IG Seismic Services plc

MANAGEMENT’S REPORT ON TWELVE MONTHS 2015 RESULTS
For twelve months ended 31 December, 2015

Select financial and operating information

	2015	2014	Change	%
in thousand RUR, unless otherwise stated				
Revenue	18,804,942	19,589,247	(784,305)	-4.0%
EBITDA	4,016,339	4,448,998	(432,659)	-9.7%
EBITDA margin	21.4%	22.7%	-135 bp	-
Net loss from continuing operations *	(2,122,994)	(2,409,972)	286,978	-11.9%
Operating cash flow	1,334,755	3,425,415	(2,090,660)	-61.0%
Capital Expenditures	1,941,313	3,289,053	(1,347,740)	-41.0%
Net Debt	17,218,035	15,184,862	2,033,173	13.4%

** Net loss incurred for 2015 and 2014 was significantly affected by certain number of one-off and non-recurring items which are discussed below in the “Adjusted EBIT and adjusted EBITDA” section.*

Operational statistics

	2015	2014	Change	%
Kilometers				
2D (km)	12,802	12,199	603	5%
3D (sq.km)	10,444	9,280	1,164	13%
HD (km)	-	622	(622)	-100%
HD (sq.km)	1,246	1,187	59	5%
Shot Points performed by IGSS crews				
2D	315,580	273,395	42,185	15%
3D	797,234	666,780	130,454	20%
HD	359,725	423,456	(63,731)	-15%
TOTAL performed by IGSS crews	**1,472,539**	**1,363,631**	**108,908**	**8%**
including				
Russia	1,336,720	1,179,924	156,796	13%
Kazakhstan	43,564	98,418	(54,854)	-56%
Other	92,255	85,289	6,966	8%

Order Book

SEISMIC SERVICES

Order Book as of December 31, 2015 (including VAT)

	As of 31.12.2015 RUR mln	As of 31.12.2014 RUR mln	Change %
Western Siberia	9,169	9,908	-7%
Eastern Siberia	9,082	11,436	-21%
Timano-Pechora	7,578	4,934	54%
South of Russia	2,834	3,424	-17%
Kazakhstan	99	-	100%
International projects	-	620	-100%
TOTAL, including	**28,762**	**30,322**	**-5%**
Contracts Signed*	22,856	25,946	-12%
Tenders won, contracts to be signed	5,906	4,376	35%

Order Book as of December 31, 2015 Breakdown by Years (including VAT)

	As of 31.12.2015 RUR mln
2016	16,216
2017	7,801
2018	4,745
TOTAL	**28,762**

SEISMIC DATA PROCESSING AND INTERPRETATION

	As of 31.12.2015 RUR mln	**As of 31.12.2014** RUR mln	Change %
Contracts Signed*	536	278	93%
Tenders won, contracts to be signed	54	-	100%
TOTAL, including	**590**	**278**	**112%**

**Signed contracts may be subject to renegotiation of volumes and/or other terms or even cancellation, and both signed contracts and tenders won may not proceed as originally planned at all.*

The Group is currently in the process of contracting for 2016-2017 and 2017-2018 seasons which implies that current order book does not provide an accurate indication of revenues in 2016 and current order book trends could change.

The following discussion and analysis of our financial condition and results of operations is for the year ended 31 December 2015 (the "Report"). It should be read in conjunction with our Audited Consolidated Financial Statements for the year ended 31 December 2015 and related notes. Financial information as of and for the year ended 31 December 2015 has been derived from our Audited Consolidated Financial Statements prepared in accordance with IFRS. This Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including but not limited to the risks discussed in the section of this Report entitled "Qualitative and Quantitative Disclosures about Market Risk" and elsewhere in this Report. References to "IGSS", "the Group", "we", "our" and "us" are references to IG Seismic Services plc and its subsidiaries and equity affiliates.

Seismic Services Market Conditions

Our results of operations are affected by the conditions in the seismic services market, and more generally, the oil and gas field services market in Russia and the CIS. Oil production in Russia was steadily and dynamically growing throughout 2000s thanks to the intensification of production at existing fields and implementation of technologies to enhance oil recovery rate. Over the period of 2000-2010 production grew more than 1.5 times exceeding 500 mln tones a year. During the crisis of 2008-2009 there was a trend towards production decline, but timely tax cuts by the government helped stabilize production and even promote its growth. Since 2010, conditions in this market have been gradually improving due to positive oil price dynamics and changes in Russian upstream and corporate taxation.

The previous 2014 year saw significant economic changes in the country. Due to sanctions imposed by the OECD against Russia and slumping oil prices (up to $45 per barrel), oil and gas companies have encountered new issues.

