# IG Seismic Services Limited

Unaudited interim condensed consolidated financial statements

*for 6 months ended 30 June 2012*

IG Seismic Services Limited

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# Report on review of interim condensed consolidated financial statements

To the shareholders of IG Seismic Services Limited

***Introduction***

We have reviewed the accompanying interim condensed consolidated financial statements of IG Seismic Services Limited and its subsidiaries (the "Group") as at 30 June 2012, comprising of the interim consolidated statement of financial position as at 30 June 2012 and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

***Scope of review***

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

7 September 2012

IG Seismic Services Limited

# Interim consolidated statement of financial position (unaudited)

*(in thousands of US dollars)*

| | Note | At 30 June 2012 | At 31 December 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 420,107 | 464,049 |
| Goodwill | | 101,470 | 102,747 |
| Intangible assets other than goodwill | | 12,545 | 12,762 |
| Investments in associates | 5 | 26,691 | 21,574 |
| Deferred tax assets | | 8,559 | 10,164 |
| Other non-current assets | | 1,592 | 3,521 |
| **Total non-current assets** | | **570,964** | **614,817** |
| **Current assets** | | | |
| Inventories | | 49,188 | 66,200 |
| Accounts receivable and prepayments | 6 | 241,480 | 266,952 |
| Other financial assets | | 6,054 | 6,831 |
| VAT receivable | | 6,474 | 13,575 |
| Prepayments for income tax | | 962 | 3,610 |
| Other current assets | | 2,787 | 2,351 |
| Cash and cash equivalents | 7 | 9,409 | 13,187 |
| **Total current assets** | | **316,354** | **372,706** |
| **Total assets** | | **887,318** | **987,523** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | | 208 | 208 |
| Share premium | | 443,712 | 443,712 |
| Reverse acquisition reserve | | (192,849) | (192,849) |
| Other non-distributable reserves | | 94,979 | 94,979 |
| Foreign currency translations reserve | | (11,838) | (9,334) |
| Accumulated losses | | (21,844) | (21,566) |
| **Total shareholders' equity** | | **312,368** | **315,150** |
| Non-controlling interest | | 34,630 | 36,320 |
| **Total equity** | | **346,998** | **351,470** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 8 | 109,680 | 204,313 |
| Finance lease liabilities | 9 | 1,541 | 4,130 |
| Promissory notes payable | 10 | 15,013 | 14,619 |
| Other non-current liabilities | | 532 | 872 |
| Deferred tax liabilities | | 41,380 | 47,462 |
| **Total non-current liabilities** | | **168,146** | **271,396** |
| **Current liabilities** | | | |
| Loans and borrowings | 8 | 157,658 | 147,886 |
| Promissory notes payable | 10 | 3,057 | 5,884 |
| Accounts payable | 10 | 123,656 | 126,280 |
| Income tax payable | | 4,036 | 2,495 |
| Other taxes payable | 11 | 70,206 | 65,936 |
| Provisions | | 3,237 | 3,061 |
| Finance lease liabilities | 9 | 10,324 | 13,115 |
| **Total current liabilities** | | **372,174** | **364,657** |
| **Total liabilities** | | **540,320** | **636,053** |
| **Total liabilities and equity** | | **887,318** | **987,523** |

These interim condensed consolidated financial statements were approved by the directors on 7 September 2012.

Nikolay Levitskiy
Director

Denis Cherednichenko
Director

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

IG Seismic Services Limited

# Interim consolidated statement of comprehensive income (unaudited)

*(in thousands of US dollars)*

| | Note | For six months ended 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| Revenue | 13 | 391,487 | 239,559 |
| Cost of sales | 14 | (329,908) | (181,856) |
| **Gross profit** | | **61,579** | **57,703** |
| General and administrative expenses | 15 | (34,112) | (25,439) |
| Other operating income | | 1,796 | 2,014 |
| Other operating expense | 16 | (10,426) | (5,734) |
| **Operating profit** | | **18,837** | **28,544** |
| Finance income | | 297 | 371 |
| Finance expense | | (21,884) | (23,434) |
| Net foreign exchange (loss)/gain | 17 | (3,188) | 2,891 |
| Share of profit of an associate | 5 | 6,009 | 2,319 |
| **Profit before tax from continuing operations** | | **71** | **10,691** |
| Income tax expense | | (1,423) | (8,754) |
| **(Loss)/profit from continuing operations** | | **(1,352)** | **1,937** |
| **Discontinued operations** | | | |
| Loss after tax for the year from discontinued operations | | - | (5,519) |
| **Loss for the period** | | **(1,352)** | **(3,582)** |
| **Other comprehensive income** | | | |
| Translation difference | | (3,120) | 12,828 |
| **Total comprehensive (expense)/income** | | **(4,472)** | **9,246** |
| **Loss for the period attributable to:** | | | |
| Shareholders of the parent company | | (278) | (1,390) |
| Non-controlling interests | | (1,074) | (2,192) |
| **Total comprehensive (expense)/income attributable to:** | | | |
| Shareholders of the parent company | | (2,782) | 9,391 |
| Non-controlling interests | | (1,690) | (145) |
| **Losses per share:** | | | |
| Basic, loss for the year attributable to ordinary equity holders of the parent | 18 | $ (0.01) | $ (0.13) |
| Diluted, loss for the year attributable to ordinary equity holders of the parent | 18 | $ (0.01) | $ (0.13) |

