

Ruspetro plc
Annual Report and Accounts 2014
Company No: 7817695

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Ruspetro plc
Ruspetro is an independent oil and gas development and production company, with assets in the Western Siberia region of the Russian Federation.

Our mission is to unlock the tight oil reservoirs in our asset base while building a leading regional independent E&P company in a safe and environmentally responsible manner for the long-term benefit of our shareholders.

Current Pad 23b development

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Strategic Report

Highlights

Operational highlights

Oil production in 2014 averaged 3,523 barrels per day (bpd), a 14% decrease compared with 2013. In January 2014, suspended production of gas and condensate in the Palyanovo field primarily to conserve gas while we engage in discussions to commercialise these gas reserves.

The production performance of the Group's first two horizontal wells was encouraging (10-day flow tests averaged 1,350 and 900 bpd for wells 214 and 251, respectively)

- *Spudded our first multiple fractured horizontal well (214) (MFHW) in April 2014.*
 - *In our second well (251), introduced for the first time in Russia innovative completion technology customised to our geological environment.*
-

Successful focus on safety in our operations including implementation of the EMEX system to manage HSE performance. One minor lost-time injury in 2014.

Extended the subsoil licence for the Vostochno-Inginsky ("VI") block until 2034.

Financial highlights

Successful completion of financial restructuring in December 2014 ("the Restructuring"). As a result, US\$52.3 million of new equity was raised, US\$358.1 million of existing debt and put option obligations were refinanced through a US\$150 million loan with Bank Otkritie Financial Corporation ("Otkritie"), with the remaining US\$208.1 million converted into a 25% equity position held by Mastin Holdings Limited ("Mastin").

Revenues of US\$55.1 million (down 31% Y-o-Y) due primarily to a 26% decline in liquids production, and a 9% decline in the realized oil price Y-o-Y.

Full year earnings before interest, tax, depreciation and amortisation ("EBITDA") of US\$9.5 million vs. US\$13.0 million in 2013, driven mostly by the decline in production, and oil price, partially offset by Mineral extraction tax ("MET") relief from September 2013. EBITDA per barrel of liquids was US\$7.4 in both 2013 and 2014.

Strengthened our partnership with Glencore by extending our export prepayment facility in March 2014 and entering into two domestic facilities in May 2014 and October 2014.

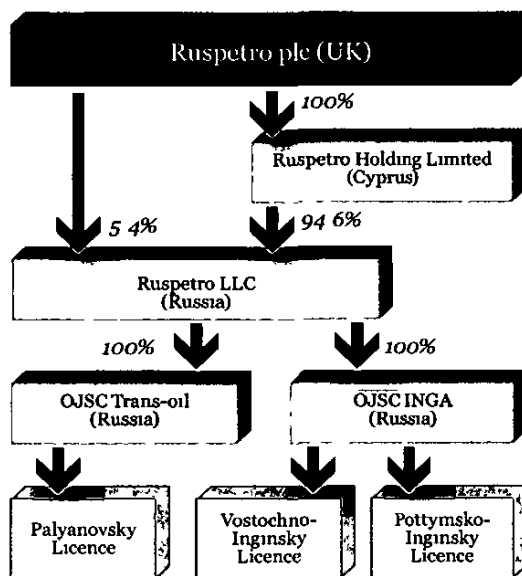
Net debt decreased by US\$152.3 million from US\$387.4 million at the beginning of the year to US\$235.1 million at the end of 2014.

Net loss of US\$262.9 million vs. net loss of US\$74.2 million in 2013, driven mostly by the foreign exchange loss on US dollar denominated loans to the Group's Russian subsidiaries (US\$202.4 million).

Strategic Report
Group Overview

Ruspetro has three oil and gas exploration and production licences: the Pottymsko-Inginsky ("PI") Licence, the Vostochno-Inginsky Licence and the Palyanovsky Licence.

Group Structure



Our licence for the Palyanovsky block is due to expire in December 2015 and our PI Licence block expires in June 2017. While the VI licence was due to expire in June 2014, we have successfully extended this licence for 20 years until June 2034.

The Russian Federation's Subsoil Law, as currently in effect, allows for the extension of a subsoil licence at the request of the licence holder if such extension is necessary to finish exploration or production in the field(s) covered by the licence, provided that the licence holder has not violated the terms of the licence and fulfilled its conditions.

As a result, to the extent that we meet our obligations under the applicable minimum work programme required by the licences and are not in breach of any licence obligations or conditions, each of our licences issued prior to this legislation can be extended upon expiration, for the economic life of the field.

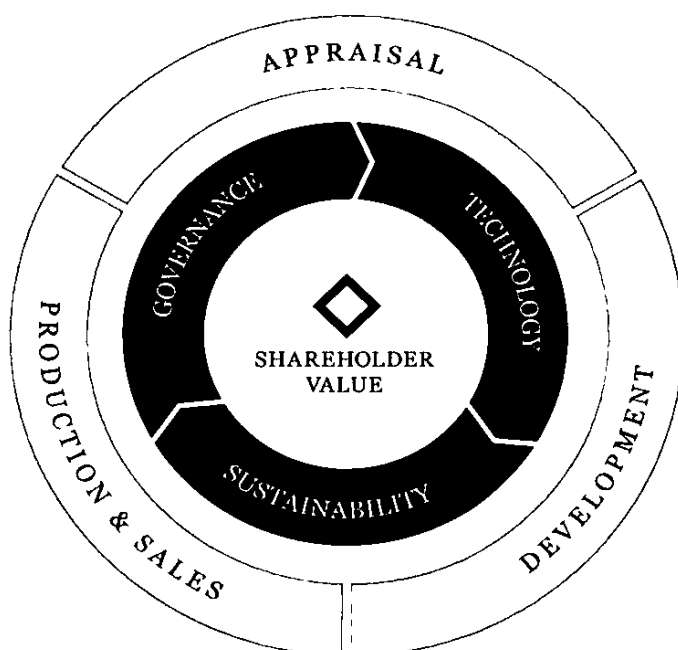
214

of employees

What makes us different/ our core philosophy

We have simply not been prepared to accept a “this is how we have always done things in Western Siberia” paradigm.

Business Model



The seeds of Ruspetro's failure in 2012-13 lay in the false perception that the key to unlocking the potential of the “hard to recover” oil in the Company's licence areas was “simply” a production technology issue that could be solved by a combination of denser well spacing and larger hydraulic fractures in vertically-drilled wells

While the introduction in 2014 of horizontal wells as a development concept has been important for the future prospects of Ruspetro, that in itself would have achieved little without a much more fundamental shift in thinking within the company

We have simply not been prepared to accept a ‘this is how we have always done things in Western Siberia’ paradigm. We recognise that there are proven and applicable industry technologies that have not been deployed in Russia, perhaps for good reason. Technology does not always jump continents easily. However, given the underperformance of the vertical wells to date, we do not have a choice and that has led us to define an operating philosophy that manages the risks of bringing in such technology

Shareholder Value

We aim to create value for shareholders through the accelerated low-cost development of our oil and gas reserves

We aim to achieve this through operational and capital efficiency as we de-risk our asset through development and appraisal drilling while adhering to high standards of corporate governance and operating responsibly

The key principles are

- We can make decisions rapidly
- We are value-focused. Naturally, we wish to have the lowest cost solutions, but initially there may be additional costs to test an idea that will lead to longer-term value
- We insist on fully integrated technical and commercial thinking and evaluation
- We rigorously challenge the concept of “this is how we do it in Western Siberia”
- We focus on the adoption of field-proven ideas, mainly from the US in terms of fracturing concepts but internationally in numerous key areas
- We have built a core international team of experienced technical staff to oversee and mitigate the risk of transferring new ideas into our business
- We collaborate with smaller service companies for our mutual benefit to bring their ideas and technology into our operations

The team

Clearly as a small company in the sector, we cannot cover the complete range of exploration and production technical skills. We have identified the following key capabilities to have in-house and supplement them with a network of internationally experienced experts

- Top-class reservoir geology
- Seismic modelling
- Well design
- Fracturing design and execution
- Reservoir management
 - Waterflooding of low-permeability reservoirs
 - Horizontal well evaluation and numerical modelling
- Production well and system optimisation (oil/gas/water)
- Production chemistry
- Lean/flexible facilities

Subsurface-Surface Data Integration

Ruspetro is using the latest available software technology in order to support all field development efforts. Integrated data stores and modelling systems ensure that all data is properly quality controlled and then used quantitatively to define and support development activities such as appraisal/development drilling, well interventions and enhanced recovery projects.

In 2014, for a small exploration and production company operating with a technically-challenging portfolio, the business environment in Russia could hardly have been more difficult.

In the middle of the year, ambiguity about the impact of sanctions on the business forced Ruspetro into both clarifications and contingency arrangements to ensure that operations were not hampered. In due course, that uncertainty was clarified and our technology has been cleared for use.

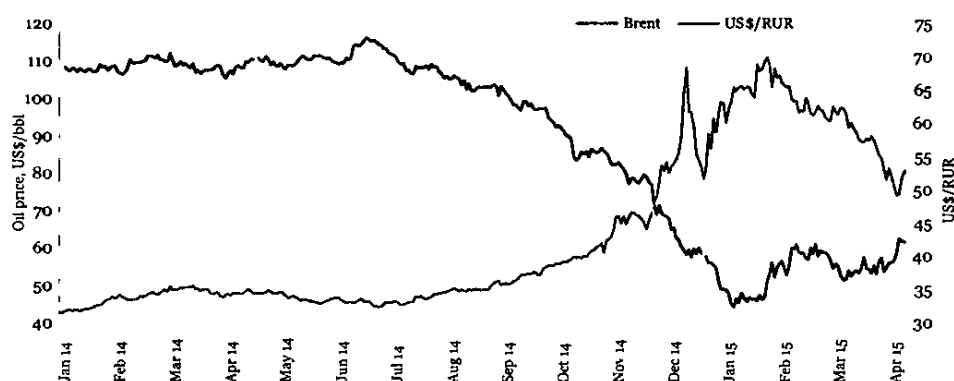
Thereafter, what started as a modest decline in the oil price to below US\$100 per barrel in the third quarter became a headlong plunge, coupled with a slump in the value of the ruble. While some stability has emerged in recent months in both the oil price and ruble/dollar exchange rate, the credibility of forecasters has gone, and we expect to live with both volatility and uncertainty for the medium term.

