

ANNUAL REPORT 2018

Looking East

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ZOLTAV
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BOARD OF DIRECTORS

Lea Verny
 Independent Non-executive Chairman

Alexander Gorodetsky
 Independent Non-executive Director

Andrey Immel
 Non-executive Director

AUDIT COMMITTEE

Lea Verny (Chairman)
 Andrey Immel

NOMINATION AND REMUNERATION COMMITTEE

Alexander Gorodetsky (Chairman)
 Lea Verny

CORPORATE ADMINISTRATOR

CO Services Cayman Limited
 P.O. Box 10008, Willow House, Cricket Square,
 Grand Cayman KY1-1001, Cayman Islands

REGISTERED OFFICE

PO Box 10008, Willow House, Cricket Square,
 Grand Cayman KY1-1001, Cayman Islands

BANKERS

Barclays Private Clients International Limited
 39-41 Broad Street, St Helier,
 Jersey, JE4 8PU, Channel Islands

Deutsche Bank International Limited
 St Paul’s Gate, New Street, St Helier,
 Jersey, JE4 8ZB, Channel Islands

NOMINATED ADVISER

SP Angel Corporate Finance LLP
 Prince Frederick House, 35-39, Maddox Street,
 London, W1S 2PP, United Kingdom

SOLICITORS

Berwin Leighton Paisner
 Adelaide House, London Bridge, London,
 EC4R 9HA, United Kingdom

JOINT BROKERS

SP Angel Corporate Finance LLP
 Prince Frederick House, 35-39, Maddox Street,
 London, W1S 2PP, United Kingdom

Panmure Gordon (UK) Limited

1 New Change, London, EC4M 9AF, United Kingdom

INDEPENDENT AUDITOR

Ernst & Young LLC
 Sadovnicheskaya nab., 77, bld. 1, Moscow, 115035, Russia

REGISTRAR

Computershare Investor Services (Cayman) Limited
 R&H Trust Co. Ltd, Windward 1,
 Regatta Office Park, West Bay Road,
 Grand Cayman KY1-1103, Cayman Islands





“Since his arrival in 2018, Yuri Krasnevsky, Director for Geology and Field Development, has been reshaping Zoltav’s vision of the opportunity in the eastern fields of the Bortovoy Licence.”

During 2018 and early 2019, we invested significantly in our geotechnical and management team as we review the full range of commercial opportunities on the Bortovoy Licence. Our commitment to realising the greater potential of the licence through the further development of existing and prospective new resources is reflected in the deep experience and calibre of the individuals who have been recruited. They include Yuri Krasnevsky, who joined as Director for Geology and Field Development in 2018 with over 30 years of experience in geological exploration and production in Russia; and Tigran Tagvoryan, who joined as Chief Executive Officer earlier this year with significant senior level project development, finance management and infrastructure experience within Russian supermajor oil and gas businesses.

The new geotechnical team, led by Mr Krasnevsky, concluded that the 341 sq km of 3D seismic data acquired in 2017-2018 over the Mokrousovskoye block was sufficient to evaluate the Devonian horizon opportunity on the west of the Bortovoy Licence. Interpretation of the data identified a prospective gas field in the Devonian structure and a prospective gas field in the Permian structure. Both opportunities would require the commitment of substantial resources towards exploration well drilling and infrastructure. These opportunities will be considered as part of the broader Bortovoy mid- to long-term exploration programme which is being developed and for which the Company intends to allocate a proportion of EBITDA in the future.

Since his arrival in 2018, Mr Krasnevsky has been reshaping Zoltav’s vision of the opportunity in the eastern fields of the Bortovoy Licence. Approximately 70% of the Bortovoy Licence 2P gas reserves lie undeveloped in the east of the licence, with a number of Soviet wells having been drilled there. In particular, Mr Krasnevsky is focusing on the easternmost, substantial, Nepryakhinskoye field, potentially shrinking the number of wells that would be required to produce the field’s reserves efficiently from 14 vertical wells to two horizontal wells. This would, if found feasible, significantly improve the economics of all previously considered options for developing East Bortovoy.

Preliminary evaluation indicates that connecting the eastern fields to the existing Western Gas Plant, and expanding the plant’s capacity, is the most favourable option among others (which include constructing a second gas plant on the east of the licence or relocating the existing gas plant from the west to the east).

While any development plans for East Bortovoy remain subject to completing the feasibility study, management considers that the opportunity may have a good prospect of attracting project financing to build the necessary infrastructure to connect most of the Bortovoy Licence existing reserves and fill an expanded gas plant capacity for at least a decade. In light of this opportunity, the Company has committed RUB 150 million towards this feasibility study (a small portion of which was expended in 2018 but the majority of which will be expended in the current year) to mitigate project risks prior to making a final investment decision, which management aims to make this year.

The natural production decline from existing well stock on the western Bortovoy fields continued at a slower rate in 2018 than predicted and declined by 18% compared to 2017. The new geotechnical team has been developing geological and hydrodynamic models to efficiently plan for further development wells needed to increase production from the western fields. A drilling programme is now underway, beginning with Zhdanovskoye Well 103, a sidetrack with a 500 m horizontal ending, which was spudded in May 2019 and will be followed by a series of further sidetrack wells. Through this programme, management is aiming to reverse the production decline from the western fields by Q1 2020.

Despite the 18% production decline in 2018, improving sales prices and efficient plant operation resulted in revenues for 2018 declining by only 10% to RUB 1.6 billion (2017: RUB 1.79 billion) with a 15% decrease in EBITDA to RUB 751 million (2017: RUB 888 million), mainly caused by costs associated with hiring very experienced geotechnical personnel and associated equipment.

I am pleased to say the Company made a significantly improved net profit in 2018 of RUB 90 million (2017: net loss of RUB 1.27 billion (including a one-off RUB 1.69 billion impairment allowance made in respect of the Koltogor Licences in 2017)).

I look forward to reporting further progress on the exciting activities which are underway on the Bortovoy Licence.

Lea Verny
Non-executive Chairman
25 June 2019



“Long-term plans are focused on connecting East Bortovoy, where 70% of the 2P gas reserves lie undeveloped, to the plant. We are conducting a technical and economic feasibility study before making a final investment decision before the end of 2019.”

PRODUCTION

Production through Zoltav's Western Gas Plant on the Bortovoy Licence, Saratov, averaged 5,802 boepd (792 toepd) during 2018, an 18% decline when compared to 7,075 boepd (965 toepd) in 2017. The natural production decline from existing well stock continued at a slower rate than predicted, primarily due to Zhdanovskoye Well 8 remaining on production throughout 2018 and the well head compressor having been put into operation on the Karpenskoye field.

Average net daily production (sold to customers) during 2018 was 33 mmcf/d (0.94 mmcm/d) of gas and 301 bbls/d (38 t/d) of oil and condensate (2017: 40.4 mmcf/d (1.1 mmcm/d) of gas and 337 bbls/d (43 t/d) of oil and condensate).

Overall in 2018, the Company produced:

- Natural gas: 12.0 bcf (341 mmcm) or 2.0 mmbbls (274 mtoe) (2017: 14.8 bcf (418 mmcm) or 2.5 mmbbls (335 mtoe))
- Oil and condensate: 109,807 bbls (13,988 t) (2017: 122,962 bbls (15,663 t))

The Western Gas Plant continued to be operated efficiently throughout 2018 with only one, scheduled, 48-hour maintenance shutdown. The current well stock producing from the two currently producing Permian fields (Zhdanovskoye and Karpenskoye) consists of eleven gas wells and two oil wells working via artificial lift. The well stock is in natural production decline. A development programme is underway to reverse the production decline.

DEVELOPMENT Bortovoy

Based on well logs and previous geophysical studies, the new geotechnical team has implemented a development work programme for West Bortovoy.

In the short term, this included the installation during late summer 2018 of a new well-head compressor on the Karpenskoye field, offsetting the production decline on three wells.

In the medium-term, the reprocessing and reinterpretation of historic seismic data to present day standards has resulted in an improved view of the level of reserve depletion in the Zhdanovskoye and Karpenskoye fields. This has allowed a drilling programme of sidetrack wells on existing well stock to be developed. Six wells are currently slated. Four have been approved by management and the first of these, Zhdanovskoye Well 103 (with a 500 m horizontal ending), was spudded in May 2019. It will be followed by Karpenskoye Well 5D. Both wells are expected to be put on production before year-end, adding at least 11 mmcf/d (0.3 mmcm/d) of gas and 3% more daily condensate production. Through this programme, management is aiming to reverse the production decline from the western fields by Q1 2020.

Long-term plans are focused on connecting East Bortovoy - where approximately 70% of the Bortovoy Licence 2P reserves of 750 bcf (21.2 bcm) (based on the 2014 CPR) lie undeveloped - to the Western Gas Plant; and on further exploration within the licence (a programme of which is currently being developed).

Approximately RUB 150 million has been budgeted to re-enter and evaluate production rates, gas composition and well conditions of existing Soviet wells on the Pavlovskoye, Lipovskoye and Nepryakhinskoye fields. To date, the Company has re-entered and tested six wells with two remaining in the programme. All wells tested in line with or better than management expectations based on Soviet flow rate data. Data acquired will contribute to the technical and economic feasibility study required to address uncertainties (including cost, pipeline corridor and parameters, and Western Gas Plant capacity expansion) before making a final investment decision, which management now aims to make before the end of this year.

During 2018, the Company also completed all technical requirements to gain access to the energy network, allowing the Company to sell unused electricity from three power generating units at the Western Gas Plant (up to 1.2 MW) which is expected to generate approximately RUB 1.8 million per month of additional income from March 2019.

Koltogor

The Koltogor Licences in the Khantiy Mansisk Autonomous Okrug, Western Siberia are not currently a focus of investment. The Company continues to monitor the activities of the Bazhen Technology Centre, launched by Gazprom Neft, which is focusing on the development of independent skills and technologies for the cost-effective development of hydrocarbons in the Bazhenov formation; as well as actively exploring potential routes to monetise these licences.