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

IG Seismic Services Limited

## Interim consolidated statement of cash flows (unaudited)

*(in thousands of US dollars)*

| | | For six months ended: | |
|---|---|---|---|
| | Note | 30 June 2012 | 30 June 2011 |
| **Cash flows from operating activities** | | | |
| Profit before tax from continuing operations | | 71 | 10,691 |
| Loss before tax from discontinued operations | | - | (7,102) |
| *Adjustments for:* | | | |
| Depreciation and amortization | 14, 15 | 39,493 | 24,597 |
| Change in bad debt and inventory allowances | | 1,489 | 2,511 |
| Loss on disposal of property, plant and equipment and other assets | 16 | 7,633 | 3,335 |
| Net interest expense | | 21,587 | 20,405 |
| Unwinding of discount of payables for acquisition of subsidiaries | | - | 2,658 |
| Net foreign exchange loss/( gain) | 17 | 3,188 | (2,891) |
| Share of profit of an associate | 5 | (6,009) | (2,319) |
| **Cash flow from operating activities before changes in working capital** | | **67,452** | **51,885** |
| **Working capital adjustments** | | | |
| Change in accounts receivable | | 18,400 | (23,325) |
| Change in inventories | | 14,199 | 6,993 |
| Change in prepayments and other current assets | | 8,058 | 3,286 |
| Change in accounts payable | | (263) | (7,693) |
| Change in taxes payable other than income tax | | 4,971 | 27,855 |
| Change in provisions | | 236 | (1,356) |
| **Cash flow before income tax** | | **113,053** | **57,645** |
| Income tax paid | | (438) | (1,027) |
| **Net cash from operating activities** | | **112,615** | **56,618** |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (10,715) | (1,610) |
| Proceeds from the disposal of property, plant and equipment | | 2,723 | 147 |
| Short-term loans issued | | (1,881) | (44) |
| Repayment of loans issued | | 2,945 | - |
| Dividends received | | 97 | 256 |
| **Net cash used in investing activities** | | **(6,831)** | **(1,251)** |
| **Financing activities** | | | |
| Proceeds from loans and borrowings | 8 | 59,759 | 79,365 |
| Repayment of finance lease obligations | | (10,262) | (13,016) |
| Repayment of loans and borrowings | 8 | (136,534) | (87,935) |
| Redemption of promissory notes | | (2,860) | (3,036) |
| Interest paid | | (19,450) | (16,596) |
| **Net cash used from financing activities** | | **(109,347)** | **(41,218)** |
| Net (decrease)/increase in cash and cash equivalents | | (3,563) | 14,149 |
| Cash and cash equivalents at the beginning of the reporting period | 7 | 13,187 | 9,177 |
| Effect of exchange differences on cash and cash equivalents | | (215) | 1,294 |
| **Cash and cash equivalents at the end of the reporting period** | 7 | **9,409** | **24,620** |

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

IG Seismic Services Limited

Interim consolidated statement of changes in equity (unaudited)

*(in thousands of US dollars)*

| | Attributable to shareholders of the Parent Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Reverse acquisition reserve | Other non-distributable reserves | Foreign currency translation reserve | Accumulated (losses)/ retained earnings | Total | Non-controlling interest | Total equity |
| **Balance as at 1 January 2011** | **100** | **223,903** | **(224,002)** | **94,979** | **(6,601)** | **28,008** | **116,387** | **11,685** | **128,072** |
| Net loss for the period | – | – | – | – | – | (1,390) | (1,390) | (2,192) | (3,582) |
| Translation difference | – | – | – | – | 10,781 | – | 10,781 | 2,047 | 12,828 |
| **Total comprehensive income/(expense)** | **–** | **–** | **–** | **–** | **10,781** | **(1,390)** | **9,391** | **(145)** | **9,246** |
| **Balance as at 30 June 2011** | **100** | **223,903** | **(224,002)** | **94,979** | **4,180** | **26,618** | **125,778** | **11,540** | **137,318** |
| **Balance as at 1 January 2012** | **208** | **443,712** | **(192,849)** | **94,979** | **(9,334)** | **(21,566)** | **315,150** | **36,320** | **351,470** |
| Net loss for the period | – | – | – | – | – | (278) | (278) | (1,074) | (1,352) |
| Translation difference | – | – | – | – | (2,504) | – | (2,504) | (616) | (3,120) |
| **Total comprehensive expense** | **–** | **–** | **–** | **–** | **(2,504)** | **(278)** | **(2,782)** | **(1,690)** | **(4,472)** |
| **Balance as at 30 June 2012** | **208** | **443,712** | **(192,849)** | **94,979** | **(11,838)** | **(21,844)** | **312,368** | **34,630** | **346,998** |

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

## 1. Background

### Organizational structure and operations

These are interim condensed consolidated financial statements of IG Seismic Services Limited (the "Company") and its subsidiaries (together referred to as the "Group"). The Group is engaged in provision of seismic, data acquisition, processing and interpretation services to the petroleum industry in the Russian Federation, the Commonwealth of Independent States ("CIS") and other countries outside of the CIS.