During 2015, the oil prices have been volatile at the beginning and end of the period, but mostly remaining around US $50 per barrel, due to market oversupply. Geopolitical uncertainties and risks remain. Low oil price, geopolitical uncertainties and a weaker ruble negatively affected our reported results of operations.

The fundamentals of the Russian OFS market remain unchanged; with the greater part of Russian oil production is based on discoveries that were made in the time of the Soviet Union. 90% of oil production is done at oilfields that were discovered before 1988, and only remaining 10% is extracted from the fields that were discovered in the 1990s and 2000s. Such a situation has resulted from the fact that newly discovered fields are mainly located in faraway regions with difficult climates or lack of infrastructure. Their development requires considerable investment. Future production dynamics will depend on the companies' ability to speedily commission new fields and the rates of implementation of modern technologies necessary to maintain production at existing fields.

Volatility in demand for services is partially mitigated by the fact that state-related clients, such as state-controlled oil companies including Gazprom Neft, Rosneft, Gazprom and government authorities including Rosnedra, which accounted for approximately 13.7%, 13.2%, 10.7% and 5.1% of our revenues from seismic survey operations respectively for the year ended 31 December 2015, tend to demonstrate a greater degree of commitment to early stage exploration projects even during the financial downturn, compared to private businesses. In addition, some hydrocarbon licenses in Russia include specific annual targets for seismic surveys, which require the respective license holders to continue undertaking seismic services and prioritize them over most other capital expenditures, in order to retain the licenses.

Seasonality

Revenues from our field seismic works operations comprised over 95% of our total revenues derived for the period. There is a limited season for conducting such operations in Siberia as we cannot access many areas in certain periods due to flooding caused by spring thawing and the melting of bogs, following which, the working area is usually characterized by swampy conditions. These conditions restrict the provision of field seismic services in Siberia to a period from December to April. In the first half of the year, our order book is typically lower than in the subsequent quarters, as we usually enter into contracts for the next season in the second half of the year. During the third quarter of the year, we enter the preparation stage, which typically results in an increase in our debt and working capital levels. In addition, on certain occasions, volumes in the second quarter can be negatively affected by early spring thaw. We expect to continue our geographic diversification to reduce the impact of seasonality on our operations, in particular by re-deploying our crews to other locations, such as Southern Russia, Kazakhstan, Uzbekistan and certain countries outside the CIS, during off-peak seasons in Siberia. However, while such redeployment helps us to better utilize our capacity throughout the year, increasing revenues, profits and return on capital, it also negatively affects our margins as seismic surveys performed in warmer climates and less demanding conditions generally yield lower margins as compared to seismic surveys performed in regions with more harsh weather conditions.

Seismic Services Market Trends in 2015

In recent years the Russian oil industry has entered a new stage of development. The vast majority of Russian production comes from increasingly mature fields discovered and in most cases developed during the Soviet period. The Russian government and oil companies are aware that, in order to replace falling production at these brownfields, it will be necessary to develop new fields and to apply new approaches to production at already producing fields, including through the exploration and development of new, yet-to-find, fields and tight oil reservoirs, and through the use of new technologies to develop more complex, discovered but undeveloped reservoirs and to optimize production from mature reservoirs at currently producing fields. An increasing proportion of Russian oil production has been already accounted for by reservoirs with more complex geologies than those traditionally developed, which requires more complicated geological evaluation and production technologies. Thus, we expect that growth of the seismic exploration market will be driven by increased seismic activity at existing brownfields, additional seismic exploration of tight oil reservoirs, new exploration in new regions and, potentially, by offshore projects.

Maintaining production is becoming a key priority for the Russian government, which is reflected in a series of already introduced and potential tax benefits.

Major Events of the Year 2015

Moody's affirmed the 'B2' rating and revised the outlook to 'Negative'

On 16 January, 2015 Moody's affirmed the 'B2' rating and revised the outlook to 'Negative'.

IGSS sent request to cancel listing and trading of GDR on LSE

In April 2015 IGSS announced that it has sent a request to the London Stock Exchange and the Financial Conduct Authority to cancel the listing and trading of its Global Depositary Receipts. Shortly thereafter, it intended to effect a change of its shareholder base and corporate group. Due to lack of consent of certain of IGSS's financing banks for delisting from LSE and corporate restructuring, the delisting was first delayed, and in June cancelled.

AGM Approved re-election of retiring directors

In June 2015 the Annual General Meeting (AGM) approved re-election of retiring Directors of the Company - Nikolay Levitskiy and Maurice Dijols.

Change of Board Composition

Extraordinary General Meeting, held on 10th of July 2015, approved resignation of Director Peter O'Brien and appointment of Olivier Martin as a Director of the Company.