This macro-economic business context makes the transformational restructuring transaction that we completed in December all the more remarkable. Our liabilities (including debt and put option obligations) were reduced by US\$218.8 million, while we raised US\$52.3 million of new equity, and arranged loan facilities of up to US\$144.7 million, in aggregate, for development and working capital.

More important perhaps than the numbers is the relationship now established between Ruspetro and Otkritie, currently the largest private bank in Russia by assets. Otkritie and Sergey Gordeev are now our main lender and largest shareholder, respectively, and we are delighted that Sergey has joined our Board.

Successfully raising substantial development funds is a major milestone for the Company, and while the fall in oil prices impacted our revenues, the weakening of the ruble has driven down our dollar cost base such that we can drill economically attractive production wells at current oil prices. Nevertheless, given the extended period of low and volatile oil prices, the Board has decided that a cautious capital expenditure programme and a cautious use of loan facilities in 2015 is in the best interests of the Company, and that the capital invested should focus on maturing development opportunities for the medium term. This philosophy is outlined in the CEO's review.

It remains unclear how the oil and gas industry in Russia will respond in the medium term. A material reduction in activity seems unlikely given the dollar-equivalent cost reduction that all operators will experience. However, we can expect some opportunities to drive costs down further as service providers manage cash flow.



Our focus is on positioning Ruspetro for the medium term – understanding our reservoirs, managing risk, applying the right mix of technologies, enhancing our reputation as an innovative company and creating value from every well that we drill. In the medium term, this is expected to build substantial shareholder value.

When 2014 started, there was a strong sense of optimism in Russia, particularly given the Winter Olympics in February. The dramatic events since, including ruble devaluation and unexpected crash in oil prices, have caused anxiety, and their consequences remain to be seen. However, within Ruspetro, we have made substantial progress in the way that we operate and think. We have rebuilt our technical core and our technical credibility. On behalf of the Board, I would like to thank all our staff for their efforts under difficult circumstances and in particular welcome to the team those who have come on board in the last 12 months.

I would also like to thank our new partners for the confidence they have shown in joining the Ruspetro project. We welcome them as shareholders and in particular welcome Sergey Gordeev to the Board. We have a highly experienced team of Non-Executive Directors on the Board and I would like to thank them for their invaluable input and challenge. Lastly, I thank our shareholders for their support as we have navigated our way through difficult macroeconomic conditions affecting the oil industry. The course we have set should position Ruspetro to make significant progress in 2015.

“I would like, on behalf of the Board, to thank all our staff for their efforts under difficult circumstances and in particular welcome to the team those who have come on board in the last 12 months.”

Alexander Chistyakov
Executive Chairman

Strategic Report
Chief Executive's Statement

The working environment in which Ruspetro staff and our contractors operate is particularly challenging.

Since joining Ruspetro, it has been one of my top priorities to build upon and enhance our health, safety and environmental ("HSE") awareness and performance

In 2014, we appointed a HSE director to oversee our HSE practices, improve policies and ensure that we approach HSE issues in the most direct and effective manner. In addition, we successfully implemented the EMEX platform as a tool to log, monitor and action HSE improvements across all operational areas. I am pleased to report only one minor lost-time incident in 2014 relating to a slip and fall. Our aim is to continue our positive HSE momentum in the coming year.

Achievements in 2014

In April 2014, we introduced multiple-fractured horizontal wells into our operations. Initially this was rather simplistically conceived as a way of connecting the discontinuous sands that, with hindsight, had contributed to the poor outcome of the vertical well development programme in 2012-13.

However, by the second well, we had introduced a radical change in fracturing and completion thinking, abandoning the standard Western Siberian approach of a small number of large fracs, and moving to a concept based on a larger number of smaller fracs tuned to the sand distribution seen in the well. This required us to source technology proven in North America but hitherto unused in Russia.

Similarly, we have introduced a number of other internationally established technologies to ensure that we maximise the insight from these early wells. These include geo-steering in the horizontal sections to assess sand continuity, and the use of tracers to assess the effectiveness of the fracs in each well. This knowledge has been embodied in the design of the wells that are to be drilled and completed by the second quarter of 2015.

While I am impressed by the progress that we have made with our first two horizontal wells and the follow-up in early 2015, the reality is that we are still developing our understanding of the geology and in particular the possible play types in our acreage. Our efforts at geological characterisation in the last year have been hampered by a chronic geological data shortage resulting from missed data collection opportunities in the first frantic development campaign in 2012-13. Furthermore, we are only just beginning to capitalise on the seismic contribution to unlocking our reserves. The bottom line is that we have an immature resource base outside the core area.

Given this blunt assessment, the Board has endorsed a strategy starting in the second half of 2015 of an appraisal campaign designed to mature between 25 and 75 development wells. This programme, which includes both vertical and horizontal wells, will underpin a resumption of our development well campaign in 2016, when we believe oil prices may have partly rebounded.

This strategy will have two key additional benefits

- With an inventory of de-risked development wells, we will be able to plan and deliver a sustainable improvement in drilling and completion performance by driving learning, leveraging the market for services, and improving our operating practices
- It will provide a sound basis for the generation of a coherent facilities plan based on a more realistic view of our future production levels and precisely where in our acreage they are being generated

Palyanovo

In January 2014, we suspended production of gas and condensate in the Palyanovo field, primarily to conserve gas while we evaluated further options to commercialise the gas reserves. Discussions are progressing with an international counterparty in this regard. In the meantime, we are taking the opportunity of the suspension of production to collect key sub-surface data with a view to updating the gas field development plan in 2015. During 2015, we will also update our Russian reserves for the Palyanovo licence ahead of its planned renewal by the year-end.

“The Board has endorsed a strategy starting in the second half of 2015 of an appraisal campaign designed to mature between 25 and 75 development wells.”

Geosteering of Horizontal Wells

- Geosteering technology helps to safely maximise horizontal section length (wells do not enter hazardous formations)
- Structure and reservoir distribution are better understood and tracking reservoirs improves the likelihood of successful frac initiation

Drilling Horizontal Wells With Multistage Fracs

- Drilling long horizontal wells is critical to increase the odds of encountering prolific discrete reservoir bodies
- Conducting multi-stage fracture stimulation will then ensure the reservoir volumes are effectively drained

Chief Executive's Statement continued

Aims for 2015

Our objectives for 2015 are to

- Increase oil production by squeezing our existing stock of oil production wells and improving water-flood effectiveness in the core PI area
- Complete our horizontal development well rollout in the area of pad 23b
- Initiate an appraisal campaign to build an inventory of mature development locations. Four areas are currently targeted in this campaign
- Mature our development toolkit (technology, design, cost, execution). For example, the application of geosteering, seismic visualisation, novel well designs, optimised completion technology, rig strategies, etc
- Implement fit-for-purpose infrastructure enhancements to support the programme
- Radically improve our understanding of the gas reserves and production potential of Palyanovo

Costs and cash management

The restructuring transaction, while transformational for the longer term, was highly complex and inevitably time-consuming. Nevertheless, we were able to make a start with our horizontal well programme, using oil pre-payment facilities and an additional loan from Limolines Transport Limited ("Limolines"), one of our main shareholders.

These early wells represent the evolution of our development thinking and technology application. Perhaps as importantly, they have driven a fundamental rebuild in our drilling services contracting strategy and allowed us to deliver a highly competitive benchmark well cost for the future.

Despite the availability of new funds, a lower oil price is our reality. We will continue with a highly disciplined approach to managing our cash. As we have successfully done with our drilling costs, we will continue our drive to reduce to the greatest extent possible dollar-denominated services, and perhaps capitalise on the assumed slowdown in Russia to look for keen bids for any new capital expenditure.

John Conlin
Chief Executive Officer

Microseismic Monitoring of Frac Stimulation

- Microseismic monitoring helps to understand fracture dimension and orientation so frac parameters and design can be tuned
- It is critical to understand whether frac grow in unwanted formation or fault zones
- As a consequence horizontal wells can be placed in optimal locations (spacing and orientation)

Key Performance Indicators

KPIs	Goals	2014 results
Health, safety and the environment	<ul style="list-style-type: none"> No fatalities or incidents in our operations Full compliance with HSE obligations A rigorous HSE culture 	<ul style="list-style-type: none"> Only one minor lost-time injury EMEX system successfully implemented Gas flaring reduced significantly after suspension of production at Palyanovo
Annual production	<ul style="list-style-type: none"> Delivery of our annual production forecasts A level of profitable production that funds capital investments and allows the company to repay its debt obligations 	<ul style="list-style-type: none"> Oil production of 3,523 bpd, compared with a target of 4,233 Two horizontal wells drilled in 2014 instead of the planned four due to funding limitations Natural decline of current production wells mitigated by optimisation of waterflood
CAPEX per barrel	<ul style="list-style-type: none"> Well construction and facility costs that allow us to create value and thus economically develop our resources across the entire acreage Increased well ultimate recovery through creative geological characterisation, innovative use of technology, and excellence in well construction 	<ul style="list-style-type: none"> Horizontal well programme successfully initiated Strong core technical team with international experience in place Innovative completion technology introduced Major re-focus on seismic/geological modelling and risk assessment New commercial framework for breakthrough in well costs in 2015
Operating costs per barrel	<ul style="list-style-type: none"> Lowest achievable operating costs that maintain long-term system integrity and compliant production operations 	<ul style="list-style-type: none"> Production operating costs of US\$16.1 per boe, compared with a target of US\$16.1 Major re-assessment of infrastructure integrity and maintenance programme All main contracts are denominated in rubles and will benefit from currency depreciation
Funding the business	<ul style="list-style-type: none"> Access to the lowest-cost sources of capital Flexibility in managing cash flows A ruthlessly commercial and value-based approach to securing services across the entire business 	<ul style="list-style-type: none"> Restructuring transaction completed in December Development funding in place for 2015-16 Export and domestic pre-payment facilities funded 2014 development activities Ruthless cash management to cope with delay in restructuring transaction
Business integrity	<ul style="list-style-type: none"> All licences in good standing Excellent relationships with various regulatory bodies Effective partnerships with suppliers and counterparties 	<ul style="list-style-type: none"> VI licence renewed until 2034 Rebuilt reputation with suppliers and contractors Met environmental and licensing obligations

The production performance of the Group's first horizontal wells is encouraging.