GROUP RESERVES UNDER PRMS AS PER LATEST REPORT OF DEGOLYER AND MACNAUGHTON (MAY 2014):

		Proved	Probable	Proved + 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
Gas & oil	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.



“Despite the 18% production decline in 2018, improving sales prices and efficient plant operation resulted in revenues for 2018 declining by only 10%.”

REVENUE

The Group's revenues in 2018 decreased by 10% to RUB 1.6 billion, compared to RUB 1.79 billion in 2017.

Approximately 80% of revenue was derived from gas sold to Mezhrefiongaz, 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 Mezhrefiongaz and are subject to indexation. The Russian Government approved a 3.4% gas price increase from 21 August 2018 and accordingly the Company signed an addendum to its contract with Mezhrefiongaz resulting in an average price increase to RUB 3,773 per mcm compared to RUB 3,657 per mcm in 2017.

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. Favourable market prices during 2018 and a diversified portfolio of buyers positively impacted average oil and condensate prices which were RUB 2,891/bbl (RUB 22,691/t) in 2018 compared to RUB 2,097/bbl (RUB 16,458/t) in 2017.

COST OF SALES AND G&A COSTS

The Group's operational and G&A costs increased by 11% to RUB 208 million (2017: RUB 185 million), mostly driven by hiring senior geotechnical personnel and buying licences for geological software.

Total cost of sales was RUB 1,119 million (2017: RUB 1,147 million). This comprised RUB 343 million of mineral extraction tax (2017: RUB 372 million), RUB 438 million of depreciation and depletion of assets (2017: RUB 437 million) and RUB 338 million of other cost of sales which remained flat.

Other expenses decreased by 58% to RUB 15 million (2017: RUB 35 million).

OPERATING PROFIT

Zoltav achieved an operating profit for 2018 of RUB 313 million, compared to RUB 450 million in 2017.

EBITDA decreased by 15% to RUB 751 million (2017: RUB 888).

Finance costs of RUB 177 million (2017: RUB 226 million) are mainly represented by decreased interest on the remaining RUB 1.26 billion loan facility.

PROFIT BEFORE TAX

Zoltav generated RUB 156 million of profit before tax, compared to an unadjusted loss of RUB 1.43 billion in 2017 (RUB 252 million profit after deducting the 2017 one-off impairment allowance made for the Koltogor Licences).

TAXATION

Production based tax for the period was RUB 343 million (2017: RUB 372 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 slightly increased, mainly because of oil price growth, to RUB 27/mcf or RUB 955/mcm (2017: RUB 24/mcf or RUB 849/mcm).

The income tax charge for the year was RUB 65 million (2017: RUB 163 million as tax asset).

NET PROFIT

The Company made a significant improvement in net profit in 2018 of RUB 90 million (2017: net loss of RUB 1.27 billion (including a one-off RUB 1.69 billion impairment allowance made in respect of the Koltogor Licences in 2017)).

CASH

Net cash generated from operating activities was RUB 613 million (2017: RUB 728 million).

The Bortovoy Licence operating subsidiary, Diall Alliance, successfully serviced its credit facility with PJSC Sberbank and repaid a further RUB 300 million of the principal amount (RUB 1.26 billion at 31 December 2018) according to its schedule. The Company remains in line with the covenants of its credit facility agreement and is benefitting from lower interest rates.

Total cash at the end of the period was RUB 261 million (2017: RUB 287 million).

To balance investment cash outflow in 2019, Zoltav has refinanced the Sberbank loan facility to alter the repayment schedule and to secure a preferential interest rate. The deal was signed with Promsvyazbank on 13 May 2019 with a RUB 1.32 billion limit and a floating rate of Russian Central Bank rate + 1.6%, and a six-month grace period (aligned with the Company's West Bortovoy drilling schedule) on principal repayment.



Kirill Suetov
Chief Financial Officer
25 June 2019

“Zoltav’s operating company for the Bortovoy Licence has enjoyed positive relations with the local surrounding communities for many years.”



HEALTH AND SAFETY

Providing a safe and healthy work environment and conducting our activities in a safe and environmentally responsible manner are at the heart of our operations. Our employees and officers are expected to perform their duties consistent with the site-specific safety and environmental rules and regulations and are expected to obey all local, regional and national laws and regulations.

We are committed to the goals of:

- Avoiding harm to all personnel involved in, or affected by, our operations
- Complying with all the applicable legal and other requirements where we operate
- Achieving continual improvement in our HSE performance

During the year, we commissioned an independent review and diagnostic exercise of all relevant plant equipment in order to further reduce the risk of incident; and we continue to provide high quality individual protection equipment.

These standards are reflected in another year of high HSE achievement, with no injuries to personnel and contractors in 2018.

The company continues to offer a market leading health insurance plan to its employees and, in 2018, invested in new vehicles for the transportation of employees to and from the gas plant.

ENVIRONMENT

Responsible environmental management is a core component of our approach to CSR. We are committed to complying with applicable legislation and to identifying risks to the environment. We recognise that oil and gas exploration and production activities can have an impact on the environment. As such we aim, wherever possible, to implement processes to avoid, mitigate or manage any adverse impacts our operations might have. We are committed to employing highly competent personnel who share the company’s values and who are themselves committed to implementing our high standards of environmental performance in everything they do.

During 2018, we made charitable contributions towards conservation projects in the Khvalynsky National Park, including areas near to Bortovoy.

COMMUNITY ENGAGEMENT

Positive relations with local communities are central to the success of oil and gas operations, and we continually seek both to maximise local involvement and to have a positive impact on local communities. We also remain committed to building and utilising skills available locally at all levels.

Zoltav’s operating company for the Bortovoy Licence, DiAll Alliance, has enjoyed positive relations with the local surrounding communities for many years. We undertake initiatives – big and small – on a rolling basis to provide assistance and improvements within the communities wherever and whenever we can.

In 2018, such infrastructure, service and equipment related initiatives included:

- Completing reconstruction of central heating facilities in the schools of Solnechny Village in the Fyodorovsky District and Karpenka Village in the Krasnokutsky District; as well as repairing central heating systems in four schools in the Ozinsky District
- Co-financing reconstruction of public amenities in Krasny Kut
- Installing street lighting in the villages of Karpenka, Rosovka and Lebedevka
- Contributing piping for winter water supply facilities in the villages of Karpenka, Lebedevka and Zhdanovka
- Undertaking repair works to a children’s summer camp in the Dergachyovsky District
- Providing heavy vehicles for groundwork in the Fyodorovsky District to prevent flooding during the autumn season
- Donating agricultural equipment to the Zhdanovka community

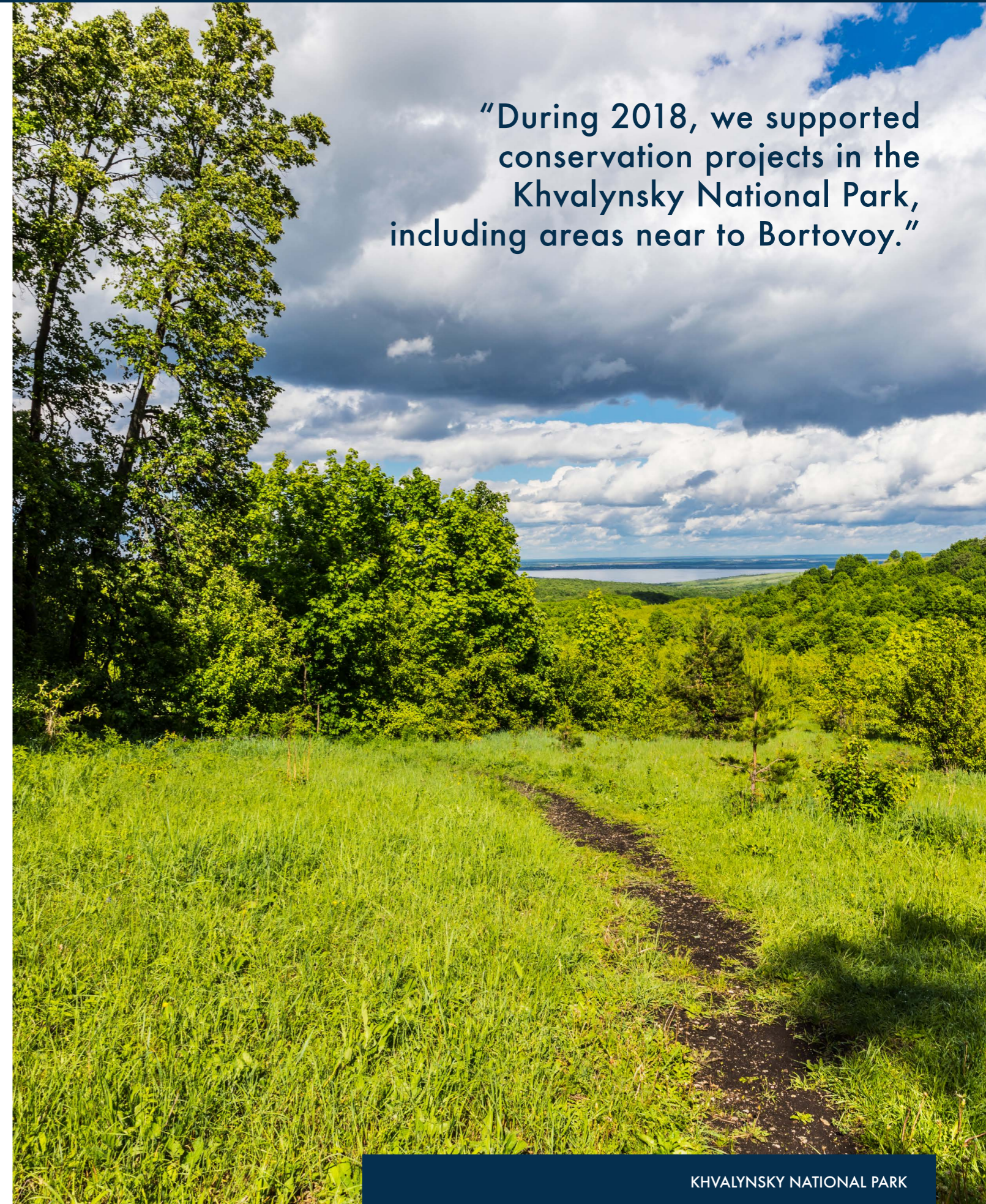
Community engagement activities in 2018 included:

- Sponsorship of a local sporting tournament for teenagers
- New Year’s presents for children in the school of Solnechny Village
- Financing the publication of a book about the firefighters of the Saratov region

ANTI-BRIBERY AND CORRUPTION POLICY

Our policy is to conduct all our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate and implementing and enforcing effective systems to counter bribery. We will uphold all laws relevant to countering bribery and corruption in all the jurisdictions in which we operate.