The Company was incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Companies Law, Cap. 113. Its registered office is located at 2-4 Arch. Makariou III Avenue, Capital Center, 9th floor, P.C. 1065, Nicosia, Cyprus. On the date of incorporation, the Company was named Celymas Enterprises Limited. As of 9 August 2010 the Company was renamed to IG Seismic Services Limited.

On 30 December 2011 total outstanding shares of Geotech Holding JSC were transferred by Geotech Holding JSC shareholders in exchange for newly issued shares in the Company representing 52% of equity. This transaction was accounted for as a reverse acquisition of the Company by Geotech Holding JSC and as such, these interim condensed consolidated financial statements are presented as a continuation of Geotech Holding JSC with one adjustment, which is to adjust retrospectively the Geotech Holding JSC share capital to reflect the legal capital of the Company. Comparative information presented in these interim condensed consolidated financial statements is therefore that of Geotech Holding JSC, the legal subsidiary, as adjusted to reflect the legal capital of the Company. The assets and liabilities of the Company were consolidated starting from 30 December 2011 and measured at their fair values as of that date.

## 2. Basis of preparation

### Statement of compliance

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The Group entities registered in the territory of the Russian Federation ("RF") maintain accounting records and prepare financial reports in accordance with Federal Law No.129-FZ "Concerning Accounting", the Statute Concerning Accounting and Reporting in the RF and Accounting Statements as approved by relevant orders of the RF Ministry of Finance.

The Group entities registered in the territory of the Kazakhstan ("KZ") maintain accounting records and prepare financial reports in accordance with Law of the Republic of Kazakhstan No. 234-III "Concerning Accounting".

The Group has elected to present statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows in the same format as the annual financial statements.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

## 2. Basis of preparation (continued)

### Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis. The Group's interim results and financial position are affected by seasonal factors and are not necessarily indicative of the results that may be expected for the year ending 31 December 2012. Additionally, in August-September 2012, management increased Company's future financial flexibility by refinancing some of its financial obligations with certain bank lenders (see Note 22). Management expects that the Group will be in compliance with its financial obligations and has adequate resources to continue in operational existence for the foreseeable future.

### Seasonality

There is a limited season for providing seismic services in certain Siberian regions of the Russian Federation which remain in flood-like, or swampy conditions, in warm weather. Such conditions generally restrict the provision of seismic services in Siberia to a period from December to April.

### New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

The following amendments to IFRSs standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 – *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (Amendment). When an entity's date of transition to IFRS is on or after the functional currency normalization date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. Effective implementation date is for annual periods beginning on or after 1 July 2011 with early adoption permitted.
- IFRS 7 – *Disclosures – Transfers of Financial Assets* (Amendment). The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### Reclassifications

Certain items in the consolidated statement of income and comprehensive income for the six months ended 30 June 2011 were reclassified to conform to the current period presentation.

### 3. Segment information

For management purposes, the Company is organized into business units based on their products and services, and has two reportable operating segments which are Seismic segment and DPI (Data processing and interpretation) segment. Seismic segment includes conducting seismic works with the purpose of search and exploration of oil and gas fields, comprising oilfield seismic works in two or three dimensions, field seismic works in a land-sea transit zone. DPI segment includes processing of seismic and geophysical data, structural interpretation of results of processing, dynamic processing and interpretation of results of processing.

Information on transactions of the holding and managerial companies which conduct managerial services and financial and investment activities was included into the Corporate block, that is not separate operating segment. Information on transactions of the small non-core companies (subsidiaries) was included into the Other block, that is not separate operating segment.

Transfer prices between Geophysical works and Corporate block are on an arm's length basis in a manner similar to transactions with third parties. Internal revenues and expenses pertain to management services rendered by Corporate block to Seismic segment. In the periods presented below, the Group operated in the Russian Federation and Kazakhstan.

The following table's present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2012 and 2011, respectively.

| **For six months ended 30 June 2012:** | **Seismic block** | **DPI block** | **Others** | **Corporate block** | **Adjustments and eliminations** | **Total segments** |
|---|---|---|---|---|---|---|
| Revenue | 385,909 | 3,840 | 1,002 | 736 | - | 391,487 |
| Revenue to other segments | 95 | 458 | 1,382 | 15,194 | (17,129) | - |
| Cost of sales | (321,714) | (5,272) | (2,575) | (347) | - | (329,908) |
| Intersegment expenses | (16,725) | (184) | (220) | - | 17,129 | - |
| **Gross profit/(loss)** | **64,195** | **(1,432)** | **(1,573)** | **389** | **-** | **61,579** |
| Selling, general and administrative expenses | (24,669) | (1,439) | (594) | (7,410) | - | (34,112) |
| Other operating income | 651 | 2 | 905 | 238 | - | 1,796 |
| Other operating expense | (9,124) | (97) | (645) | (560) | - | (10,426) |
| **Operating profit/(loss)** | **31,053** | **(2,966)** | **(1,907)** | **(7,343)** | **-** | **18,837** |