Production

The Group's total liquid production in 2014 averaged 3,541 barrels of oil equivalent per day (boepd), down 26% from the 4,797 boepd in 2013. Average oil production was 3,523 bpd, 14% lower than the 4,082 bpd in 2013. Average condensate production from the Group's Palyanovsky licence area declined from 1,352 boepd in the first quarter of 2013 to 330 boepd in the fourth quarter, down 75%, leading to the decision to suspend production in January 2014 to conserve gas for future commercialisation. The Group's oil production in the fourth quarter of 2014 averaged 3,580 bpd, down 7% from 3,854 bpd in the third quarter.

In 2014, the Group initiated a horizontal drilling campaign based on multi-stage fractured horizontal production wells. Three horizontal wells were spudded in 2014 as part of this campaign (wells 214, 251 and 212), two of which were successfully completed within 2014 (wells 214 and 251).

The Group began drilling its first horizontal well, number 214, in April. The pilot well encountered 19 metres of oil-bearing sands. Three large fractures were placed in the well's 600-metre horizontal section and the well came online at the beginning of July as planned. The 10-day flow test yielded 1,350 bpd using an electrical submersible pump. By the end of 2014, the well was producing at 615 bpd, as expected.

The Group's second horizontal well, number 251, was spudded in June and a pilot well was drilled as planned. This well encountered eight metres of net oil sand, which was at the low end of expectations. Two sidetracks were thereafter required to overcome challenging hole conditions prior to entering the horizontal section. In this well, the Group employed, for the first time in Russia, a completion system designed and implemented by NCS Energy Services, an independent technology and services company specialising in multistage completions (NCS Mongoose completion system). The system allows for a larger number of customised fractures to be placed along the horizontal wellbore than the completion technology previously available in the country and used for completion of well 214. It also allows for greater fracturing speed and flexibility than the completion system previously used by the Group, as the process eliminates the need for perforation and the plugging of each section and enables multiple sequential fracture operations. Eight fractures were successfully placed along the 890-metre horizontal section of the wellbore, precisely targeting the reservoir intervals of interest. The planned installation of an electrical submersible pump was completed in October. A 10-day flow test for this well averaged 900 bpd at approximately 25% watercut.

The Group's third horizontal well, number 212, was designed to have a 1,000-metre horizontal section with 12 fractures. It was spudded on 17 December and is expected to be completed in the second quarter of 2015.

257 mmbbl

Proved reserves

3,541 boepd

Year average production

The production performance of the Group's first horizontal wells is encouraging. Equally exciting is the introduction of innovative yet proven completion technologies into the Group's operations, which we believe will make a positive contribution to value creation for our shareholders.

Reservoir management and waterflood

As at the end of 2014, the Group had a stock of 34 producing wells and seven injector wells. During the year, a comprehensive review of the response to the waterflood programme was carried out as part of the ongoing reservoir management plan in the producing field. One producing well was converted to a water injection well in the first half of 2014, giving a total of seven active injector wells in the main production area of the field.

Out of 24 producing wells subject to waterflooding, nine producing wells show consistently increasing oil production rates in response to pressure support. A comprehensive tracer campaign has been initiated to assist in further optimisation of the waterflood.

The Group's subsurface team set about expanding and refining the waterflood programme such that crude oil production towards the end of the year stabilised. The waterflood was more compartmentalised than had been originally envisaged, in line with the findings from our 3D-seismic reprocessing.

Simulation Modelling of Horizontal Wells with Fracs

Reservoir simulation is routinely used in Ruspetro's workflows in order to calibrate geological models, define and test field development scenarios and finally to manage and optimise field production. This level of integration promotes team work and ensures sound data consistency.

Strategic Report

Operational Review continued

In 2014, the Group continued to interpret the 3D seismic data that covers 42% of the field. The results showed structural and stratigraphic compartmentalisation in our main area of production. This poses challenges for an effective waterflood programme and demonstrates why production results from vertical wells can vary drastically over quite small distances. These findings add to our knowledge of the field and enable us to be more confident about selecting drilling locations and appropriate well technologies going forward.

Reserves potential

DeGolyer and MacNaughton ("D&M") conducted a reserve audit for the Group as at 30 June 2014, based on the horizontal well development programme for the first time. The reserves estimates as at 31 December 2014 were made by the Company by adjusting reserves numbers as at 30 June 2014 for actual oil production in the second half of 2014. As of 31 December 2014, total proved reserves were 257 million barrels of oil equivalent (boe), up 15% from the previous estimate of 225 million boe. Year-end 2014 proved plus probable reserves were 2.0 billion boe, up 6% from the 2013 year-end estimate of 1.9 billion boe. Of these reserves, gas comprises 51 million boe of proved reserves and 252 million boe of proved and probable reserves.

The Group has 5.9 million barrels of proved developed oil and condensate reserves. This compares to 12.7 million barrels as at 31 December 2013. The decrease is primarily attributable to the reclassification of condensate reserves from proved developed to proved undeveloped in the Palyanovo licence area. Proved developed sales gas reserves were reclassified to proved undeveloped in line with reclassification of condensate reserves.

In line with industry best practices, the Group has decided to change the independent reserves auditor from D&M to another international auditing firm. The selection is expected to be made in the first half of 2015, followed by a full-year report by the end of 2015.

Macro-environment in 2014

From a macro-environment perspective, 2014 proved a challenge in several respects. First, Russia experienced a turbulent year due to the geopolitical crisis in Ukraine, as the economic sanctions targeted against Russia have been imposed on certain individuals, financial institutions, state-controlled companies, technologies and equipment in the financial, defence and energy sectors. Second, the crude oil price, though averaging almost US\$100 per barrel in 2014, compared with US\$109 in 2013, dropped dramatically in the fourth quarter of 2014. Having peaked in June 2014 at US\$115, the Brent crude oil price had dropped to US\$57 by the year-end, due to slower growth in major oil-consuming countries, soaring production of hard-to-extract crude oil in the US and Canada, and OPEC's decision to maintain production levels.

	Oil & condensate		Sales gas		Total	
	31 December 2014, mn bbl	+/- vs 31 December 2013, mn bbl	31 December 2014, mn boe	+/- vs 31 December 2013, mn boe	31 December 2014, mn boe	+/- vs 31 December 2013, mn boe
Proved developed	5.9	-6.9	0.0	-16.1	5.9	-23.0
Total proved	206.0	15.2	51.3	17.5	257.2	32.7
Proved + probable	1,745.4	91.7	252.0	19.5	1,997.4	111.2

Operational Review continued

At the same time, the difficult macro-environment brought some significant operational benefits through the devaluation of the Russian ruble, functional currency of the Group's operating companies. With oil and gas production generating the majority of hard-currency revenues of Russian companies and the government, the decline in the oil price weakened the ruble exchange rate from 32 to the US dollar on 1 January 2014 to a low of 67 on 16 December 2014. While the ruble/dollar exchange rate averaged 35.4 during the nine months ending 30 September 2014, it plummeted in the fourth quarter, paralleling the slump in the Brent price. The ruble's dramatic fall has cushioned the Group's exposure to the oil price decline, as it is estimated that 90% of its operating expenses, 80% of capital expenditures and 40% of SG&A in 2015 are denominated in rubles. The effect of this devaluation is expected to bring significant savings in 2015 in terms of operating costs, CAPEX and, to a lesser extent, SG&A.

Sales and marketing

The Group's total production in 2014 was some 1.3 million boe, or an average of 3,541 boepd. In 2014, the Group exported 448 thousand boe and sold 854 thousand boe of crude oil and 7 thousand boe of condensate on the domestic market, compared with 261 thousand boe, 1.2 million boe and 258 thousand boe in 2013, respectively. All export volumes were delivered under the Glencore export prepayment facility and 49% of domestic volumes were delivered to EnergoResurs, a company related to Glencore, under both domestic prepayment facilities signed in 2014.

In 2014, export sales revenue was US\$40.8 million (US\$18.8 million after export duty), domestic crude oil revenue was US\$35.0 million, and condensate revenue was US\$0.3 million. In 2013, export sales revenue was US\$27.4 million (US\$13.3 million after export duty), domestic crude oil revenue was US\$54.0 million, and condensate revenue was US\$11.3 million.

Export deliveries were contracted to Glencore via the Transneft pipeline system and freight terminal in Primorsk. 80% of domestic sales volumes were delivered via pipeline (compared with 60% in 2013) and 20% by rail and truck (compared with 40% in 2013).

Advanced Seismic Interpretation

Advanced seismic interpretation techniques can help unravel attractive reservoir features.

Financial Review

The Group's balance sheet has been transformed due to the completion of the Restructuring in December 2014.

Financial summary

Revenues were US\$55.1 million in 2014, compared with US\$79.8 million in 2013, while EBITDA was US\$9.5 million, compared with US\$13.0 million. The drop in revenues was primarily driven by a 14% reduction in average oil production, a 9% fall in the average oil price, and the termination of condensate sales.

The drop in EBITDA was primarily driven by the 14% decline in crude oil production, a loss of gross margin from the cessation of condensate sales and a 9% fall in the average oil price. The effect was offset by a substantial saving from reduced MET following changes in tax legislation in relation to tight oil reservoirs available to the Group since September 2013.

Cost of sales

The cost of sales, including depreciation and production-related taxes was US\$51.7 million in 2014, compared with US\$65.9 million in 2013. The decrease was primarily driven by a US\$20 million reduction in MET due to a full year's 80% MET relief benefit conferred to the Group starting September 2013, along with a marginal benefit from the ruble depreciation towards the end of 2014, and savings of US\$1 million in production services. These savings, however, were offset by a US\$6.2 million increase in depletion expenses in 2014 due to temporary suspension of operations at Palyanovo, along with a US\$1.1 million increase in repair and maintenance expenses and employee benefit expenses.

