IG Seismic Services plc

MANAGEMENT'S REPORT ON 2014 RESULTS
For twelve months ended 31 December, 2014

Select financial and operating information

	2014	2013	Change	%
in thousand RUB, unless otherwise stated				
Revenue	19,589,247	19,339,577	249,670	1.3%
EBITDA	4,448,998	4,228,807	220,191	5.2%
EBITDA margin	22.7%	21.9%	80 bp	-
Net (loss) / profit*	(2,409,972)	(400,671)	(2,009,301)	-
Operating cash flow	3,425,415	4,168,273	(742,858)	-17.8%
Capital Expenditures	3,289,053	3,209,058	79,995	2.5%
Net Debt	15,184,862	12,761,312	2,423,550	19.0%

** Net loss incurred for 2014 and 2013 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.*

Operational statistics

	2014	2013	Change	%
Kilometers				
2D (km)	12,199	8,433	3,766	45%
3D (sq.km)	9,280	14,004	(4,724)	-34%
HD (km)	622	1,001	(379)	-38%
HD (sq.km)	1,187	1,140	47	4%
Shot Points performed by IGSS crews				
2D	273,395	215,548	57,847	27%
3D	666,780	952,314	(285,534)	-30%
HD	423,456	442,597	(19,141)	-4%
TOTAL performed by IGSS crews	**1,363,631**	**1,610,459**	**(246,828)**	**-15%**
including				
Russia	1,179,924	1,458,999	(279,075)	-19%
Kazakhstan	98,418	113,300	(14,882)	-13%
Other	85,289	38,160	47,129	124%
TOTAL subcontracted	**-**	**20,351**	**(20,351)**	**-100%**

Seismic Services Order Book as of 31 December, 2014 (including VAT)

	Russia	Kazakhstan and international	TOTAL
in thousand RUB, unless otherwise stated			
TOTAL including	**29,702**	**620**	**30,322**
Contracts signed*	25,326	620	25,946
Tenders won, contracts to be signed	4,376	-	4,376

As of 31 December 2014, the Company's total seismic services order book amounted to approximately RUR 30,322 million (inclusive of VAT), of which approximately RUR 25,946 million (inclusive of VAT) accounted for signed contracts and approximately RUR 4,376 million (inclusive of VAT) represented tenders awarded this year. The seismic services order book as of December 31, 2014 decreased by 10% compared to the order book as of December 31, 2013.

Data Processing & Interpretation Order Book as of December 31, 2014 (including VAT)

	RUR mln
TOTAL including	**278**
Contracts signed*	278
Tenders won, contracts to be signed	-

** 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, 2014 (the "Report"). It should be read in conjunction with our Audited Consolidated Financial Statements for the year ended 31 December, 2014 and related notes. Financial information as of and for the year ended 31 December, 2014 has been derived from our Audited Consolidated Financial Statements prepared in accordance with IFRS. This Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including but not limited to the risks discussed in the section of this Report entitled "Qualitative and Quantitative Disclosures about Market Risk" and elsewhere in this Report. References to "IGSS", "the Group", "we", "our" and "us" are references to IG Seismic Services plc and its subsidiaries and equity affiliates.

Seismic Services Market Conditions

Our results of operations are affected by the conditions in the seismic services market, and more generally, the oil and gas field services market in Russia and the CIS. Oil production in Russia was steadily and dynamically growing throughout 2000s thanks to the intensification of production at existing fields and implementation of technologies to enhance oil recovery rate. Over the period of 2000-2010 production grew more than 1.5 times exceeding 500 mln tones a year. During the crisis of 2008-2009 there was a trend towards production decline, but timely tax cuts by the government helped stabilize production and even promote its growth. Since 2010, conditions in this market have been gradually improving due to positive oil price dynamics and changes in Russian upstream and corporate taxation. The reporting 2014 year saw significant economic changes in the country. Due to sanctions imposed by the OECD against Russia and slumping oil prices (up to 45 per barrel), oil and gas companies have encountered new issues. Thus due to the sanctions a number of joint Arctic shelf development projects have been already blocked or will be blocked in the near future. In addition, the sanctions have caused difficulties with high-tech equipment supplies necessary for producing tight oil. Shortly, the companies will feel the impact of the issues caused by the imposed sanctions. However, they could also have a positive effect. Constrained supplies of western oil and gas equipment are likely to prompt the recovery of the Russian manufacturing industry that produces complex equipment for the oil and gas industry. The same applies to potential development of the Russian oil service companies. 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.