Calculation of the adjusted EBITDA from operating profit/(loss):

| **For six months ended 30 June 2012:** | **Seismic block** | **DPI block** | **Others** | **Corporate block** | **Adjustments and eliminations** | **Total segments** |
|---|---|---|---|---|---|---|
| **Profit/(loss) from operating activities** | **31,053** | **(2,966)** | **(1,907)** | **(7,343)** | **-** | **18,837** |
| Depreciation and amortization of property, plant and equipment | 36,696 | 111 | 675 | 412 | - | 37,894 |
| Amortization of intangible assets | 489 | 1,091 | 4 | 15 | - | 1,599 |
| Loss/(gain) on disposal of non-current assets | 7,102 | - | 448 | 83 | - | 7,633 |
| Transaction related expenses | - | - | - | 515 | - | 515 |
| Distribution of Corporate overheads | (6,748) | (67) | - | 6,815 | - | - |
| **EBITDA** | **68,592** | **(1,831)** | **(780)** | **497** | **-** | **66,478** |

## 3. Segment information (continued)

Operating segments for the six months ended 30 June 2011 are as follows:

| For six months ended 30 June 2011: | Seismic block | DPI block | Others | Corporate block | Adjustments and eliminations | Total segments |
|---|---|---|---|---|---|---|
| Revenue | 238,160 | 1,153 | 179 | 67 | - | 239,559 |
| Revenue to other segments | 67 | - | 1,620 | 13,128 | (14,815) | - |
| Cost of sales | (178,493) | (1,358) | (1,220) | (785) | - | (181,856) |
| Intersegment expenses | (14,764) | - | (51) | - | 14,815 | - |
| **Gross profit/(loss)** | **59,667** | **(205)** | **(1,041)** | **(718)** | **-** | **57,703** |
| Selling, general and administrative expenses | (16,812) | (387) | (1,023) | (7,217) | - | (25,439) |
| Other operating income | 1,970 | 13 | 31 | - | - | 2,014 |
| Other operating expense | (2,795) | (17) | (2,711) | (211) | - | (5,734) |
| **Operating profit/(loss)** | **42,030** | **(596)** | **(4,744)** | **(8,146)** | **-** | **28,544** |

Calculation of the adjusted EBITDA from operating profit/(loss)

| For six months ended 30 June 2011: | Seismic block | DPI block | Others | Corporate block | Adjustments and eliminations | Total segments |
|---|---|---|---|---|---|---|
| **Profit/(loss) from operating activities** | **42,030** | **(596)** | **(4,744)** | **(8,146)** | **-** | **28,544** |
| Depreciation of property, plant and equipment | 17,884 | 13 | 893 | 491 | - | 19,281 |
| Amortization of intangible assets | 69 | - | 8 | 11 | - | 88 |
| Loss/(gain) on disposal of non-current assets | 374 | - | 2,702 | - | - | 3,076 |
| Distribution of Corporate overheads | (6,762) | - | - | 6,762 | - | - |
| Elimination of corporate overheads pertaining to discontinued operations | - | - | - | 738 | - | 738 |
| **EBITDA** | **53,595** | **(583)** | **(1,141)** | **(144)** | **-** | **51,727** |

During six months ended 30 June 2012 and 30 June 2011, the Group earned its external sale by its geographical areas as follows:

| | For six months ended: | |
|---|---|---|
| | 30 June 2012 | 30 June 2011 |
| Russia | 381,584 | 239,559 |
| Kazakhstan | 9,903 | - |
| **Total external sales** | **391,487** | **239,559** |

## 4. Property, plant and equipment

Property, plant and equipment as at 30 June 2012 comprised of the following:

| | Buildings and structures | Machinery and equipment | Vehicles | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance as at 31 December 2011** | **124,776** | **335,271** | **92,991** | **7,397** | **447** | **560,882** |
| Additions | 1,424 | 5,332 | 2,884 | 610 | 61 | 10,311 |
| Transfers | (16) | 263 | (246) | - | (1) | 0 |
| Disposals | (4,739) | (10,541) | (3,195) | (242) | - | (18,717) |
| Translation difference | (893) | (4,252) | (2,038) | (51) | (301) | (7,535) |
| **Balance as at 30 June 2012** | **120,552** | **326,073** | **90,396** | **7,714** | **206** | **544,941** |
| **Depreciation** | | | | | | |
| **Balance as at 31 December 2011** | **(14,355)** | **(55,313)** | **(24,956)** | **(2,209)** | **-** | **(96,833)** |
| Depreciation and amortization | (4,168) | (26,845) | (6,091) | (791) | - | (37,895) |
| Disposals | 1,571 | 2,915 | 1,687 | 121 | - | 6,294 |
| Translation difference | 251 | 2,475 | 848 | 26 | - | 3,600 |
| **Balance as at 30 June 2012** | **(16,701)** | **(76,768)** | **(28,512)** | **(2,853)** | **-** | **(124,834)** |
| **Net book value** | | | | | | |
| **Balance as at 31 December 2011** | **110,421** | **279,958** | **68,035** | **5,188** | **447** | **464,049** |
| **Balance as at 30 June 2012** | **103,851** | **249,305** | **61,884** | **4,861** | **206** | **420,107** |

### Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. According to IAS 17, assets held under finance lease agreements are recognized as items of property, plant and equipment.

