IG Seismic Services plc

MANAGEMENT’S REPORT ON 2013 RESULTS
For twelve months ended 31 December, 2013

Select financial and operating information

	2013	2012	Change	%
in thousand US$, unless otherwise stated				
Revenue	607,246	608,482	(1,236)	-0.20%
EBITDA	132,781	119,103	13,678	11.48%
EBITDA margin	21.9%	19.6%	230bp	--
Net (loss) / profit*	(12,580)	12,523	(25,103)	--
Operating cash flow	148,922	84,063	64,859	77.16%
Capital Expenditures	100,761	56,688	44,073	77.75%
Net Debt**	389,907	390,245	(338)	-0.09%
Average exchange rate for the period (RUB/USD)	31.85	31.09	0.76	2.44%

in thousand RUB, unless otherwise stated				
Revenue	19,339,562	18,919,502	420,060	2.22%
EBITDA	4,228,807	3,703,264	525,543	14.19%
EBITDA margin	21.9%	19.6%	230bp	--
Net (loss) / profit*	(400,648)	389,377	(790,025)	--
Operating cash flow	4,742,866	2,613,767	2,129,099	81.46%
Capital Expenditures	3,209,035	1,762,597	1,446,438	82.06%
Net Debt	12,761,344	11,852,794	908,550	7.67%

** Net (loss) / profit for 2013 and 2012, respectively, were significantly affected by certain number of one-off and non-recurring items which are discussed below in the “Adjusted EBIT and adjusted EBITDA” section;*

*** Net Debt is calculated using FX rate as at the end of the period (RUB/USD): 32.73 as at 31 December 2013 and 30.37 as at 31 December 2012.*

Operational statistics

	2013	2012	Change	%
Kilometers				
2D (km)	8,433	11,072	-2,639	-24%
3D (sq.km)	14,004	20,139	-6,135	-30%
HD (km)	1,001	-	1,001	100%
HD (sq.km)	1,140	-	1,140	100%
Shot Points performed by IGSS crews				
2D	215,548	247,681	-32,133	-13%
3D	952,314	1,202,476	-250,162	-21%
HD	442,597	-	442,597	100%
TOTAL performed by IGSS crews	**1,610,459**	**1,450,157**	**160,302**	**11%**
including				
Russia	1,458,999	1,281,342	177,657	14%
Kazakhstan	113,300	158,924	-45,624	-29%
Other	38,160	9,891	28,269	286%
TOTAL subcontracted	**20,351**	**88,576**	**-68,225**	**-77%**

Seismic Services Order Book as of 31 December, 2013 (including VAT)

FX 32.73 RUR/USD	**Russia**		**Kazakhstan and international**		**TOTAL**	
	RUR mln	*USD mln*	*RUR mln*	*USD mln*	*RUR mln*	*USD mln*
TOTAL including	**32,025**	**979**	**1,647**	**50**	**33,672**	**1,029**
Contracts signed*	25,879	791	1,647	50	27,526	841
Tenders won, contracts to be signed	6,146	188	-	-	6,146	188

As of 31 December 2013, the Company's total seismic services order book amounted to approximately USD 1,029 million (inclusive of VAT), of which approximately USD 841 million (inclusive of VAT) accounted for signed contracts and approximately USD 188 million (inclusive of VAT) represented tenders awarded this year. The seismic services order book as of December 31, 2013 increased by 22% compared to the order book as of December 31, 2012.

Data Processing & Interpretation Order Book as of December 31, 2013 (including VAT)

FX 32.73 RUR/USD	*RUR mln*	*USD mln*
TOTAL including	**384**	**12**
Contracts signed*	306	9
Tenders won, contracts to be signed	78	2

** 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 following discussion and analysis of our financial condition and results of operations is for the year ended 31 December, 2013 (the "Report"). It should be read in conjunction with our Audited Consolidated Financial Statements for the year ended 31 December, 2013 and related notes. Financial information as of and for the year ended 31 December, 2013 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. Since the beginning of 2012, 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 of the cost of labor and equipment, growth of fuel prices while our ability to transfer 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, Rosneft and Gazprom and government authorities including Rosnedra, which accounted for approximately 22.1%, 11.9%, 10.3% and 10.2% of our revenues from seismic survey operations respectively for the year ended 31 December 2013, tend to demonstrate a greater degree of commitment to earlystage 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 the licenses.

Seasonality

In the year ended 31 December 2013, we derived over 90% of our revenues from our field seismic works operations. 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 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 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.