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

Volatility in demand for services is partially mitigated by the fact that state-related clients, such as state-controlled oil companies including Gazprom Neft, Gazprom and Rosneft and government authorities including Rosnedra, which accounted for approximately 16.9%, 16.4%, 10.9% and 5.2% of our revenues from seismic survey operations respectively for the year ended 31 December 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 other capital expenditures, in order to retain the licenses.

Seasonality

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

Seismic Services Market Trends in 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.

Major Events 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 are owned by IGSS.

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.

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 full year of 2014:

- Revenue for the full year amounted to RUR 19.6 bln, which is 1.3% above the Revenue for the same period of 2013 of RUR 19.3 bln.
- EBITDA increased by 5.2% year-on-year and amounted to RUR 4.4 bln.
- EBITDA margin increased by 80 bp year-on-year to 22.7% of sales compared to 21.9% of sales for the same period of 2013.
- Net loss for the full year of 2014 amounted to RUR 2.4 bln. compared to RUR 0.4 bln. for the same period of 2013.
- Operating Cash Flow for the full year decreased by 17.8% over the same period of 2013 to RUR 3.4 bln.

The following table sets forth selected financial statements as of and for the year ended 31 December 2014 and 2013 extracted from our Audited Consolidated Financial Statements prepared in accordance with IFRS.

	2014	2013
Revenue	19,589,247	19,339,577
Cost of sales	(15,729,336)	(15,193,966)
Gross profit	**3,859,911**	**4,145,611**
General and administrative expenses	(2,180,298)	(2,179,940)
Other operating income	141,768	236,491
Other operating expense	(756,168)	(518,616)
Operating profit	**1,065,213**	**1,683,546**
Finance income	76,696	18,429
Finance expense	(1,844,626)	(1,456,569)
Net foreign exchange loss	(1,514,405)	(248,477)
Share of (loss) / profit of an associate	(108,917)	127,024
(Loss) / profit before tax	**(2,326,039)**	**123,953**
Current income tax expense	(3,833)	(1,802)
Income tax expense	(80,100)	(522,822)
Loss for the year	**(2,409,972)**	**(400,671)**

Revenue

Revenue increased by RUR 249.7 million, or 1.3%, in the year ended 31 December 2014 and amounted to RUR 19,589.2 million, as compared to RUR 19,339.6 million in the year ended 31 December 2013.

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

	2014	2013
Russia	18,411,893	18,493,758
Kazakhstan	1,177,354	845,819
Total external sales	**19,589,247**	**19,339,577**

During the years ended 31 December 2014 and 2013, 94.0% and 95.6% of revenues, respectively, was generated by operations in Russia, with the remaining 6.0% and 4.4% 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:

	2014	2013
Field seismic operations	18,987,943	18,249,424
Data processing and interpretation	442,986	741,784
Other revenue	158,318	348,369
Total	**19,589,247**	**19,339,577**

Revenue from Field seismic operations increased by RUR 738.6 million, or 4.0%, in the year ended 31 December 2014 and amounted to RUR 18,987.9 million, as compared to RUR 18,249.4 million in the year ended 31 December 2013.

Revenue from data processing and interpretation of geophysical information decreased by RUR 298.8 million, from RUR 741.8 million for the year ended 31 December 2013 to RUR 443.0 million for the year ended 31 December 2014 due to certain shift in billing to 2015.

Other revenue decreased by RUR 190.1 million, from RUR 348.4 million for the year ended 31 December 2013 to RUR 158.3 million for the year ended 31 December 2014. Main reason behind this is a decrease in sales of internally built impulse sources with production base in Minusinsk.

During the year ended 31 December 2014 and the 2013, 96.9% and 94.4% of revenues, respectively, was generated by field seismic operations.

Cost of sales

Cost of sales increased by RUR 535.4 million, or 3.5%, in the year ended 31 December 2014 and amounted to RUR 15,729.3 million, as compared to RUR 15,194.0 million in the year ended 31 December 2013.

