1 January 2019
Amendments to IFRS 9: *Prepayment Features with Negative Compensation*	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*	1 January 2019
Annual improvements to IFRSs 2015-2017 cycle	1 January 2019

Except for IFRS 16 new standards and amendments applied for the first time in 2019 did not have a material impact on the consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees is required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees is also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee generally recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group adopted IFRS 16 using the modified retrospective approach. Under this approach the comparatives are not be restated. Lease liabilities and right of-use assets were recognised at the date of transition to IFRS 16. Modified retrospective approach assumes recognition of lease liability discounted using incremental borrowing rate at the date of transition. The Group elected to measure right-of-use assets on lease-by-lease basis at an amount equaled to liability (adjusted for accruals and prepayments).

The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group elected to use the exemptions proposed by the standard:

- On lease contracts for which the lease terms ends within 12 months as of the date of initial application;
- On lease contracts for which the underlying asset is of low value;
- On initial application initial direct costs will be excluded from the measurement of the right-of-use asset;
- For all classes of underlying assets each lease component and any associated non-lease components will be accounted as a single lease component.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	As at 1 January 2019
Assets	
Property, plant and equipment (right-of-use assets)	13,576
Liabilities	
Lease liabilities (non-current)	12,554
Lease liabilities (current)	1,022

2.4 Segment reporting

Segment 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. 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 the application of aggregation criteria, separate financial information for segments is not required. No geographic segmental information is presented, as all of the companies' operating activities are based in the Russian Federation.

Management has therefore determined that the operations of the Group comprise one operating segment and the Group operates in only one geographic area – the Russian Federation.

2.5 Foreign currency translation

a) Functional and presentation currency

The functional currency of the Group entities is the Russian ruble ("RUB"), the currency of the primary economic environment in which the Group operates.

The presentation currency is RUB, which the Board considers more representative for users of these consolidated financial statements to better assess the performance of the Group.

b) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on the settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

c) Group companies

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of foreign operation and translated at the spot rate of exchange at the reporting date.

The period-end exchange rates and the average exchange rates for the respective reporting periods are indicated below.

	30 June 2019	**31 December 2018**
RUB/USD as at reporting date	63.0756	69.4706
	2019	**2018**
RUB/USD average for the six months ended 30 June	65.3384	59.3536

2.6 Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy of assets and liabilities of the Group not measured at fair value are as follows:

	30 June 2019		31 December 2018	
	Fair value (unaudited)	Carrying value (unaudited)	Fair value	Carrying value
Financial assets				
Trade and other receivables	95,427	95,427	176,498	176,498
Total assets	**95,427**	**95,427**	**176,498**	**176,498**
Financial liabilities				
Borrowings	1,331,893	1,329,583	1,270,477	1,262,898
Trade and other payables	200,483	200,483	97,405	97,405
Other non-current payables	71,544	70,879	68,679	68,081
Total liabilities	**1,604,591**	**1,601,616**	**1,443,835**	**1,435,658**

The fair value of borrowings and other non-current payables is based on cash flows discounted using a market rate of 9.39% (2018: 9.33%). The fair values of borrowings and other non-current payables are within level 2 of the fair value hierarchy. The fair value of trade and other receivables is within level 3 hierarchy.

3 Revenue from contracts with customers

The Group's operations comprise one class of business being oil and gas exploration, development and production and all revenues are from one geographic region, the Saratov Region in the Russian Federation. Companies incorporated outside of Russia provide support to the operations in Russia.

Revenue from contracts with customers comprises sale of the following products:

	Six months ended 30 June	
	2019 (unaudited)	2018 (unaudited)
Gas sales	515,679	667,498
Condensate sales	49,502	73,695
Oil sales	55,354	85,184
Sulphur sales	3,883	4,197
Total revenue from contracts with customers	**624,418**	**830,574**

All gas sales are made to one customer, Gazprom Mezhregiongaz Saratov LLC, under a long-term contract effective until 31 December 2020 with terms reviewed annually. Condensate and oil are sold to local buyers. The sales of all products are denominated in RUB.