The following is the analysis of the property, plant and equipment under finance leases recognized in Property, plant and equipment:

| | As at 30 June 2012 | As at 31 December 2011 |
|---|---|---|
| Buildings and structures | 1,380 | 1,475 |
| Machinery and equipment | 23,297 | 26,248 |
| Vehicles | 12,025 | 11,743 |
| Other | 1,299 | 1,324 |
| **Total cost** | **38,001** | **40,790** |
| Less: accumulated depreciation | (6,894) | (5,621) |
| **Total net book value of leased property** | **31,107** | **35,169** |

## 5. Investments in associates

The Group's equity associates were as follows:

| | As at 30 June 2012 | As at 31 December 2011 |
|---|---|---|
| OJSC Sibneftegeofizika | 39.50% | 39.50% |
| OJSC Stavropolneftegasgeofizika | 25.40% | 25.40% |

Movements in the carrying value of the Group's investments in associate are summarized in the table below:

| | For six months ended: | |
|---|---|---|
| | 30 June 2012 | 30 June 2011 |
| Carrying amount at the beginning of the period | 21,574 | 21,861 |
| Share in profit, net of income tax | 6,009 | 2,319 |
| Translation difference | (892) | 1,665 |
| **Carrying amount at the end of the period** | **26,691** | **25,845** |

## 6. Accounts receivable and prepayments

Trade and other receivables comprised the following:

| | As at 30 June 2012 | As at 31 December 2011 |
|---|---|---|
| **Financial receivables:** | | |
| Trade receivables (net of bad debt provision) | 146,939 | 121,421 |
| Other receivables | 8,469 | 13,667 |
| **Non-financial receivables:** | | |
| Amounts due from customers for construction works | 77,518 | 117,370 |
| Advances issued | 8,554 | 14,494 |
| **Total** | **241,480** | **266,952** |

Trade receivables are non-interest bearing and are normally settled within 12 months from the origination date.

## 7. Cash and cash equivalents

Cash and cash equivalents comprised the following:

| | As at 30 June 2012 | As at 31 December 2011 |
|---|---|---|
| Cash in hand | 113 | 58 |
| Cash denominated in RUR | 7,343 | 12,235 |
| Cash denominated in USD | 615 | 282 |
| Cash denominated in EUR | 9 | 4 |
| Cash denominated in other currencies | 1,327 | 599 |
| Short-term deposits in RUR | 2 | 9 |
| **Total** | **9,409** | **13,187** |

Cash represents current bank accounts that carry no interest and demand deposits maturing in less than 3 months.

## 8. Loans and borrowings

Long-term and short-term borrowings comprised the following:

| | Security | Effective interest rate | As at 30 June 2012 | As at 31 December 2011 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Short-term bank loans | secured | 9.5%-12.5% | 69,750 | 88,830 |
| Short-term borrowings | | | - | 5,074 |
| Current portion of long-term bank loans | | | 87,728 | 53,574 |
| Short-term interest payable | | | 180 | 408 |
| **Total short-term loans and borrowings** | | | **157,658** | **147,886** |
| **Non-current liabilities** | | | | |
| Long-term bank loans | secured | 9.5%-12.5% | 109,680 | 204,313 |
| **Total long-term loans and borrowing** | | | **109,680** | **204,313** |
| **Total loans and borrowings** | | | **267,338** | **352,199** |

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

In April 2012, the Group arranged two credit facilities with total limit of 48,755 and interest rates of 9.5% and 10.5% maturing in 2013. During 6 months 2012 the Group drew down 4,946 under these agreements. In addition, during six months ended 30 June 2012 the Group obtained financing in the amount of 19,303 under various other loan agreements concluded during the period maturing from 9 to 54 months with fixed interest rates ranging from 9.5% to 12.5%. The group also drew down 35,510 under existing loan facilities.

During 6 months 2012 the Group repaid 136,534 of loans and borrowings in accordance with payment schedules.

*Terms and debt repayment schedule*

Long-term loans and borrowings are payable in the following periods:

| | As at 30 June 2012 | As at 31 December 2011 |
|---|---|---|
| 1 to 2 years | 43,295 | 133,095 |
| 3 to 5 years | 66,385 | 71,218 |
| **Total** | **109,680** | **204,313** |

## 8. Loans and borrowings (continued)

*Pledged property, plant and equipment*

As at 30 June 2012, the Group entered into a number of loan agreements and revolving credit line agreements, which were secured by the Group's property, plant and equipment. The carrying value of the property, plant and equipment pledged at the reporting date amounts to 50,905 (31 December 2011: 37,873).

*Pledged rights to claim cash*

As at 30 June 2012, the Group entered into a number of loan agreements and revolving credit line agreements, which were secured by the pledge of property rights representing rights to claim cash under the customer agreements for conducting seismic works. The pledged rights to claim cash at the reporting date amount to 157,234 (31 December 2011: 312,866).