Standard and Poor's (S&P) placed IGSS rating 'B' on Creditwatch "Negative"

On 22 July 2015 S&P placed 'B' rating on IGSS and on its subsidiary GEOTECH Seismic Services on CreditWatch with negative implications. S&P also placed 'ruA-' Russia national scale rating on GEOTECH Seismic Services on CreditWatch negative.

IGSS signed new agreement with bank Financial Corporation "Otkritie"

In July 2015 Public Joint Stock Company Bank «Otkritie Financial Corporation» provided a new credit line facility to Public Joint Stock Company «GEOTECH Seismic Services» in the amount of 6.5 billion rubles maturing 29 July 2022. Following the receipt of funds from PJSC Bank «Otkritie FC» the Group's total debt amount will remain unchanged as credit line will be used to refinance existing obligations.

Geotech Seismic Services was recognized to be the best seismic company in Russia in 2015

The Ministry of Industry and Trade of the Russian Federation conducted a survey among the consumers of the oil and gas industry services in order to develop a communication strategy for oil and gas service equipment market, increase its openness and transparency, and share the experience of efficient oil and gas service contractors.
The representatives of 46 companies, including PAO "Gazprom", OAO "Gazprom neft", PAO Oil Company "LUKOIL", OAO Oil Company "Rosneft", OAO "NOVATEK" and others were surveyed. Five-point grading scale was applied for estimating. The winners were declared in seven groups according to their type of services.
Geotech Seismic Services took the honorable first place and was recognized to be the best company in "Seismic Services and Wireline Well Services" Group.

Standard and Poor's (S&P) affirmed IGSS rating "B" outlook "Negative"

On November 12, 2015 S&P affirmed 'B' rating on IGSS and on its subsidiary GEOTECH Seismic Services, outlook "Negative". S&P also assigned 'ruBBB+' Russia national scale rating to GEOTECH Seismic Services, outlook negative. S&P removed both global and national ratings from CreditWatch negative.

IGSS Announced Transactions

IGSS announces that on 20 November 2015 Mr. Nikolay Levitskiy, being Chief Executive Officer and an ultimate beneficial owner of 55.82% of the entire issued share capital of IGSS, together with his associated entities, entered into a series of transactions with two separate strategic investors: Remwill Trade Limited ("Remwill") and SBC Geofizika LLC ("SBCG"). Upon closing of these transactions, Mr Levitskiy shareholding, together with his associated entities, will decrease from 55.82% of the entire issued share capital of IGSS to 25.82%, in consideration for the restructuring and settlement of certain debt obligations owed by Mr Levitskiy and his associated entities. Accordingly, Remwill will become an owner of 15% less one share, and SBCG will become an owner of 15%, of the entire issued share capital of IGSS. Neither Remwill nor SBCG were previously shareholders in IGSS.

IGSS Announced Change in Shareholders

At the end of 2015 Mr. Nikolay Levitskiy (CEO of IG Seismic Services PLC (IGSS)) has disposed of 6,250,019 shares of IGSS, representing 30.00% minus 1 share of the issued share capital of IGSS, in the course of transaction with Remwill Trade Limited ("Remwill") and SBC Geofizika LLC ("SBCG").

Currently, the IGSS CEO Nikolay Levitskiy holds 25.82% of the issued share capital, Remwill Trade Limited and SBC Geofizika hold 15% each, Schlumberger – 12%, and the Industrial Investors Group of the IGSS BOD Chairman Sergey Generalov - 7.78%. Other institutional and private shareholders account for 24.4% of the issued share capital.

Financial Review

Key financial highlights for the full year of 2015:

- Revenue amounted to RUR 18,805 mln, which is 4.0% below the revenue for the same period of 2014 of RUR 19,589 mln.
- EBITDA decreased by 9.7% and amounted to RUR 4,016 mln.
- EBITDA margin decreased by 135 bp to 21.4% of revenue compared to 22.7% of revenue for the same period of 2014.
- Net loss for the full year of 2015 amounted to RUR 2.1 bln. compared to RUR 2.4 bln. for the same period of 2014.
- Operating Cash Flow for the full year decreased by 61.0% over the same period of 2014 to RUR 1.3 bln.

The following table sets forth selected financial statements as of and for the year ended 31 December 2015 and 2014 extracted from our Audited Consolidated Financial Statements prepared in accordance with IFRS.