4 Income tax benefit/ (expense)

The tax charge for the period comprises:

	Six months ended 30 June

	2019 (unaudited)	2018 (unaudited)
Deferred tax expense	18,087	(29,476)
Current tax expense	(607)	(7)
Tax risk provisions	(5,394)	–
Total income tax benefit/ (expense)	**12,086**	**(29,483)**

Reconciliation between theoretical and actual taxation charge is provided below.

	Six months ended 30 June	
	2019 (unaudited)	2018 (unaudited)
(Loss) / Profit before income tax	**(172,614)**	**101,091**
Theoretical tax benefit /(charge) at applicable income tax rate of 20% (2018: 20%)	**34,523**	**(20,218)**
Effect of different foreign tax rates	(2,144)	(2,511)
Effect of unrecognised deferred tax assets	(9,888)	(3,695)
Tax effect of expenses not deductible for tax purposes	(5,011)	(3,059)
Tax risk provisions	(5,394)	–
Total income tax benefit/ (expense)	**12,086**	**(29,483)**

The Group's income was subject to tax at the following tax rates:

	Six months ended 30 June 2019	Six months ended 30 June 2018
The Russian Federation	20.0%	20.0%
The Republic of Cyprus	12.5%	12.5%
Cayman Islands	0%	0%

The Group is subject to Cayman income tax, otherwise the majority of the Group's operations are located in the Russian Federation. Thus 20% tax rate is used for theoretical tax charge calculations.

5 Exploration and evaluation assets

	Sub-soil licences	Exploration and evaluation works capitalised, including seismic works	Total
Balance at 1 January 2018	**1,037,728**	**2,221,625**	**3,259,353**
Additions	7,484	150,743	**158,227**
Change in the estimates of decommissioning provision	–	(1,416)	**(1,416)**
Impairment	(7,593)	1,111	**(6,482)**
Balance at 30 June 2018 (unaudited)	**1,037,619**	**2,372,063**	**3,409,682**
Balance at 1 January 2019	**1,037,510**	**2,440,003**	**3,477,513**
Additions	–	151,679	**151,679**
Transfer from property, plant and equipment	–	6,604	**6,604**

Change in the estimates of decommissioning provision	–	2,450	**2,450**
Amortization	(109)	(829)	**(938)**
Balance at 30 June 2019 (unaudited)	**1,037,401**	**2,599,907**	**3,637,308**

Additions during 2018 are mostly represented by seismic works at North Mokrousovskoye field and capital part of feasibility study on the East of Bortovoy.

In management's opinion, as at 30 June 2019 there were no non-compliance issues in respect of the licences that would have an adverse effect on the financial position or the operating results of the Group.

Impairment

In 2017 the Group revised its investment strategy with a primary focus on exploration and further development of the Deep Devonian on the Bortovoy gas field. As a result, the forecasted amount of investments in the development of the Koltogor oil field cannot be confirmed. Accordingly, the probability of the Koltogor oil field developments becomes uncertain. The Group recognised an impairment loss of the total book value of exploration and evaluation assets of the Koltogor oil field as of 31 December 2017. As of 30 June 2019 the uncertainty regarding Koltogor oil field development is still in place.

