## IG Seismic Services plc

# MANAGEMENT'S REPORT ON 6 MONTHS 2013 RESULTS For six months ended June 30, 2013

## Select financial and operating information

|   | 6 months   | 6 months                               | Change   | %                  |
|---|--|--|--|--------------------|
|   | 2013   | 2012                                   |  |                    |
| in thousand US\$, unless otherwise stated               |  |  |  |                    |
| Revenue   | 345,536  | 391,487                                | (45,951)   | -11.7%             |
| Adjusted EBITDA   | 74,312   | 66,478                                 | 7,834  | 11.8%              |
| Adjusted EBITDA margin                                  | 21.5%  | 17.0%                                  | 450 bp   |                    |
| Net Profit / (loss)                                     | 2,554  | (1,352)                                | 3,906  |                    |
| Operating cash flow                                     | 152,657  | 112,615                                | 40,042   | 35.6%              |
| Capital Expenditures                                    | 52,510   | 23,837                                 | 28,673   | 120.3%             |
| Net Debt  | 308,721  | 287,864                                | 20,857   | 7.2%               |
| Average exchange rate for the period (RUB/USD)          | 31.01  | 30.64                                  | 0.37   | 1.2%               |
| Exchange rate as of the period end (RUB/USD)            | 32.71  | 32.82                                  | -0.11  | -0.3%              |
| Operational statistics Kilometers                       |  |  |  |                    |
| 2D seismic (km)   | 7,289  | 8,612                                  | (1,323)  | -15.4%             |
| 3D seismic (sq.km)                                      | 11,060   | 16,493                                 | (5,433)  | -32.9%             |
| HD seismic (km)   | 1,001  | 0                                      | 1,001  |                    |
| HD seismic (sq.km)                                      | 522  | 0                                      | 522  |                    |
|   |  |  |  |                    |
| Shot Points by IGSS crews                               |  |  |  |                    |
| Shot Points by IGSS crews 2D                            | 176,903  | 187,980                                | (11,077)   | -5.9%              |
|   | 176,903<br>687,214   | 187,980<br>912,487                     | (11,077)<br>(225,273)                                  | -5.9%<br>-24.7%    |
| 2D  | ·  |  |  |                    |
| 2D<br>3D  | 687,214  | 912,487                                | (225,273)  |                    |
| 2D<br>3D<br>HD  | 687,214<br>268,011   | 912,487                                | (225,273)<br>268,011                                   | -24.7%<br>         |
| 2D 3D HD TOTAL performed by IGSS crews                  | 687,214<br>268,011   | 912,487                                | (225,273)<br>268,011                                   | -24.7%<br>         |
| 2D 3D HD TOTAL performed by IGSS crews including        | 687,214<br>268,011<br><b>1,132,128</b>                     | 912,487<br>0<br><b>1,100,467</b>       | (225,273)<br>268,011<br><b>31,661</b>                  | -24.7%<br><br>2.9% |
| 2D 3D HD TOTAL performed by IGSS crews including Russia | 687,214<br>268,011<br><b>1,132,128</b><br><b>1,066,232</b> | 912,487<br>0<br>1,100,467<br>1,036,161 | (225,273)<br>268,011<br><b>31,661</b><br><b>30,071</b> | -24.7%<br><br>2.9% |

#### **Order Book**

#### **SEISMIC SERVICES**

#### Order Book as of June 30, 2013 (including VAT)

|                                       | As of 30.06.2013 |         | As of 30.06.2012 |         | Ch.    |
|---------------------------------------|------------------|---------|------------------|---------|--------|
|                                       | RUR mln          | USD mln | RUR mln          | USD mln | RUR, % |
| Western Siberia                       | 6,020            | 184     | 5,272            | 161     | 14%    |
| Eastern Siberia                       | 7,827            | 239     | 4,248            | 129     | 84%    |
| Timano-Pechora                        | 4,307            | 132     | 2,695            | 82      | 60%    |
| South of Russia                       | 2,183            | 67      | 2,352            | 72      | -7%    |
| Kazakhstan                            | 288              | 9       | 250              | 8       | 15%    |
| Other (India, Azerbaijan, Uzbekistan) | 1,798            | 55      | 0                | 0       |        |
| <b>TOTAL,</b> including               | 22,423           | 686     | 14,817           | 452     | 51%    |
| Contracts Signed*                     | 19,367           | 592     | 11,922           | 364     | 62%    |
| Tenders won, contracts to be signed   | 3,056            | 94      | 2,895            | 88      | 6%     |