	2015	**2014**
Revenue	18,804,942	19,589,247
Cost of sales	(15,970,106)	(15,769,564)
Gross profit	**2,834,836**	**3,819,683**
General and administrative expenses	(1,866,958)	(2,108,839)
Other operating income	174,732	141,768
Other operating expense	(1,320,665)	(787,399)
Operating (loss) / profit	**(178,055)**	**1,065,213**
Finance income	59,395	76,696
Finance expense	(2,267,192)	(1,844,626)
Impairment of Exploration and evaluation asset	(41,584)	-
Net foreign exchange gain / (loss)	145,138	(1,514,405)
Share of loss of an associate	(129,055)	(108,917)
Loss before tax	**(2,411,353)**	**(2,326,039)**
Current income tax expense	(5,102)	(3,833)
Deferred income tax benefit / (expense)	293,461	(80,100)
Loss for the period	**(2,122,994)**	**(2,409,972)**

Revenue

Revenue decreased by RUR 784.3 million, or 4.0%, in the year ended 31 December 2015 and amounted to RUR 18,804.9 million, as compared to RUR 19,589.2 million in the year ended 31 December 2014.

The following table sets forth a breakdown of our revenue by geography:

	2015	**2014**
Russia	17,406,495	18,411,893
Kazakhstan and international projects	1,398,447	1,177,354
Total revenue	**18,804,942**	**19,589,247**

During the years ended 31 December 2015 and 2014, 92.6% and 94.0% of revenues, respectively, was generated by operations in Russia, with the remaining 7.4% and 6.0% of the revenues, respectively, attributable to operations in Kazakhstan and international projects.

The following table sets forth a breakdown of our revenue by types of services rendered for the period indicated:

	2015	2014
Field seismic operations	18,107,562	18,987,943
Data processing and interpretation	581,474	442,986
Other revenue	115,906	158,318
Total	**18,804,942**	**19,589,247**

The decrease of revenue from field seismic operations is due to decline in the volume of works performed in northern region and increase of volume of works carried out in Southern Russia at lower price. The increase of revenue from data processing and interpretation is due to the fact that the significant volume of works planned for 2014 were shifted and carried out in 2015. The decrease of other revenue is due the decline in the sale of impulse sources produces by Evenkiageofizika.

The number of shot points increased by 108,908, or by 8% which is due to the increase of seismic works in Southern Russia on the land and in transit zone.

During the year ended 31 December 2015 and the 2014, 96.3% and 96.9% of revenues, respectively, was generated by field seismic operations.

Cost of sales

Cost of sales increased by RUR 200.5 million, or 1.3%, in the year ended 31 December 2015 and amounted to RUR 15,970.1 million, as compared to RUR 15,769.6 million in the year ended 31 December 2014.

The following table summarizes the cost of sales by type of expense during the periods indicated:

	2015	2014
Labor and wages, including mandatory social contributions	6,159,254	6,203,070
Materials and supplies	2,900,992	3,190,589
Depreciation of property, plant and equipment and amortization of intangible assets	2,818,273	2,498,584
Oilfield services	1,469,544	1,621,323
Operating lease payments	906,230	487,363
Transportation services	784,577	845,613
Other third parties services	723,049	708,952
Other	208,187	214,070
Total	**15,970,106**	**15,769,564**

Labor and wages, including mandatory social contribution

Expenses related to labor and wages, including mandatory social contribution, decreased by RUR 43.8 million, or 0.7%, to RUR 6,159.3 million for the year ended 31 December 2015, as compared to RUR 6,203.1 million for the same period of 2014. Insignificant decrease in payroll related costs arises from certain decrease of sales which was partially offset by substantially higher volume of works executed without attraction of third parties which resulted in respective decrease of topographical surveying subcontracted. Another factor which has to certain extent offset decrease in labour costs is increase in 3D volumes which are more labour-intensive.

Materials and supplies

The decrease of materials and supplies expenses is due to the decline in the volume of works performed in northern region and increase of volume of works carried out in Southern Russia on the land and in transit zone. These works are performed with the applications of vibrational sources (in Southern Russia) and pneumo-sources (in transit zone) which require fewer amount of materials used. Another factor which influenced the expense on materials and supplies is the benefits from the procurement optimization and lower material and supplies requirements that were partially offset by supplies prices growth.

Depreciation of property, plant and equipment and amortization of intangible assets

Depreciation of property, plant and equipment and amortization of intangible assets increased by RUR 319.7 million, or 12.8%, to RUR 2,818.3 million in the year ended 31 December 2015, as compared to RUR 2,498.6 million in the year ended 31 December 2014. As a percentage of total cost of sales, depreciation increased from 15.8% for 2014 to 17.6% for 2015. This was primarily due to intensive investment program which started in the previous seismic season and was aimed at provision of innovative, high-density seismic acquisition technology.

Oilfield services

Oilfield services decreased by RUR 151.8 million, or 9.4%, to RUR 1,469.5 million in the year ended 31 December 2015, as compared to RUR 1,621.3 million in the year ended 31 December 2014. The decrease of expense on oilfield services is due to the fact that the significant amount of oilfield works performed was carried out by own means without recourse to subcontractors including topographical surveying which previously tended to be subcontracted.