6 Property, plant and equipment

	Oil and gas assets	**Motor vehicles**	**Other equipment and furniture**	**Construction work in progress**	**Total**
Cost at 1 January 2018	**5,202,044**	**18,075**	**7,963**	**68,582**	**5,296,664**
Additions	5,972	773	1,240	47,294	**55,279**
Reclassification	25,893	–	–	(25,893)	**–**
Transfer to exploration and evaluation assets	–	–	–	–	**–**
Transfer to current assets	–	–	–	(7,572)	**(7,572)**
Change in the estimates of decommissioning provision	(2,775)	–	–	–	**(2,775)**
Disposals	(4,941)	(3,301)	–	(22)	**(8,264)**
Cost at 30 June 2018 (unaudited)	**5,226,193**	**15,547**	**9,203**	**82,389**	**5,333,332**
Cost at 1 January 2019	**5,303,261**	**16,886**	**9,821**	**61,221**	**5,391,189**
Additions	4,001	3,104	417	102,844	**110,366**
Reclassification	8,690	–	–	(8,690)	**–**
Transfer to exploration and evaluation assets	–	–	–	(6,604)	**(6,604)**
Transfer to current assets	–	–	–	(1,226)	**(1,226)**
Change in the estimates of decommissioning provision	53,846	–	–	–	**53,846**
Disposals	(55,089)	(144)	–	–	**(55,233)**
Cost at 30 June 2019 (unaudited)	**5,314,709**	**19,846**	**10,238**	**147,545**	**5,492,338**
Accumulated depreciation, depletion and impairment					
Balance at 1 January 2018	**(1,268,777)**	**(15,488)**	**(5,097)**	**–**	**(1,289,362)**
Depreciation and depletion	(221,066)	(1,307)	(220)	–	**(222,593)**
Disposals	2,469	3,301	–	–	**5,770**
Balance at 30 June 2018 (unaudited)	**(1,487,374)**	**(13,494)**	**(5,317)**	**–**	**(1,506,185)**
Balance at 1 January 2019	**(1,704,913)**	**(14,032)**	**(5,408)**	**–**	**(1,724,353)**
Depreciation and depletion	(212,237)	(1,845)	(402)	–	**(214,484)**
Disposals	26,609	144	–	–	**26,753**

Balance at 30 June 2019 (unaudited)	**(1,890,541)**	**(15,733)**	**(5,810)**	**–**	**(1,912,084)**
Net book value at 1 January 2018	**3,933,267**	**2,587**	**2,866**	**68,582**	**4,007,302**
Net book value at 30 June 2018 (unaudited)	**3,738,819**	**2,053**	**3,886**	**82,389**	**3,827,147**
Net book value at 1 January 2019	**3,598,348**	**2,854**	**4,413**	**61,221**	**3,666,836**
Net book value at 30 June 2019(unaudited)	**3,424,168**	**4,113**	**4,428**	**147,545**	**3,580,254**

7 Right-of-use assets

	Buildings	Other	Total right-of-use	Lease liability
Balance at 1 January 2019	**13,576**	**-**	**13,576**	**13,576**
Additions	8,949	4,726	13,675	**13,675**
Depreciation	(1,519)	(394)	(1,913)	**-**
Interest expense	-	-	-	**1,221**
Payment	-	-	-	**(2,620)**
Balance at 30 June 2019 (unaudited)	**21,006**	**4,332**	**25,338**	**25,852**
Including short-term lease liability (unaudited)				*3,393*

8 Share capital

At 30 December 2019, 31 December 2017	Number of ordinary shares	Nominal value, USD'000	Nominal value, RUB'000
Authorised (par value of USD 0.20 each)	250,000,000	50,000	1,708,672
Issued and fully paid (par value of USD 0.20 each)	141,955,386	28,391	970,218

9 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had no dilutive instruments during six months 2019 and had share options and warrants as dilutive potential ordinary shares during six months 2018.

	Six months ended 30 June	
	2019 (unaudited)	2018 (unaudited)
(Loss) /Profit attributable to owners of the Company – Basic and diluted	(160,528)	71,608

	Number of shares	Number of shares
Weighted average number of shares for calculating basic earnings per share	141,955,386	141,955,386
Antidilutive potential ordinary shares – share options	–	12,375

Weighted average number of shares for calculating diluted earnings per share	141,955,386	141,967,761
	RUB	**RUB**
Basic (loss)/earnings per share	(1.13)	0.50
Diluted (loss)/earnings per share	(1.13)	0.50

10 Share-based payments

At 30 June 2019, the Company had no outstanding share options (at 31 December 2018: 0 share options), as initial share options amounting 22,606 expired on 11 January 2018.