“During 2018, we supported conservation projects in the Khvalynsky National Park, including areas near to Bortovoy.”



“During 2018 and early 2019, we invested significantly in our geotechnical and management team as we review the full range of commercial opportunities on the Bortovoy Licence.”



LEA VERNY Independent Non-executive Chairman/Senior Independent Director	ALEXANDER GORODETSKY Independent Non-executive Director	ANDREY IMMEL Non-executive Director
<p>Lea Verny was appointed as a non-executive director in December 2016 and subsequently as non-executive chairman in March 2017. She has significant and high level corporate finance experience, with particular expertise in Russia. Since 2008, Lea Verny has acted as an independent financial adviser on cross-border transactions. Prior to becoming an independent consultant, Lea Verny served as a private banker with Banque Pictet, Switzerland, where she was responsible for developing the bank’s activities in Russia, following a career of more than a decade with HSBC. From 2001 to 2007, Lea Verny was Head of Investment Banking for HSBC Bank plc in Moscow, during which time she advised on structured transactions for large Russian and CIS corporations including Lukoil, Rostelekom, Eastern Oil Company and Rosbank. Between 1997 and 2001, Ms Verny was a representative of HSBC Investment Bank plc in Russia, where she was responsible for establishing the bank’s presence in the country and developing opportunities specifically within the oil and gas sector. Lea Verny holds a Bachelor’s degree in Statistics and International Relations from the Hebrew University in Jerusalem as well as an MBA from INSEAD in France.</p>	<p>Alexander Gorodetsky was appointed as a non-executive director in September 2015. He is currently the general partner of Strategy Capital Advisor Limited, a private equity fund established in 2009 with a mandate to invest in projects, including within the oil and gas sector, across the former Soviet Union. Prior to Strategy Capital Advisor Limited, Alexander Gorodetsky was first deputy to the chairman of East One Group, an international investment advisory group providing strategic and investment management services. During his time at East One Group, he assisted in the strategic development of over 25 portfolio companies including GEO ALLIANCE Group, one of the leading independent oil and gas exploration and production groups in Ukraine. From 2000-2006, Alexander Gorodetsky was president/business unit leader for TNK BP Ukraine. He contributed significantly to the increased brand awareness of TNK-BP in the Ukrainian market, where it is among the leading oil and gas companies. He began his career in 1995 within Alfa-Eco, a leading gas and oil trading business in Russia.</p>	<p>Andrey Immel was appointed as a non-executive director in September 2015. He is an experienced Russian corporate lawyer. He has, since 2012, been the head of the legal department of Moscow-based Contact-Service LLC, a real estate company, where his responsibilities include corporate governance and the provision of legal support for transactions. From 2008-2012, Andrey Immel worked for Himuglemet, a manufacturer of conveyer band and other components for coal mines, both as legal counsel and as a corporate and tax lawyer. His responsibilities included legal due diligence and support for corporate transactions.</p>

SENIOR MANAGEMENT (NON-BOARD)

TIGRAN TAGVORGAN Chief Executive Officer	KIRILL SUETOV Chief Financial Officer	YURI KRASNEVSKY Director for Geology and Field Development
<p>Tigran Tagvorgan joined Zoltav in November 2018, initially as Deputy Chief Executive Officer, prior to his appointment as Chief Executive Officer in April 2019. He has significant senior level project development, finance, management and infrastructure experience within Russian supermajor oil and gas businesses. From 2013 to 2018, Tigran led the Russian gas business development and strategy divisions of Rosneft, where he led the development and implementation of its rapid gas production growth strategy. From 2002 until its acquisition by Rosneft in 2013, Tigran held various senior positions with TNK-BP, including Deputy Director General of OAO East Siberia Gas Company, a regional gasification joint venture project with the Irkutsk Oblast Administration. Tigran holds a BSc in Business and Management from the University of Maryland University College and a higher degree with excellence in Management from Irkutsk State University.</p>	<p>Kirill Suetov joined Zoltav in September 2016, initially as Finance Director of Diall Alliance, prior to becoming Chief Financial Officer of the group in January 2017. In 2016, prior to his appointment, he worked in a team of ex-top-tier consultants on the development of Rostec’s industrial clusters strategy for the Government of the Russian Federation. Between 2013 and 2015, Kirill worked as a financial controller in United Petrochemical Company, where he participated in projects involving allocation and composition of petrochemical assets into a separate petrochemicals business; as well as creating an operational finance system for a joint venture on the construction of a petrochemical plant in Ufa. From 2011 to 2012, Kirill was an internal auditor at Sibur Holding PJSC and supervised process optimisation of the company’s production assets. He started his career in 2009 as a consultant and auditor with PricewaterhouseCoopers Audit. He was responsible for international reporting audits of large oil and gas companies. Kirill graduated from Tomsk State University with a degree in International Economics.</p>	<p>Yuri Krasnevsky joined Zoltav in May 2018. He has over 30 years of experience in geological exploration and production in Russia. He has held senior technical positions with major energy businesses including with NK Novyi Potok and Bashneft, prior to which Yuri worked at both TNK-BP and Rosneft. As Vice President for Geology and Field Development at Bashneft, Yuri gained significant geological experience in carbonate and terrigenous rocks of Carboniferous and Devonian formations in the Bashkortostan and Orenburg regions. He also was involved in the exploration and development of Devonian carbonates on the Trebs and Titov oil fields in the Nenets Autonomous Okrug. As Director for Geology and Field Development at Zoltav, Yuri is overseeing the further development of Zoltav’s assets. Yuri is a graduate of the Gomel State University and has a degree in geological engineering and hydrogeology.</p>

The Directors of the Company present their annual report together with the audited consolidated financial statements for the year ended 31 December 2018.

Principal activities

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 Russian Federation.

Business review

A review of the business for the year and of future developments is given in the Chairman's Report.

Results

The results of the Company are as shown on page 22.

Dividends

The Directors do not recommend the payment of a final dividend and no interim dividend was paid during the year (2017: RUB nil).

Share capital

No movements in share capital occurred in 2018.

Directors

The membership of the Board who served during the year and up to the date of approving the financial statements is set out on page 12.

Going concern

The going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern.

Directors' interests

Directors have not owned shares of the Company during the years ended 31 December 2018 and 2017.

Substantial shareholdings

The interests in excess of 3% of the issued share capital of the Company which have been notified to the Company as at 31 December 2018 were as follows:

	Number of ordinary shares	Percentage of existing share capital
ARA Capital Limited	56,243,076	39.6%
Bandbear Limited	56,243,076	39.6%
Drentru Services LTD	6,353,568	4.48%
Erlinad Holdings Limited	6,353,568	4.48%
	125,193,288	88.16%

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

AIM Rules for Companies require the Directors to prepare financial statements for each financial year. Under those Rules the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

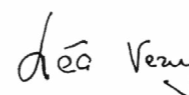
Financial risk management objectives and policies

Details of the financial risk management objectives and policies are provided in Note 27 to the financial statements.

Independent auditor

Ernst & Young LLC were appointed as the Company's independent auditor and have expressed their willingness to continue in office.

For and on behalf of the Board:



Lea Verny
Non-executive Chairman
25 June 2019

Introduction

The Board's overriding objective is to ensure that the Group delivers long-term capital appreciation for its shareholders.

Compliance

The Company complies with elements of the Smaller Company provisions of the UK Corporate Governance Code ("the Code") albeit as an AIM-listed company and Cayman Island incorporated company it is not required to. The Board of Directors is committed to developing and applying high standards of corporate governance appropriate to the Company's size and its future prospects. During 2018, the Board also concluded that they will seek to comply with the Quoted Company Alliance's Corporate Governance Code (details of which are available on the Company's website, www.zoltav.com).

This statement sets out measures taken by the Board to apply the principles of the Code to the year ended 31 December 2018 and to the date of the Directors' report.

Board of directors

Role of the Board

The Board's role is to provide leadership to the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic aims and ensures that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management's performance in meeting these objectives. The Board sets and monitors the Group's values and standards and ensures that the Group's obligations to shareholders and other stakeholders are understood and met.

The Board has a formal schedule of matters reserved for its approval, including:

- strategic and policy considerations;
- annual budget, including capital expenditure;
- interim and final financial statements;
- management structure and appointments;
- mergers, acquisitions, disposals;
- capital raising;
- significant changes in accounting policies;
- appointment or removal of Directors or the Company Secretary;
- pay and rewards.

Board composition

The Board currently comprises two non-executive independent directors and one non-executive director:

- Lea Verny – Non-executive Chairman, Independent Non-executive Director;
- Alexander Gorodetsky – Independent Non-executive Director;
- Andrey Immel – Non-executive Director.

Board balance and independence

Under the provisions of the UK Corporate Governance Code as a Smaller Company the Company meets the requirements to have at least two independent non-executives on the Board.

The Board meets at least quarterly to discuss opportunities available to the Company as a whole.

The Company maintains insurance for Directors and Officers of the Company.

The Chairman of the Board is non-executive and is responsible for the leadership and effective running of the Board and for ensuring that the Board is kept appropriately informed about the business activities of the Company. The Chairman also seeks to ensure effective communication with shareholders and other stakeholders.

