IG Seismic Services plc

MANAGEMENT'S REPORT ON 6 MONTHS 2014 RESULTS
For six months ended June 30, 2014

Select financial and operating information

	6 months 2014	6 months 2013	Change	%
*in thousand RUR, unless otherwise stated **				
Revenue	10,398,232	10,716,216	(317,984)	-3.0%
Adjusted EBITDA	2,154,498	2,304,618	(150,120)	-6.5%
Adjusted EBITDA margin	20.7%	21.5%	-80 bp	-
Net (loss) / profit	(334,825)	79,217	(414,042)	-
Operating cash flow	3,512,511	4,734,397	(1,221,886)	-25.8%
Capital Expenditures	1,467,373	1,628,513	(161,140)	-9.9%
Net Debt	11,569,154	10,097,990	1,471,164	14.6%

Operational statistics

Kilometers				
2D seismic (km)	9,509	7,289	2,220	30.5%
3D seismic (sq.km)	7,401	11,060	(3,659)	-33.1%
HD seismic (km)	621	1,001	(380)	-38.0%
HD seismic (sq.km)	751	522	229	43.9%
Shot Points by IGSS crews				
2D	190,162	176,903	13,259	7.5%
3D	504,005	687,214	(183,209)	-26.7%
HD	322,598	268,011	54,587	20.4%
TOTAL performed by IGSS crews	**1,016,765**	**1,132,128**	**(115,363)**	**-10.2%**
including				
Russia	964,145	1,066,232	(102,087)	-9.6%
Kazakhstan	6,723	61,189	(54,466)	-89.0%
Other	45,897	4,707	41,190	875.1%
TOTAL subcontracted	**-**	**20,351**	**(20,351)**	-100.0%

** During the first half of 2014, the Company changed the currency in which it presents its consolidated financial statements from US dollars to Russian Roubles, in order to better reflect the underlying performance - the Company's revenues, profits and cash flows are primarily generated in Russian Roubles, and are expected to remain principally denominated in Russian Roubles in the future.*

Order Book

SEISMIC SERVICES

Order Book as of June 30, 2014 (including VAT)

	As of 30.06.2014	**As of 30.06.2013**	***Change***
	RUR mln	*RUR mln*	*RUR, %*
Western Siberia	6,984	6,020	16%
Eastern Siberia	10,909	7,827	39%
Timano-Pechora	5,654	4,307	31%
South of Russia	176	2,183	-92%
Kazakhstan	-	288	-100%
Other*	1,027	1,798	-43%
TOTAL, including	**24,750**	**22,423**	**10%**
Contracts Signed**	18,028	19,367	-7%
Tenders won, contracts to be signed	6,722	3,056	120%

Order Book as of June 30, 2014 Breakdown by Year (including VAT)

	As of 30.06.2014
	RUR mln
2014	9,860
2015	14,890
TOTAL	**24,750**

SEISMIC DATA PROCESSING AND INTERPRETATION

Order Book as of June 30, 2014 (including VAT)

	As of 30.06.2014	**As of 30.06.2013**	***Change***
	RUR mln	*RUR mln*	*RUR, %*
Contracts Signed**	324	476	-32%
Tenders won, contracts to be signed	131	44	201%
TOTAL	**455**	**520**	**-13%**

**Includes India, Azerbaijan and Uzbekistan as of June 30, 2013; includes India as of June 30, 2014*

***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, 2014, the Company's seismic services order book amounted to RUR **24,750** million (inclusive of VAT), of which RUR **18,028** million (inclusive of VAT) was accounted for by signed contracts and RUR **6,722** million (inclusive of VAT) represented tenders won. The seismic services order book as of June 30, 2014 increased **by 10%** compared to the order book as of June 30, 2013.

Order Book Update as of September 13, 2014

As of September 13, 2014, the Company's seismic services order book amounted to RUR **28,588** million (inclusive of VAT), of which approximately RUR **25,277** million (inclusive of VAT) was accounted for by signed contracts and RUR **3,311** million (inclusive of VAT) represented tenders won. The seismic services order book as of September 13, 2014 increased **by 8%** compared to the order book as of September 13, 2013.