Maintaining production is increasingly 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 2013 the seismic market has followed the market trends that 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 of the Year 2013

Second Agreement on UniQ Technology Signed

The very 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. The UniQ technology makes it possible to explore areas that cannot be explored using conventional seismic operations, using high resolution of data, and provides for the most advanced understanding of reservoirs possible with current technologies. Although the 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 the 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 at Yamal. The 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 (Kazakhstan subsidiary of IGSS) 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 the 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.

IGSS Obtained Exclusive Right for UniQ until 2019 Year-End

In July 2013 Schlumberger renewed its effective agreement with IGSS for the exclusive right to use the UniQ technology in Russia and CIS until 2019 year-end.

Standard and Poor's and Moody's Assigned IGSS Corporate Credit Ratings

In September 2013 Standard & Poor's Ratings Services (S&P), one of the most influential rating agencies in the world, assigned its 'B' long-term corporate credit rating to IG Seismic Services PLC and to its subsidiary GEOTECH Seismic Services JSC (GEOTECH). The outlook is positive. S&P also assigned its 'ruA' Russia national scale rating to GEOTECH. According to Standard & Poor's, the positive outlook reflects expectation that the Russian seismic market, particularly the volume and complexity of its services, will grow from its current low level as Russia's key oil provinces mature and oil companies use more advanced technologies, such as high-density seismic services, to save on drilling costs.
In October 2013 Moody's Investor Service, one of the most influential rating agencies in the world, assigned a 'B2' corporate family rating to IG Seismic Services PLC, the leading pure-play land and transition zone seismic company in Russia and the CIS and one of the largest land seismic companies globally. The outlook is stable. According to Moody's, the stable outlook reflects expectation that IGSS's market will continue to demonstrate healthy growth, and the company will adhere to conservative financial and liquidity management policies.

Geotech Seismic Services Placed Debut Issue of 5-year Bonds Worth RUR 3 Billion
In October 2013 Geotech Seismic Services, the largest operational company of IG Seismic Services PLC (IGSS), placed its debut issue of series 01 bonds worth RUR 3 bn. The bonds mature in five years and have a put option after three years.

IGSS announced Change in Shareholders

In November 2013 Nyala Investments Limited, which represents the interest of Volga Group (formerly known as Volga Resources), has sold its 13% stake in IG Seismic Services to a company within the Industrial Investors Group of Sergey Generalov, the Chairman of the Board of Directors of IGSS.

The Bank of Russia Included Geotech Seismic Services Bonds into the Lombard List

In December 2013 the Bank of Russia Included Geotech Seismic Services (the largest operational company of IG Seismic Services) Bonds into the Bank of Russia Lombard List.

Financial Review

Key financial highlights for the full year of 2013:

- Revenue for the full year amounted to USD 607.2 mln, which is 0.2% below the Revenue for the same period of 2012 of USD 608.5 mln.
- EBITDA increased by 11.5% year-on-year and amounted to USD 132.8 mln.
- EBITDA margin increased by 230 bp year-on-year to 21.9% of sales compared to 19.6% of sales for the same period of 2012.
- Net loss for the full year of 2013 amounted to USD 12.6 mln compared to a net profit of USD 12.5 mln for the same period of 2012.
- Operating Cash Flow for the full year increased by 77.2% over the same period of 2012 to USD 148.9 mln.

The following table sets forth selected financial statements as of and for the year ended 31 December 2013 and 2012 extracted from our Audited Consolidated Financial Statements prepared in accordance with IFRS.

	2013	**2012**
Revenue	607,246	608,482
Cost of sales	(477,076)	(489,800)
Gross profit	**130,170**	**118,682**
Selling, general and administrative expenses	(68,447)	(74,345)
Other operating income	7,426	14,049
Other operating expense	(16,285)	(17,039)
Operating profit	**52,864**	**41,347**
Finance income	579	802
Finance expense	(45,736)	(46,241)
Net foreign exchange (loss)/gain	(7,802)	1,608
Share of profit of an associate	3,988	6,399
Profit before tax	**3,893**	**3,915**
Current income tax expense	(57)	(1,816)
Income tax (expense)/benefit	(16,416)	10,424
(Loss)/profit for the year	**(12,580)**	**12,523**

Revenue

During the year ended 31 December 2013, revenue amounted to $607.2m which is slightly lower than $608.5m for the year ended 31 December 2012. In rouble terms the Company experienced revenue growth of 2.2% that was offset by 2.4% depreciation of the Russian ruble against the US dollar (when comparing average rates for 2012 and 2013 full years). Increase in revenue (excluding exchange rate effect) was driven by increase in sales in Russia segment (2.0% excluding exchange rate effect) and Kazakhstan business (5.8% in US dollar terms).