The Board has access to the Company's advisers to notify them on financial, governance and regulatory matters. Any Director wishing to do so in the furtherance of his or her duties may take independent professional advice at the Company's expense. This also applies to any Director in his or her capacity as a member of the Audit, Remuneration or Nomination committees. Through the Chairman the Directors also have access to the Company Secretary, CO Services Cayman Limited.

The Board is supported by specialised committees ensuring that sound governance procedures are followed. The Corporate Governance section of the Company's website includes the terms of reference of the Audit and Remuneration and Nomination Committees.

Board Committees

The Audit Committee

The Audit Committee currently comprises Lea Verny and Andrey Immel, with Lea Verny as Chairman. The Board is satisfied that collectively the Audit Committee has sufficient, recent and relevant financial experience.

The duties of the Audit Committee are to review the financial information of the Company, to oversee the Company's financial reporting processes and internal control systems, and to manage the relationship with the Company's external auditor. The Audit Committee also has primary responsibility for making recommendations on the appointment, re-appointment and removal of the external auditor, and for approving any significant non-audit services provided by the external auditor to ensure that objectivity and integrity are safeguarded. The Audit Committee reports its work, findings and recommendations to the Board after each meeting.

The Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently comprises Alexander Gorodetsky and Lea Verny with Alexander Gorodetsky as Chairman.

The principal functions of the Remuneration and Nomination Committee include recommending to the Board the policy and structure for the remuneration of the Chairman, Non-executive Directors and (as determined by the Board) senior management, determining the remuneration packages of the Chairman, the Non-executive Directors and senior management, reviewing and approving performance-based remuneration and compensation for loss or termination of office payable to Non-executive Directors and senior management, ensuring that no Director is involved in deciding his own remuneration, approving the service contracts of Directors and senior management and leading the process for appointments to the Board and make recommendations to the Board based on their evaluation of the balance of skills, knowledge and experience on the Board.

Attendance at Board and Committee Meetings

The Board held four in person board meetings during 2018. These were attended by all the directors appointed at the time who were able to attend.

The table below sets out the total number of meetings of the Board and its committees during the year and attendance by members at those meetings.

	Board	Audit committee	Nomination and Remuneration
Meetings held during the year	4	2	1
Meetings attended during the year:			
Lea Verny	4	2	1
Alexander Gorodetsky	4	–	1
Andrey Immel	4	2	–

Internal control

The Board is responsible for maintaining a strong system of internal control and risk management to safeguard shareholders' investments and the Company's assets. The system of internal control is designed, taking into account the Company's business objectives and strategy, to provide reasonable, but not absolute, assurance against material misstatement or loss.

The criteria the Board uses to assess the effectiveness of the system of internal control include:

- the nature and extent of the risks facing the Company;
- the extent and categories of risk that the Board regards as acceptable for the Company to bear;
- the likelihood of the risks materialising and the financial impact of the risks;
- the Company's ability to reduce the incidence and impact on the business of risks that do materialise; and
- the costs of operating particular controls relative to the benefit thereby obtained.

The Board has considered the need for an internal audit function but has decided, after taking into account the current status of the Company, such a function is not at present justified.

Relations with Shareholders

The Company believes that effective communication with shareholders is of utmost importance. It has an established cycle for communicating trading results at the interim and year end stages and, as appropriate, of providing business updates via the Regulatory News Service and press releases.

The Company makes information available through regulatory announcements and its interim and annual reports. Copies of all such communications can be found on the Company website, www.zoltav.com.

Report on remuneration

The Board recognises that Directors' and employees' remuneration is of legitimate concern to shareholders, and is committed to following good practice and to ensuring that the interests of the Directors and employees are aligned with those of shareholders.

Policy on remuneration

The Company aims to set levels of remuneration that are sufficient to attract, retain and motivate Directors and senior management of the quality required to run the Company successfully, whilst ensuring that the interests of Directors and employees are aligned with those of shareholders. The Company operates within a competitive environment in which the Company's performance depends on the individual contributions of the Directors.

When determining annual salaries and performance-based remuneration the Company takes into account the following factors:

- direct and indirect contribution towards the Company's current profitability;
- the development of businesses or transactions that may help achieve the Company's objective in future years;
- the quality of earnings, in the context of market conditions, as well as the quantity of earnings;
- vision and innovation;
- remuneration levels and practices in other firms engaged in similar activities; and
- incentive to continue to contribute to the Company's objectives.

Directors' remuneration

The remuneration of the Directors for the year ended 31 December 2018 is shown in the table below.

	Lea Verny	Alexander Gorodetsky	Andrey Immel	Total
	RUB'000	RUB'000	RUB'000	RUB'000
Salary	6,291	2,005	-	8,296
Share based compensation	-	-	-	-
2018 total	6,291	2,005	-	8,296
Salary	4,195	1,819	-	6,014
Share based compensation	-	-	-	-
2017 total	4,195	1,819	-	6,014



**To the Shareholders and Board of Directors of
Zoltav Resources Inc.****Opinion**

We have audited the consolidated financial statements of Zoltav Resources Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for 2018 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS**Recognition and measurement of tax risks provisions**

Recognition and measurement of tax risks provisions was one of the matters of most significance in our audit, because of significant management judgement involved in respect of tax legislation treatment.

Information about tax risks provisions and uncertainty related to tax legislation treatment is disclosed in Notes 11 and 28.4 to the consolidated financial statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

With the involvement of our tax specialists we

- analyzed tax legislation and court practice of jurisdictions where the Group companies operate,
- discussed with management and Group internal tax specialists judgmental areas,
- received replies on certain tax matters from the Group external councils and analyzed them,
- analyzed the related disclosures provided in the Group consolidated financial statements.

KEY AUDIT MATTERS**Estimation of gas reserves and resources at Bortovoy license field**

This matter to be one of most significance in the audit, because the estimate of gas reserves at Bortovoy license field has a significant impact on depreciation, depletion and amortization (DD&A) charges, impairment of property, plant and equipment and exploration and evaluation assets test results and decommissioning provision calculation. As the last external estimation of gas reserves for Bortovoy license field was made in 2014, the estimation of gas reserves as of the end of 2018 required significant management's estimation.

Information about estimation of gas reserves and resources is disclosed in Note 3.4 of the notes to the consolidated financial statements, section critical accounting estimates and judgements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We assessed the assumptions used by the Group to estimate volumes of gas reserves and resources at Bortovoy license field and compared them with current macroeconomic forecasts and the Group's plans. We also compared gas production, for which the Group adjusts its gas reserves to calculate DD&A with internal production reports and sales volumes. We compared gas estimation report data with information used by the Group to analyze non-current assets for impairment, to calculate DD&A and updated estimates of reserves and resources to the estimates included in the consideration of impairment, depreciation, depletion and decommissioning provision.

Other information included in the Annual Report for 2018

Other information consists of the information included in the Annual Report for 2018, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is T.L. Okolotina.



T.L. Okolotina
Partner, Ernst & Young LLC
25 June 2019

Details of the audited entity.

Name: Zoltav Resources Inc. Record made in the Registrar of Companies, Cayman Islands on 18 November 2003, Registration Number 130605. Address: PO Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands.

Details of the auditor.

Name: Ernst & Young LLC. Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203. Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1. Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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Consolidated statement of comprehensive income for the year ended 31 December 2018
(in '000s of Russian rubles, unless otherwise stated)

	Note	2018	2017
Revenue from contracts with customers	5	1,614,809	1,790,524
Cost of sales	6	(1,118,827)	(1,146,812)
Gross profit		495,982	643,712
Administrative and selling expenses	7	(207,785)	(184,948)
Other income	9	39,525	27,005
Other expenses	9	(14,963)	(35,301)
Operating profit		312,759	450,468
Impairment of exploration and evaluation assets	12	-	(1,685,632)
Finance income	10	20,178	27,960
Finance costs	10	(177,399)	(225,741)
Profit/(loss) before tax		155,538	(1,432,945)
Income tax (expense) / benefit	11	(65,409)	162,967
Profit/(loss) for the year attributable to owners of the parent being total comprehensive income		90,129	(1,269,978)
		RUB	RUB
Earnings/(loss) per share attributable to owners of the parent			
Basic	20	0.63	(8.95)
Diluted	20	0.63	(8.95)

Kirill Suetov
Director of Finance
25 June 2019

The accompanying notes on pages 26-53 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December 2018
(in '000s of Russian rubles, unless otherwise stated)

	Note	As at 31 December 2018	As at 31 December 2017
ASSETS			
Non-current assets			
Exploration and evaluation assets	12	3,477,513	3,259,353
Property, plant and equipment	13	3,666,836	4,007,302
Total non-current assets		7,144,349	7,266,655
Current assets			
Inventories	14	23,469	20,877
Trade and other receivables	15	176,498	152,574
Other current non-financial assets	15	14,389	11,400
Cash and cash equivalents	16	260,636	286,754
Total current assets		474,992	471,605
TOTAL ASSETS		7,619,341	7,738,260
EQUITY AND LIABILITIES			
Share capital	17	970,218	970,218
Share premium		5,498,009	5,498,009
Other reserves		1,343,566	1,366,172
Accumulated losses		(2,450,253)	(2,562,988)
Total equity		5,361,540	5,271,411
Non-current liabilities			
Borrowings	22	692,498	1,253,014
Decommission provision	23	390,428	386,152
Other payables		68,081	62,771
Deferred tax liabilities	24	316,329	270,836
Total non-current liabilities		1,467,336	1,972,773
Current liabilities			
Trade and other payables	25	97,405	93,857
Contract liabilities	2.4	7,274	-
Finance lease liability		-	1,666
Other taxes payables	19	96,281	89,381
Borrowings	22	570,400	309,172
Income tax payable		19,105	-
TOTAL CURRENT LIABILITIES		790,465	494,076
TOTAL LIABILITIES		2,257,801	2,466,849
TOTAL EQUITY AND LIABILITIES		7,619,341	7,738,260

The accompanying notes on pages 26-53 are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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Consolidated statement of cash flows for the year ended 31 December 2018
(in '000s of Russian rubles, unless otherwise stated)