11 Borrowings

	2019	2018
Non-revolving credit facility with Sberbank PJSC − liability, as at 1 January	**1,262,898**	**1,562,186**
Including current liability	570,400	309,172
Interest accrued	40,352	75,184
Interest paid	(45,702)	(75,408)
Repayment	(1,257,548)	(150,000)
Non-revolving credit facility Sberbank PJSC, as at 30 June (unaudited)	**–**	**1,411,962**
Including current liability	–	439,127

In June 2019 the loan facility with Sberbank PJSC was fully repaid using the new facility from Promsvyasbank PJSC.

The Group signed a credit line agreement with Promsvyasbank PJSC ("the Bank") on 13 May 2019. Credit line limit is 1,320,000. Interest rate equals Russian Key rate plus margin 1.6%. Payment terms depend on the amount of credit line used, final payment is no later than 29 April 2024. The loan is secured by the Group. The carrying value of property, plant and equipment pledged as of 30 June 2019 amounted to RUB 600.4 million , the pledge has been signed on September 26.

The new loan facility contains a technical covenant requiring 75 mmcm of natural gas production each quarter. This covenant doesn't contain any penalties and provides legal grounds for the Bank to have a formal discussion with the Group's management and, as the most negative consequence, to demand for immediate repayment of total loan liability.

The Group breached production covenant for the second and the third quarters of 2019. That is why the Group reclassified the long-term part of the loan liability which amounted to 1,104,000 to short-term loans as of 30 June 2019. The breach was caused by the delay in the drilling program, which lead to decrease in gas production. The Bank accepted the Group's explanation on the covenant breach and has provided a waiver for the second quarter of 2019 stating that the breach, occurred in second quarter, will not lead to ahead-of-schedule demand for the loan repayment. The management of the Group believes that, since the Bank has provided the waiver for the second quarter of 2019, the Group will achieve the agreement with the Bank regarding the waiver for the third quarter of 2019 as well upon period end and statements review. The Group does not expect the covenant breach in the fourth quarter of 2019 as well 5D in Karpenskoe field shall be starting production in November 2019.

	2019	2018
Credit facility with Promsvyazbank PJSC − liability, as at 1 January	**–**	**–**
Including current liability	–	–
Interest accrued	14,954	–
Interest paid	(5,371)	–
Proceeds	1,320,000	–
Credit facility Promsvyazbank PJSC − liability, as at 30 June (unaudited)	**1,329,583**	**–**
Including current liability	1,329,583	

12 Decommission provision

The decommissioning and environmental restoration provision represents the net present value of the estimated future obligations for abandonment and site restoration costs which are expected to be incurred at the end of the production lives of the gas and oil fields which is estimated to be within 20 years.

	2019	2018
Provision as at 1 January	**390,428**	**386,152**
Additions	–	2,538
Unwinding of discount	16,567	14,556
Change in estimate of decommissioning and environmental restoration provision	94,935	(6,122)
Provision as at 30 June (unaudited)	**501,930**	**397,124**

This provision has been created based on the Group's internal estimates. Assumptions based on the current economic environment have been made which the directors believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary dismantlement works required, which will reflect market conditions at the relevant time. Furthermore, the timing is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil prices and future operating costs, which are inherently uncertain.

The provision reflects two liabilities: one is to dismantle the property, plant and equipment assets and the other is to restore the environment. The decommissioning part of the provision is reversed when an oil well is abandoned and corresponding capitalised costs are expensed. The environmental part of the provision is reversed when the expenses on restoration are actually incurred.

The provision is reversed when the corresponding capitalised costs directly attributable to an exploration and evaluation asset are expensed as it is determined that a commercial discovery has not been achieved and the restoration of the corresponding environment has been completed.