Operating lease payments

Operating lease payments increased by RUR 418.9 million, or 85.9%, to RUR 906.2 million for the year ended 31 December 2015, as compared to RUR 487.4 million for the same period of 2014. This increase originated from 11% increase in 3D seismic works (collectively conventional and HD) which require more geophysical equipment, increase in rent period for certain projects in Eastern Siberia and predominantly was substantially affected by increase of rent rates for geophysical equipment which are denominated in US dollars.

Transportation services

Transportation services expenses decreased by RUR 61.0 million, or 7.2%, to RUR 784.6 million for the year ended 31 December 2015, as compared to RUR 845.6 million for the same period of 2014. Higher volume of transportation expenses incurred during 2013-2014 season and consequently for the first half of 2014 was a result of greater portfolio of smaller projects executed by one particular seismic crew and additional related cost for mobilizations between these areas.

Gross Profit

As a result of the foregoing, gross profit decreased by RUR 984.8 million, or 25.8%, to RUR 2,834.8 million in the year ended 31 December 2015, as compared to RUR 3,819.7 million in the year ended 31 December 2014.

General and Administrative Expenses

General and administrative expenses decreased by RUR 241.9 million, or 11.5%, from RUR 2,108.8 million in the year ended 31 December 2014 to RUR 1,867.0 million in the year ended 31 December 2015.

The following table summarizes general and administrative expenses by type of expense during the periods indicated:

	2015	**2014**
Labor and wages, including mandatory social contributions	1,257,124	1,409,485
Third party services	237,704	278,342
Operating lease	93,065	95,361
Taxes, other than income tax	79,118	75,527
Depreciation of property, plant and equipment and amortization of intangible assets	50,502	87,642
Auditors' audit fees	36,608	33,120
Bank charges	25,427	25,733
Other	87,410	103,629
Total	**1,866,958**	**2,108,839**

Labor and wages, including mandatory social contribution

Labor and wages expenses decreased by RUR 152.4 million, or 10.8%, to RUR 1,257.1 million in the year ended 31 December 2015, as compared to RUR 1,409.5 million in the year ended 31 December 2014. This decrease is due to the restructuring program which is being carried out in Khantymansiyskgeofizika, GEOTECH Holding Company and corporate center of Geotech Seismic Services.

Third party services

Third party services decreased by RUR 40.6 million, or 14.6%, to RUR 237.7 million for the year ended 31 December 2015, as compared to RUR 278.3 million for the year ended 31 December 2014. This primarily relates to significant decrease in marketing and advertising expenses including participation in seismic exhibition abroad including events of The European Association of Geoscientists and Engineers. During 2014 these expenses amounted to RUR 33.4 million, while marketing and advertising expenses incurred during 2015 amounted to less than RUR 1.0 million. Contraction of aforementioned expenses results from overall unfavorable business environment in the Russian economy which continues to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble and uncertainty regarding further economic growth.

Certain cutdown also affected expenses for transportation, repair and maintenance, communication and insurance services in the aggregate amount of approximately RUR 12.5 million which was impacted by organizational restructuring mentioned above.

Depreciation of property, plant and equipment and amortization of intangible assets

Depreciation of property, plant and equipment decreased by RUR 37.1 million, or 42.4%, to RUR 50.5 million in the year ended 31 December 2015, as compared to RUR 87.6 million in the year ended 31 December 2014. The decrease is due to the restructuring program in respect of non-core property, plant and equipment, primarily buildings which the Company intends to sell in the foreseeable future to generate additional cash in-flows and to cut down related maintenance costs.

Other operating expense

Other operating expenses increased by RUR 533.3 million, or 67.7%, to RUR 1,320.7 million for the year ended 31 December 2015, as compared to RUR 787.4 million for the year ended 31 December 2014. This increase primarily relates to Loss on disposals of property, plant and equipment and other assets which amounted to RUR 439.3 million for year ended 31 December 2015 as compared to RUR 232.1 million for the same period of 2014. This related to optimization of the business units management structure and certain restructuring of several operating subsidiaries of the Group resulting in the disposal and write off of certain fixed assets whose book value was recorded at a high market price derived from an independent valuation effected prior to the financial downturn of 2008.

Increase in expenses for bad debt provision was triggered by continuing financial crisis which has resulted in capital markets instability, significant deterioration of liquidity in the banking and real sector, and influenced certain, primarily minor, counterparties of the Group.

Penalties and fines relate to additional charges for breach in contractual obligations with counterparties in a normal course of business and additional non-income tax charges. Increase in comparison with same period of 2014 was a consequence of on-site tax inspectorates held for previous years.