#### Order Book as of June 30, 2013 Breakdown by Year (including VAT)

|       | As of 30.06.2013 |         |  |
|-------|------------------|---------|--|
|       | RUR mln          | USD mln |  |
| 2013  | 6,542            | 200     |  |
| 2014  | 11,064           | 338     |  |
| 2015  | 4,817            | 148     |  |
| TOTAL | 22,423           | 686     |  |

#### SEISMIC DATA PROCESSING AND INTERPRETATION

#### Order Book as of June 30, 2013 (including VAT)

|                                     | RUR mln | USD mln |
|-------------------------------------|---------|---------|
| Contracts Signed*                   | 476     | 15      |
| Tenders won, contracts to be signed | 44      | 1       |
| TOTAL                               | 520     | 16      |

<sup>\*</sup> 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.

As of June 30, 2013, the Company's seismic services order book amounted to USD **686** million (inclusive of VAT), of which USD **592** million (inclusive of VAT) was accounted for by signed contracts and USD **94** million (inclusive of VAT) represented tenders won. The seismic services order book as of 30 June 2013 increased in RUR terms **by 51%** compared to the order book as of 30 June 2012.

The Company started releasing its data processing & interpretation (DPI) order book in 2013, accordingly comparable DPI order book information for earlier periods is not available. As of 30 June 2013, the Company's DPI order book amounted to USD **16** million (inclusive of VAT) of which USD **15** million (inclusive of VAT) accounted for signed contracts and USD **1** million (inclusive of VAT) represented tenders won.

#### Order Book Update as of September 13, 2013

As of September 13, 2013, the Company's seismic services order book amounted to approximately USD **809** million (inclusive of VAT), of which approximately USD **607** million (inclusive of VAT) accounted for signed contracts and approximately USD **202** million (inclusive of VAT) represented tenders won. The seismic services order book as of September 13, 2013 increased in RUR terms approximately by **49%** compared to the order book as of September 13, 2012. As of September 13, 2013, the Company's DPI order book amounted to approximately USD **11** million (inclusive of VAT) which accounts for signed contracts.

## SEISMIC SERVICES Order Book as of September 13, 2013 (including VAT)\*

|                                       | As of 13.09.2013 |         | As of 13.09.2012 |         | Ch.    |
|---------------------------------------|------------------|---------|------------------|---------|--------|
|                                       | RUR mln          | USD mln | RUR mln          | USD mln | RUR, % |
| Western Siberia                       | 7,295            | 223     | 5,461            | 173     | 34%    |
| Eastern Siberia                       | 11,627           | 356     | 6,285            | 200     | 85%    |
| Timano-Pechora                        | 4,080            | 125     | 2,786            | 88      | 46%    |
| South of Russia                       | 1,404            | 43      | 3,050            | 97      | -54%   |
| Kazakhstan                            | 226              | 7       | 142              | 5       | 59%    |
| Other (India, Azerbaijan, Uzbekistan) | 1,805            | 55      | 0                | 0       |        |
| TOTAL, including                      | 26,437           | 809     | 17,724           | 563     | 49%    |
| Contracts signed**                    | 19,835           | 607     | 13,375           | 425     | 48%    |
| Tenders won, contracts to be signed   | 6,602            | 202     | 4,349            | 138     | 52%    |

#### Order Book as of September 13, 2013 Breakdown by Year (including VAT)\*

|       | As of 13.09.2013 |         |  |
|-------|------------------|---------|--|
|       | RUR mln          | USD mln |  |
| 2013  | 5,537            | 170     |  |
| 2014  | 13,409           | 410     |  |
| 2015  | 7,491            | 229     |  |
| TOTAL | 26,437           | 809     |  |

## SEISMIC DATA PROCESSING AND INTERPRETATION

Order Book as of September 13, 2013 (including VAT)\*

|                                     | RUR mln | USD mln |
|-------------------------------------|---------|---------|
| Contracts signed**                  | 365     | 11      |
| Tenders won, contracts to be signed | 0       | 0       |
| TOTAL                               | 365     | 11      |

<sup>\*</sup>FX rate as of September 13, 2013 is 32.67 RUR/USD, and 31.48 RUR/USD as of September 13, 2012

The Group is still in the process of contracting for 2013-2014 and 2014-2015 seasons which implies that current order book does not yet provide an accurate indication of revenues in 2013 and current order book trends could change.