	Note	2018	2017
Cash flows from operating activities			
Profit/ (loss) before tax		155,538	(1,432,945)
<i>Adjustments for:</i>			
Depreciation and depletion	12,13	445,263	440,387
Impairment of exploration and evaluation assets	12	-	1,685,632
Finance costs	10	177,399	225,741
Finance income	10	(20,178)	(27,960)
Loss on disposal of property, plant and equipment, net of income from sale of property, plant and equipment	9	(3,465)	28,652
Write-off of accounts receivable and other current assets, expected credit loss	9	4,010	1,908
Change in the estimates of decommissioning and environmental restoration provision		(25,964)	(13,448)
Other income and expenses		(2,073)	708
Operating cash inflows before working capital changes		730,530	908,675
(Increase)/decrease in inventories		(410)	1,590
Change in trade and other receivables and other current non-financial assets		(29,429)	23,430
Decrease in trade and other payables and contract liabilities		28,540	(16,372)
Change in other tax payables		6,900	(29,119)
Net cash from operating activities before income tax and interests		736,131	888,204
Interest received		18,684	28,316
Interest paid	22	(140,835)	(188,660)
Income tax paid		(811)	(85)
Net cash from operating activities		613,169	727,775
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		7,927	14,633
Capital expenditure on exploration and evaluation activities		(224,669)	(132,635)
Purchase of property, plant and equipment		(121,619)	(317,063)
Net cash used in investing activities		(338,361)	(435,065)
Cash flows from financing activities			
Repayment of obligations under finance leases		(1,892)	(39)
Repayment of borrowings	22	(300,000)	(300,000)
Net cash used in financing activities		(301,892)	(300,039)
Net change in cash and cash equivalents		(27,084)	(7,329)
Net foreign exchange difference		966	(171)
Cash and cash equivalents at the beginning of the year		286,754	294,254
Cash and cash equivalents at the end of the year	16	260,636	286,754

The accompanying notes on pages 26-53 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2018
(in '000s of Russian rubles, unless otherwise stated)

		Attributable to owners of the Parent					
	Note	Share capital	Share premium	Capital reserve	Employee share-based compensation reserve	Accumulated losses	Total equity
At 1 January 2017		970,218	5,498,009	1,343,566	85,775	(1,356,179)	6,541,389
Employee share-based compensation	21	-	-	-	(63,169)	63,169	-
Transactions with owners		-	-	-	(63,169)	63,169	-
Loss for the year		-	-	-	-	(1,269,978)	(1,269,978)
Total comprehensive income		-	-	-	-	(1,269,978)	(1,269,978)
At 31 December 2017		970,218	5,498,009	1,343,566	22,606	(2,562,988)	5,271,411
At 1 January 2018		970,218	5,498,009	1,343,566	22,606	(2,562,988)	5,271,411
Employee share-based compensation	21	-	-	-	(22,606)	22,606	-
Transactions with owners		-	-	-	(22,606)	22,606	-
Profit for the year		-	-	-	-	90,129	90,129
Total comprehensive income		-	-	-	-	90,129	90,129
At 31 December 2018		970,218	5,498,009	1,343,566	-	(2,450,253)	5,361,540

The accompanying notes on pages 26-53 are an integral part of these consolidated financial statements.

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 31 December 2018 and 2017
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. Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), 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, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS 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 3.

2.2 Change in presentation of financial statements

In its consolidated financial statements for 2018 the Group changed presentation of the cost of sales line in the consolidated statement of comprehensive income. In its consolidated financial statements for 2017 the Group disclosed depreciation, mineral extraction tax and other cost of sales in its consolidated statement of comprehensive income, also the Group disclosed cost of sales combination in separate Cost of sales note. In 2018 this information is disclosed only in Cost of sales note.

2.3 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 315,473 as at 31 December 2018. For mitigation factors, please, see Note 27.1.

2.4 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 in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2018. 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 in 2018	Effective for annual periods beginning on or after
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016)	1 January 2017 / 1 January 2018

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. IFRS 9 does not have any significant impact on the Company's financial statements.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement		IFRS 9	
	Category	Amount	Category	Amount
Financial assets				
Trade and other receivables	Amortised cost	152,574	Amortised cost	152,574
Total assets		152,574		152,574
Non-financial liabilities				
Borrowings	Amortised cost	1,614,108	Amortised cost	1,614,108
Trade and other payables	Amortised cost	93,857	Amortised cost	93,857
Obligation under finance leasing	Amortised cost	1,666	Amortised cost	1,666
Other non-current payables	Amortised cost	63,328	Amortised cost	63,328
Total liabilities		1,772,959		1,772,959

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at 1 January 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related Interpretations.

The effect of adopting IFRS 15 is, as follows:

Advances received from customers

Before the adoption of IFRS 15, the Group presented advances received from customers as Trade and other payables in the statement of financial. Under IFRS 15, the Group reclassified these advances from Trade and other payables (current) to Contract liabilities (current) as at 1 January 2018. This change explains the increase of contract liabilities as of 31 December 2018 comparing to 31 December 2017.

The other new standards and amendments applied for the first time in 2018 did not have a material impact on the annual consolidated financial statements of the Group.

New accounting pronouncements

A number of new and amended standards were not effective for the year ended 31 December 2018 and have not been applied in these consolidated financial statements.

Standards issued but not yet effective in the European Union	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
Amendments to IFRS 9: <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Annual improvements to IFRSs 2015-2017 cycle	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to IAS 28: <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Amendments to IAS 19: <i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019
Amendment to IFRS 3 <i>Business Combinations</i>	1 January 2020*
Amendments to IAS 1 and IAS 8: <i>Definition of Material</i>	1 January 2020*
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020*
IFRS 17 <i>Insurance Contracts</i>	1 January 2021*

* Subject to EU endorsement

Except for IFRS 16, from the application of the standards issued but not yet effective the Group expects no significant effect on its consolidated financial statements.

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 will recognise 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 will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be 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 will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Transition to IFRS 16

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group plans to adopt IFRS 16 using the modified retrospective approach. Under this approach the comparatives will not be restated. Lease liabilities and right of-use assets will be recognised at the date of transition to IFRS 16 with corresponding effect recorded in retained earnings. Modified retrospective approach assumes recognition of lease liability discounted using incremental borrowing rate at the date of transition and allows the Group to elect how to measure right-of-use assets on lease-by-lease basis:

- At amount as if IFRS 16 had been applied from lease commencement;
- At amount equal to liability (adjusted for accruals and prepayments).

The Group elects 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 elects 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.

In summary the impact of IFRS 16 adoption is expected to be, as follows:

	As at 1 January 2019
Assets	
Property, plant and equipment (right-of-use assets)	27,445
Liabilities	
Lease liabilities (non-current)	24,101
Lease liabilities (current)	3,344

2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities and components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.6 Acquisitions, asset purchases and disposals

Transactions involving the purchases of an individual field interest, or a group of field interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involved the transfer of the field interests directly or the transfer of an incorporated entity. Accordingly, no goodwill or deferred tax gross up arises. The purchase consideration is allocated to the assets and liabilities purchased on an appropriate basis. Proceeds from the disposal are applied to the carrying amount of the specific intangible asset or development and production assets disposed of and any surplus is recorded as a gain on disposal in the statement of comprehensive income.

2.7 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.8 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.

2.9 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.

	2018	2017
RUB/USD as at 31 December	69.4706	57.6002
RUB/USD average for the year ended 31 December	62.7078	58.3529

2.10 Exploration and evaluation 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.

a) Drilling, seismic and other costs

Costs directly associated with an exploration well, including certain geological and geophysical costs, and exploration and property leasehold acquisition costs, are capitalised until the reserves are 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 that are not directly related to an exploration well are expensed as incurred.

Capital expenditure is recognised as property, plant and equipment or intangible assets in the financial statements in accordance with the nature of the expenditure and the stage of development of the associated field, i.e. exploration, development, or production. Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development property, plant and equipment or intangible assets. No depreciation or amortisation is charged during the exploration and evaluation phase.

b) Sub-soil licences

Costs incurred prior to the award of oil and gas licences, concessions and other exploration rights are expensed in profit or loss. Costs incurred on the acquisition of a licence interest are initially capitalised on a licence by licence basis and are capitalised within exploration and evaluation assets and held un-depleted until the exploration phase of the licence is complete or commercial reserves have been discovered at which time the costs are transferred to development assets as part of property, plant and equipment – oil and gas assets.

2.11 Property, plant and equipment

i) Property, plant and equipment – oil and gas assets

Oil and gas assets are stated at cost less accumulated depletion or accumulated depreciation and, where relevant, impairment costs.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms and pipelines, as well as on the drilling of development wells into commercially proved reserves, is capitalised within property, plant and equipment. When development is completed on a specific field, it is transferred to producing assets within property, plant and equipment. No depreciation or amortisation is charged during the development phase.

Development and 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 intangible E&E assets as described above. The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, any costs directly attributable to bringing the asset into operation, and the cost of recognising provisions for future restoration and decommissioning, if any.

Major facilities may be capitalised separately if they relate to more than one field or to the licence area as a whole. Subsequent expenditure is capitalised only if it either enhances the economic benefits of the development/production asset or replaces part of the existing development/ production asset. Any costs remaining associated with the part replaced are expensed. Directly attributed overheads are capitalised where they relate to specific exploration and development activities.

ii) Depletion

Oil and gas properties in production, including wells and directly related pipeline costs, are depreciated using the unit-of-production method. Sub-soil licences and other licenses capitalised as part of oil and gas properties in production are amortised also using the unit-of-production method. Unit-of-production rates are based on proved reserves of the field concerned, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date.

iii) Depreciation

Major oil and gas facilities that have a shorter useful life than the lifetime of the related fields are depreciated on a straight-line basis over the expected useful life of the facility. Depreciation of items of such assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Buildings and constructions	15-30 years
Machinery and equipment	5 years

The asset's residual values and useful lives are reviewed, and adjusted as appropriate, at the end of each reporting period.

iv) Property, plant and equipment – other business and corporate assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and to the location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The gain or loss arising from a retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the assets, and is recognised in the income statement.