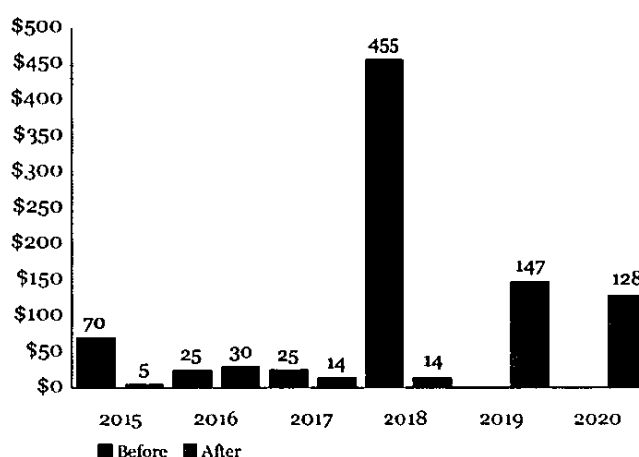
Selling and administrative expenses (S&A)

S&A expenses include oil transportation costs, payroll expenses, rent, professional services, property and land taxes, depreciation, IT and telephony, and other expenses.

S&A expenses in 2014 amounted to US\$20.8 million, down 7% from US\$22.5 million in 2013. The decrease resulted from savings, mostly in professional services, IT and telephony, travel and depreciation, offset by increases in payroll expenses (including severance) and oil transportation expenses as a result of higher export volumes year-on-year in 2014.

Comprehensive loss for the year and foreign exchange

The Group recorded a loss of US\$262.9 million for 2014, compared with US\$74.2 million in 2013. The 2014 result includes a foreign-exchange loss of US\$202.4 million, compared with US\$25.6 million in the previous year. The Group's operating companies, whose functional currency is the Russian ruble, have borrowings in US dollars. As a result of the ruble devaluation, those borrowings in ruble terms have substantially increased, resulting in the accounting recognition of US\$202.4 million in foreign-exchange losses. After deducting the foreign-exchange losses from both years, the Group's loss would have been US\$60.5 million in 2014, compared with US\$48.6 million in 2013.



US\$ 55.1m

Revenues

US\$ 7.8m

Operating cash flow before working capital adjustments

Strategic Report

Financial Review

continued

Balance sheet

The Group's balance sheet has been transformed due to the completion of the restructuring in December 2014 along with the effects of the ruble depreciation

The Group's restructuring comprised the following key components

- A restructuring of the existing US\$337.9 million OJSC Sberbank of Russia ("Sberbank") credit facility along with a LLC Sberbank Capital ("Sberbank Capital") put option valued at around US\$20.2 million. These were together exchanged for a new US\$150 million five-year loan from Otkritie, with the conversion of the remaining US\$208.1 million by Mastin, a company beneficially owned by Sergey Gordeev, into 25% of the Company's enlarged issued equity share capital
- A five-year development facility of up to US\$100 million was entered into with Otkritie for the purposes of financing the Group's field development
- A five-year credit facility of up to US\$44.7 million was entered into with Otkritie for general working capital purposes with drawdown available until the end of June 2016
- The extension of shareholder loans from Makayla Investments Limited ("Makayla") from 2015 to 2016 and Limolines from 2018 to 2020, US\$5.0 million is due to be repaid to Makayla in May 2015
- A raising of gross proceeds of £32.9 million (around US\$52.3 million) in new equity capital from a placing and open offer. This included the offset of a US\$10.7 million short-term Limolines loan against Limolines' subscription for the new shares in the placing and open offer

As a result of the Restructuring alone, the Group's total debt decreased by US\$198.6 million, current liabilities decreased by US\$20.2 million, total equity increased by US\$256.2 million, and total cash on hand increased by US\$41.6 million before transaction-related fees. Transaction fees totalled US\$5.7 million and the Group's net debt decreased by US\$240.2 million.

The completion of the Restructuring helped to reduce net debt significantly in 2014. Specifically, net debt decreased by US\$152.3 million, from US\$387.4 million at the beginning of 2014 to US\$235.1 million at the end

Other current and non-current liabilities decreased by US\$74.4 million to US\$81.1 million by the year-end, from US\$155.5 million at the end of 2013. Among other things, this reflected the conversion of the Sberbank Capital put option, a decrease in deferred tax liabilities, and a decrease in trade and other payables. Despite an increase of total equity by US\$256.2 million as part of the Restructuring, the Group's total equity decreased by US\$19.6 million in 2014, from US\$95.3 million to US\$75.7 million, mainly due to the magnitude of foreign-exchange losses associated with the ruble depreciation.

Cash flow

In 2014, the Group generated a net cash inflow from operating activities of US\$3.3 million, resulting from positive operating cash flow of US\$7.8 million and a negative cash impact from changes in working capital of US\$4.5 million. The latter resulted from the increase of VAT refundable related to capital construction, as well as from the significant ruble depreciation during 2014, leading to a major decline (when expressed in US dollars) in ruble-denominated accounts payable balances.

During the year, the Group spent US\$49.6 million on investment activities. This consisted of US\$23.9 million on the construction of new wells, US\$1.9 million on rig mobilisation and demobilisation, US\$10.8 million on infrastructure-related capital expenditures, US\$1.3 million on development studies, US\$2.6 million on the purchase of intangible and other assets, and US\$9.2 million for capital expenditures related to activities before the initiation of the Group's horizontal well development programme in 2014.

The Group received US\$37.4 million (net of costs and settlement of Limolines loan) from the issue of new shares in December 2014 through the Company's open offer and placing. It also received loan proceeds of US\$10 million from Limolines in August 2014. In addition, loan proceeds from Otkritie totalling US\$148.5 million (net of arrangement fees of US\$1.5 million) were received in December 2014. The Group utilised these immediately, as part of the restructuring, to repay the US\$150 million outstanding under the Sberbank credit facility then owned by Mastin.

Financing of Ruspetro's current operations and future development

Following the Restructuring and the extension of shareholder loans, together with the additional US\$100 million development facility available (subject to continuing to meet the drawdown conditions), the Group is able to continue the implementation of its horizontal well programme in the near future. The Group's focus on production is critical to its success, as the terms for its restructured debt finance require the Group to achieve certain annualised EBITDA and production covenants that will be tested quarterly from January 2016. The Group is required to monitor closely its ability to meet such covenants throughout the year, and this will depend largely on the drilling of additional horizontal wells and on foreign-exchange and oil price movements. Taking into account all considerations relevant to the Group's current financial position, management considers it appropriate that the financial statements should be prepared on a going concern basis.

Outstanding debt obligations

Debt	Principal	Accrued interest	Total as at 31 Dec 2014	Maturity	Annual Interest Rate
Otkritie	US\$147.8	US\$-	US\$147.8	Nov-19	8% pa
Makayla	US\$15.0	US\$8.3	US\$23.3	Oct-16	1M Libor +10% pa
Limolines	US\$48.7	US\$27.1	US\$75.8	Feb-20	3M Libor +10% pa
Crossmead Holding Limited	US\$0.3	US\$-	US\$0.3	Past Due	0%

2014 has been a year of reorganisation and continued consolidation for the Company.

Introduction

The Company holds licences for three blocks on the Krasnoleninsky arch near Khanty-Mansiysk in Western Siberia. There are two communities based within these blocks: Talinka, with a population of around 4,000, and Palyanovo with a population approaching 200. The Company recognises that it has a duty to safeguard the environment in its area of operations and preserve the way of life of those who live there.

To meet our sustainability obligations, we seek to

- Increase operational and cost efficiencies in production
- Recycle waste and minimise environmental harm
- Have open and positive communication with the communities in which we operate
- Work closely with local governmental agencies in meeting our obligations
- Ensure the safety of our assets and employees
- Create a high quality working environment for our employees

The year 2014 was one of reorganisation and continued consolidation for the Company. Drilling operations have improved greatly and new technologies were introduced, such as horizontal drilling and multiple fracturing. The Company has continued to improve the efficiency of its production system and reduce the environmental impact of its operations in line with its sustainability goals through better operational reporting and subsequently more effective intervention. We continued to improve the safety and security of our operations and build relationships with the local communities in which we work. The Company manages day-to-day field operations from its operational base in Talinka, at the centre of the field. Through increased investment in our operations in Talinka, we are increasing our activities and employment opportunities for the local population.

In addition, we successfully implemented the EMEX platform as a tool to log, monitor and action HSE improvements across all operational areas. The new system is a step change in the way we manage our HSE management system within the Company, enabling more comprehensive incident reporting, closed-loop incident investigation and follow-up.

Health, safety and the environment

In all our operations, be they drilling, production or construction, health and safety is an absolute priority, as is the environment. Not forgetting ethical standards, employee and community satisfaction are also a priority for the Company and are carefully considered throughout our daily operations. When tendering a contract, we try to encourage local contractors to behave similarly, and we have clear and transparent tendering procedures. All of our employees and contractors are held accountable for adhering to local health, safety and environmental standards and our ethical expectations. As a company, we pride ourselves on developing local resources in a responsible and ethical manner, while continually respecting all key stakeholders.

Safety performance

Operating safely in all areas of our operations is a strict priority for the Ruspetro team. We believe that all accidents leading to any injuries, environmental impact or damage to our or contractors' assets are preventable. This is essential for the care of our employees and for the benefit of our stakeholders and the communities and environment in which we operate.

Ruspetro bases its internal management of safety on the following four key performance indicators for safety:

Lost-time injury ("LTI")

A lost-time injury is calculated as the sum of fatalities and lost-time accidents. An LTI is one that results in an employee or contractor being absent from work for three days or work shifts. During 2014, Ruspetro incurred one minor LTI.

Accident frequency rate ("AFR")

The accident frequency rate measures the number of lost-time accidents per 200,000 work hours.

Total recordable incident frequency ("TRIF")

Total recordable incident frequency is a broad metric defined as the total number of recordable incidents per million working hours. It aims to capture all incidents during the year that required treatment by a medical professional, including fatalities, lost-time injuries and any incidents treated as a first aid case.

Motor vehicle incident frequency ("MVIF")

MVIF refers to the total number of vehicle incidents per million kilometres.

Internal safety standards

In 2012, Ruspetro introduced internal safety standards and procedures to improve its approach to safety. They are based on international guidelines recognised within the industry as best practice and have been developed to address the main risks faced by the industry. In 2013, they were implemented by supervisors and employees, who have continued training to ensure employees can identify risks correctly and act to mitigate them. At the end of 2014, procedures and processes used by our employees and contractors included:

- An occupational health and safety and industrial safety management system
- Occupational health and safety initial orientation programmes and initial toolbox talks
- Explicit HSE instructions and HSE requirements
- Maintenance of specific job descriptions for all responsible officers
- Regulation of in-process control and maintenance of an action plan to ensure industrial safety
- Instruction on standard operating procedures for workers involved in crane operation

Sustainability Report continued

Security

In 2014, Ruspetro's main security goals continued to be the protection of employees, assets and technology. In 2013, the Company strengthened processes and procedures for its operations, finances and procurement of goods and services. In 2014, Ruspetro improved their security further by employing a security adviser.