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

	2014	2013
Labor and wages, including mandatory social contribution	6,203,070	5,786,843
Materials and supplies	3,190,589	3,154,766
Depreciation of property, plant and equipment and amortization of intangible assets	2,498,584	2,151,172
Oilfield services	1,621,323	2,023,717
Transportation services	845,613	925,088
Other third parties services	708,952	601,895
Operating lease payments	487,363	419,215
Loss from the contract in Yemen	-	8,695
Other	173,842	122,575
Total	**15,729,336**	**15,193,966**

Labor and wages, including mandatory social contribution

Expenses related to labor and wages, including mandatory social contribution, increased by RUR 416.2 million, or 7.2%, to RUR 6,203.1 million in the year ended 31 December 2014, as compared to RUR 5,786.8 million rubles in the year ended 31 December 2013.

The main reason of increase is the large volume of survey and preparatory work performed by own crews, in the second half of 2014.

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 347.4 million, or 16.1%, to RUR 2,498.6 million in the year ended 31 December 2014, as compared to RUR 2,151.2 million in the year ended 31 December 2013. As a percentage of total cost of sales, depreciation increased from 14.2% for 2013 to 15.9% for 2014. 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 402.4 million, or 19.9%, to RUR 1,621.3 million in the year ended 31 December 2014, as compared to RUR 2,023.7 million in the year ended 31 December 2013. Decrease in oilfield services was due to complete elimination of subcontracted pass-through contracts.

Transportation services

Transportation services expenses decreased by RUR 79.5 million, or 8.6%, to 845.6 million in the year ended 31 December 2014, as compared to RUR 925.1 million in the year ended 31 December 2013. The overall decrease is due to finalisation of the works in the Caspian area (approximately RUR 118 million water transport services were incurred during 2013).

Other third parties services

Third party services expenses increased by RUR 107.0 million, or 17.8%, to RUR 708.9 million in the year ended 31 December 2014, as compared to RUR 601.9 million in the year ended 31 December 2013. This increase was primarily driven by increase of following third party services:

- additional 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;
- increase in security costs aimed to increase safety of the operating equipment and inventory storages at remote field works and on seismic projects abroad;

Operating lease payments

Operating lease payments increased by RUR 68.1 million, or 16.3%, to RUR 487.4 million in the year ended 31 December 2014, as compared to RUR 419.2 million in the year ended 31 December 2013. Increase of operating lease costs was due to earlier start work of some project in the November and December 2014 for winter season 2014-2015 and therefore earlier start of operating lease payments for geophysical equipment.

Gross Profit

As a result of the foregoing, gross profit decreased by RUR 285.7 million, or 6.9%, to RUR 3,859.9 million in the year ended 31 December 2014, as compared to RUR 4,145.6 million in the year ended 31 December 2013.

General and Administrative Expenses

General and administrative expenses increased by RUR 0.4 million, or 0.02%, from RUR 2,179.9 million in the year ended 31 December 2013 to RUR 2,180.3 million in the year ended 31 December 2014.

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

	2014	2013
Labor and wages, including mandatory social contribution	1,409,485	1,197,930
Third party services	278,342	298,192
Taxes, other than income tax	115,755	150,896
Operating lease	95,361	91,149
Depreciation of property, plant and equipment and amortization of intangible assets	87,642	80,672
Bank charges	25,733	47,167
Bad receivables write-offs and provisions	31,231	162,998
Auditors' audit fees	33,120	33,313
Auditors' other fees	-	12,421
Other	103,629	105,202
Total	**2,180,298**	**2,179,940**

Labor and wages, including mandatory social contribution

Labor and wages expenses increased by RUR 211.6 million, or 17.7%, to RUR 1,409.5 million in the year ended 31 December 2014, as compared to RUR 1,197.9 million in the year ended 31 December 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.

Taxes, other than income tax

Taxes other than income tax decreased by RUR 35.1 million, or 23.3%, to RUR 115.8 million in the year ended 31 December 2014, as compared to RUR 150.9 million in the year ended 31 December 2013. This decrease primarily relates to decrease of property tax expense which went down by RUR 35.9 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.

	2014	2013
Property tax	87,440	123,374
Taxes other than income tax	28,315	27,522

Operating Profit

As a result of the foregoing, operating profit decreased by RUR 618.3 million, or 36.7%, to RUR 1,065.2 million in the year ended 31 December 2014, as compared to RUR 1,683.5 million in the year ended 31 December 2013.

Finance income

Finance income demonstrated tree-times increased by RUR 58.3 million to RUR 76.7 million in the year ended 31 December 2014, as compared to RUR 18.4 million in the year ended 31 December 2013. This increase primarily relates to effective interest rate adjustment for promissory notes issued by the Group at contractual interest rate of 4% while effective interest rate was determined as 7%. The effect of discounting of underlying liability to fair value in the amount of RUR 45.7 million was recognised within finance income.