The following table summarizes other operating expenses by types during the periods indicated:

	2015	2014
Loss on disposals of property, plant and equipment and other assets	439,251	232,110
Penalties and fines paid	277,817	202,496
Bad receivables write-offs and provisions	198,039	31,231
Provision for probable claims from tax authorities	96,902	107,108
Other	308,656	214,454
Total	**1,320,665**	**787,399**

Operating (loss) / profit

As a result of the foregoing, operating loss for the year ended 31 December 2015 amounted to RUR 178.1 million as compared to operating profit in the amount of RUR 1,065.2 million for the year ended 31 December 2014.

Finance Expense

Finance expense increased by RUR 422.6 million, or 22.9%, from RUR 1,844.6 million in the year ended 31 December 2014 to RUR 2,267.2 million in the year ended 31 December 2015. This increase primarily relates to increase in credit portfolio of the Company as well as to certain increase in bank interest rates upon refinancing transaction in the middle of 2015 which extended maturities of the debt portfolio up to 2022 with respective increase in interest rates for long-term facilities.

Impairment of Exploration and evaluation asset

As of 31 December 2015 the Group considered that significant decline in the world oil prices is an indicator of impairment of the exploration and evaluation assets. Due to the existence of the impairment indicators, the Group performed impairment test. Carrying amount of the assets was compared to the recoverable amount which was identified using market approach: the Group performed analysis of the deals with comparable assets that have taken place during last four years and calculated average price per 1 ton of reserves. Difference between the recoverable amount and the carrying amount of 41,584 mln RUR was recognized within Impairment of Exploration and evaluation asset in the Consolidated statement of profit and loss and other comprehensive income.

Net foreign exchange gain / (loss)

For the year ended 31 December 2015 the Group has earned RUR 145.1 million on net foreign exchange as compared to RUR 1,514.4 million loss reported for the year ended 31 December 2014. This net gain originated from certain strengthening of Russian rouble against US dollar and Euro since the beginning of the year when the exchange rates has reached the bottom.

Share in loss of an associate

Share of loss of associate for the year ended 31 December 2015 comprised RUR 129.1 million as compared with share of loss of associate in the amount of RUR 108.9 million reported for the year ended 31 December 2014. This shift was primarily due to a corresponding deviation of financial performance of associates of the Group.

Loss before tax

As a result of the foregoing, loss before tax for the year ended 31 December 2015 comprised RUR 2,411.4 million as compared to RUR 2,326.0 million loss before tax for the same period of 2014.

Current and deferred Income tax benefit / (expense)

Income tax benefit for year ended 31 December 2015 comprised RUR 288.4 million as compared to RUR 83.9 income tax expense in the year ended 31 December 2014. This was primarily due to movements in the deferred taxation while current tax expense insignificantly increased to RUR 5.1 million in the year ended 31 December 2015, as compared to RUR 3.8 million in the year ended 31 December 2014.

Loss for the year

As a result of the foregoing, loss for the for the year ended 31 December 2015 comprised RUR 2,123.0 million as compared to RUR 2,410.0 million loss for the same period of 2014.

Adjusted EBIT and adjusted EBITDA

Group monitors the operating results for the purpose of making decisions about resource allocation and performance assessment on the basis of adjusted EBIT and adjusted EBITDA.

Adjusted EBIT is defined as operating profit from continuing operations including depreciation and amortization and excluding any non-recurring transactions included within operating profit from continuing operations.

Adjusted EBITDA is defined as operating profit from continuing operations before depreciation and amortization excluding any non-recurring transactions included within operating profit from continuing operations.

In addition to the financial metrics above and segment information disclosed in respective note to Audited Consolidated Financial Statements the Group presents normalization of the financial results for the years ended 31 December 2015 and 2014 to the effect of one-off and non-recurring items in addition to those affecting adjusted EBITDA and adjusted EBIT.

	2015	2014
Loss for the year as reported	**(2,122,994)**	**(2,409,972)**
Net foreign exchange (gain) / loss	(145,138)	1,514,405
Share of loss of an associate	129,055	108,917
Restructuring and redundancy costs	546,022	347,189
Losses from cancellation of contracts	289,956	-
Impairment of Exploration and evaluation asset	41,584	-
Prior year taxes and related provisions	242,070	232,264
Deferred tax assets on tax loss not recognized	197,601	330,002
Adjustments in respect to current income tax of previous years	9,822	98,374
Recognised deferred tax asset on tax loss for the prior periods	-	(16,296)
Normalized financial results for the period	**(812,022)**	**204,883**
Financial income and expense, net	2,207,797	1,767,930
Deferred income tax (benefit) / expense for the period w/o one-offs	(500,884)	(331,980)
Current income tax expense	5,102	3,833
Adjusted EBIT for the period	**899,993**	**1,644,666**
Depreciation of property, plant and equipment	2,750,361	2,501,871
Amortization of intangible assets	111,174	70,351
Loss on disposals of property, plant and equipment and other assets	254,811	232,110
Adjusted EBITDA for the period	**4,016,339**	**4,448,998**

Liquidity and Capital Resources

The Group's principal sources of liquidity are cash flows from operating activities and partially bank loans. The Group expects to continue financing a certain portion of capital expenditures using cash from operations and partially bank financing. The Group believes that cash flows generated from operations during the year ended 31 December 2015 and further will be sufficient to finance working capital needs and to repay existing obligations as they become due and that bank financing will be available on commercially acceptable terms.