The Group reviews the application of inflation rates used for the provision estimation each half-year end. The inflation rate used in the estimation of the provision as of 30 June 2019 was 4.7% in 2019, decreasing to 4% in 2036 (as of 31 December 2018: 5.28% in 2018, decreasing to 3.64% in 2036). The discount rates used to determine the decommissioning and environmental restoration provision are based on Russian government bond rates. As of 30 June 2019, the discount rate varies from 7.41% to 7.5% (as of 31 December 2018: from 8.72% to 8.75%) depending on the expected period of abandonment and site restoration for each gas and oil fields.

13 Financial instruments and financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Liquidity risk;
- Market risk;
- Credit risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's risk management policies deal with identifying and analysing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

13.1 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities. The contractual maturities of financial liabilities are presented including estimated interest payments.

The Group's current liabilities exceed current assets by 1,148,378 as at 30 June 2019. The Group plans to cover liquidity gap by cash inflows from operating activity in 2019. As described in note 11 in May 2019 the Group refinanced its loan obligation from Sberbank PJSC and received additional financing.

13.2 Market risk

Market risk includes interest risk and foreign currency exchange rate risk.

a) Interest risk

The Group has exposure to interest risk since the Group's subsidiary, Diall Alliance LLC, entered into a non-revolving credit facility agreement with Sberbank and, according to the terms of the agreement, Sberbank may unilaterally amend the interest rate in the event of increases in refinancing rates of the Central Bank of Russia.

b) Foreign currency exchange rate risk

The Group does not have any significant exposure to foreign currency risk, as no significant sales, purchases or borrowings are denominated in a currency other than the functional currency.

The Group's operations are carried in the Russian Federation, where all of its revenue, costs and financing from both Sberbank and intra-group lending are denominated in RUB. As a result there is no exposure at the operating subsidiary level to foreign currency exchange risk movements.

13.3 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on a credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored

The Group is largely dependent on one customer (Gazprom Mezhregiongaz Saratov LLC) for a significant portion of revenues. Gazprom Mezhregiongaz Saratov LLC accounted for 81.6% and 80.4% of the Group's total revenue during the first six months of 2019 and 2018 respectively. The loss or the insolvency of this customer for any reason, or reduced sales of the Group's principal product, could significantly reduce the Group's ongoing revenue and/or profitability, and could materially and adversely affect the Group's financial condition. The credit rating assigned to Gazprom by Standard & Poor's is BBB-. To manage credit risk and exposure to the loss of the key customer, the Group has entered into a long-term contract with Gazprom Mezhregiongaz Saratov LLC, effective till 31 December 2020. As for the smaller customers, the Group imposes minimum credit standards that the customers must meet before and during the sales transaction process.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The Group does not hold collateral as security.

Credit risk related to cash and cash equivalents is reduced by placing funds with banks with acceptable credit ratings.

To limit exposure to credit risk on cash and cash equivalents management's policy is to hold cash and cash equivalents in reputable financial institutions. During the first six months of 2019 cash was held mainly with Promsvyasbank PJSC, Bank DOM.RF and Sberbank.

To limit exposure to credit risk on cash and cash equivalents management's policy is to hold cash and cash equivalents in reputable financial institutions.

	30 June 2019 (unaudited	31 December 2018
Ba3.ru, Moody's	209,972	49
ruBBB, Expert RA	114,000	50,000
Baa3.ru, Moody's	1,517	10,945
Ba1.ru, Moody's	47	191,251
Other	4,677	8,391
Total cash and cash equivalents	**330,213**	**260,636**

Capital management

The Group considers its capital and reserves attributable to equity shareholders to be the Group's capital. In managing its capital, the Group's primary long-term objective is to provide a return for its equity shareholders through capital growth. Going forward, the Group may seek additional investment funds and also maintain a gearing ratio that balances risks and returns at an acceptable level, while maintaining a sufficient funding base to enable the Group to meet its working capital needs. Details of the Group's capital are disclosed in the interim statement of changes in equity.

There have been no significant changes to management's objectives, policies or processes in the period, nor has there been any change in what the Group considers to be capital.