SEISMIC SERVICES

Order Book as of September 13, 2014 (including VAT)

	As of 13.09.2014	**As of 13.09.2013**	***Change***
	RUR mln	*RUR mln*	*RUR, %*
Western Siberia	6,775	7,295	-7%
Eastern Siberia	12,043	11,627	4%
Timano-Pechora	5,330	4,080	31%
South of Russia	3,512	1,404	150%
Kazakhstan	17	226	-93%
Other*	911	1,805	-50%
TOTAL, including	**28,588**	**26,437**	**8%**
Contracts Signed**	25,277	19,835	27%
Tenders won, contracts to be signed	3,311	6,602	-50%

Order Book as of September 13, 2014 Breakdown by Year (including VAT)

	As of 13.09.2014
	RUR mln
2014	6,879
2015	16,181
2016	5,528
TOTAL	**28,588**

SEISMIC DATA PROCESSING AND INTERPRETATION

Order Book as of 13 September 2014 (including VAT)

	As of 13.09.2014	**As of 13.09.2013**	***Change***
	RUR mln	*RUR mln*	*RUR, %*
Contracts Signed**	322	365	-12%
Tenders won, contracts to be signed	88	-	100%
TOTAL	410	**365**	**12%**

**Includes India, Azerbaijan and Uzbekistan as of September 13, 2013; includes India as of September 13, 2014*
***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 2014-2015 and 2015-2016 seasons which implies that current order book does not provide an accurate indication of revenues in 2014 and current order book trends could change.

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 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 partially mitigated by the fact that state-related clients, such as state-controlled oil companies including Gazprom Neft, Gazprom, Rosneft and government authorities including Rosnedra, which accounted for approximately 17.0%, 13.5%, 11.0% and 5.6% of our revenues from seismic survey operations respectively for the first six months ended 30 June 2014, 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 of the other capital expenditures, in order to retain such 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. However, in the first half of 2014 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 increase in the number of orders, including long-term ones, and, subsequently, in the increase in our order book already in the first half of 2014 (as measured at the beginning of 2014, at the end of the first quarter of 2014 and at the end of the first six months of 2014). 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 have entered 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 the First Half of 2014

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. The Russian Federation Energy Strategy for the Period to 2030 provides for significant increase in spending on exploration seismology. As a result, in 2014 seismic market has followed the market trends that had started 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.

Major Events since the Beginning of the Year 2014

Buyout Completed, IGSS Announced Change in Shareholders

At the end of 2013 U.C.E. Synttech Holdings Limited (a company owned by the IGSS CEO Nikolay Levitskiy, the principal beneficiary of IGSS) made a buyout offer to IGSS shareholders, comprising USD 15 in cash for each IGSS share (equivalent to USD 30 per GDR).

The offer was valid until February 26, 2014. As a result of the offer Synttech acquired 26.03% of all issued shares. Currently, the IGSS CEO Nikolay Levitskiy holds 55.82% of the issued share capital, 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.

Standard & Poor's Affirmed IG Seismic Services Corporate Credit Rating 'B'; Outlook 'Positive'

In February Standard & Poor's (S&P) affirmed its long-term corporate credit rating 'B' to IG Seismic Services PLC (LSE: IGSS) and to its subsidiary GEOTECH Seismic Services JSC (the largest geophysical company of IG Seismic Services). The outlook is 'Positive'.

The affirmation followed an offer from U.C.E. Syntech Holdings Limited to buy the shares of IGSS under a mandatory offer to all shareholders. A credit rating «B» was awarded to IGSS and its subsidiary GEOTECH Seismic Services JSC in September 2013.

AGM Approved Changes in the Board of Directors Composition

In June 2014 the Annual General Meeting (AGM) approved amendments to the Company's Articles in respect of the number of Directors in the Company, which was determined as not less than seven. The AGM also approved changes in the Board of Directors composition: resignations of Directors of the Company Kurt Suntay and Felix Lubashevsky, re-election of Directors of the Company Denis Cherednichenko and Dmitry Lipyavko, and election of Gerald Rohan as Director of the Company.

IGSS Announced Transition to the New Company Structure

On June 10, 2014 the IG Seismic Services Board of Directors decided at their meeting to implement next steps to optimize the Company's corporate structure and business unit's management structure.

Within the framework of this optimization the Company's operating assets will be divided into two business units: Seismic Services business unit, managed by GEOTECH Seismic Services PJSC, and Data Processing and Interpretation (DPI) business unit, managed by GeoPrime LLC. Both business units will be owned by the Russian holding structure GEOTECH Holding JSC, owned by IGSS.