Environmental performance

The Company's duty of care to the environment is of key importance. During 2012, the Company adopted an environmental protection programme via its main production subsidiaries INGA and Trans-oil, and this programme continued through 2013 and 2014.

The production of oil causes four possible routes of contamination:

- Atmospheric emissions – principally through flaring or venting of associated gas
- Water emissions – mainly from associated produced water that is re-injected into the reservoir to maintain reservoir pressure, other water emissions are treated before being released into the environment
- Solid waste – mainly drilling cuttings, which are treated in the waste cuttings pit to neutralise and the pits are then re-cultivated, household waste is gathered and taken to treatment/landfill facilities contracted through third parties
- Oil spillages and leaks – these are dealt with immediately, the source isolated, the area cleaned up and any contaminated soils are treated at offsite treatment facilities contracted through third parties

The programme aims to

- Reduce waste at source through design and operation
- Re-inject produced water
- Protect the natural water bodies and soil from contamination or damage from operations
- Optimise the use of existing land for pipeline and transportation routes and operational sites, while minimising land use in sensitive natural, community or historical areas
- Monitor the impact of operations on the environment
- Clean up any waste materials or oil spills using recognised reclamation procedures to allow the environment to recover

To improve the utilisation of associated gas by the oil industry, the Russian federal government adopted a decree on 1 January 2013 that significantly increases penalties for associated petroleum gas flaring exceeding 5% of overall cumulative gas production. The Company installed gas meters in early 2013 to continually provide the required data. Its continued low level of current reservoir depletion in 2014 means that, within the framework of the new decree, no penalties were paid in 2014 for gas flaring or are expected to be paid in 2015. In 2014, there were no oil spills recorded.

Human rights

Our performance as a corporate entity is dependent on the performance of our employees as individuals. We therefore aim to achieve maximum employee satisfaction and ultimate standards of performance. To that end, we commit to

- Respect and promote employees' human rights, including freedom of association and the right to collective bargaining
- Provide a safe and healthy working environment
- Realise each employee's individual potential through training and job promotion
- Respect the cultural diversity of our employees and support employment of local professionals from small communities
- Ensure equal opportunity without discrimination on the basis of age, culture, disability, gender, race and religion

Human Resources policy

Key objectives

The Company's Human Resources ("HR") strategy centres on the following set of key principles and priorities

- Fair and competitive remuneration and benefits for all employees
- Appropriate incentive schemes to reward excellent performance
- Thoughtful and constructive development of all staff
- A safe working environment
- Equal opportunities for all employees for professional and career development

The need to enhance capabilities for a new development programme was a main factor in 34% of staff turnover in 2014. Having successfully recruited a Well Construction Director, Development Director, Head of Geology and Geophysics and Drilling Operations Manager, the Company now has a strengthened senior technical management team. Management has brought in professionals with strong international experience from global oil and gas operators.

The recruitment and retention of top performers is one of the main goals for Ruspetro's HR team. During 2014, the Company upgraded processes to employ and retain staff and enable them to grow and develop within the organisation. Ruspetro has put in place a long-term incentive plan for high performers to supplement existing benefits of life, disability and medical insurance for all employees. The Group's remuneration policy has been refined and is presented in this report. Ruspetro has focused on employees with experience in horizontal drilling and multi-stage fracturing in Siberia. Over the year, the headcount increased by eight people.

As at 31 December 2014, 66% of the Company's total 214 employees were based in Western Siberia and 25% of employees were female. No females are currently on the Board or in the executive management team.

We have refined a semi-annual performance review system for all staff to clearly identify impressive performing employees and improve the transparent link between Company performance, individual contribution and subsequent reward.

Last year marked the successful establishment of key performance indicators, reflecting the fundamental principles of our business and serving a basis for distributing corporate awards.

Principal Risks and Uncertainties

The principal risks and uncertainties highlighted below are considered to have the most significant relevant potential effect on Ruspetro's business integrity, financial results and future prospects at its current stage of development. Not all these risk factors are within our direct control and those listed below are not exhaustive. There may be risks and uncertainties that are unknown to us and the list is expected to change. Many broad risks, however, are outside Ruspetro's full control, for example, changes in general economic conditions, including currency and interest rate fluctuations, changes in government regulation and macroeconomic issues.

Key risks	Risk description	Risk mitigation
Health, safety, and environment		
<i>Health and safety</i>	The Group conducts its business in a regulated industry and may be subject to claims and liabilities under environmental, health, safety and other laws and regulations, which could be material	Ensuring that best HSE practices are in place is a focal point in all our activities. The Company adopted a set of HSE policies, appointed a HSE Director, and implemented a system to collect, process, and report HSE information. A renewed and updated programme of HSE training for our staff is currently being developed.
Operations, production and sales		
<i>Reserves and production forecasts</i>	Reserves estimates and production forecasts are inherently uncertain, the Group's total reserves may decline in the future and the Group may not achieve estimated production levels	Internationally proven appraisal and development techniques are utilised to maximise the economically recoverable hydrocarbons for our reservoirs and rigorous probabilistic methodologies are in place for reserves assessment. In addition, appropriately risked production forecasting methodology is in place for forecasting and modelling purposes. Competent persons reports are prepared and released periodically, with the next one planned for the end of 2015.
<i>Operational execution</i>	Well and facility construction, and production operations involve numerous operational risks. These may result in losses or additional expenditures and lead to the Group not achieving its planned production and financial targets	The Company is focused on putting in place a first-class operational, engineering, drilling and completion team, and applying best global practices in operational execution. In addition, Ruspetro has a rigorous procedure of selecting contractors and prefers to use services of well known international companies. Importantly, insurance of drilling and operational risks is also in place.
<i>Licence rights</i>	The Group has the right to explore and extract oil and gas within part of the Krasnoleninsk field in Western Siberia. If the Group's appraisal and production licences are suspended, restricted, terminated or not extended prior to expiry, this would have a material adverse effect on the Group.	Renewal of mineral right licences is regulated by Russian legislation. A plan for the renewal of licences is in place, and a dedicated team for managing licence obligations has been established. Matters related to licence obligations are routinely reviewed at Audit Committee meetings.
<i>Transportation route</i>	The Group relies on the Transneft pipeline for transportation of its crude oil and does not have control over its functionality or the cost of its service.	Ruspetro's fields are strategically located, with access to various transportation routes. Delivery through the Transneft pipeline system is the most widely used option for Ruspetro, while rail and truck deliveries are available as an alternative to pipeline sales. The cost of Transneft services is regulated by the government and is predictable. The relative attractiveness of alternative sales routes is evaluated on a monthly basis and appropriate decisions to use a certain route are made accordingly.

Our approach is to actively understand and monitor the risks we are exposed to, and then to manage those risks by using a practical and flexible framework which provides a consistent and sustained approach to risk assessment, so that their potential adverse effects are mitigated, where possible

Key risks	Risk description	Risk mitigation
Operations, production and sales		
<i>Insurance coverage</i>	The Group does not have the types of insurance coverage customary in more developed countries for a business of its size and nature, and a significant event could materially impact its business	Ruspetro has put in place insurance arrangements in accordance with the regulations in the markets in which it operates and given current business needs Decisions to increase insurance coverage are evaluated on an ad hoc basis
<i>Reliance on third-party contractors</i>	The Group relies on the services of third parties, the availability and quality of which cannot be assured The oil industry is intensely competitive and the Group may not be able to compete effectively with much larger competitors	The Company has implemented rigorous procedures for selecting contractors Engineering, subsurface, and drilling and completion teams ensure that the performance of contractors is properly monitored and managed
<i>Procurement established in the field and Moscow offices</i>	Lack of effectiveness in negotiating and managing purchases and contracts could increase costs for Ruspetro and/or cause delays to project completions and operations The vetting of counterparties, in particular for business ethics and integrity as well as financial and operating capability, represents an associated risk area	Ruspetro operates effective policies, procedures and controls in relation to prior approval of counterparties and competitive procurement within strict levels of delegated authority with the objective of achieving arm's-length, transparent purchasing Specifically, Contracts Committees consisting of key Company executives are established in the field and in Moscow offices They, our Board and the Audit Committee monitor carefully and undertake close, regular scrutiny of the effectiveness of the Company's counterparty policies
<i>Protection of Company property</i>	Damage, theft or interference to Ruspetro's assets in the field can stop or limit production resulting in reduced cash flow and increased costs	A security strategy that includes improved training, processes and procedures for security personnel and improved surveillance technology has been developed and implemented In addition, the system of infield oil pipelines and infrastructure is designed to prevent oil theft
<i>Business integrity</i>	The Company is subject to the United Kingdom Bribery Act 2010 Its failure to comply with the laws and regulations thereunder could result in penalties that harm its reputation and have a material adverse effect on the Group's business	Internal policies based on the United Kingdom Bribery Act 2010 are in place and the Company is focused on ensuring their implementation

Principal Risks and Uncertainties continued

Key risks	Risk description	Risk mitigation
Financial		
<i>Oil prices</i>	The Group may be adversely affected by a substantial or extended decline in prices for crude oil	Thanks to its relatively small size, the Company can quickly evaluate changes in macroeconomic environment and adjust its operations if necessary. Although Ruspetro does not currently hedge its oil price exposure, hedging options are evaluated quarterly based on production forecast, pricing and other business needs. In addition, the Company's oil is of comparatively better quality than the Urals blend, which allows Ruspetro to receive a premium for sales via rail or truck. When we make investment decisions, we strive to do so after careful consideration of various oil price scenarios.
<i>Currency fluctuations</i>	Fluctuations in currency exchange rates (particularly RUB/US\$) may materially and adversely affect the Group's financial position	The majority of Company's revenues are denominated in US\$ or linked to international US\$-based oil prices. On the other hand, all material service contracts are denominated in RUR or have caps on the RUR/US\$ exchange rate. Therefore, the Company's costs expressed in US dollars decrease as the ruble depreciates, and vice versa. The Company currently manages its foreign exchange exposure without engaging in long-term currency hedging contracts, and this practice is reconsidered periodically as circumstances change.
<i>Debt facility covenants</i>	If the Group's development plan does not succeed, the Group will be unable to comply with its current debt facility covenants or with their other requirements	The Group's medium-term planning is being done with careful consideration of debt facility covenants, and performance against covenants is evaluated on a monthly basis with the necessary adjustments made in a timely manner. In addition, covenants are based on cumulative four quarterly periods, which may smooth the impact of short-term fluctuations.
<i>Long-term funding</i>	The Group must make significant capital expenditures to increase its revenues, cash flows and production levels. The inability to finance these and other expenditures in the longer term could have a material adverse effect on the Group's business	Ruspetro's status as a UK publicly traded company with strong local Russian shareholders is of advantage in accessing domestic and international sources of finance.
Human resources		
<i>Key technical and management skills</i>	The Group is dependent on senior management personnel and on maintaining a highly qualified and skilled core workforce	Long-term incentive programmes are in place for key personnel to attract and retain key management and staff. All new employees are interviewed by executives to ensure that interests are aligned and the right candidates are selected. Evaluations of management and staff are performed twice a year, with relevant actions taken thereafter.