The Group companies are in compliance with externally imposed capital requirements as of 30 June 2019 and 31 December 2018.

14 Commitments and contingencies

14.1 Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred at 30 June 2019 was 230,766, net of VAT (31 December 2018: 29,984, net of VAT).

14.2 Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not generally available. The Group's insurance currently includes cover for damage to or loss of assets, third-party liability coverage (including employer's liability insurance), in each case subject to excesses, exclusions and limitations. However, there can be no assurance that such insurance will be adequate to cover losses or exposure to liability, or that the Group will continue to be able to obtain insurance to cover such risks. Until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

14.3 Litigation

The Group has been involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the normal course of business. In the opinion of management there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these financial statements.

No provision for litigations was accrued as at 31 December 2018 or 30 June 2019.

14.4 Taxation

Russian tax, currency and customs law allows for various interpretations and is subject to frequent changes. Management's interpretation of legislation as applied to the Group's transactions and activities may be challenged by regional or federal authorities.

The Group operates in a number of foreign jurisdictions besides Russian Federation. The Group includes companies established outside the Russian Federation that are subject to taxation at rates and in accordance with the laws of jurisdictions in which the companies of the Group are recognised as tax residents. Tax liabilities of foreign companies of the Group are determined on the basis that foreign companies of the Group are not tax residents of the Russian Federation, nor do they have a permanent representative office in the Russian Federation and are therefore not subject to income tax under Russian law, except for income tax deductions at the source.

In 2019, there was further implementation of mechanisms aimed at avoiding tax evasion using low-tax jurisdictions and aggressive tax planning structures. In particular, these changes included the definition of the concept of beneficial ownership, the tax residence of legal entities at the place of actual activities, as well as the approach to taxation of controlled foreign companies in the Russian Federation. In addition, since 2019, the total VAT rate is increased to 20%.

The Russian tax authorities continue to actively cooperate with the tax authorities of foreign countries in the international exchange of tax information, which makes the activities of companies on an international scale more transparent and requires detailed study in terms of confirming the economic purpose of the organization of the international structure in the framework of tax control procedures.

These changes and recent trends in applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. The tax authorities may thus challenge transactions and accounting methods that they have never challenged before. As a result, significant taxes, penalties and fines may be accrued. It is not possible to determine the amounts of constructive claims or evaluate the probability of a negative outcome. Tax audits may cover a period of three calendar years immediately preceding the audited year. Under certain circumstances, the tax authorities may review earlier tax periods.

In addition, tax authorities have the right to charge additional tax liabilities and penalties on the basis of the rules established by transfer pricing legislation, if the price/profitability in controlled transactions differs from the market level. The list of controlled transactions mainly includes transactions concluded between related parties. Requirements for tax control of prices and preparation of transfer pricing documentation apply to cross-border transactions between related parties (without applying any threshold), individual transactions in the field of foreign trade in goods of world exchange trade and transactions with companies located in low-tax jurisdictions, as well as transactions between related parties in the domestic market in some cases.
Tax authorities may carry out a price/profitability check in controlled transactions and, in case of disagreement with the prices applied by the Group in these transactions, may additionally charge additional tax liabilities if the Group is unable to justify the market nature of pricing in these transactions by providing transfer pricing documentation (national documentation) in accordance with the requirements of the legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the impact on these consolidated financial statements if the authorities were successful in enforcing their interpretations could be significant.

14.5 Environmental matters

The Group’s operations are in the upstream oil and gas 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 stance 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 already accrued as a part of the decommissioning provision and which would have a material adverse effect on the financial position or results of the Group.

15 Related party transactions

During the period there were no operations with related parties, except for key management remunerations. Key management comprises members of the Board of Directors.

The remuneration of key management comprised of salary and bonuses in the amount 4,253 (6 months 2018: 4,207) resulting from the reduction of Company's and Zoltav Resources LLC's Board of Directors members' remuneration.

16 Events after the reporting date

There were no events after the reporting date that require disclosures in the Group's interim condensed consolidated financial statements.