This division into two separate business units in accordance with the existing lines of business will improve manageability and accountability of the Company's business units. According to the new structure, the GEOTECH Seismic Services PJSC, as before, will own all seismic operating assets, and will also be the managing company for all seismic operating subsidiaries. At the same time, the data processing and interpretation (DPI) assets of GEOTECH Seismic Services PJSC will be transferred to a separate DPI business unit, which will be transferred from GEOTECH Seismic Services PJSC to the GEOTECH Holding JSC.

GEOTECH Holding and Gazprom Neft Signed Agreement to Extend Strategic Partnership

In June Gazprom Neft and GEOTECH Holding (the managing company for IGSS assets), signed an agreement extending the strategic cooperation between the two companies to December 31, 2018. While discussing the agreement extension, both companies noted the mutual fulfillment of all obligations under the current cooperation agreement when performing seismic acquisition.

Under the agreement, both companies will continue developing long-term cooperation in the areas of geophysical exploration and application of cutting-edge seismic data acquisition, processing, and interpretation technologies. GEOTECH Holding has successfully implemented seismic data acquisition projects (high density seismic acquisition, real-time seismic data recording, etc.) at Gazprom Neft sites. The agreement stipulates further application of these seismic survey methods and the introduction of new ones.

It is worth noting that, in spring 2014, GEOTECH Holding completed a pilot seismic acquisition project at one of Gazprom Neft's license areas using an innovative technology allowing to significantly reduce the anthropogenic impact on the environment and to preserve significant forested areas. This new green technology was successfully tested at the West-Chatyklinsky license area (operator is Gazpromneft-Noyabrskneftegaz) in Yamal.

Moody`s Affirmed IG Seismic Services Corporate Credit Rating 'B2'; Outlook 'Stable'

In August Moody's Investor Service affirmed its long-term corporate credit rating 'B2' (outlook 'Stable') to IG Seismic Services. A credit rating 'B2' with 'Stable' outlook was awarded to IGSS in October 2013.

Standard and Poor's Affirmed IG Seismic Services Corporate Credit Rating 'B'; Revised Outlook 'Stable'

In September Standard and Poor's affirmed its long-term corporate credit rating 'B' to IG Seismic Services and on its subsidiary GEOTECH Seismic Services JSC; and revised outlook to 'Stable' from 'Positive'. S&P also revised Russia national scale rating on GEOTECH Seismic Services to 'ruA-' from 'ruA'.

Financial Review

Key financial highlights for the six months of 2014:

- Revenue amounted to RUR 10,398 mln, which is 3.0% below the revenue for the same period of 2013 of RUR 10,716 mln.
- Adjusted EBITDA decreased by 6.5% and amounted to RUR 2,154 mln.
- Adjusted EBITDA margin decreased by 80 bp to 20.7% of revenue compared to 21.5% of revenue for the same period of 2013.
- Operating Cash Flow for the six months of 2014 decreased by 25.8% over the same period of 2013 to RUR 3,513 mln.

The following table sets forth selected financial statements for the six months ended June 30, 2014 and 2013 extracted from the Group's unaudited interim condensed consolidated financial statements prepared in accordance with IFRS.

	6 months 2014	6 months 2013
Revenue	10,398,232	10,716,216
Cost of sales	(8,404,831)	(8,468,745)
Gross profit	**1,993,401**	**2,247,471**
General and administrative expenses	(1,226,495)	(1,052,287)
Other operating income	69,315	75,891
Other operating expense	(285,374)	(255,295)
Operating profit	**550,847**	**1,015,780**
Finance income	43,646	48,470
Finance expense	(803,225)	(787,208)
Net foreign exchange loss	(10,512)	(188,154)
Share of (loss) / profit of an associate	(35,759)	123,899
(Loss) / profit before tax	**(255,003)**	**212,787**
Current income tax expense	(5,463)	(19,712)
Deferred income tax expense	(74,359)	(113,858)
(Loss) / profit for the period	**(334,825)**	**79,217**

Revenue

In first half of 2014, revenue decreased by RUR 318.0 million, or 3.0%, from RUR 10,716.2 million for the six months ended 30 June 2013 to RUR 10,398.2 million for the period ended 30 June 2014. Decrease in revenue during the six months ended 30 June 2014 as compared to the corresponding period ending 30 June 2013 reflects lower production volumes performed due to unfavorable weather conditions throughout winter season (late mobilization, early thawing) and certain delay in contract signing that were partially offset by average price per 1 shot point growth as a result of Company strategy to concentrate on premium technology advanced projects.