Key risks	Risk description	Risk mitigation
Shareholders and free float		
<i>Free-float obligation</i>	The Company's ordinary shares may be delisted from the Official List if the Company does not establish or maintain a sufficient free float in its shares	Further to UKLA guidance, several options are currently under consideration to ensure sufficient free float in the Company's shares, including the sale of shares by significant shareholders and the issue of new shares. A broker has been retained to advise on the most effective ways to meet the requirements for free-float in the Company's shares and help in executing any necessary transactions.
<i>Dominant shareholders</i>	Certain shareholders have significant influence over the Company. Their interests may not be aligned with those of the other shareholders, and such concentrated ownership of the Company could affect the market price and liquidity of its shares.	The Company treats its shareholders equally and carefully manages its relationships with key shareholders. Relationship agreements are in place with Limohnes, Makayla, Mastin and Nervent to limit their influence on operations. Additionally, four of the eight directors are independent and management engages directly with investors to increase transparency and liquidity.
Political and regional		
<i>Sanctions compliance</i>	Non-compliance with EU or US sanctions or export restrictions, an expansion of EU and/or OFAC sanctions programmes or a significant expansion of the Group's dealings with any parties subject to sanctions could adversely impact the Group's business.	Most of the materials, machinery and equipment used in the Company's operations or provided by key contractors are sourced locally or from non-sanctioned jurisdictions (such as China). In addition, existing and new contractors are evaluated taking into consideration existing sanctions and advice from an external legal counsel.
<i>Regional political instability</i>	Political and governmental instability in Russia and the region could adversely affect the value of the Group's investments in Russia.	The Company's assets are located in Western Siberia, which limits the risks of operational distractions due to political instability. In addition, export sales are carried out without the use of export pipelines.
<i>Regional economic instability</i>	Economic instability in Russia and the region could adversely affect the value of the Group's investments in Russia.	Our domestic sales netback is linked to the prevailing international oil price and is not impacted by regional economic stability. In addition, Ruspetro carefully monitors the prevailing economic environment to ensure that necessary operational adjustments are implemented.
<i>Russian legal framework</i>	The Russian legal system and Russian legislation continue to develop and this may create an uncertain environment for investment and for business activity.	The Legal framework in Russia was actively developed throughout the 1990s and 2000s, and recently became more stable. Licences and key contracts with governmental organisations (e.g. land leases) are generally long-term and renewed in advance to the extent possible. In addition, our main contractors are internationally recognised companies capable of adapting if the legal environment changes. Some contracts are signed subject to English law to avoid ambiguity.
<i>Russian taxation</i>	The Russian taxation system is still in the process of developing and is subject to frequent changes that could have an adverse effect on the Group.	Ruspetro engages in ongoing dialogue on the current and future tax regime with the relevant ministries of the Russian government. In addition, Ruspetro enjoys certain tax breaks mandated for fixed periods of 10-15 years. These are committed and less likely to change.

Directors' Report

Board of Directors

Alexander Chistyakov
Executive Chairman – 42
Nomination Committee Chairman

John Conlin
Chief Executive Officer – 62

Kirill Androsov
Non-executive Director – 42
Remuneration Committee Member

Robert Jenkins
Senior Independent Director – 61
Audit Committee Chairman
Nomination Committee Member

Appointment: December 2011

Skills and experience:

Prior to joining Ruspetro Mr Chistyakov was a member of the executive board of RAO Unified Energy Systems of Russia and then the Chief Operating Officer of the Federal Grid Company from 2001 – 2011, having joined in 1999. In 1998, he was head of the economic analysis department and deputy director of the financial department at Russia's Federal Agency on Industry. Prior to that, he was deputy director of investment management at Menatep Bank, and deputy general director of Alliance-Menatep. Mr Chistyakov has a master's degree in marketing and finance and a PhD in economics from the Leningrad Finance and Economics Institute named after N. A. Voznesensky.

External appointments:

Mr Chistyakov is President of Hermitage Construction and Management LLC, a Russian construction and development company.

Appointment: August 2013

Skills and experience:

Mr Conlin joined Ruspetro's Board of Directors on 1 August 2013 and was appointed Chief Executive Officer on 17 December 2013. He spent 28 years with Shell International in various senior management and operational positions including secondments with Maersk Oil and Gas, Woodside Petroleum, Sakhalin Energy and ExxonMobil. Since leaving Shell in 2004, and prior to joining Ruspetro, Mr Conlin was non-executive chairman of Aurelian Oil and Gas, Nautical Petroleum, and Fuelture, as well as a non-executive director of Hardman Resources and Delphian Technology. Mr Conlin graduated from the University of Edinburgh in 1974 with a BSc in Chemical Engineering and Mathematics.

External appointments:

None

Appointment: August 2013

Skills and experience:

Mr Androsov previously served as Deputy Chief of Staff to the Prime Minister of Russia as well as Head of the State Tariffs Regulation and Infrastructural Reform Department in the Economic Development and Trade Ministry in Russia. Prior to joining the government, Mr Androsov gained industry experience at Lenenergo, St. Petersburg's Property Management Committee and Hansa Investments. Mr Androsov has an MBA from the Chicago Booth Business School, a master's degree from the St. Petersburg Marine Technical University and a PhD in economics from the St. Petersburg University of Economics and Finance.

External appointments:

Mr Androsov is a managing partner and board member of Altera IP, a board member of Channel One, MC Rusnano and Russian Machines and chairman of both Aeroflot Russian Airlines and Russian Railways.

Appointment: December 2011

Skills and experience:

Mr Jenkins has served as Chairman of the Audit Committee since appointment and as Senior Independent Director since 30 January 2014. Mr Jenkins is a chartered accountant, having qualified with KPMG in the UK, and has over 20 years' Russia-related investment experience, including in the oil and gas sector and is a fluent Russian speaker. He was finance director of Eurasia Mining, a Russia focused mining exploration company, admitted to the AIM market of the London Stock Exchange, and chief financial officer of Urals Energy, a Russia-based oil exploration and production company, prior to that company's admission to AIM. Mr Jenkins has an MA in Modern History and Modern Languages from Oxford University.

External appointments:

Mr Jenkins is a partner in Northstar Corporate Finance, a Russia focused investment banking business active in oil and gas investment transactions in Russia.

Mark Pearson
Independent Non-executive
Director – 58
Audit Committee Member
Remuneration Committee Member

Appointment: April 2014

Skills and experience:

Dr Pearson has over 30 years of oil industry experience during which time he has been President and CEO of CARBO Ceramics Inc, President and CEO of Golden Energy LLC, and led the production enhancement technology team at Atlantic Richfield Company. Dr Pearson has a PhD in Mining from the Camborne School of Mines in the UK and graduated from the advanced management program at Harvard Business School in 2000.

External appointments:

Dr Pearson is a founding shareholder and President of Liberty Resources II LLC, a US based E&P company with 53,000 net acres in North Dakota's Williston Basin producing over 4,000 boepd from the Bakken and Three Forks formations.

Frank Monstrey
Independent Non-executive
Director – 49
Nomination Committee Member
Remuneration Committee Member

Appointment: August 2013

Skills and experience:

Mr Monstrey has been the CEO of Probel Capital Management, a private equity and asset management firm based in Belgium, since 1991. As a regular visitor to Kazakhstan and Moscow for many years, Mr Monstrey understands the region and the challenges of doing business in the CIS. Mr Monstrey graduated from the University of Louvain with a degree in Business Economics.

External appointments:

Mr Monstrey is the executive chairman of Nostrum Oil & Gas plc, a UK premium listed company, and has held that position within Nostrum Oil & Gas since September 2004. Nostrum Oil & Gas is an oil and gas business in north-west Kazakhstan with production of nearly 50,000 boepd.

Maurice Djols
Independent Non-executive
Director – 63
Remuneration Committee Chairman
Audit Committee Member

Appointment: November 2013

Skills and experience:

Mr Djols is an engineer with over 37 years' experience in the oil and gas industry, 34 of which were spent with Schlumberger, the oilfield services group. Mr Djols held a variety of executive positions during his career with Schlumberger, and from 2003-2011, was President of Schlumberger in Russia. Mr Djols has Engineering Diplomas from Ecole Supérieure d'Electricité de Paris and Ecole d'Ingénieur de Marseille.

External appointments:

Mr Djols is currently a non-executive director of IGSS and Eurasia Drilling Company.

Sergey Gordeev
Non-executive Director – 42

Appointment: 3 February 2015

Skills and experience:

In 2005 Mr Gordeev founded Horus Capital, which remodelled industrial buildings for commercial real estate prior to its sale in 2010. From 2005-2010, Mr Gordeev was a member of the Federation Council in the Federal Assembly of the Russian Federation. Mr Gordeev is the founder and President of the Cultural Heritage Support and Preservation Foundation 'Russian Avant-Garde' which carries out conservation of cultural heritage objects.

External appointments:

Mr Gordeev is President and CEO of PIK Group OJSC, a leading Russian real-estate developer, where he is also a major shareholder.

Directors who have resigned since year end

Thomas Reed
Chief Financial Officer

Appointment: October 2011

Resigned: 2 February 2015

Skills and Experience:

Mr Reed is an entrepreneur and co-founder of Ruspetro and was appointed as Acting Chief Executive Officer from July – December 2013 when he returned to his role as Chief Financial Officer. Prior to joining Ruspetro, Mr Reed was a private equity and M&A adviser and investor based in Moscow.