<sup>\*\*</sup>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.

#### **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. Since the beginning of 2010, conditions in this market have been gradually improving due to positive oil price dynamics and changes in Russian upstream and corporate taxation. However, excess capacity and lower prices in the market which emerged as a result of the global economic downturn still persist despite the gradual improvement. As a result, our costs have been gradually increasing, driven by raising labor, equipment and fuel prices, and our ability to pass these costs on to our clients has been limited during the periods under review due to competition in the seismic services market.

Volatility in demand for services is in part mitigated by the fact that state-related clients, such as state-controlled oil companies including Gazprom Neft, Rosneft combined with TNK-BP, Gazprom and government authorities including Rosnedra, which accounted for approximately 18.2%, 14.0%, 9.4% and 10.0% of our revenues from seismic survey operations respectively for the first six months ended 30 June 2013, 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 requires the respective license holders to continue undertaking seismic services and prioritize them over most other capital expenditures, in order to retain such licenses.

#### Seasonality

Revenues from our field seismic works operations comprise over 90% 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. However, in the first half of 2013 we saw a new trend of increased number of tenders conducted by oil companies in the first half of the year. This resulted in an increased number of orders, including long-term ones, and, subsequently, in an increase in our order book already in the first half of 2013 (as measured at the beginning of 2013, at the end of the first quarter of 2013 and at the end of the first six months of 2013). However, the larger part of tenders is still conducted in the second half of the year. Thus, the trend of having higher order books in the second half of the year (measured at the end of the fourth quarter and at the end of the year) than in the first one, still persists.

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 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 the First Half of 2013

In 2012 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 is 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 the 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 also by offshore projects.

In 2013 the seismic market has followed the market trends, exhibited in 2012, such as significant shift of customer focus towards frontier areas and greenfields; and significant increase in customer demand for high density seismic exploration technologies.

The first half of 2013 was also marked by new governmental incentives aimed at increasing seismic spending in order to provide for a long-term build-up of Russian oil and gas reserves. Following authorization by the Prime Minister Dmitry Medvedev, the government is currently preparing amendments to the Tax Code that will make geological exploration expenses of oil majors deductible for MET purposes.

#### Major Events since the Beginning of the Year 2013

#### Second Agreement on UniQ Technology Signed

The first contract for provision of innovative, high-density UniQ seismic acquisition technology developed by IGSS shareholder Schlumberger was signed by IGSS in December 2012. GEOTECH Holding (the managing company for IGSS assets) and Gazprom Neft signed an agreement on the seismic exploration of the Vakunayskoe deposit of the Chonsky project in the Irkutsk Region. UniQ technology makes it possible to explore areas that cannot be explored using conventional seismic operations, using high resolution data, and provides for the most advanced understanding of reservoirs possible with current technologies. UniQ technology has been successfully used during the previous few years by leading foreign oil and gas companies abroad, it is new to Russia and in the first half of 2013 has been used in the Russian Federation for the first time.

In July 2013 IGSS signed the second agreement for seismic works using UniQ technology, this time with NOVATEK. GEOTECH Holding (the managing company for IGSS assets) and NOVATEK signed an agreement for seismic exploration at the North-Russkoye license area in the Yamal region. UniQ technology will help to solve there a specific geological challenge that has not been solved by conventional seismic. The challenge of the North-Russkoye site is that the upper part of the section includes permafrost layers of complicated geological structure that distort multiwave seismic field within the range of target horizons. At the same time the target body has a thin-layer multilayer section which requires especially high quality of seismic data to provide for building a correct geological hydrodynamic model and, consecutively, for successful deposits development.