Cash Flows

The following table sets out Group's summary cash flow information for the year ended 31 December 2015 and 2014:

	2015	2014
Net cash from operating activities	1,334,755	3,425,415
Net cash used in investing activities	(1,102,565)	(3,231,469)
Net cash used in financing activities	(1,150,593)	279,843

Net Cash from Operating Activities

During the year ended 31 December 2015, cash flows from operating activities decreased by RUR 2,090.7 million, or 61.0%, to RUR 1,334.8 million, as compared to RUR 3,425.4 million in the year ended 31 December 2014. This decrease was primarily attributable to changes in working capital, in particular to certain increase in accounts receivable, significant repayment of accounts payable, changes in inventories, prepayments and other current assets, as well as certain decline in financial results for the current period discussed above.

Net Cash used in Investing Activities

During the year ended 31 December 2015, cash flows used in investing activities decreased by RUR 2,128.9 million, or 65.9%, to RUR 1,102.6 million, as compared to RUR 3,231.5 million for year ended 31 December 2014. This decrease is primarily related to significant contraction of capex programme of the Company. Cash spendings on property, plant and equipment experienced almost three-times decrease from RUR 2,755.4 million for the year ended 31 December 2014 to RUR 838.9 million for the year ended 31 December 2015. In 2014 the Company has spent RUR 495.0 million on acquisition of LLC Luidor assets with a view to speculative seismic and in 2015 the Company has received a discount for purchases of seismic equipment in the amount of RUR 151.5 million.

Net cash used in financing activities

During the year ended 31 December 2015, net cash used in financing activities amounted to RUR 1,150.6 million, as compared to RUR 279.8 million cash from financing activities for the same period of 2014. This particularly relates to repayment of promissory notes for Sercel and UniQ equipment in the amount of RUR 1,099.3 million and increase in interest paid by RUR 204.1 million as a result of increase in debt portfolio and interest rates in connection with overall increase in maturities of the loans of the Company. Proceeds from loans and borrowings net of repayments made during the year has decreased by RUR 761.0 million from RUR 2,783.4 million for the year ended 31 December 2014 to RUR 2,022.4 million for the year ended 31 December 2015.

Capital Expenditures

The combined capital expenditures were RUR 1,941.3 million and RUR 3,289.1 million in the years ended 31 December 2015 and 2014, respectively. Capital expenditures consist primarily of purchases of equipment and software used in the operations, repayment of liabilities under finance lease agreements and redemption of promissory notes issued to suppliers of seismic equipment.

	2015	**2014**
Investing activities: Purchases of property, plant and equipment	838,885	2,755,419
Financing activities: Redemption of CAPEX promissory notes	1,099,285	521,728
Financing activities: Repayment of finance lease obligations	3,143	11,906
Total cash CAPEX	**1,941,313**	**3,289,053**

Capital expenditures are presented on the basis of cash outflows for the respective period. As of 31 December 2015, the Group had no firm commitments in respect of future capital expenditures.

Capital resources

The following table sets forth loans and borrowings as of 31 December 2015 and 2014:

	2015	**2014**
Long-term bank loans	6,175,362	4,958,489
Bonds	2,978,916	2,971,379
Long-term borrowings	-	9,775
Total non-current loans and borrowings	**9,154,278**	**7939,643**
Short-term bank loans	6,227,594	4,386,155
Current portion of long-term bank loans	2,149,275	3,096,819
Total current loans and borrowings	**8,376,869**	**7,482,974**
Total loans and borrowings	**17,531,147**	**15,422,617**

At the beginning of 2013 the Group entered into non-revolving credit line agreement with Sberbank denominated in euro at interest rate calculated as EURIBOR plus 2.15%. Amount of raised financing amounted to 14,900,000 euro (RUR 599.5 million) and matured in December 2017. The liability over this credit line was repaid in full as of 31 December 2015.

In August 2015 Bank “Otkritie Financial Corporation” provided a new credit line facility to the Group in the amount of 6.5 billion rubles maturing on July 2022 at 15% p.a. Later in October and November additional credit line facilities were provided in the amount of 1.2 billion roubles and 6.7 billion roubles maturing on October 2016 and November 2020, respectively. Both credit line facility bear interest rate of 15% per annum.