Moderate increase in revenue (excluding exchange rate effect) during the year ended 31 December 2013 as compared to the corresponding period ending 31 December 2012 with simultaneous improvement in key operational and financial performance metrics: shot points performed by IGSS crews, Gross profit, EBITDA represents Company'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 our revenue by geography

	2013	2012
Russia	580,688	583,374
Kazakhstan	26,558	25,108
Total external sales	**607,246**	**608,482**

During the years ended 31 December 2013 and 2012, 95.6% and 95.9% of revenues, respectively, was generated by operations in Russia, with the remaining 4.4% and 4.1% of the revenues, respectively, attributable to operations in Kazakhstan.

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

	2013	2012
Field seismic operations	573,016	578,686
Data processing and interpretation	23,291	20,836
Other revenue	10,939	8,960
Total	**607,246**	**608,482**

Seismic business segment revenue in rouble terms increased by 1.4% that was driven by a number of factors:

- Increase in revenue and volumes performed by own IGSS crews in Russia that was driven by seismic volumes structure change in favor of high density seismic projects that produce higher shot points volumes and result in higher margin earned in absolute and relative terms.
- Due to the company's growing ability to perform more volumes using its own crews there was partial reduction in subcontracted «turn-key» pass-through contracts that led to higher margin earned with neutral effect on overall Russia seismic volumes and revenue compared to the corresponding period of previous year.
- Kazakhstan seismic business segment revenue increased from US$24.5 million to US$25.9 million due to rendering of large seismic contract in India using Kazakhstan crews. Positive effect was offset by reduction in volumes in Kazakhstan itself as a result of increased competition on local seismic market.

Revenue from processing and interpretation of geophysical information increased by US$2.5 million, or approximately 12%, from US$20.8 million in 2012 to US$23.3 million in 2013. This increase was attributable to overall growth of seismic volumes processed and our increased focus on DP&I services.

Other revenue increased by US$2.0 million, from US$9.0 million in 2012 to US$10.9 million in 2013. Main reason behind other revenue growth is an increase in sales of internally built impulse sources with production base in Minusinsk.

During the year ended 31 December 2013 and the 2012, 94.4% and 95.1% of revenues, respectively, was generated by field seismic operations.

Cost of sales

Cost of sales decreased by US$12.7 million, or 2.6%, in the year ended 31 December 2013 and amounted to US$477.1 million, as compared to US$489.8 million in the year ended 31 December 2012. Decrease of 2.4% was due to the depreciation in the value of the Russian ruble, and 0.2% due to business factors, such 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:

	2013	2012
Labor and wages, including mandatory social contribution	181,702	182,330
Materials and supplies	99,057	98,210
Depreciation of property, plant and equipment and amortization of intangible assets	67,545	63,172
Oilfield services	63,543	83,565
Transportation services	29,047	23,557
Other third parties services	18,899	17,687
Operating lease payments	13,163	15,810
Loss from the contract in Yemen	273	1,817
Other	3,847	3,652
Total	**477,076**	**489,800**

Labor and wages, including mandatory social contribution

Expenses related to labor and wages, including mandatory social contribution, decreased by US$0.6 million, or 0.3%, to US$181.7 million in the year ended 31 December 2013, as compared to US$182.3 million in the year ended 31 December 2012, of which a decrease of 2.4% was due to the depreciation in the value of the Russian ruble, while increase of 2.1% due to considerable 11.1% shot points growth in volumes performed by IGSS own crews that was partially offset by 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. Increase in wages and salaries as a percentage of total cost of sales (from 37% to 38%), resulted from certain reduction in the share of seismic services of subcontractors in the total cost of services.

Materials and supplies

Materials and supplies expenses increased by US$0.8 million, or 0.9%, to US$99.1 million in the year ended 31 December 2013, as compared to US$98.2 million in the year ended 31 December 2012, of which a decrease of 2.4% was due to the depreciation in the value of the Russian ruble, and an increase of 3.3% due to considerable 11.1% shot points growth in volumes performed by IGSS own crews that was partially offset by reduction of materials and supplies expenses necessary to perform the same volume of shot points using high-density technologies (UniQ).