Depreciation is provided on buildings and facilities, motor vehicles, office equipment and furniture at rates calculated to write off the cost, less estimated residual value, evenly over the asset's expected useful life.

For depreciation purposes, useful lives are estimated as follows:

Other equipment and furniture	5 years
Motor vehicles	5 years

2.12 Impairment of non-current assets

i) Impairment indicators

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

ii) Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

iii) Cash generating units

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the purposes of assessing impairment, 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. For development and production assets the cash generating unit applied for impairment test purposes is generally the field. For shared infrastructure a number of field interests may be grouped together where surface infrastructure is used by several fields in order to process production for sale.

iv) Reversals of impairment

An impairment loss is reversed to the extent that the factors giving rise to the impairment charge are no longer prevalent. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, depreciation or amortisation, if no impairment loss had been recognised.

2.13 Inventories

Unsold natural gas and hydrocarbon liquids and sulphur in storage are stated at the lower of cost of production or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Materials and supplies inventories include chemicals necessary for production activities and spare parts for the maintenance of production facilities. Materials and supplies inventories are recorded at cost and are carried at amounts which do not exceed the expected recoverable amount from use in the normal course of business. Cost of inventory is determined on a weighted average basis. Cost of finished goods comprises direct materials and, where applicable, direct labour plus attributable overheads based on a normal level of activity and other costs associated in bringing inventories to their present location and condition, but excludes borrowing costs.

2.14 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the assets contractual terms, measured at either: amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL). Before 1 January 2018 the Group classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale, held-to-maturity.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost

This category is the only relevant to the Group as of 31 December 2018. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables, cash and cash equivalents.

Before 1 January 2018, receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investment securities available-for-sale. Such assets were carried at amortised cost using the effective interest method. Gains and losses were recognised in profit or loss when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

At each balance sheet date the Group recognises a loss allowance for expected credit losses (ECL) on a financial assets measured at amortised cost. The loss allowance for financial asset at amortised cost is recognised in profit or loss in correspondence with a balance sheet account reducing the carrying amount of the financial asset.

Expected credit losses for banks are determined based on credit rating and relevant probability of default. For receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the only category relevant to the Group as of 31 December 2018. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

A provision for decommissioning is made for the cost of decommissioning assets at the time when the obligation to decommission arises. Such provision represents the estimated discounted liability 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.

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.

2.16 Share capital, share premium and capital reserves

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from the share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction. Any discount on the issue of ordinary shares is deducted from the share premium account.

The share premium is recognised on the difference between the par value of a share and its selling price.

The capital reserve brought forward arose on the disposal of all the subsidiaries to its former holding company (Crosby Capital Limited), reverse acquisition of Crosby Capital Limited and on a group reorganization during the years ended 31 December 2010, 31 December 2004 and 31 December 2000 respectively.

2.17 Revenue recognition

The Group is in the business of exploration and sale of natural gas and oil products. Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

i) Sale of goods

Revenue from the sale of gas, and oil condensate is recognised at the point in time when control of the asset is transferred to the customer. The normal credit term is 30 days.

ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

iii) Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.18 Mineral extraction tax (MET)

In the Russian Federation MET is payable on the extraction of hydrocarbons, including natural gas, crude oil and condensate, and is levied based on quantities of natural resources extracted multiplied by the applicable MET rate for the product and field in question. MET is a production based tax (as opposed to income) and is accrued as a tax on production and recorded within cost of sales.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, 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, deferred income tax is not accounted for if it arises from the 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 substantively 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 tax 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.

2.20 Employee benefits

Retirement benefit schemes

No pension contributions were payable in the year. The Group participated only in defined contribution pension schemes and paid contributions to independently administered funds on a mandatory or contractual basis. The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and by the relevant company. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense on an accruals basis.

Share-based employee compensation

The Group operates equity-settled share-based compensation plans to remunerate its Directors and key management.

All services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the fair value of the share options and warrants awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in the statement of comprehensive income unless it qualifies for recognition as an asset, with a corresponding credit to the employee share-based compensation reserve in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than vested.

Upon exercise of share options or warrants the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital and the amount previously recognised in the employee share-based compensation reserve will be transferred out with any excess being recorded as share premium.

When the share options or warrants have vested and then lapsed, the amount previously recognised in the employee share-based compensation reserve is transferred to retained earnings or accumulated losses.

Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

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.

Valuations of share options or warrants granted

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model, including the expected life of the share option or appreciation right, volatility and dividend yield, and making assumptions about them. The fair value of share options or warrants granted was calculated using the Black-Scholes Pricing Model, which requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the Directors of the Group the existing model will not always necessarily provide a reliable single measure of the fair value of the share options. Details of the inputs are set out in Note 21 to the financial statements.

3. Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. 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:

3.1 Income taxes

The Group is subject to income and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of tax legislation of the Russian Federation. The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, as well as official pronouncements and court decisions which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Deferred tax assets are recognised to the extent that it is probable for each subsidiary to generate enough taxable profits to utilise deferred income tax recognised. Significant management judgement is required to determine the amount of deferred tax assets recognised, based upon the likely timing and the level of future taxable profits. Management prepares cash-flow forecasts to support the recoverability of deferred tax assets. Cash flow models are based on a number of assumptions relating to oil prices, operating expenses, production volumes, etc. These assumptions are consistent with those used by independent reserve engineers. Management also takes into account uncertainties related to future activities of the subsidiaries and going concern considerations. When significant uncertainties exist, deferred tax losses are not recognised even if the recoverability of these is supported by cash flow forecasts.

3.2 Provision for decommissioning and environmental restoration

This provision is significantly affected by changes in technology, laws and regulations which may affect the actual cost of decommissioning and environmental restoration to be incurred at a future date. The estimate is also impacted by the discount rates used in the provisioning calculations. The discount rates used are the Russian government bond rates.

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.

The Group's exploration, development and production activities involve the use of wells, related equipment and operating sites. Generally, licenses and other regulatory acts require that such assets be decommissioned upon the completion of production. According to these requirements, the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Group's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects risk free rate. The Group adjusts specific cash flows for risk.

3.3 Impairment of assets

Exploration and evaluation

An impairment exercise will be performed at the end of the exploration and evaluation process.

When, at the end of the exploration and evaluation stage, commercial reserves are determined to exist in respect of a particular field, the Group performs an impairment test in relation to costs capitalised. Where reserves are determined in sufficient quantity to justify development, the associated assets are transferred to property, plant and equipment.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the statement of profit or loss and other comprehensive income as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

Development and production

When the fields enter the production phase, the recoverable amounts of cash-generating units and individual assets will be determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations will require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of long-term assets.

The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets. There were no such indicators of possible impairment identified during the reporting years covered by these consolidated financial statements.

3.4 Evaluation of reserves and resources

Estimates of proved reserves are used in determining the depletion and amortization charge for the period and assessing whether any impairment charge or reversal of impairment is required for development and producing assets. As of 31 December 2018 and 2017 proved reserves were estimated by reference to an independent international oil and gas engineering firm report dated 22 May 2014, by reference to available geological and engineering data, and only include volumes for which access to market is assured with reasonable certainty.

When the fields enter the development and production phase, estimates of reserves are inherently imprecise, require the application of judgments and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells and changes in economic factors, including product prices, contract terms or development plans. Changes to the Group's estimates of proved reserves affect prospectively the amounts of the depletion and amortization charge, decommissioning assets and provisions where changes in reserve estimates cause the estimated useful lives of assets to be revised.

Depletion is provided for based on the production profile on a field by field basis, which may exceed the existing licence period. Licence extensions are generally awarded by the license authorities in Russia as a matter of course, provided that production plans demonstrate that additional time is required to economically produce at the field and that the development and production requirements of the initial license grant have been met.

3.5 Sub-soil licences

The Group is subject to periodic reviews of its activities by governmental authorities in Russia with respect to the requirements of its sub-soil licences, and seeks amendments to the licences when supported by the results of ongoing exploration and development activities. The requirements under the licences are subject to interpretation and enforcement policies of the relevant authorities. In management's opinion, as of 31 December 2018, there are no non-compliance issues that will have an adverse effect on the financial position or operating results of the Group.

3.6 Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's receivables is disclosed in Note 27.

4. Determination of fair value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Other receivables

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair value of the non-derivative financial assets is disclosed below.

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:

	31 December 2018		31 December 2017	
	Fair value	Carrying value	Fair value	Carrying value
Financial assets				
Trade and other receivables	176,498	176,498	152,574	152,574
Total assets	176,498	176,498	152,574	152,574
Financial liabilities				
Borrowings	1,270,477	1,262,898	1,614,108	1,562,186
Trade and other payables	97,405	97,405	93,857	93,857
Contract liabilities	7,274	7,274	–	–
Obligation under finance leasing	–	–	1,666	1,666
Other non-current payables	68,679	68,081	63,328	62,771
Total liabilities	1,443,835	1,435,658	1,772,959	1,720,480

The fair value of borrowings and other non-current payables is based on cash flows discounted using a market rate of 9.33% (2017: 9.34%). 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.

5. 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:

	2018	2017
Gas sales	1,287,680	1,528,637
Condensate sales	160,976	142,445
Oil sales	156,426	115,358
Sulphur sales	9,727	4,084
Total revenue from contracts with customers	1,614,809	1,790,524

All gas sales are made to one customer, Gazprom Mezhrefiongaz 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.

6. Cost of sales

	2018	2017
Depreciation and depletion	438,213	437,160
Mineral extraction tax	342,676	371,620
Wages and salaries	111,877	108,422
Materials and supplies	61,890	69,029
Other taxes and charges	61,536	50,096
Repair and maintenance	37,009	37,928
Compensation benefits to operating personnel	16,539	13,739
Other	49,087	58,818
Total cost of sales	1,118,827	1,146,812

7. Administrative and selling expenses

	2018	2017
Wages and salaries including director's fee	137,515	131,774
Accountancy, legal and consulting services	34,185	14,335
Depreciation	7,050	3,227
Audit services	6,142	2,268
Rent expense	4,991	6,081
Travelling	3,058	3,259
Insurance	2,206	2,094
Office expenses	1,030	1,773
Field development costs	619	13,268
Computers and software	579	809
Other	10,410	6,060
Total administrative, selling expense	207,785	184,948

8. Salaries and other employee benefits

	2018	2017
Salaries and other employee benefits	265,931	253,935
Total	265,931	253,935

Salaries and other employee benefits are included in other cost of sales and administrative and selling expenses.