All loans and borrowings presented in the table above as of 31 December 2015 are at fixed rates and are denominated in Russian rubles.

A number of loan agreements and revolving credit line agreements were secured by property, plant and equipment, and rights to claim cash.

We typically incur a significant portion of our expenses during the preparation and mobilization stages, which normally occur in the period of August to October, and effect drawdowns under our credit facilities.

The following table sets forth promissory notes issued as of 31 December 2015 and 2014:

	2015	2014
Short-term promissory notes payable:		
Notes issued to third parties for equipment (Sercel)	-	287,656
Notes issued to third parties for equipment (UniQ)	-	674,208
Total	**-**	**961,864**

To assess the debt levels the Group uses Gross Debt measure which is a sum of Loans and borrowings, promissory notes issued and finance lease obligations as at reporting date and Net Debt which is calculated by deduction of cash and cash equivalents and other financial instruments easily convertible to cash from Gross Debt.

	2015	2014
Loans and borrowings payable	17,531,147	15,422,617
Notes issued	-	961,864
Finance lease obligations	4,589	7,072
Gross debt	**17,535,736**	**16,391,553**
Less: cash and cash equivalents	(317,701)	(1,206,691)
Net debt	**17,218,035**	**15,184,861**

Off-Balance Sheet Arrangements

As of 31 December 2015, the Group did not have any material off-balance sheet arrangements.

Qualitative and Quantitative Disclosures about Market Risk

The Group's activities expose it to a variety of market risks including credit, interest rate, currency and other risks arising from adverse movements in the price of oil, foreign currency exchange rates and changes in interest rates. The Group’s overall risk management objective is to reduce the potential adverse effects of these risks on financial performance.

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to pay amounts due or fail to perform obligations causing financial loss to the Group. The Group’s credit risk principally arises from cash and cash equivalents and from credit exposures of its customers relating to outstanding receivables and loans provided to third parties. The Group has not used any financial risk management instruments in this or prior periods to hedge against this exposure.

The Group only maintains accounts with reputable banks and financial institutions such as Sberbank, Alfa Bank and Bank Otkritie and therefore believes that it does not have a material credit risk in relation to its cash or cash equivalents.

The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Interest rate risk

At the beginning of 2013 the Group entered into non-revolving credit line agreement with Sberbank denominated in euro at interest rate calculated as EURIBOR plus 2.15%. The liability over this credit line was repaid in full as of 31 December 2015.

In August 2014 the Group entered into supply agreement with Sercel for acquisition of new seismic equipment in the amount of 11,465,720 euro (RUR 731.0 million as of 31 December 2015). The purchase was made on deferred payments terms through ten equal installments by September 2019 at EURIBOR 6m + 2,8% p.a. Increase in EURIBOR rate by 10 bp entails additional interest expense of RUR 0.7 million for the year ended 31 December 2015.

The interest rates on other long-term loans of the Group are fixed and therefore do not result in susceptibility of upward interest rate risk through market value fluctuations of interest-bearing loans payable. As at 31 December 2015 the Group did not hedge its interest rate risk.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions.

Competitive environment

The Russian seismic services market is very fragmented and characterized by intense competition. Most contracts are obtained through a competitive bidding process, which is standard for the market where the Group operates. The most important factors in awarding contracts include reputation, service quality, technological capacity, track record (history of performance), experience of personnel, customer relations, long-standing relationships and price.

Different large and smaller local companies compete with the Group in the land and transition zone seismic market and large international players compete with the Group in the data processing and interpretation market. In addition, the Group competes with government-sponsored companies and affiliates.

Competitive factors in the markets where the Group operates include timing, price, quality and technical proficiency and product and service delivery. Ability to enhance existing products and services and technical proficiency, while controlling costs, is of primary importance to the Group’s ability to compete effectively.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

Foreign currency risk

The Group is not engaged in any significant hedging activity to mitigate its foreign currency risk. The Group limits foreign currency risk by monitoring changes in exchange rates in the currencies in which its assets and liabilities are denominated.

Subsequent Events

In April 2016 IGSS sent a notice to the London Stock Exchange, to the Financial Conduct Authority and to other UK regulators on termination of the delisting procedures of its Global Depositary Receipts. IGSS intends to launch the delisting process once all the preparatory actions are completed. IGSS intends to terminate GDR program and cancel the listing and trading of GDRs on the main market of LSE as it wishes to be listed in Russia.

Directors' Responsibility Statement

The report and the attached Audited Consolidated Financial Statements, including the financial information contained herein, are the responsibility of, and have been approved by, the directors of the Group. The directors are responsible for ensuring that management prepares the Financial Report in accordance with the IFRS and the Listing Rules of the Financial Services Authority.