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

	6 months 2014	6 months 2013
Russia	9,874,406	10,361,405
Kazakhstan and international projects	523,826	354,811
Total external sales	**10,398,232**	**10,716,216**

During the period ended 30 June 2014 and 2013, 95.0% and 96.7% of revenues, respectively, were generated by operations in Russia, with the remaining 5.0% and 3.3% of the revenues, respectively, attributable to operations in Kazakhstan and international projects.

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

- Russia seismic business revenue was impacted by seismic volumes reduction due to unfavorable weather conditions throughout winter season (late mobilization, early thawing) and certain delay in contract signing.
- In addition, revenue dynamics was influenced by partial reduction in subcontracted «turn-key» pass-through 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 decreased by RUR 139.0 million, or approximately 49.0%, from RUR 284.7 million in the period ended 30 June 2013 to RUR 145.8 million in the period ended 30 June 2014. This decrease was attributable to field seismic projects postponement and delay and decline in contracting for processing and interpretation of geophysical information.

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

	6 months 2014	6 months 2013
Field seismic operations	10,109,912	10,223,341
Processing and interpretation of geophysical information	145,768	284,740
Other revenue	142,552	208,135
Total	**10,398,232**	**10,716,216**

Other revenue decreased by RUR 65.6 million, from RUR 208.1 million in the period ended 30 June 2013 to RUR 142.6 million in the period ended 30 June 2014. 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 six months ended 30 June 2014 and 2013, 97.2% and 95.4% of revenues, respectively, was generated by field seismic operations.

Cost of sales

Cost of sales decreased by RUR 63.9 million, or 0.8%, in the period ended 30 June 2014 and amounted to RUR 8,404.8 million, as compared to RUR 8,468.7 million in the period ended 30 June 2013. This net reduction was entailed by several differently directed business factors, such as (i) reduction of costs attributed to subcontracted pass-through contracts, (ii) higher depreciation costs for innovative, high-density seismic equipment, (iii) overall inflation of costs in comparison with previous period. The following table summarizes the cost of sales by type of expense during the periods indicated:

	6 months 2014	6 months 2013
Labor and wages, including mandatory social contribution	3,329,230	3,335,196
Materials and supplies	2,012,217	2,011,706
Depreciation of property, plant and equipment and amortization of intangible assets	1,314,146	1,071,122
Oilfield services	686,243	1,065,121
Transportation services	382,084	438,882
Other third parties services	296,956	279,068
Operating lease	288,581	217,717
Loss from the contract in Yemen	-	7,722
Other	95,374	42,211
Total	**8,404,831**	**8,468,745**

Labor and wages, including mandatory social contribution

There were no material changes in Labor and wages expenses, although certain inflation of the payroll was offset by slight decrease in headcount.

Materials and supplies

Materials and supplies expenses remained relatively stable due to benefits from the 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 increased by RUR 243.0 million, or 22.7%, to RUR 1,314.1 million in the period ended 30 June 2014, as compared to RUR 1,071.1 million in the period ended 30 June 2013. This was primarily due to intensive investment programme which started in the previous seismic season and was aimed to provision of innovative, high-density seismic acquisition technology.

Oilfield services

Oilfield services decreased by RUR 378.9 million, or 35.6%, to RUR 686.2 million in the period ended 30 June 2014, as compared to RUR 1,065.1 million in the period ended 30 June 2013. Decrease in oilfield services was due to complete elimination of subcontracted pass-through contracts.

Transportation services

Transportation expenses decreased by RUR 56.8 million, or 12.9%, to RUR 382.1 million in the period ended 30 June 2014, as compared to RUR 438.9 million in the period ended 30 June 2013. Decrease in transportation services in comparison with the period ended 30 June 2013 was due to higher volumes of the crew movements between sites in Russia and a larger number of projects performed by crews outside their main regions of operations (especially in YaNAD and Timano-Pechora regions) during season 2012-2013.

Operating lease

Operating lease expenses increased by RUR 70.9 million, or 32.5%, to RUR 288.6 million in the period ended 30 June 2014, as compared to RUR 217.7 million in the period ended 30 June 2013. This growth was triggered by increase of volumes of complicated and high-density seismic acquisition works which require additional geophysical equipment.