Average monthly number of employees for the year (including executive directors):

	2018	2017
	Employees	Employees
Administrative	55	58
Operating	177	181
Total	232	239

9. Other income and expenses

	2018	2017
Change in decommissioning and environmental restoration provision	25,964	13,448
Net income from sale of property, plant and equipment	4,917	2,017
Penalties received	–	11,367
Net foreign exchange difference	–	173
Income from services	3,783	–
Write-off of accounts payables and other current liabilities	3,342	–
Other	1,519	–
Other income	39,525	27,005
Write-off of accounts receivable and other current assets, ELC accrual	(5,616)	(1,908)
Charitable contributions	(2,417)	(1,255)
Penalties paid	(2,412)	–
Loss on disposal of property, plant and equipment	(1,452)	(30,669)
Bank charges	(899)	(181)
Net foreign exchange difference	(409)	–
Other	(1,758)	(1,288)
Other expenses	(14,963)	(35,301)

10. Finance income and finance costs

	2018	2017
Finance income		
Interest on bank deposits	20,178	27,960
Total finance income	20,178	27,960
Finance costs		
Interest on borrowings (Note 22)	(141,547)	(190,897)
Unwinding of the discount on decommissioning and environmental restoration provision (Note 23)	(29,841)	(29,884)
Unwinding of the discount on recognition non-current payables	(5,311)	(4,896)
Other finance costs	(700)	(64)
Total finance costs	(177,399)	(225,741)

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11. Income tax (expense)/benefit

The tax charge for the year comprises:

	2018	2017
Deferred tax (expense)/benefit	(45,493)	163,052
Current tax expense	(811)	(85)
Tax risk provisions	(19,105)	–
Total income tax (expense)/benefit	(65,409)	162,967

Reconciliation between theoretical and actual taxation charge is provided below.

	2018	2017
Profit/(loss) before income tax	155,538	(1,432,945)
Theoretical tax (charge)/benefit at applicable income tax rate of 20% (2017: 20%)	(31,108)	286,589
Effect of different foreign tax rates	(5,390)	(6,278)
Effect of unrecognised deferred tax assets	(5,246)	(108,715)
Tax effect of expenses not deductible for tax purposes	(4,560)	(8,629)
Tax risk provisions	(19,105)	–
Total income tax (expense)/benefit	(65,409)	162,967

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

	2018	2017
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.

12. Exploration and evaluation assets

	Sub-soil licences	Exploration and evaluation works capitalised, including seismic works	Total
Balance at 1 January 2017	2,188,024	2,600,290	4,788,314
Additions	14,597	136,564	151,161
Transfer from property, plant and equipment	–	978	978
Change in the estimates of decommissioning provision	–	4,532	4,532
Impairment	(1,164,893)	(520,739)	(1,685,632)
Balance at 31 December 2017	1,037,728	2,221,625	3,259,353
Additions	–	216,252	216,252
Change in the estimates of decommissioning provision	–	3,138	3,138
Amortization	(218)	(1,012)	(1,230)
Balance at 31 December 2018	1,037,510	2,440,003	3,477,513

Additions during 2018, 2017 are mostly represented by seismic works at North Mokrousovskoye field.

In management's opinion, as at 31 December 2018 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 31 December 2018 the uncertainty regarding the Koltogor oil field development is still in place.

13. Property, plant and equipment

	Oil and gas assets	Motor vehicles	Other equipment and furniture	Construction work in progress	Total
Cost at 1 January 2017	4,825,462	17,245	7,955	249,924	5,100,586
Additions	171,739	8,193	82	99,060	279,074
Reclassification	265,311	–	–	(265,311)	–
Transfer from exploration and evaluation assets	–	–	–	(978)	(978)
Transfer to inventory	(947)	–	–	(2,690)	(3,637)
Change in the estimates of decommissioning provision	5,261	–	–	–	5,261
Disposals	(64,782)	(7,363)	(74)	(11,423)	(83,642)
Cost at 31 December 2017	5,202,044	18,075	7,963	68,582	5,296,664
Additions	86,230	3,085	2,157	31,965	123,437
Reclassification	28,002	–	–	(28,002)	–
Transfer to inventory and other receivables	–	–	–	(9,849)	(9,849)
Change in the estimates of decommissioning provision	(5,559)	–	–	–	(5,559)
Disposals	(7,456)	(4,274)	(299)	(1,475)	(13,504)
Cost at 31 December 2018	5,303,261	16,886	9,821	61,221	5,391,189
Accumulated depreciation, depletion and impairment					
Balance at 1 January 2017	(868,540)	(16,116)	(4,676)	–	(889,332)
Depreciation and depletion	(434,755)	(5,137)	(495)	–	(440,387)
Disposals	34,518	5,765	74	–	40,357
Balance at 31 December 2017	(1,268,777)	(15,488)	(5,097)	–	(1,289,362)
Depreciation and depletion	(440,673)	(2,775)	(585)	–	(444,033)
Disposals	4,537	4,231	274	–	9,042
Balance at 31 December 2018	(1,704,913)	(14,032)	(5,408)	–	(1,724,353)
Net book value at 1 January 2017	3,956,922	1,129	3,279	249,924	4,211,254
Net book value at 31 December 2017	3,933,267	2,587	2,866	68,582	4,007,302
Net book value at 31 December 2018	3,598,348	2,854	4,413	61,221	3,666,836

14. Inventories

	31 December 2018	31 December 2017
Natural gas and hydrocarbon liquids (at lower of cost and net realisable value)	10,107	7,119
Materials and supplies (at cost)	13,362	13,758
Total inventories	23,469	20,877

Materials and supplies mainly comprised of liquid feedstock and maintenance parts.

15. Trade and other receivables and other current non-financial assets

	31 December 2018	31 December 2017
Trade receivables, gross	175,672	151,855
Other accounts receivable, gross	3,222	1,635
Expected credit loss	(2,396)	(916)
Total trade and other receivables	176,498	152,574
Prepayments	13,065	11,173
VAT receivable	782	72
Other taxes prepaid	542	155
Total other current non-financial assets	14,389	11,400

Trade and other receivables are non-interest bearing and are generally on terms of 30 – 45 days. In 2018, 1,480 (2017: 916) was recognised as provision for expected credit losses on trade and other receivables.

Prepayments are advance payments for services to be rendered within the next twelve months.

Current VAT receivable is expected to be recovered within the next twelve months.

Set out below is the movement in the allowance for expected credit losses of trade and other receivables:

	31 December 2018	31 December 2017
As at 1 January under IAS 39		(-)
The opening balance in the provision for expected credit losses on 1 January 2018 under IFRS 9	(916)	
Provision for expected credit losses	(1,480)	(916)
As at 31 December	(2,396)	
As at 31 December under IAS 39		(916)

The information about the credit exposures are disclosed in Note 27.

16. Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and the majority of cash held is denominated in RUB.

The Group's exposure to credit risk and impairment losses related to cash and cash equivalents are disclosed in Note 27.

17. Share capital

At 31 December 2018 and 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

18. Dividends

In accordance with the relevant legislation applicable to the Group, the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with International Financial Reporting Standards. No dividends were declared or paid in 2018 and 2017.

19. Other taxes payable

	31 December 2018	31 December 2017
VAT	53,296	37,627
Mineral extraction tax	21,271	32,119
Property tax	8,598	10,010
Other taxes	13,116	9,625
Total	96,281	89,381

20. 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 year.

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. As of 31 December 2018 and 2017 share options gave antidilutive effect on loss per share.

	2018	2017
Profit/(loss) attributable to owners of the Company – Basic and diluted	90,129	(1,269,978)
	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	6,103	202,500
Weighted average number of shares for calculating diluted earnings per share	141,961,489	142,157,886
	RUB	RUB
Basic earnings/(loss) per share	0.63	(8.95)
Undiluted earnings/(loss) per share	0.63	(8.95)

21. Share-based payments

21.1 Share options

At 31 December 2018, the Company has no outstanding share options (31 December 2017: 202,500).

Options which are lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options and are available for re-use.

	31 December 2018		31 December 2017	
Grant date	Number	Option exercise price (pence)	Number	Option exercise price (pence)
11 January 2008	-	-	202,500	445
	-		202,500	

All share options expired as of 31 December 2018.

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21.2 Initial share options

The Company adopted an employee Share Option Scheme on 4 March 2005 (the "Share Option Scheme") in order to incentivise key management and staff at that time. The following share options were granted to former employees and directors of the Company under the Initial Share Option Scheme adopted on 4 March 2005 ("Initial Share Options") and are still in existence:

	2018		2017	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
Outstanding at 1 January	202,500	445	202,500	445
Expired	202,500	445	–	–
Outstanding at 31 December	–	–	202,500	445

Share options granted under the Initial Share Option Scheme were exercisable as follows:

- The first 30% of the options between the first and tenth anniversary of the grant date;
- The next 30% of the options between the second and tenth anniversary of the grant date; and
- The remaining options between the third and tenth anniversary of the grant date.

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) as determined through use of the binomial option pricing model, at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

The binomial option pricing model is applied to the granting of share options in respect of calculating the fair values. Key inputs to the model are as follows:

	Share options			
	11 January 2005	23 March 2006	23 February 2007	11 January 2008
Share price at grant	20.75p	93.25p	36.25p	22.25p
Option exercise price	21.15p	95.20p	32.65p	22.25p
Expected life of option	10 years	10 years	10 years	10 years
Expected volatility	60-65%	60-65%	60-65%	60-65%
Expected dividend yield	5.0%	5.0%	5.0%	5.0%

Volatility has been based on the historical trading performance of the Company and comparable companies. The risk-free rate has been determined based on 10-year government bonds.