Finance Expense

Finance expense increased by RUR 388.1 million, or 26.6%, from RUR 1,456.6 million in the year ended 31 December 2013 to RUR 1,844.6 million in the year ended 31 December 2014. This increase primarily relates to increase in credit portfolio of the Group as well as to certain increase in bank interest upon sanction imposed on Russian Federation in the middle of 2014. The following table summarizes finance expenses by type of expense during the periods indicated:

	2014	2013
Interest expense on loans and borrowings	1,707,963	1,390,784
Bank charges on loans and loan accounts	65,859	31,674
Interest expense on finance lease	1,064	14,407
Other finance expenses	69,740	19,704
Total finance expenses	**1,844,626**	**1,456,569**

Net Foreign Exchange loss

The Group has incurred loss of RUR 1,514.4 million on net foreign exchange as compared to RUR 248.5 million loss reported for year ended 31 December 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 year ended 31 December 2014 comprised RUR 108.9 million as compared with share of profit of associate in the amount of RUR 127.0 reported for the year ended 31 December 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 year ended 31 December 2014 comprised RUR 2,326.0 million as compared to RUR 124.0 million profit before tax for the year ended 31 December 2013.

Current and deferred Income tax expense

Income tax expense for year ended 31 December 2014 comprised RUR 83.9 million as compared with RUR 524.6 income tax expense in the year ended 31 December 2013. This was primarily due to movements in the deferred taxation while current tax expense insignificantly increased to RUR 3.8 million in the year ended 31 December 2014, as compared to RUR 1.8 million in the year ended 31 December 2013.

Loss for the year

As a result of the foregoing, loss for the year ended 31 December 2014 comprised RUR 2,410.0 million as compared to RUR 400.7 million profit before tax for the year ended 31 December 2013.

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 2014 and 2013 to the effect of one-off and non-recurring items in addition to those affecting adjusted EBITDA and adjusted EBIT.

	2014	2013
Loss for the year as reported	**(2,409,972)**	**(400,671)**
Net foreign exchange loss	1,514,405	248,477
Share of loss / (profit) of an associate	108,917	(127,024)
Restructuring and redundancy costs	347,189	149,685
Transaction related expenses	-	56,214
Loss from the contract in Yemen	-	8,695
Prior year taxes and related provisions	232,264	-
Deferred tax assets on tax loss not recognized	330,002	25,462
Adjustments in respect to current income tax of previous years	98,374	(37,352)
Recognised deferred tax asset on tax loss for the prior periods	(16,296)	-
Deferred tax expense related to Group restructuring	-	434,407
Normalized financial results for the period	**204,883**	**357,893**
Financial income and expense, net	1,767,930	1,438,140
Deferred income tax (benefit) / expense for the period w/o one-offs	(331,980)	100,305
Current income tax expense	3,833	1,802
Adjusted EBIT for the period	**1,644,666**	**1,898,140**
Depreciation of property, plant and equipment	2,501,871	2,137,637
Amortization of intangible assets	70,351	94,207
Loss on disposals of property, plant and equipment and other assets	232,110	98,823
Adjusted EBITDA for the period	**4,448,998**	**4,228,807**

Liquidity and Capital Resources

The Group's principal sources of liquidity are cash flows from operating activities and partially bank loans. The Group expects to continue financing a certain portion of capital expenditures using cash from operations and partially bank financing.

The Group believes that cash flows generated from operations during the year ended 31 December 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 Group's summary cash flow information for the year ended 31 December 2014 and 2013:

	2014	2013
Net cash from operating activities	3,425,415	4,168,273
Net cash used in investing activities	(3,231,469)	(2,770,452)
Net cash from / (used in) financing activities	279,843	(1,266,919)

Net Cash from Operating Activities

During the year ended 31 December 2014, cash flows from operating activities decreased by RUR 742.9 million, or 17.8%, to RUR 3,425.4 million, as compared to RUR 4,168.3 million in the year ended 31 December 2013. This increase 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 year ended 31 December 2014, cash flows used in investing activities increased by RUR 461.0 million, or 16.6%, to RUR 3,231.5 million, as compared to RUR 2,770.5 million for year ended 31 December 2013. This increase is primarily related to acquisition of LLC Luidor assets with a view to speculative seismic for RUR 495 million which was partially offset by increase of cash received from sale of property plant and equipment in the amount of RUR

123.0 million as compared by the same cash proceeds of RUR 24.4 million for the year ended 31 December 2013. Cash payments for purchases of property, plant and equipment remained relatively stable and comprised RUR 2,755.4 million and RUR 2,790.6 million for years ended 31 December 2014 and 2013, respectively.