*Pledged shares*

For the purpose of presentation in these financial statements, the value of pledged shares is based on the carrying value of net assets (hereinafter, NAV).
The list and value of shares of subsidiaries, which are pledged under the loan agreements, are presented below:

- 85.24% shares of OJSC Narian-Marseismorazvedka (as at 30 June 2012, NAV of the shares amounts to 25,204; 31 December 2011: 28,451).
- 68.90% shares of OJSC Khantymansiyskgeofizika (as at 30 June 2012, NAV of the shares amounts to 30,594; 31 December 2011: 21,079).

## 9. Finance leases

The Group leases property, plant and equipment under finance lease agreements.

As at 30 June 2012, the amount of future minimum payments under the financial lease agreements and the discounted value of the minimum lease payments are as follows:

| | Future minimum lease payments | Future interest | Present value of minimum lease payments |
|---|---|---|---|
| Within one year | 11,311 | 987 | 10,324 |
| In the second to fifth years inclusive | 1,658 | 117 | 1,541 |
| **Total** | **12,969** | **1,104** | **11,865** |

The weighted average rate implicit in the lease agreements as at 30 June 2012 was 18% (31 December 2011: 19%).

## 9. Finance leases (continued)

As at 31 December 2011, the amount of future minimum payments under the financial lease agreements and the discounted value of the minimum lease payments are as follows:

| | Future minimum lease payments | Future interest | Present value of minimum lease payments |
|---|---|---|---|
| Within one year | 14,889 | 1,774 | 13,115 |
| In the second to fifth years inclusive | 4,467 | 337 | 4,130 |
| **Total** | **19,356** | **2,111** | **17,245** |

## 10. Accounts payable and promissory notes payable

| | As at 30 June 2012 | As at 31 December 2011 |
|---|---|---|
| Trade payables | 88,919 | 65,590 |
| Amounts due to customers under construction contracts | 2,688 | 5,856 |
| Advances received | 5,965 | 9,698 |
| Payables to employees | 18,403 | 29,677 |
| Other payables | 7,681 | 15,459 |
| **Total** | **123,656** | **126,280** |

Trade and other payables are non-interest-bearing and are normally settled on 60-days terms. Other payables are non-interest bearing and have an average term of six months.

Notes issued comprised the following:

| | Interest rate | As at 30 June 2012 | As at 31 December 2011 |
|---|---|---|---|
| **Long-term promissory notes payable :** | | | |
| Notes issued to third parties for equipment and inventory | 7% | 15,013 | 14,619 |
| **Total notes** | | **15,013** | **14,619** |
| **Short-term promissory notes payable:** | | | |
| Notes issued to third parties for equipment and inventory | 7% | 3,057 | 5,884 |
| **Total notes** | | **3,057** | **5,884** |

## 11. Other taxes payable

Other taxes and charges payable comprised the following:

| | As at 30 June 2012 | As at 31 December 2011 |
|---|---|---|
| Value-added tax payable | 45,875 | 43,235 |
| Property tax payable | 1,402 | 1,335 |
| Personal income tax payable | 10,958 | 11,807 |
| Social taxes payable | 10,518 | 8,257 |
| Other taxes and charges | 1,453 | 1,302 |
| **Total** | **70,206** | **65,936** |

## 12. Construction type contracts

| | For the six months ended | |
|---|---|---|
| | 30 June 2012 | 30 June 2011 |
| Costs under contracts in progress at the reporting date | 178,453 | 111,199 |
| Recognized profits less recognized loss under contracts in progress at the reporting date | 23,794 | 39,283 |
| Advances received | 3,673 | 11,710 |

## 13. Revenue

Revenue comprised the following:

| | For the six months ended | |
|---|---|---|
| | 30 June 2012 | 30 June 2011 |
| Field seismic operations | 380,630 | 236,176 |
| Processing and interpretation of geophysical information | 6,000 | 1,988 |
| Other revenue | 4,857 | 1,395 |
| **Total** | **391,487** | **239,559** |

## 14. Cost of sales

Cost of sales comprised the following:

| | For the six months ended | |
|---|---|---|
| | 30 June 2012 | 30 June 2011 |
| Labor and wages, including statutory social contribution | 123,201 | 68,272 |
| Materials and supplies | 72,106 | 37,185 |
| Depreciation and property, plant and equipment and amortization of intangible assets | 37,925 | 18,294 |
| Oilfield services from third parties | 57,007 | 45,662 |
| Transportation services | 10,870 | 4,633 |
| Operating lease payments | 14,799 | 3,192 |
| Other | 14,000 | 4,618 |
| **Total** | **329,908** | **181,856** |

## 15. General and administrative expenses

General and administrative expenses comprised the following:

| | For the six months ended | |
|---|---|---|
| | 30 June 2012 | 30 June 2011 |
| Labor and wages, including statutory social contribution | 19,932 | 14,263 |
| Depreciation and property, plant and equipment | 1,568 | 1,075 |
| Third party services | 3,112 | 1,096 |
| Taxes, other than income tax | 2,462 | 1,853 |
| Bank charges | 720 | 1,290 |
| Operating lease payments | 1,181 | 1,321 |
| Other | 5,137 | 4,541 |
| **Total** | **34,112** | **25,439** |

## 16. Other operating expenses

Other operating expenses comprised the following:

| | For the six months ended | |
|---|---|---|
| | 30 June 2012 | 30 June 2011 |
| Loss on disposals of property, plant and equipment and other non-current assets | 7,633 | 3,169 |
| Penalties and fines | 810 | 1,255 |
| Other expenses | 1,983 | 1,310 |
| **Total** | **10,426** | **5,734** |

Loss on disposal of property, plant and equipment and other non-current assets primarily relates to loss on disposal of property plant and equipment of 6,851.