#### Two-year International Contract in India

In July 2013 IGSS signed a two-year contract for 3D seismic exploration in India. Azimuth Energy Services (IGSS' Kazakhstan subsidiary) and Cairn India, a large private Indian oil company, have signed a two-year contract for seismic exploration works at the site near Barmer City of Rajasthan State. This contract increases the Company's geographic diversification to reduce the impact of seasonality on operations, since exploration works in India can be conducted all-year round. Having won the contract in a competition with large international companies from India, USA, Poland and Kazakhstan, IGSS has once again proved that it satisfies the highest world-level standards for a seismic contractor.

#### **Financial Review**

Key financial highlights for the six months of 2013:

- Revenue amounted to USD 345.5 mln, which is 11.7% below the Revenue for the same period of 2012 of USD 391.5 mln.
- Adjusted EBITDA increased by 11.8% and amounted to USD 74.3 mln.
- Adjusted EBITDA margin increased by 450 bp to 21.5% of sales compared to 17.0% of sales for the same period of 2012.
- Net Profit for the six months of 2013 amounted to USD 2.6 mln with a Net Margin of 0.7% compared to a net loss of USD 1.4 mln for the same period of 2012.
- Operating Cash Flow for the six months of 2013 increased by 35.6% over the same period of 2012 to USD 152.7

The following table sets forth selected financial statements for the six months ended 30 June 2013 and 2012 extracted from Group's unaudited interim condensed consolidated financial statements prepared in accordance with IFRS.

|  | 6 months 2013 | 6 months 2012 |
|--|---------------|---------------|
| Revenue                                      | 345,536       | 391,487       |
| Cost of sales                                | (273,067)     | (329,908)     |
| Gross profit                                 | 72,469        | 61,579        |
| Selling, general and administrative expenses | (33,931)      | (34,112)      |
| Other operating income                       | 2,446         | 1,796         |
| Other operating expense                      | (8,230)       | (10,426)      |
| Operating profit                             | 32,754        | 18,837        |
| Finance income                               | 1,563         | 297           |
| Finance expense                              | (25,383)      | (21,884)      |
| Net foreign exchange loss                    | (6,067)       | (3,188)       |
| Share of profit of an associate              | 3,995         | 6,009         |
| Profit before tax                            | 6,862         | 71            |
| Income tax expense                           | (4,308)       | (1,423)       |
| Profit / (loss) for the period               | 2,554         | (1,352)       |

#### <u>Revenue</u>

In first half of 2013, revenue decreased by US\$46.0 million, or 11.7%, from US\$391.5 million for the six months ended 30 June 2012 to US\$345.5 million for the period ended 30 June 2013. Revenue in rouble terms decreased by 10.5%. Depreciation of Russian rouble against US dollar added 1.2% decrease in consolidated revenue. Decrease in revenue during the six months ended 30 June 2013 as compared to the corresponding period ending 30 June 2012 with simultaneous improvement in key financial performance metrics: Gross profit, Net profit, adjusted EBITDA represents Group's focus on newly established premium segment of seismic market. That segment is characterized by high-density technology used for seismic work performance that leads to decrease of average price per 1 shot point and at the same time increase in margins in absolute and relative terms.

The following table sets forth a breakdown of revenue by geographical areas:

|                      | 6 months 2013 | 6 months 2012 |
|----------------------|---------------|---------------|
| Russia               | 334,095       | 381,584       |
| Kazakhstan           | 11,441        | 9,903         |
| Total external sales | 345,536       | 391,487       |

During the period ended 30 June 2013 and 2012, 96.7% and 97.5% of revenues, respectively, was generated by operations in Russia, with the remaining 3.3% and 2.5% of the revenues, respectively, attributable to operations in Kazakhstan.

Russia business segment revenue decrease was driven by a number of factors:

- Russia seismic business revenue was impacted by seismic volumes structure change in favor of high density seismic projects that have different pricing due to specific technology used and particular projects characteristics.
- In addition, revenue dynamics was influenced by partial reduction in subcontracted «turn-key» passthrough contracts due to the Group's growing ability to perform more volumes using its own crews that leads to higher margin earned and only a slight decrease of overall seismic volumes.
- Revenue from processing and interpretation of geophysical information increased by US\$3.2 million, or approximately 53.0%, from US\$6.0 million in 1H2012 to US\$9.2 million in 1H2013. This increase was partially attributable to increased focus on DP&I services.