Letter from the Chairman

Dear Shareholder

As I state in my Chairman's statement on page 6, the business environment in Russia during 2014 could hardly have been more difficult with macroeconomic pressures, the devaluation of the Russian ruble and a dramatic fall in the price of oil. Throughout all this, the Board has continued to enhance its corporate governance policies and ensure that the Group is being run for the best interest of its shareholders.

We further strengthened the Board during the year with the appointment of Dr Mark Pearson, an experienced upstream oil and gas entrepreneur with outstanding success in the application of multiple fractured horizontal wells in the USA and with oil and gas experience in Russia. Since his appointment at the end of April 2014, Mark has provided the Board, and our management team, with significant support and his insight into horizontal drilling and the economic environment outside Russia has been invaluable.

During 2014, the Board's main focus has been to execute the transformational financial restructuring which resulted in Mastin acquiring 25% of the Company's issued capital. Under the terms of the relationship agreement entered into between the Company and Mastin, for so long as Mastin holds at least 10% of the capital of the Company, they are entitled to nominate one person to the Board (the "Mastin Director"). In early 2015, Sergey Gordeev was nominated as the Mastin Director and Sergey's appointment was completed on 3 February 2015.

We are delighted to welcome Sergey to the Board and for his ongoing support as principal of our largest shareholder.

In order to maintain the balance of independent and non-independent Directors on our Board, we sadly accepted Tom Reed's resignation in February 2015. I would like to thank Tom for his support and commitment to the Group since its foundation and especially for his willingness to act as Interim Chief Executive Officer during 2013.

We have also taken the opportunity to strengthen our management team during 2014. Together with the Board, they will enable the Company to continue to improve our governance structure during 2015 for the continued benefit of our employees, shareholders and the communities in which we operate.

Alexander Chistyakov
Executive Chairman

Directors' Report

Results and dividend

The Company's results for the year ended 31 December 2014 are set out in the Company's consolidated statement of profit or loss and other comprehensive income on page 66. The Directors do not recommend the payment of a dividend for the year.

Future developments

Information on the Group's development plan is set out in the Strategic Report on pages 1 to 27.

Corporate governance statement

The Company's report on corporate governance is set out on pages 34 to 45 and, together with this report of which it forms part, fulfils the requirements of the corporate governance statement for the purpose of the Financial Conduct Authority's Disclosure and Transparency Rules ("DTR").

Going concern

The Board regularly reviews operating cash forecasts and scenario sensitivities including, but not limited to changes in production rates, commodity prices, and the exploration activity plan. The Group has undertaken a financial restructuring during the year and has also taken appropriate action to reduce its cost base.

As a result of the substantial decline in the price of oil, the Company is negotiating with Otkritie to revise its debt covenants. The outcome of such negotiations cannot be certain and therefore the Directors recognise that this represents a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. However, on the basis of the assumptions and cash flow forecasts prepared, management has assumed that the Group will continue to operate within both available and prospective facilities. Accordingly, the Group financial statements are prepared on the going concern basis and do not include any adjustments that would be required in the event that the Group were no longer able to meet its liabilities as they fall due.

Directors

The names and biographies of the Directors who held office as at the date of this Annual Report are set out on pages 28 and 29. Changes to the Board during the year ended 31 December 2014 and to the date of this Annual Report are set out below.

Name	Date	Position
Mark Pearson	Appointed on 29 April 2014	Independent Non-executive Director
James McBurney	Resigned on 2 June 2014	Independent Non-executive Director
Thomas Reed	Resigned on 2 February 2015	Executive Director
Sergey Gordeev	Appointed on 3 February 2015	Non-executive Director

Details of the service contracts of the Executive Directors, letters of appointment of the Non-executive Directors and the interests of all Directors in the ordinary shares of the Company and in any long term incentive and other share schemes are set out in the Directors Remuneration Report on pages 46 to 60.

No Director had a material interest in any significant contract, other than a service contract or contract for services, with the Company or any of its subsidiary companies at any time during the year.

Directors' appointment and retirement

Directors may be appointed by the Board or by an ordinary resolution of shareholders. In addition, both Limolines and Mastin each have the right to appoint a director to the Board for so long as they each, together with any associates or persons acting in concert, hold at least 10% of the issued share capital of the Company. Further information is provided in the Corporate Governance Report on pages 34 to 45.

Directors' indemnities

The Company has purchased and maintains appropriate insurance cover in respect of Directors' and Officers' liabilities. In addition, the Company has entered into deeds of indemnity (which are qualifying third-party indemnity provisions under the Companies Act 2006 (the "Act")) with each Director of the Company and the former Directors who held office during the year ended 31 December 2014, to the extent permitted by law and by the Company's Articles of Association ("Articles"), in respect of all liabilities incurred in connection with the performance of their duties as a Director of the Company or its subsidiaries. The indemnities are available for inspection at the Company's registered office.

Share capital

The Company's issued share capital as at 31 December 2014 was 870,112,016 ordinary shares of 10 pence each. The Company does not hold any shares in treasury. Details of the changes to the Company's issued share capital during the year are set out in Note 19 to the financial statements.

No securities exist which carry special rights as to their transfer or control of the Company.

At the 2014 Annual General Meeting ("AGM"), the Company was authorised by shareholders to repurchase up to 33,338,148 of its own ordinary shares, representing 10% of its issued share capital as at the date of that meeting. No buyback programme has taken place to date. While the Board does not currently intend to exercise the repurchase authority, it will seek a further renewal at the 2015 AGM and will keep the use of the authority under review, taking into account other investment opportunities.

Directors' Report

Directors' Report continued

Substantial interests

As at 31 December 2014 and 29 April 2015, being the latest practicable date prior to the publication of this Annual Report, the Company had been notified of the following substantial interests in its Shares

Name	Number of Shares as at 31 12 2014	% of Shares as at 31 12 2014	Number of Shares as at 29 04 15	% of Shares as at 29 04 15
Mastin Holdings Limited	207,060,311	23.80%	217,422,943	24.99%
Limohines Transport Limited	217,299,368	24.97%	217,299,368	24.97%
Alexander Chistyakov*	137,439,903	15.80%	137,439,903	15.80%
Sobny Group Corporation	76,694,849	8.81%	76,694,849	8.81%
Makayla Investments Limited	76,337,295	8.77%	76,630,306	8.81%

* Indirect Holding

Shareholders' rights

The Company's Articles set out the rights and obligations of shareholders. The Articles can be found in full on the Company's website and a summary of the rights and obligations attaching to the ordinary shares are set out in Shareholder information on page 103

Any amendment to the Articles may be made by special resolution of the shareholders being a resolution approved by not less than 75% majority of those voting on the resolution

Significant agreements – change of control

There are no arrangements the operation of which may, at a later date, result in a change of control of the Company

Employees

The Group employed an average of 205 staff during 2014. Most employees are based in the Russian Federation with only 11 employees at year end, including the Directors, employed in the UK. Since the Group has fewer than 250 employees in the UK, the Company is not required to disclose its policies in connection with employee involvement or the employment of disabled persons. However, full and fair consideration is always given to applications for employment from disabled persons, having regard to their particular skills and abilities, or to the continuing employment of colleagues who become disabled during their career.

Diversity

The Board continues to be supportive of providing equal opportunities in recruitment and succession planning at all levels of the business. The Company seeks to identify applicants from a wide experience and backgrounds and operates equal opportunity policies in all areas of its activities with the aim of creating a diverse pool of talent from which to recruit future senior positions.

Greenhouse Gas Emissions

As for the prior year, the Company commissioned Trucost to assess the Group's environmental data for 2014, including energy use, Greenhouse Gas ("GHG") emissions, waste generated, water use and water discharge. The information provided by Trucost was prepared in line with GHG Protocol methodology.

Emissions are reported using the following parameters

- Scope 1: direct energy emissions include operational fuel use, vehicle fuel use and methane emissions from oil and gas field operations
- Scope 2: indirect emissions include electricity used across the Company
- Scope 3: other indirect supply chain emissions include air and rail travel for all employees across the Company

The table below sets out the Group's GHG emissions for 2014 and 2013, as split by source and scope

Scope	Emission source	Unit	2014	2013
1 ^a	Operational fossil fuel	Tonnes CO ₂ e	40,409	123
	Vehicle fuel	Tonnes CO ₂ e	137	298
	Methane from oil and gas field operations	Tonnes CO ₂ e	18,479	378,722
2 ^b	Electricity	Tonnes CO ₂ e	8,211	25,206
3	Air travel	Tonnes CO ₂ e	161	143
	Rail travel	Tonnes CO ₂ e	0	0.19
Total		Tonnes CO₂e	67,397	404,492

a For calculating Scope 1 (direct) GHG emissions we use UK Department for Environment, Food and Rural Affairs ("DEFRA") 2014 conversion factors

b For calculating Scope 2 (purchased electricity) GHG emissions we use DEFRA 2014 GHG conversion factors for UK and the International Energy Agency Fuel Combustion (Highlights 2011 Edition) and EIA Foreign Electricity Emission Factors

The Group's total GHG footprint has decreased by 83% in 2014 from the previous year. The decrease is mostly due to a 95% decrease in methane emissions as a result of a decrease in oil and gas production by the Group during the year. In addition, there has been a decrease of 54% in vehicle fuel consumption compared to 2013 while energy consumption has decreased by 67%.

The majority of GHG emissions produced in 2014 were Scope 1, accounting for 87.6% of total emissions (2013: 94%). Within Scope 1, 68% of emissions (2013: 90%) were the result of operational fossil fuel consumption, specifically natural gas.

The GHG intensity measurement used by the Company is total tonnes of carbon dioxide equivalent divided by total barrels produced in a given year. For the year ended 31 December 2014, during which the Group produced circa 1.26 million barrels (2013: 1.75 million barrels), the intensity measured 0.05t CO₂e/barrel (2013: 0.23t CO₂e/barrel).

Financial instruments

The Group's use of financial instruments, together with objectives and policies on financial risk and exposure to foreign currency, credit, commodity, liquidity and interest rate risk can be found in Note 25 to the financial statements.