## 17. Foreign exchange

Transactions in foreign currencies are translated to the respective functional currency, which is Russian Ruble for the subsidiary companies located in the Russian Federation and Kazakh Tenge for subsidiary companies located in the Kazakstan at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising in translation are recognized in the statement of comprehensive income. Net foreign exchange loss for 6 months ended 30 June 2012 comprised 3,188 (6 months ended 30 June 2011: gain of 2,891).

## 18. Earnings per share

The information on the earnings and number of shares used for determining basic and dilutive earnings per share is presented below:

| | For the six months ended 30 June 2012 | For the six months ended 30 June 2011 |
|---|---|---|
| Net (loss)/profit attributable to ordinary equity holders of the parent from continuing operations | (278) | 4,129 |
| Loss attributable to ordinary equity holders of the parent from a discontinued operation | – | (5,519) |
| Effect of dilution | – | – |
| **Net loss attributable to ordinary equity holders of the parent adjusted to the effect of dilution** | **(278)** | **(1,390)** |

| | For the six months ended 30 June 2012 | For the six months ended 30 June 2011 |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | 20,833,400 | 10,833,400 |
| Effect of dilution | – | – |
| **Weighted average number of ordinary shares adjusted to the effect of dilution** | **20,833,400** | **10,833,400** |

## 19. Financial instruments

The Group's financial instruments comprise accounts receivable and payable, loans receivable, loans payable, and cash, which arise directly from its operations. During the reporting period, the Group did not undertake trading in financial instruments.

### Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables (Note 6).

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.

The aging of accounts receivable at the reporting date was:

| | 30 June 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Gross | Impairment | Gross | Impairment |
| Current | 155,408 | – | 135,088 | – |
| Past due | 5,107 | 5,107 | 5,051 | 5,051 |

## 19. Financial instruments (continued)

### Interest rate risk

The Group is not exposed to upward interest rate risk through market value fluctuations of interest-bearing loans payable because the interest rates on long-term loans are being fixed. Corresponding disclosures are shown in Note 8. As at 30 June 2012 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 (Note 2).

The following table shows the undiscounted contractual maturities of liabilities as at 30 June 2012:

| | 0-6 months | 7-12 months | 2 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Bank loans | 55,377 | 102,281 | 109,680 | - | 267,338 |
| Interest payable | 12,959 | 10,060 | 13,461 | - | 36,480 |
| Notes payable | 3,126 | 3,077 | 14,732 | - | 20,935 |
| Lease liabilities | 6,787 | 4,524 | 1,658 | - | 12,969 |
| Trade accounts payable | 88,919 | - | - | - | 88,919 |
| Other payables | 7,681 | - | - | - | 7,681 |
| **Total** | **174,849** | **119,942** | **139,531** | **-** | **434,322** |

The following table shows the undiscounted contractual maturities of liabilities as at 31 December 2011:

| | 0-6 months | 7-12 months | 2 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Bank loans | 86,424 | 55,980 | 204,313 | - | 346,717 |
| Interest-bearing borrowings | 5,037 | 37 | - | - | 5,074 |
| Interest payable | 20,575 | 14,112 | 22,042 | - | 56,729 |
| Notes payable | 3,514 | 3,326 | 16,994 | - | 23,834 |
| Lease liabilities | 8,933 | 5,956 | 4,467 | - | 19,356 |
| Trade accounts payable | 66,249 | - | - | - | 66,249 |
| Other payables | 15,063 | - | - | - | 15,063 |
| **Total** | **205,795** | **79,411** | **247,816** | **-** | **533,022** |

## 19. Financial instruments (continued)

### 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.

As at 30 June 2012 and 31 December 2011 the Group has the following USD-denominated financial assets and liabilities:

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| Accounts receivable | 7,255 | 2,112 |
| Finance lease liability | (5,683) | (7,276) |
| Accounts payable | (4,688) | (58) |

### Sensitivity analysis

The following demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

As at 30 June 2012, it is estimated that a 8.4% strengthening of RUR against USD, with all other variables held constant, would increase the Group's profit for the year by 281 (30 June 2011: 12.5% increase by 720). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the reporting date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant.

Respective weakening of the RUR against USD at 30 June 2012 and 30 June 2011 would have had the opposite effect on the amounts shown above in the amount of 281 and 720 respectively, on the basis that all other variables remain constant.

| | Change of RUR to USD exchange rate, % | Effect on income/(loss) before tax |
|---|---|---|
| 6 months 2012 | +8.4% | (281) |
| | -8.4% | 281 |
| 6 months 2011 | +12.5% | 720 |
| | -12.5% | (720) |

### Fair value of financial instruments

The management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

## 19. Financial instruments (continued)

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to maintain an optimal capital structure to reduce cost of capital and to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group's current policy is not to pay any dividends.