21.3 Directors share options

Share options granted to certain existing Directors of the Company on 31 October 2012 ("Directors Share Options") were exercisable at any time between the commencement of the option period and third anniversary of the grant date. Share options granted under this scheme were as follows:

	2018		2017	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
Outstanding at 1 January	–	–	1,750,000	20
Expired	–	–	1,750,000	20
Outstanding at 31 December	–	–	–	–

During 2014 the exercisable period of the remaining options was extended from 30 October 2015 to 30 October 2017. As of 31 December 2017 all Directors Share options have expired.

The Black-Scholes formula is the option pricing model applied to the grant of share options in respect of calculating the fair values. Key inputs to the model are as follows:

Share options	31 October 2012
Share price at grant	3.45p
Option exercise price	1.00p
Expected life of option	3 years
Expected volatility	216.1%
Expected dividend yield	0.0%
Risk free rate	0.49%
Fair value per share option	3.342p
Exchange rate used (USD: GBP)	1.62525

Volatility has been based on the Company's trading performance from 1 January 2011. The risk free rate has been determined based on 5-year government bonds.

22. Borrowings

	2018	2017
Non-revolving credit facility – liability, as at 1 January	1,562,186	1,859,949
Including current liability	309,172	311,160
Interest accrued	141,547	190,897
Interest paid	(140,835)	(188,660)
Repayment	(300,000)	(300,000)
Non-revolving credit facility, as at 31 December	1,262,898	1,562,186
Including current liability	570,400	309,172

In 2014, the Group entered into non-revolving credit facility agreement with Sberbank of Russia OJSC with a maximum facility amount of 2,400,000. Contractual currency is RUB. The facility was drawn down in full in 2014. The maturity date is 30 April 2021, being the 7-year anniversary of the facility entered into. The Group is obliged to repay the principal amount of the loan in 24 tranches commencing on 11 May 2015 and on a quarterly basis from then on with a final repayment tranche payable on the maturity date. The interest rate is fixed and contracted as 10.98% per annum. In November 2018 the Group concluded additional agreement, where the interest rate was resettled as 9.27% per annum. Sberbank may unilaterally amend the interest rate in the event of increases in the refinancing rate of the Central Bank of Russia. The Group paid an upfront commission on the facility of 1% of the facility amount (24,000) and there is a drawdown charge of 0.25% per year on the balance of the facility not drawn by the Group within the established timeframe. The Group has the option to prepay the loan in whole or in part at any time, subject to the payment of a fee. The Group provided certain warranties and representations to Sberbank in the agreement. The agreement contains certain loan covenants and events of default which are customary for a facility of this type. The Group was in compliance with all covenants as of 31 December 2018 and 31 December 2017. The loan is secured by the Group, such security being granted pursuant to various pledge and mortgage deeds entered into by the Group on or about the date of the Sberbank Facility. The carrying value of property, plant and equipment pledged as of 31 December 2018 amounted to 2,556,825 (31 December 2017: 2,775,473).

The outstanding principal amount of the facility as of 31 December 2018 was 1,260,000 (31 December 2017: 1,560,000). The credit facility debt is measured at amortised cost, using the effective interest method.

23. 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.

	2018	2017
Provision as at 1 January	386,152	359,153
Additions	2,820	770
Unwinding of discount	29,841	29,884
Change in estimate of decommissioning and environmental restoration provision	(28,385)	(3,655)
Provision as at 31 December	390,428	386,152

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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 31 December 2018 was 5.28% in 2019, decreasing to 3.64% in 2036 (as of 31 December 2017: 3.77% 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 31 December 2018, the discount rate varies from 8.72% to 8.75% (as of 31 December 2017: from 7.62% to 7.79%) depending on expected period of abandonment and site restoration for each gas and oil fields.

24. Deferred tax liabilities

Movements in temporary differences during the year:

	31 December 2018	Recognised in profit or loss	31 December 2017
Decommissioning provision	46,617	1,235	45,382
Other current assets and liabilities	15,524	4,089	11,435
Tax loss carry-forwards	317,365	18,187	299,178
Deferred tax assets	379,506	23,511	355,995
Exploration and evaluation assets	(402,561)	(46,777)	(355,784)
Property, plant and equipment	(292,574)	(22,924)	(269,650)
Borrowings	(700)	697	(1,397)
Deferred tax liabilities	(695,835)	(69,004)	(626,831)
Net deferred tax liabilities	(316,329)	(45,493)	(270,836)

	31 December 2017	Recognised in profit or loss	31 December 2016
Decommissioning provision	45,382	1,014	44,368
Other current assets and liabilities	11,435	1,895	9,540
Tax loss carry-forwards	299,178	111	299,067
Deferred tax assets	355,995	3,020	352,975
Exploration and evaluation assets	(355,784)	220,659	(576,443)
Property, plant and equipment	(269,650)	(61,472)	(208,178)
Borrowings	(1,397)	845	(2,242)
Deferred tax liabilities	(626,831)	160,032	(786,863)
Net deferred tax liabilities	(270,836)	163,052	(433,888)

Deferred income tax assets are not fully recognised for impairment of exploration and evaluation assets and tax losses mainly carried forward for SibGeCo to the extent that the utilisation of the related tax benefit through future taxable profits is not probable. The Group has not recognised deferred income tax assets of 601,033 (2017: 595,787). The Group has tax losses that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Management assessed that recognised deferred tax assets will be fully offset against future taxable profits in 2020-2026.

25. Trade and other payables

	31 December 2018	31 December 2017
Current trade payables	46,850	64,052
Payables to employees	40,173	24,310
Accrued expenses	10,382	5,495
Total current payables	97,405	93,857
Non-current other payables	68,081	62,771
Total non-current payables	68,081	62,771

26. Operating leases

Operating lease payments are mainly rentals by the Group of land, office space and equipment required for use on a temporary basis. Leases are normally signed on a short-term basis of one to two years with options to extend.

Non-cancellable and cancellable operating lease payments recognised within cost of sales and operating, administrative and selling expenses in the consolidated statement of comprehensive income for the year amounted to 8,548 (2017: 9,639).

At the reporting date the Group's outstanding commitments for future minimum lease payments under non-cancellable leases fall due as follows:

	31 December 2018	31 December 2017
Within one year	3,129	3,002
In two to five years	14,518	14,496
More than five years	30,699	32,518
Total	48,346	50,016

27. 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.

27.1 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 315,473 as at 31 December 2018. The Group plans to cover liquidity gap by cash inflows from operating activity in 2019. As described in Note 30 in May 2019 the Group refinanced its loan obligation from Sberbank PJSC and received additional financing.

With all the above the Group management considers the liquidity risk as low.

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The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	Total	Less than 1 year	1-3 years	Over 3 years
Financial liabilities as at 31 December 2018				
Borrowings	1,391,101	653,980	737,121	-
Trade and other payables	179,094	97,405	81,689	-
Total	1,570,195	751,385	818,810	-

	Total	Less than 1 year	1-3 years	Over 3 years
Financial liabilities as at 31 December 2017				
Borrowings	1,871,795	452,638	1,282,464	136,693
Trade and other payables	175,546	93,857	-	81,689
Obligations under finance lease	1,666	1,666	-	-
Total	2,049,007	548,161	1,282,464	218,382

27.2 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.

27.3 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 Mezhrefiongaz Saratov LLC) for a significant portion of revenues. Gazprom Mezhrefiongaz Saratov LLC accounted for 79.7% and 85.4% of the Group's total revenue in 2018 and 2017 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 Mezhrefiongaz 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.

Set out below is the information about the credit risk exposure on the Group's trade and other receivables using a provision matrix:

	Total	Current	Days past due		
			45-180 days	180-360 days	>360 days
Expected credit loss rate		0%	-	100%	100%
Estimated total gross carrying amount at default	178,894	176,498	-	1,480	916
Expected credit loss	2,396	-	-	1,480	916

31 December 2017

	Total	Current	Days past due		
			45-180 days	180-360 days	>360 days
Expected credit loss rate		0%	-	100%	0%
Estimated total gross carrying amount at default	153,490	152,574	-	916	-
Expected credit loss	916	-	-	916	-

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 2018 cash was held mainly with Agricultural Bank, Bank Rossiysky Capital and Sberbank.

	31 December 2018	31 December 2017
Ba1.ru, Moody's	191,251	-
Ba2.ru, Moody's	-	163,328
ruBBB, Expert RA	50,000	-
ruBBB-, Expert RA	-	115,000
Baa3.ru, Moody's	10,945	-
Ba3.ru, Moody's	49	105
Other	8,391	8,321
Total cash and cash equivalents	260,636	286,754

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 31 December 2018 and 31 December 2017.

28. Commitments and contingencies

28.1 Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred at 31 December 2018 was 29,984, net of VAT (31 December 2017: 483,042, net of VAT).

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28.2 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.

28.3 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 2017 or 31 December 2018.

28.4 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 2018, 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.

28.5 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.

29. 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 8,956 (2017: 17,451) resulting from the reduction of Company's and Zoltav Resources LLC's Board of Directors members' remuneration

30. Events after the reporting date

On 13 May 2019 the Group signed a credit line agreement with Promsvyazbank PJSC. Credit line limit is 1,320,000. The purpose of the credit line – refinancing the loan from Sberbank PJSC and financing of current activities. 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.

31. Availability of annual report and financial statements and General Meeting

Copies of the Group's annual report and consolidated financial statements will be sent to Registered Shareholders but may not be sent to holders of Depository Interests. The annual report and financial statements will be available for inspection at the Group's registered office and may also be viewed on the Group's website at: www.zoltav.com. Notice of a General Meeting will be sent to shareholders in due course.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), 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, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS 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 3.

GLOSSARY

bbf	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
MW	Megawatt
PRMS	Petroleum Resources Management System
t	Tonnes
t/d	Tonnes per day
toepd	Tonnes of oil equivalent per day



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