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Kazakhstan business segment revenue increased from US\$9.9 million to US\$11.4 million due to Kazakhstan seismic volume growth by 12.4% (from 54 415 to 61 189 shot points).

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

|  | 6 months 2013 | 6 months 2012 |
|--|---------------|---------------|
| Field seismic operations                                 | 329,644       | 380,630       |
| Processing and interpretation of geophysical information | 9,181         | 6,000         |
| Other revenue  | 6,711         | 4,857         |
| Total  | 345,536       | 391,487       |

Other revenue increased by US\$1.9 million, from US\$4.9 million in 1H2012 to US\$6.7 million in 1H2013. Other revenue comprises primarily transportation services we occasionally provide to third parties where we have excess capacity and rent of equipment and real estate that we do not expect to utilize for core business purposes within the current year or season.

During the year ended 30 June 2013 and 2012, 95.4% and 97.2% of revenues, respectively, was generated by field seismic operations.

#### Cost of sales

Cost of sales decreased by US\$56.8 million, or 17.2%, in the period ended 30 June 2013 and amounted to US\$273.1 million, as compared to US\$329.9 million in the period ended 30 June 2012. Of this reduction, a decrease of 1.2% was due to the depreciation in the value of the Russian ruble, and 16.0% due to business factors, such as (i) reduction of costs attributed to subcontracted pass-through contracts, (ii) lower operating lease costs due to more efficient own equipment utilization, (iii) lower average cost per 1 shot point for high-density projects. The following table summarizes the cost of sales by type of expense during the periods indicated:

|   | 6 months 2013 | 6 months 2012 |
|---|---------------|---------------|
| Labor and wages, including mandatory social contribution          | 107,540       | 123,201       |
| Materials and supplies  | 64,866        | 72,106        |
| Oilfield services   | 34,344        | 59,820        |
| Depreciation of property, plant and equipment and amortization of |               |               |
| intangible assets   | 34,537        | 37,925        |
| Transportation services   | 14,151        | 10,870        |
| Operating lease   | 7,020         | 13,731        |
| Other third parties services                                      | 8,999         | 9,303         |
| Loss from the contract in Yemen                                   | 249           | -             |
| Other   | 1,361         | 2,952         |
| Total   | 273,067       | 329,908       |

#### Labor and wages, including mandatory social contribution

Expenses related to labor and wages, including mandatory social contribution, decreased by US\$15.7 million, or 12.7%, to US\$107.5 million in the period ended 30 June 2013, as compared to US\$123.2 million in the year ended 30 June 2012, of which a decrease of 1.2% was due to the depreciation in the value of the Russian ruble, and 11.5% due to the reduction of labor expenses necessary to perform the same volume of shot points using high-density technologies (UniQ) and successful efforts by the Group's management to control personnel costs. An increase in wages and salaries as a percentage of total cost of services (from 37.3% to 39.4%), resulted from decrease in the share of seismic services of subcontractors and operating lease in the total cost of services.

#### Materials and supplies

Materials and supplies expenses decreased by US\$7.2 million, or 10.0%, to US\$64.9 million in the period ended 30 June 2013, as compared to US\$72.1 million in the period ended 30 June 2012, of which a decrease of 1.2% was due to the depreciation in the value of the Russian ruble, and a decrease of 8.8% due to procurement optimization and lower material and supplies requirements necessary to perform the same volume of shot points using high-density technologies (UniQ) that was 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 decreased by US\$3.4 million, or 8.9%, to US\$34.5 million in the period ended 30 June 2013, as compared to US\$37.9 million in the period ended 30 June 2012. This was primarily due to completion of the purchase accounting of the reverse acquisition of IGSS by Geotech Holding JSC as of 31 December 2012. The valuation was completed and the acquisition date fair value of property, plant and equipment was US\$ 454,413, a decrease of US\$ 9,636 over the provisional amount. Certain revisions of the remaining useful lives of property, plant and equipment acquired were also performed resulting in the decrease of depreciation of property, plant and equipment and amortization of intangible assets.