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

Depreciation of property, plant and equipment and amortization of intangible assets increased by US$4.4 million, or 7%, to US$67.5 million in the year ended 31 December 2013, as compared to US$63.2 million in the year ended 31 December 2012. As a percentage of total cost of sales, depreciation increased from 12.9% for 2012 to 14.2% for 2013. The increase in absolute dollar terms was primarily the result of our significant capital expenditures in property, plant and equipment due to development of new high density product line as well as sustaining investment to support traditional technology production volumes.

Oilfield services

Oilfield services decreased by US$20.0 million, or 24%, to US$63.5 million in the year ended 31 December 2013, as compared to US$83.6 million in the year ended 31 December 2012. Decrease in oilfield services was due to significant reduction of subcontracted pass-through contracts.

Transportation services

Transportation services expenses increased by US$5.5 million, or 23.3%, to US$29.0 million in the year ended 31 December 2013, as compared to US$23.6 million in the year ended 31 December 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$2.6 million, or 16.7%, to US$13.2 million in the year ended 31 December 2013, as compared to US$15.8 million in the year ended 31 December 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.

Gross Profit

As a result of the foregoing, our gross profit increased by US$11.5 million, or 9.7%, to US$130.2 million in the year ended 31 December 2013, as compared to US$118.7 million in the year ended 31 December 2012.

General and Administrative Expenses

General and administrative expenses decreased by US$5.9 million, or 7.9%, from US$74.3 million in the year ended 31 December 2012 to US$68.4 million in the year ended 31 December 2013. As a percentage of total revenue, General and administrative expenses decreased to 11.3% for 2013 from 12.2% for 2012. The following table summarizes general and administrative expenses by type of expense during the periods indicated:

	2013	2012
Labor and wages, including mandatory social contribution	37,614	38,833
Third party services	10,799	9,972
Taxes, other than income tax	4,738	5,434
Operating lease	2,862	2,869
Depreciation of property, plant and equipment and amortization of intangible assets	2,533	2,921
Bank charges	1,481	0,895
Bad receivables write-offs and provisions	5,118	9,921
Other	3,302	3,500
Total	**68,447**	**74,345**

Labor and wages expenses decreased by US$1.2 million, or 3.1%, to US$37.6 million in the year ended 31 December 2013, as compared to US$38.8 million in the year ended 31 December 2012 due to the on-going process of overlapping functions elimination in corporate center of Company.

Third party services expenses increased by US$0.8 million, or 8.3%, to US$10.8 million in the year ended 31 December 2013, as compared to US$10.0 million in the year ended 31 December 2012.

Other Operating Income

Other operating income decreased by US$6.6 million, or 47.1%, to US$7.4 million in the year ended 31 December 2013 from US$14.0 million in the year ended 31 December 2012. The decrease is mainly due to decrease of income derived from write-off of accounts payable which comprised US$2.4 million for year ended 31 December 2013 as compared with US$6.3 million for year ended 31 December 2012.

Other Operating Expenses

Other operating expense decreased by US$0.8 million, or approximately 4.4%, to US$16.3 million in the year ended 31 December 2013 from US$17.0 million in the year ended 31 December 2012. The following table summarizes other operating expenses by type of expense during the periods indicated:

	2013	2012
Loss on disposals of property, plant and equipment and other assets	4,926	5,655
Penalties and fines paid	3,866	6,087
VAT not recoverable	1,038	541
Net loss from service plants and facilities	773	628
Administrative charges and state duties	774	338
Other expenses	4,908	3,790
Total	**16,285**	**17,039**

Operating Profit

As a result of the foregoing, our operating profit reported for the year ended 31 December 2013 comprised US$52.9 million as compared to US$41.3 million operating profit incurred in the year ended 31 December 2012 demonstrating US$11.5 million or 27.9% year-on-year improvement.

Improvement in key operational and financial performance metrics (shot points performed by IGSS crews, gross profit, EBITDA, operating profit) as a result of Company'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.