Gross profit

As a result of the foregoing, gross profit decreased by RUR 254.1 million, or 11.3%, to RUR 1,993.4 million in the period ended 30 June 2014, as compared to RUR 2,247.5 million in the period ended 30 June 2013.

General and administrative expenses

General and administrative expenses increased by RUR 174.2 million, or 16.6%, from RUR 1,052.3 million in the period ended 30 June 2013 to RUR 1,226.5 million in the period ended 30 June 2014. The following table summarizes general and administrative expenses by type of expense during the periods indicated:

	6 months 2014	**6 months 2013**
Labor and wages, including mandatory social contribution	773,328	616,970
Third party services	180,282	128,100
Taxes, other than income tax	52,785	77,150
Operating lease	46,021	43,595
Depreciation of property, plant and equipment and amortization of intangible assets	45,781	31,692
Bank charges	32,440	17,738
Bad receivables write-offs and provisions	22,174	83,767
Other	73,684	53,275
Total	**1,226,495**	**1,052,287**

Labor and wages, including mandatory social contribution

Labor and wages expenses increased by RUR 156.4 million, or 25.3%, to RUR 773.3 million in the period ended 30 June 2014, as compared to RUR 617.0 million in the period ended 30 June 2013. This increase primarily relates to redundancy payments including settlements for unused vacations due to certain headcount reduction in Moscow office and several subsidiaries in the view of new Company's corporate structure and business unit's management structure implementation.

Third party services

Third party services expenses increased by RUR 52.2 million, or 40.7%, to RUR 180.3 million in the period ended 30 June 2014, as compared to RUR 128.1 million in the period ended 30 June 2013. This increase was primarily driven by increase of Recruitment, training and education costs to improve new seismic product, including skills to be able to provide high level services to our clients and Marketing and advertizing expenses aimed to promote the brand of the Company and attract new clients.

Taxes, other than income tax

Taxes other than income tax decreased by RUR 24.4 million, or 31.6%, to RUR 52.8 million in the period ended 30 June 2014, as compared to RUR 77.2 million in the period ended 30 June 2013. This decrease primarily relates to decrease of property tax expense which went down by RUR 27.9 million period-to-period being the accumulated tax effect of the changes to Russian Tax Code effective from January 2013 which eliminated property tax for newly purchased movable assets.

Operating profit

As a result of the foregoing, operating profit decreased by RUR 464.9 million, or 45.8%, to RUR 550.8 million in the period ended 30 June 2014, as compared to RUR 1,015.8 million in the period ended 30 June 2013.

Net foreign exchange loss

The Group has incurred loss of RUR 10.5 million on net foreign exchange as compared to RUR 188.2 million loss reported for six months ended 30 June 2013. This loss originates primarily due to an unfavorable shift in exchange rates in relation to the amount of US dollar-denominated and EUR-denominated liabilities.

Share in (loss) / profit of an associate

Share of loss of associate for the six months ended 30 June 2014 comprised RUR 35.8 million as compared with share of profit of associate in the amount of RUR 123.9 reported for the six months ended 30 June 2013 This shift was primarily due to a corresponding decrease of financial performance of Sibneftegeophyzika, in which we control a 39.5% interest.

(Loss) / profit before tax

As a result of the foregoing, loss before tax for the six months ended 30 June 2014 comprised RUR 255.0 million as compared to RUR 212.8 million profit before tax for the six months ended 30 June 2013.

Income tax expense

Income tax expense for six months ended 30 June 2014 comprised RUR 79.8 million as compared with RUR 133.6 income tax expense in the period ended 30 June 2013. This was primarily due to movements in the deferred taxation while current tax expense decreased to RUR 5.5 million in the period ended 30 June 2014, as compared to RUR 19.7 million in the period ended 30 June 2013.

(Loss) / profit for the period

As a result of the foregoing, loss for the six months ended 30 June 2014 comprised RUR 334.8 million as compared to RUR 79.2 million profit for the six months ended 30 June 2013.