#### Oilfield services

Oilfield services decreased by US\$25.5 million, or 42.6%, to US\$34.3 million in the period ended 30 June 2013, as compared to US\$59.8 million in the period ended 30 June 2012. Decrease in oilfield services was due to significant reduction of subcontracted pass-through contracts.

#### Transportation services

Transportation services expenses increased by US\$3.3 million, or 30.2%, to US\$14.2 million in the period ended 30 June 2013, as compared to US\$10.9 million in the period ended 30 June 2012. Increase in transportation services was due to more crew movements in Russia and a larger number of projects performed by crews outside their main regions of operations (especially in YaNAD and Timano-Pechora regions).

#### Operating lease payments

Operating lease payments decreased by US\$6.7 million, or 48.9%, to US\$7.0 million in the period ended 30 June 2013, as compared to US\$13.7 million in the period ended 30 June 2012. Decrease of operating lease costs was due to optimization of utilized geophysical equipment throughout geophysical season and realization of investment program that allowed reducing company dependence from external suppliers of rental equipment.

#### Other

Other expenses decreased by US\$1.6 million, or 53.9%, to US\$1.4 million in the period ended 30 June 2013, as compared to US\$3.0 million in the period ended 30 June 2012 due to overall reduction in volume of seismic work performed as well as a result of Management's efforts to reduce costs.

#### Gross profit

As a result of the foregoing, gross profit increased by US\$10.9 million, or 17.7%, to US\$72.5 million in the period ended 30 June 2013, as compared to US\$61.6 million in the period ended 30 June 2012.

#### General and administrative expenses

General and administrative expenses decreased by US\$0.2 million, or 0.5%, from US\$34.1 million in the period ended 30 June 2012 to US\$33.9 million in the period ended 30 June 2013. The following table summarizes general and administrative expenses by type of expense during the periods indicated:

|   | 6 months 2013 | 6 months 2012 |
|---|---------------|---------------|
| Labor and wages, including mandatory social contribution          | 19,894        | 19,932        |
| Third party services  | 4,131         | 5,331         |
| Taxes, other than income tax                                      | 2,488         | 2,462         |
| Depreciation of property, plant and equipment and amortization of |               |               |
| intangible assets   | 1,022         | 1,568         |
| Operating lease   | 1,406         | 1,181         |
| Bank charges  | 572           | 720           |
| Bad receivables write-offs and provisions                         | 2,700         | 1,584         |
| Other   | 1,718         | 1,334         |
| Total   | 33,931        | 34,112        |

There were no material changes in Labor and wages expenses, although as a result of overlapping function elimination G&A headcount reduced by 4.2%.

Third party services expenses decreased by US\$1.2 million, or 22.5%, to US\$4.1 million in the period ended 30 June 2013, as compared to US\$5.3 million in the period ended 30 June 2012 as a result of Management's efforts to reduce costs.

#### Other operating expenses

Other operating expense decreased by US\$2.2 million, or 21.1%, to US\$8.2 million in the period ended 30 June 2013, as compared to US\$10.4 million in the period ended 30 June 2012 primarily through the decrease of loss on disposals of property, plant and equipment and other non-current assets.

#### Operating profit

As a result of the foregoing, operating profit increased by US\$13.9 million, or 73.9%, to US\$32.8 million in the period ended 30 June 2013, as compared to US\$18.8 million in the period ended 30 June 2012.

#### Finance income

In early 2013 we have financed CAPEX for UniQ equipment through promissory notes. Effective interest rate for promissory notes issued by the Group in 2013 was 7.0% while contractual interest rate comprised approximately 4.0%. At the initial recognition the effect of discounting of underlying liability to fair value in the amount of US\$1.2 million was recognized within finance income for six months ended 30 June 2013.

#### Net foreign exchange loss

The Group has incurred loss of US\$6.1 million on net foreign exchange as compared to US\$3.2 million loss reported for six months ended 30 June 2012. This was primarily due to an unfavorable shift in exchange rates in relation to the amount of US dollar-denominated liabilities.

#### Share in profit of an associate

Share of profit of associate decreased by US\$2.0 million from US\$6.0 million profit reported for six months ended 30 June 2012 to US\$4.0 million profit for the six months ended 30 June 2013. This decrease was due to a corresponding decrease of financial performance of Sibneftegeophyzika, in which we control a 39.5% interest.