Finance Expense

Finance expense decreased by US$0.5 million, or 1.1%, from US$46.2 million in the year ended 31 December 2012 to US$45.7 million in the year ended 31 December 2013. The following table summarizes finance expenses by type of expense during the periods indicated:

	2013	2012
Interest expense on loans and borrowings	43,670	43,022
Bank charges on loans and loan accounts	995	1,163
Interest expense on finance lease	452	2,056
Other finance expenses	619	-
Total finance expenses	**45,736**	**46,241**

Net Foreign Exchange gain / (loss)

The Group has incurred US$7.8 million net foreign exchange loss for the year ended 31 December 2013 as compared to US$1.6 million net foreign exchange gain reported in FY 2012. This was primarily due to an unfavorable shift in exchange rates in relation to the amount of US dollar-denominated and EUR- denominated liabilities.

Share in profit / (loss) of an Associate

Share of profit of associate decreased by US$2.4 million from US$6.4 million profit in the year ended 31 December 2013 to US$4.0 million profit in the year ended 31 December 2012. This decrease was due to a corresponding shift of financial performance of Sibneftegeophyzika, in which we control a 39.5% interest, and OJSC Stavropolneftegeofizika, in which we control a 25.4% interest in the year ended 31 December 2013.

Profit / (loss) Before Tax

As a result of the foregoing, profit before tax did not changed significantly and comprised US$3.9 million for both years presented.

Current and deferred income tax

Current income tax expense decreased by US$1.8 million, or 97.0%, from US$1.8 million in the year ended 31 December 2012 to US$0.1 million in the year ended 31 December 2013. This was primarily due to implementation of new tax accounting policy of the Group and shift to utilization of tax loss accumulated for the previous years.

During the year ended 31 December 2013 the Group has incurred US$16.4 million deferred tax expense as compared to US$10.4 million deferred tax benefit reported for the year ended 31 December 2012. This was primarily affected by one-off items which in 2013 resulted in additional deferred tax expense of US$13.6 million related to Group restructuring in September-October 2013, while 2012 was affected by non-recurring deferred tax benefit from recognition of deferred tax asset on tax loss for the prior periods of US$5.8 million and deferred tax benefit related to finalization of purchase price allocation in 2012 of US$3.5 million.

(Loss) / Profit for the Year

As a result of the foregoing, the Group has incurred net loss of US$12.6 million for the year ended 31 December 2013 as compared to net profit of US$12.5 million for the year ended 31 December 2012. These financial results were affected by number of one-off and non-recurring items which is discussed below.

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 2013 and 2012 to the effect of one-off and non-recurring items in addition to those affecting adjusted EBITDA and adjusted EBIT.

	2013	2012
(Loss) / profit for the period as reported	**(12,580)**	**12,523**
Net foreign exchange gain / (loss)	7,802	(1,608)
Share of profit of an associate	(3,988)	(6,399)
Restructuring and redundancy costs	4,700	7,043
Transaction related expenses	1,763	1,677
Loss from the contract in Yemen	273	1,817
Deferred tax expense related to Group restructuring	13,640	-
Recognised deferred tax asset on tax loss for the prior periods	-	(5,760)
Deferred tax benefit related to finalization of purchase price allocation in 2012	-	(3,510)
Normalized financial results for the period	**11,610**	**5,783**
Financial income and expense, net	45,157	45,439
Deferred income tax expense / (benefit) for the period w/o one-offs	2,776	(1,154)
Current income tax expense	57	1,816
Adjusted EBIT for the period	**59,600**	**51,884**
Depreciation of property, plant and equipment	67,120	63,024
Amortization of intangible assets	2,958	3,272
Loss / (gain) on disposals of property, plant and equipment and other assets	3,103	923
Adjusted EBITDA for the period	**132,781**	**119,103**

Liquidity and Capital Resources

Our principal sources of liquidity are cash flows from our operating activities and partially bank loans. We expect to continue financing a certain portion of our capital expenditures using cash from operations and partially bank financing. We believe that cash flows generated from operations in 2013 and 2014 will be sufficient to finance our working capital needs and to repay our existing obligations as they become due and that bank financing will be available to us on commercially acceptable terms.

Cash Flows

The following table sets out Group's summary cash flow information for the year ended 31 December 2013 and 2012:

	2013	2012
Net cash from operating activities	148,922	84,063
Net cash used in investing activities	(91,277)	(27,761)
Net cash used in financing activities	(53,012)	(51,797)

Net Cash from Operating Activities

During the year ended 31 December 2013, cash flows from operating activities increased by US$64.9 million, or 77.2%, to US$148.9 million, as compared to US$84.1 million in the year ended 31 December 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 our cash flows from operating activities as well as significant improvement in operating results and margin levels for the current year.