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 2014	**6 months 2013**
Operating profit	**550,847**	**1,015,780**
Restructuring and redundancy costs	144,545	128,023
Loss from the contract in Yemen	-	7,722
Adjusted EBIT	**695,392**	**1,151,525**
Depreciation of property, plant and equipment	1,328,319	1,054,195
Amortization of intangible assets	31,608	48,619
Loss on disposal of non-current assets	99,179	50,279
Adjusted EBITDA	**2,154,498**	**2,304,618**

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 six months ended 30 June 2014 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 the Group's summary cash flow information for the periods presented:

	6 months 2014	**6 months 2013**
Net cash from operating activities	3,512,511	4,734,397
Net cash used in investing activities	(1,487,080)	(1,390,169)
Net cash used in financing activities	(2,558,575)	(3,652,415)

Net Cash from Operating Activities

During the six months ended 30 June 2014, cash flows from operating activities decreased by RUR 1,221.9 million, or 25.8%, to RUR 3,512.5 million, as compared to RUR 4,734.4 million for six months ended 30 June 2013. This decrease was primarily attributable to changes in working capital, in particular to changes in accounts receivable, accounts payable, 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 six months ended 30 June 2014, cash flows used in investing activities increased by RUR 96.9 million, to RUR 1,487.1 million, as compared to RUR 1,390.2 million for six months ended 30 June 2013. This increase is primarily related to purchase of bank promissory notes in the amount of RUR 239.9 million in order to reserve interest bearing funding for next season preparation while direct cash payments for CAPEX for six months ended 30 June 2014 decreased in comparison with the same period of 2013 by RUR 163.2 million or 11.7% and comprised RUR 1,226.9 million. Annual interest derived from the above mentioned promissory notes ranges from 5.5% to 9.0%.

Net Cash Used in Financing Activities

During the six months ended 30 June 2014, cash flows used in financing activity decreased by RUR 1,093.8 million, or 29.9%, from RUR 3,652.4 million for six months ended 30 June 2013 to RUR 2,558.6 million for six months ended 30 June 2014.

Capital Expenditures

The combined capital expenditures were RUR 1,467.4 million and RUR 1,628.5 million in six months ended 30 June 2014 and 2013, 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 2014	**6 months 2013**
Investing activities: Purchases of property, plant and equipment	1,226,867	1,390,045
Financing activities: Repayment of finance lease obligations	2,227	157,951
Financing activities: Redemption of CAPEX promissory notes	238,279	80,517
Total cash CAPEX	**1,467,373**	**1,628,513**

Capital expenditures are presented on the basis of cash outflows for the respective period. As of 30 June 2014, 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 2014 and 2013:

	30 June 2014	**30 June 2013**
Long-term bank loans	4,528,956	5,587,450
Bonds	2,967,579	-
Total non-current loans and borrowings	**7,496,535**	**5,587,450**
Short-term bank loans	1,312,317	2,279,588
Current portion of long-term bank loans	2,347,259	1,295,963
Short-term borrowings	2,000	5,364
Total current loans and borrowings	**3,661,576**	**3,580,915**
Total loans and borrowings	**11,158,111**	**9,168,365**

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 in the amount of RUR 341.1 million and RUR 136.6 million is reported within Long-term bank loans and Current portion of long-term bank loans, respectively as of 30 June 2014.

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

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

The following table sets forth promissory notes issued as of 30 June 2014 and 30 June 2013:

	30 June 2014	30 June 2013
Long-term promissory notes payable:		
Notes issued to third parties for equipment (Sercel)	84,111	245,219
Notes issued to third parties for equipment (UniQ)	256,967	567,534
Short-term promissory notes payable:		
Notes issued to third parties for equipment (Sercel)	172,518	173,783
Notes issued to third parties for equipment (UniQ)	307,676	146,144
Total promissory notes	**821,272**	**1,132,680**

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. Gross debt and Net Debt as of 30 June 2014 and 30 June 2013 are presented below:

	30 June 2014	30 June 2013
Loans and borrowings payable	11,158,111	9,168,365
Notes issued	821,272	1,132,680
Finance lease obligations	3,762	49,292
Gross debt	**11,983,145**	**10,350,337**
Less: cash and cash equivalents	(172,991)	(252,347)
Less: bank promissory notes	(241,000)	-
Net debt	**11,569,154**	**10,097,990**

Off-Balance Sheet Arrangements

As of 30 June 2014, 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 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 RUR 0.3 million for six months ended 30 June 2014.

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 2014 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

In early September 2014 the Group and Rosbank have concluded letter of credit agreement to finance acquisition of new seismic equipment aimed to provision of innovative, high-density seismic acquisition technology for next seismic season. The letter of credit in the amount of EUR 11.5 million (RUR 556.4 million) is available for 60-months period at floating interest rate calculated as 6 months EURIBOR plus 1.3%.

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.