#### <u>Profit before tax</u>

As a result of the foregoing, profit before tax increased by US\$6.8, which resulted in a pre-tax profit of US\$6.9 million in the six months ended 30 June 2013, as compared to profit before tax of US\$0.1 million in the six months ended 30 June 2012.

#### Income tax expense

Income tax expense increased by US\$2.9 million, to US\$4.3 million in the period ended 30 June 2013, as compared to US\$1.4 million in the period ended 30 June 2012. This was primarily due to movements in the deferred taxation while current tax expense decreased to US\$0.6 million in the period ended 30 June 2013, as compared to US\$2.4 million in the period ended 30 June 2012.

#### *Profit for the period*

As a result of the foregoing, profit for the period increased by US\$3.9, which resulted in the profit of US\$2.6 million in the six months ended 30 June 2013, as compared to loss for six months ended 30 June 2012 of US\$1.4 million.

#### Adjusted EBIT and adjusted EBITDA

The 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 items 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 items included within operating profit from continuing operations.

|   | 6 months 2013 | 6 months 2012 |
|---|---------------|---------------|
| Operating profit                              | 32,754        | 18,837        |
| Restructuring and redundancy costs            | 4,128         | 6,710         |
| Transaction related expenses                  | -             | 515           |
| Loss from the contract in Yemen               | 249           | -             |
| Adjusted EBIT                                 | 37,131        | 26,062        |
| Depreciation of property, plant and equipment | 33,992        | 37,894        |
| Amortization of intangible assets             | 1,567         | 1,599         |
| Loss on disposal of non-current assets        | 1,622         | 923           |
| Adjusted EBITDA                               | 74,312        | 66,478        |

#### **Liquidity and Capital Resources**

Group's principal sources of liquidity are cash flows from operating activities and partially bank loans. Group expects to continue financing a certain portion of capital expenditures using cash from operations and partially bank financing. Group believes that cash flows generated from operations during six months ended 30 June 2013 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 periods presented:

|                                       | 6 months 2013 | 6 months 2012 |
|---------------------------------------|---------------|---------------|
| Net cash from operating activities    | 152,657       | 112,615       |
| Net cash used in investing activities | (44,825)      | (6,831)       |
| Net cash used in financing activities | (117,769)     | (109,347)     |

#### **Net Cash from Operating Activities**

During the six months ended 30 June 2013, cash flows from operating activities increased by US\$40.0 million, or 35.6%, to US\$152.7 million, as compared to US\$112.6 million for six months ended 30 June 2012. This increase was primarily attributable to changes in working capital, and in particular to changes in accounts receivable, inventories, provisions, and prepayments and other current assets, all of which had a positive effect on cash flows from operating activities as well as significant improvement in financial results for the current period discussed above.

#### Net Cash Used in Investing Activities

During the six months ended 30 June 2013, cash flows used in investing activities increased by US\$38.0 million, to US\$44.8 million, as compared to US\$6.8 million for six months ended 30 June 2012. This increase is primarily relates to CAPEX programme associated with execution of high-density and technology-intensive seismic projects.

#### Net Cash Used in Financing Activities

During the six months ended 30 June 2013, cash flows used in financing activity remained relatively stable, increased by US\$8.4 million, or 7.7%, from US\$109.3 million for six months ended 30 June 2012 to US\$117.8 million for six months ended 30 June 2013.

#### **Capital Expenditures**

The combined capital expenditures were approximately US\$52.5 million and US\$23.8 million in six months ended 30 June 2013 and 2012, 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.

|  | 6 months 2013 | 6 months 2012 |
|--|---------------|---------------|
| Investing activities: Purchases of property, plant and equipment | 44,821        | 10,715        |
| Financing activities: Repayment of finance lease obligations     | 5,093         | 10,262        |
| Financing activities: Redemption of CAPEX promissory notes       | 2,596         | 2,860         |
| Total cash CAPEX   | 52,510        | 23,837        |

Capital expenditures are presented on the basis of cash outflows for the respective period. These capital expenditures consist primarily of purchase of equipment and software used in operations, repayment of finance lease obligations and redemption of promissory notes issued to finance capital expenditures. As of 30 June 2013, the Group had no firm commitments in respect of future capital expenditures.