Net Cash used in Investing Activities

During the year ended 31 December 2013, cash flows used in investing activities increased by US$63.5 million, from US$27.8 million in the year ended 31 December 2012 to US$91.3 million in the year ended 31 December 2013. This increase was primarily attributable to significant increase in CAPEX programme associated with implementation of high-density UniQ seismic acquisition technology as well as US$4.3 million of prepayment issued in late 2013 to acquire non-controlling interests. The transaction itself is expected to be settled in the first half of 2014.

Net Cash used in Financing Activities

During the year ended 31 December 2013, cash flows used in financing activities increased by US$1.2 million, from US$51.8 million in the year ended 31 December 2012 to US$53.0 million in the year ended 31 December 2013.

Capital Expenditures

The combined capital expenditures were approximately US$56.7 million and US$100.8 million in the years ended 31 December 2012 and 2013, respectively.

	2013	2012
Investing activities: Purchases of property, plant and equipment	87,622	33,988
Financing activities: Repayment of finance lease obligations	7,947	17,508
Financing activities: Redemption of CAPEX promissory notes	5,192	5,192
Total cash CAPEX	**100,761**	**56,688**

Our capital expenditures are presented on the basis of cash paid for the respective period. These capital expenditures consist primarily of purchase of equipment and software used in our operations, repayment of finance lease obligations and redemption of promissory notes issued by us to finance our capital expenditures. As of 31 December 2013, we had no firm commitments in respect of future capital expenditures.

Capital resources

The following table sets forth the Group's total debt as of 31 December:

	31 December 2013	31 December 2012
Non-current liabilities		
Long-term bank loans	225,073	225,799
Bonds	90,556	-
Total non-current loans and borrowings	**315,629**	**225,799**
Current liabilities		
Short-term bank loans	47,038	125,851
Current portion of long-term bank loans	16,426	35,929
Total current borrowings	**63,464**	**161,780**
Total borrowings	**379,093**	**387,579**

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 amounts to 14,900,000 euro (19,485,000 US dollars) and matures in December 2017. The liability over this credit line in the amount of 12,274 and 4,095 is reported within Long-term bank loans and Current portion of long-term bank loans, respectively as of 31 December 2013.

The Group also had liability under credit agreement with Raiffeisenbank denominated in Russian rubles at interest rate calculated as one month MOSPRIME plus 6%. The loan was fully prepaid in September 2013.

All other loans and borrowings presented in the table above are at fixed rates and are denominated in Russian rubles.

In October 2013, the Group placed issue of documentary interest-bearing non-convertible bearer stock bonds (registration number 4-01-55378-E) with a total nominal value of RUB 3 billion and the term of 5 years. Coupon payments are made on semi-annual basis of fixed rate of 10.5% p.a. for the first six coupon periods. These bonds provide for early repurchase in three years at the request of a bond holder as set in the respective offering documents. According to the Bank of Russia Board of Directors Resolution as of November 29, 2013, bonds were included into the Lombard List.

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.

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 31 December 2013 and 2012 are presented below:

	31 December 2013	31 December 2012
Loans and borrowings	379,093	387,579
Notes issued	32,366	15,340
Finance lease obligations	183	5,941
Gross debt	**411,642**	**408,860**
Less: cash and cash equivalents	(21,735)	(18,615)
Net debt	**389,907**	**390,245**

Off-Balance Sheet Arrangements

As of 31 December 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. Our overall risk management objective is to reduce the potential adverse effects of these risks on our 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%. The following demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in EURIBOR rate, with all other variables held constant.

Change of EURIBOR rate, %	Effect on income/(loss) before tax
'+0.1%	(15)
'-0.1%	15

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 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

Financing

During the period subsequent to the reporting date the Group has entered into a number of revocable credit line agreements with Sberbank and Alfa-Bank with aggregated credit limit of 110,170. All financing is RUR denominated, and mature from 30 to 47 months and bear interest rate from 10.65% to 13.5% per annum. The Group has also entered into number of USD denominated non-revocable credit line agreements with Sberbank: 5-year credit line at 10.0% per annum in the amount of 8,149 and 3-year credit line at 9.75% per annum in the amount of 10,003.

Shareholder structure

As of 15 April 2014 Mr. Nikolay Levitskiy bacame the ultimate controlling shareholder of the Group.

Shareholder structure as of 15 April 2014:

Mr. Nikolay Levitskiy	55.82%
Schlumberger	12.00%
Industrial Investors Group	7.78%
Other institutional and private shareholders	24.40%

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.