Net cash from / (used in) financing activities

During the year ended 31 December 2014, cash flows from financing activity comprised RUR 279.8 million as compared with cash flows used in financing activity of RUR 1,266.9 million for the year ended 31 December 2013.

The following table sets out cash flows information in relation to financing activities for the year ended 31 December 2014 and 2013:

	2014	**2013**
Proceeds from loans and borrowings	33,027,993	18,370,508
Proceeds from bonds	-	2,999,625
Repayment of loans and borrowings	(30,244,636)	(20,781,723)
Repayment of finance lease obligations	(11,906)	(253,094)
Interest paid	(1,635,709)	(1,296,867)
Acquisition of non-controlling interest	(334,171)	(140,000)
Redemption of promissory notes	(521,728)	(165,368)
Net cash from / (used in) financing activities	**279,843**	**(1,266,919)**

Capital Expenditures

The combined capital expenditures were RUR 3,289.1 million and RUR 3,209.1 million in the years ended 31 December 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.

	2014	**2013**
Investing activities: Purchases of property, plant and equipment	2,755,419	2,790,596
Financing activities: Redemption of CAPEX promissory notes	521,728	165,368
Financing activities: Repayment of finance lease obligations	11,906	253,094
Total cash CAPEX	**3,289,053**	**3,209,058**

Capital expenditures are presented on the basis of cash outflows for the respective period. As of 31 December 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 31 December 2014 and 2013:

	2014	**2013**
Non-current liabilities		
Long-term bank loans	4,958,489	7,366,469
Bonds	2,971,379	2,963,841
Long-term borrowings	9,775	-
Total non-current loans and borrowings	**7,939,643**	**10,330,310**
Current liabilities		
Short-term bank loans	4,386,155	1,539,501
Current portion of long-term bank loans	3,096,819	537,610
Total current loans and borrowings	**7,482,974**	**2,077,111**
Total loans and borrowings	**15,422,617**	**12,407,421**

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 and matures in December 2017. The liability over this credit line in the amount of 407,087 and 203,544 is reported within Long-term bank loans and Current portion of long-term bank loans, respectively as of 31 December 2014.

A number of loan agreements and revolving credit line agreements were secured by property, plant and equipment, and rights to claim cash. All other loans and borrowings presented in the table above are at fixed rates and are denominated in Russian rubles.

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

The following table sets forth promissory notes issued as of 31 December 2014 and 2013:

	2014	2013
Long-term promissory notes payable:		
Notes issued to third parties for equipment (Sercel)	-	163,665
Notes issued to third parties for equipment (UniQ)	-	435,853
Short-term promissory notes payable:		
Notes issued to third parties for equipment (Sercel)	287,656	169,080
Notes issued to third parties for equipment (UniQ)	674,208	290,700
Total	**961,864**	**1,059,298**

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.

	2014	2013
Loans and borrowings payable	15,422,617	12,407,421
Notes issued	961,864	1,059,298
Finance lease obligations	7,072	5,989
Gross debt	**16,391,553**	**13,472,708**
Less: cash and cash equivalents	(1,206,691)	(711,396)
Net debt	**15,184,862**	**12,761,312**

Off-Balance Sheet Arrangements

As of 31 December 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 Otkritie 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 0.6 million for the year ended 31 December 2014.

In August 2014 the Group entered into supply agreement with Sercel for acquisition of new seismic equipment in the amount of 11,465,720 euro (783,598 as of 31 December 2014). The purchase was made on deferred payments terms through ten equal installments by September 2019 at EURIBOR 6m + 2.8% p.a. Increase in EURIBOR rate by 10 bp entails additional interest expense of RUR 0.8 million for the year ended 31 December 2014.

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

Cancellation the listing and trading of its GDRs

On April 2015 IGSS sent a request to the London Stock Exchange and the Financial Conduct Authority to cancel the listing and trading of Global Depositary Receipts. IGSS intends to terminate GDR program and cancel the listing and trading of GDRs as it wishes to be listed in Russia.

Directors’ Responsibility Statement

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