#### Capital resources

The following table sets forth loans and borrowings as of 30 June 2013 and 2012:

|   | 30 June 2013 | 30 June 2012 |
|---|--------------|--------------|
| Long-term bank loans                    | 170,823      | 109,680      |
| Total non-current loans and borrowings  | 170,823      | 109,680      |
| Short-term bank loans                   | 69,693       | 69,750       |
| Current portion of long-term bank loans | 39,621       | 87,728       |
| Short-term interest payable             | 164          | 180          |
| Total current loans and borrowings      | 109,478      | 157,658      |
| Total loans and borrowings              | 280,301      | 267,338      |

In the beginning of 2013 the Group entered into non-revocable credit line agreement with Sberbank denominated in euro at interest rate calculated as EURIBOR plus 2.15%. Amount of financing raised amounts to 14,900,000 euro and matures in December 2017. As of 30 June 2013 liability over this credit line in the amount of US\$13.6 million and US\$3.9 million is reported within Long-term bank loans and Current portion of long-term bank loans, respectively.

A number of loan agreements and revolving credit line agreements were secured by property, plant and equipment, and rights to claim cash. In addition, as of 30 June 2013, 85.24% of shares in OJSC Narian-Marseismorazvedka and 68.90% of shares in Khantymansiyskgeophysics were pledged as security under loan agreements. These shares were unpledged in September 2013.

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

The following table sets forth promissory notes issued as of 30 June 2013 and 30 June 2012:

|  | 30 June 2013 | 30 June 2012 |
|--|--------------|--------------|
| Long-term promissory notes issued for equipment  | 24,848       | 15,013       |
| Short-term promissory notes issued for equipment | 9,781        | 3,057        |
| Total promissory notes                           | 34,629       | 18,070       |

In January 2013 to finance purchase of UniQ equipment the Group has issued USD-denominated promissory notes in the amount of US\$21.8 million, maturing by November 2015 through 5 equal installments starting from January 2014.

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 from Gross Debt. Gross debt and Net Debt as of 30 June 2013 and 30 June 2012 are presented below:

|                                 | 30 June 2013 | 30 June 2012 |
|---------------------------------|--------------|--------------|
| Loans and borrowings payable    | 280,301      | 267,338      |
| Notes issued                    | 34,629       | 18,070       |
| Finance lease obligations       | 1,507        | 11,865       |
| Gross debt                      | 316,437      | 297,273      |
| Less: cash and cash equivalents | (7,716)      | (9,409)      |
| Net debt                        | 308,721      | 287,864      |

#### **Off-Balance Sheet Arrangements**

As of 30 June 2013, 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. 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, Raiffeisen Bank and Nomos Bank 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-revocable credit line agreement with Sberbank denominated in euro at interest rate calculated as EURIBOR plus 2.15%. Increase in EURIBOR rate by 10 bp entails additional interest expense of US\$6.0 thousand.

The Group also has liability under credit agreement with Raiffeisenbank denominated in Russian rubles at interest rate calculated as one month MOSPRIME plus 6%. Increase in MOSPRIME rate by 10 bp entails additional interest expense of US\$15.0 thousand.

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 30 June 2013 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.

#### 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 loans and borrowings are denominated.

#### **Subsequent Events**

During the period subsequent to the reporting date the Group has entered in number of revocable credit line agreements with Alfa-Bank with aggregated credit limit of US\$123.7 million. All financing is RUR denominated, maturing up to 5 years and bear interest rate from 12.0% to 13.5% per annum. In addition to long-term financing the Group has attracted US\$1.9 million 3-months loan from Nomos Bank at 10.6% per annum.

In September 2013 the Group and Nomos Bank have concluded additional agreements for the unpledge of OJSC Narian-Marseismorazvedka and OJSC Khantymansiyskgeofizika shares, which as of 30 June 2013 were pledged under several loan agreements.

#### **Management's Responsibility Statement**

The report and the attached unaudited interim condensed consolidated financial statements, including the financial information contained herein, are the responsibility of, and have been approved by the management of the Group. The management is responsible for preparation of the Financial Report in accordance with the IAS 34 Interim Financial Reporting.