The Group monitors capital using a range of ratios, including gearing ratio, which is net debt divided by total capital plus net debt. The Group includes the following within net debt: loans payable, finance lease obligations, less cash and cash equivalents.

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| Loans and borrowings payable | 267,338 | 352,199 |
| Notes issued | 18,070 | 20,503 |
| Finance lease obligations | 11,865 | 17,245 |
| Trade and other payables | 120,968 | 120,568 |
| Less: | | |
| cash and cash equivalents | (9,409) | (13,187) |
| short-term financial investments | (6,054) | (6,831) |
| **Net debt** | **402,778** | **490,497** |
| Equity | 346,998 | 351,470 |
| **Capital and net debt** | **749,776** | **841,967** |
| Gearing ratio | 0.54 | 0.58 |

## 20. Risks, commitments and contingencies

### Operating environment of the Group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

**20. Risks, commitments and contingencies (continued)**

**Liquidity**

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

**Taxation**

Legislation and regulations regarding taxation in Russia continue to evolve. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities. Instances of inconsistent opinions are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Russia's laws, decrees and related regulations is severe. Interest and penalties are levied when an understatement of a tax liability is discovered. As a result, the amounts of penalties and interest can be significant in relation to the amounts of unreported taxes.

In Russia tax returns remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during the three-year period.

Russian transfer pricing rules were introduced in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price deviates from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions with significant (by more than 20%) price fluctuations.

The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Group's prices and propose an adjustment. If such price adjustments are upheld by Russian courts and implemented, it could have an adverse effect on the Group's financial position and results of operations. The Company's management believes that such transfer pricing related income tax positions taken by the Company are sustainable and will not have any significant negative impact on the Company's consolidated financial position or results of operations.

## 20. Risks, commitments and contingencies (continued)

### Taxation (continued)

Overall, management believes that the Group has paid or accrued all taxes that are applicable. For taxes where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities which were identified by management at the reporting dates as those that can be subject to different interpretations of the tax laws and regulations and are not accrued in the consolidated financial statements could be up to 35,667 (31 December 2011: 30,724).

### Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### Financial guarantees

In December 2009, the Group purchased remote measurement equipment from Sercel S.A., a French manufacturer. As of 31 December 2011, this equipment is recognized in property, plant and equipment of the Group in the amount of 4,961. Financial leasing company "Kuznetsky most" entered into a loan agreement with OJSC Metkombank for the purpose of purchasing this equipment from the Group with its further transfer to the Group under finance lease. The Group acts as a guarantor for liabilities of the leasing company to OJSC Metkombank, surety period is 36 months.

### Litigation

Group companies remain as a defendant in legal actions filed against them by a number of third parties. Management believes that there are no current claims outstanding, which could have a material effect on the consolidated results of operations or consolidated financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

## 21. Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties during the six month periods ending 30 June 2012 and 30 June 2011, as well as balances with related parties as of 30 June 2012 and 31 December 2011:

*Revenue*

| | Companies under control of the controlling shareholder | |
|---|---|---|
| Field seismic operations | – | 121 |
| Operating lease services | 198 | 14 |
| Interest income on loans | 198 | 301 |
| **Total** | **396** | **436** |

*Expenses*

| | Associated company for the six months ended | |
|---|---|---|
| | **30 June 2012** | **30 June 2011** |
| Services received | 9,265 | 19,618 |
| **Total** | **9,265** | **19,618** |

*Outstanding balances*

| | Associated company | |
|---|---|---|
| | **As at 30 June 2012** | **As at 31 December 2011** |
| Accounts receivable | – | 2,494 |
| Accounts payable | (6,893) | (7,556) |
| **Total** | **(6,893)** | **(5,062)** |

| | Companies under control of the controlling shareholder | |
|---|---|---|
| | **As at 30 June 2012** | **As at 31 December 2011** |
| Accounts receivable | 1,560 | 2,518 |
| Loans given (incl. interest amount) | 5,618 | 4,680 |
| Accounts payable | (282) | (1,766) |
| Advances received | (61) | (330) |
| Loans received (incl. interest amount) | (10) | (179) |
| **Total** | **6,825** | **4,923** |

All outstanding balances with related parties are to be settled in cash or through services rendered in case of advances within six months after the reporting date. None of the balances is secured.

## 21. Related party transactions (continued)

### Pricing policy

Related party transactions are based on market prices and are effected on an arm's length basis in a manner similar to transactions with third parties.

### Key management personnel

The Company enters into transactions with its directors and other key management personnel in the normal course of business. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly and includes Chief Executive Officer, Executive Director, members of the Board of Directors, Chief Financial Officer and Vice-Presidents of the Company.

During the six months ended 30 June 2012, remuneration paid to key management personnel amounted to 1,744 (six months ended 30 June 2011: 1,145) including remuneration to the Company's Directors in the amount of 520 (six months ended 30 June 2011: 132).

## 22. Events subsequent to the reporting date

### Financing

During the period subsequent to the reporting date the Group has entered in a number of credit line agreements with Sberbank to refinance current loan obligations through long-term facilities. The amount of financing raised comprised 81,070. Credit lines mature from 18 months to 36 months and bear interest rate from 9.45% to 11% per annum.