Transactions with Related Parties

Details of the Group's transactions with related parties are set out in Note 24 to the financial statements.

Post balance sheet events:

All significant events after the balance sheet date of 31 December 2014 are set out in Note 27 to the financial statements.

Disclosure of information to the external auditors

The Directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information (as defined in Section 418(2) of the Act) of which PricewaterhouseCoopers LLP ("PwC"), the Company's auditor, is unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

PwC has indicated its willingness to continue in office. Resolutions to re-appoint PwC as the Company's auditor and to authorise the Directors to determine the auditor's remuneration will be proposed at the 2015 AGM.

Annual General Meeting

The 2015 AGM will be held at 11.00am on Tuesday 9 June 2015 at White & Case LLP, 5 Old Broad Street, London EC2N 1DW.

The Notice of AGM, together with an explanation of the resolutions to be put to the meeting, will be forwarded to shareholders at least 21 clear days' prior to the date of the AGM. A poll will be held on each resolution. The Board fully supports all the resolutions to be proposed at the AGM and encourages shareholders to vote in favour of each of them.

By order of the Board

John Conlin

Chief Executive Officer
Ruspetro plc
Company No. 7817695
30 April 2015

Corporate Governance Report

Compliance with the UK Corporate Governance Code

Throughout the year ended 31 December 2014, the Company complied with the main principles and provisions of the UK Corporate Governance Code (September 2012) (the "Code") with the exception of Code Provision D 2.1 (Remuneration Committee independence). Further information on this is set out on page 44.

The Code is available on the website of the Financial Reporting Council (www.frc.org.uk)

Role of the Board

The Board's primary responsibility is to promote the long-term success of the Company and to ensure that a framework of prudent and effective controls are established and maintained, allowing business risks to be assessed, managed and mitigated. The Board provides entrepreneurial leadership for the business as a whole – setting out the Company's strategic aims, ensuring that financial and human resources are in place in order to meeting those objectives, and reviewing management performance. Led by the Chairman and Chief Executive, the Board sets the tone from the top as to the Company's values and standards, enabling its obligations to shareholders and other stakeholders to be understood and met.

The Board has adopted a schedule of matters reserved to its approval and has delegated other matters to the Board Committees or management as appropriate. The Board is specifically responsible for:

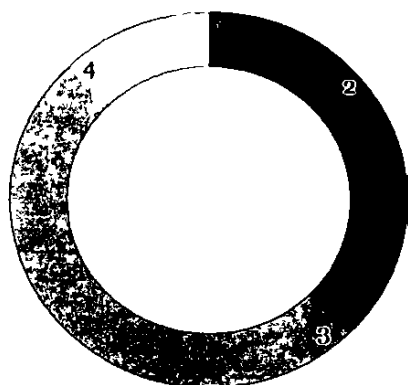
- Developing the Group's strategic aims and long-term objectives and approving the necessary business plans and annual operating budgets to achieve those aims,
- Approval of all significant acquisitions, mergers, disposals, major capital transactions, contracts and investments,
- Approval of the full and half-year financial results, annual report, trading updates, accounting policies and, subject to shareholder approval, the appointment and remuneration of the external auditor,
- Changes to the Group's capital structure, issue of securities and adequacy of funding,
- Forming and maintaining the Group's risk appetite and reviewing the effectiveness of the Group's system of internal controls and risk management,
- Changes to the structure, size and composition of the Board, ensuring that adequate and appropriate succession plans are in place for the Board and senior management and determining the independence of the Directors,
- Determining the remuneration policy for the Directors and other senior executives, and
- Developing, approving and maintaining key governance policies.

Board composition

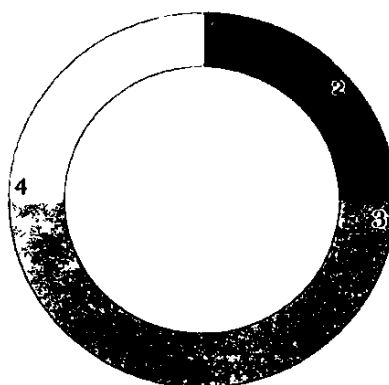
As at 31 December 2014, the Board consisted of eight Directors: the Executive Chairman, the Chief Executive, the Chief Financial Officer and five Non-executive Directors, four of whom were considered to be independent.

Subsequent to the year end, following the resignation of the Chief Financial Officer and the appointment of the Mastin Director, the Board continued to consist of eight Directors, comprising two Executive Directors, being the Executive Chairman and the Chief Executive, and six Non-executive Directors, four of whom are considered to be independent.

Biographies of the continuing Directors are set out on pages 28 and 29.



- 1 Chairman
- 2 Executive Directors
- 3 Independent Non-Executive Directors
- 4 Non-Executive Directors



- 1 Chairman
- 2 Executive Directors
- 3 Independent Non-Executive Directors
- 4 Non-Executive Directors

Election and re-election

All Directors are required to stand for election by shareholders at the first AGM following their appointment. In addition, continuing Directors stand for re-election at each subsequent AGM in accordance with article 113 of the Company's Articles and the provisions of the Code.

As a "controlling shareholder" (for the purposes of the Financial Conduct Authority's Listing Rules), Limolines and its concert parties will be entitled to vote on the ordinary resolutions at the AGM for the election or re-election of the independent Non-executive Directors. However, each resolution relating to the election or re-election of the independent Non-executive Directors will also require approval by a majority of the votes cast by the Company's independent shareholders (being the shareholders excluding Limolines and its concert parties) in order to be valid. The outcome of both of these votes will be announced following the conclusion of the 2015 AGM.

Framework

BOARD OF DIRECTORS

Audit Committee	Remuneration Committee	Nomination Committee	Chief Executive
Delegated Authorities:	Delegated Authorities:	Delegated Authorities:	Senior Management Team
Monitors the integrity of our financial reporting, reviews the effectiveness of the Group's systems of the internal control and the performance of the external auditor	Sets the remuneration and incentives for the Executive Directors, approves and monitors remuneration and incentive plans for the Group and assesses and makes recommendations to the Board on the policy on executive remuneration	Ensures that the Board and its Committees have the optimum balance of skills, knowledge and experience by nominating suitable candidates for approval by the Board to fill Executive and Non-executive positions.	

Board Committees

The Board has delegated certain of its responsibilities to three standing committees, the Audit Committee, the Nomination Committee and the Remuneration Committee. Each Committee has adopted formal terms of reference which have been approved by the Board and the composition of each Committee is reviewed annually. The Committee Chairmen report to the Board following each Committee meeting and, where appropriate, make recommendations to the Board within their terms of reference.

The reports of the standing Committees can be found on pages 38 to 45.

Balance and independence of Board members

The Board comprises a balance of expertise, experience, independence and depth of knowledge of the Company, its business and its environment which enables its members to discharge their respective duties and responsibilities effectively. The mix of Executive and Non-executive Directors, including independent Non-executives, ensure that the Board encompasses a range of perspectives, thereby ensuring that no individual Director or group of Directors dominates the decision making process.

Board roles

Chairman

Alexander Chistyakov was Chairman throughout 2014. The Chairman is responsible for the leadership of the Board and for ensuring that the Board and its Committees operate in a way that conforms to expected high standards of corporate governance. He sets the style and tone of Board discussions, promoting constructive challenge and debate and ensures that there is a timely flow of accurate and clear information to Directors. The Chairman is responsible for fostering effective relationships between the Executive and Non-executive members and for the dissemination of the views of the Company's stakeholders.

Chief Executive

John Conlin was Chief Executive throughout the year under review. Supported by the senior management team, the Chief Executive is responsible for the day-to-day management of the Group within the authorities delegated by the Board. He proposes, develops and supervises the Group's strategy and overall commercial objectives and ensures that Board decisions are implemented. The Chief Executive is also responsible for promoting the Group's values, culture and standards of conduct and behaviour throughout the business, which underpin the Company's reputation and support the delivery of the business plan.

Corporate Governance Report continued

Board roles continued

Senior Independent Director

Robert Jenkins was appointed as the Senior Independent Director on 30 January 2014 following the retirement of Rolf Stomberg from the Board at the end of 2013. The Senior Independent Director is available to shareholders who wish to raise concerns which cannot be resolved through the usual channels of the Chairman or Executive Directors. The Senior Independent Director is also responsible for leading the annual review of the Chairman's performance.

Non-executive Directors

The Non-executive Directors bring independent and objective judgement on issues of strategy, performance and compliance with governance standards throughout the organisation.

The Company considers all of its Non-executive Directors to be of independent judgement. Nevertheless, two of the Non-executive Directors were appointed to the Board under the terms of the Relationship Agreements between the Company and Limolines (in relation to Mr Kirill Androsov) and Mastin (in relation to Mr Sergey Gordeev) and they are therefore not considered to be independent under the Code. Messrs Maurice Djols, Robert Jenkins and Frank Monstrey and Dr Mark Pearson are considered to be independent under the Code.

The Company confirms that all Non-executive Directors have sufficient time available to fulfil their obligations to the Company. Details of the terms of appointment of the Non-executive Directors are set out on page 60 of the Directors' Remuneration Report.

Meetings

The Board holds five scheduled meetings each year. Additional meetings are held where necessary to consider matters of importance which cannot be held over until the next scheduled meeting. During 2014, the Board held five scheduled meetings and also met a further eight times at short notice. Details of the attendance of the Directors at those meetings, together with meetings of the Audit Committee, Nomination Committee and Remuneration Committee are set out below.

Director	Board (Scheduled)	Board (Additional)	Nominations Committee	Audit Committee	Remuneration Committee
Alexander Chistyakov	5/5	8/8	1/1	–	–
John Conlin	5/5	8/8	1/1	–	–
Tom Reed	5/5	8/8	–	–	–
Kirill Androsov ¹	5/5	5/8	–	–	5/5
Maurice Djols ²	5/5	7/8	–	3/4	5/5
Robert Jenkins	5/5	8/8	1/1	5/5	–
Frank Monstrey	5/5	8/8	1/1	–	5/5
Mark Pearson ³	3/3	5/5	–	3/3	–
James McBurney ⁴	3/3	3/3	1/1	3/3	–

1 Kirill Androsov was unable to attend three meetings called at short notice due to prior commitments. He did however communicate his views on the matters to be considered to the Chairman prior to each meeting.

2 Maurice Djols was unable to attend one meeting held at short notice due to a prior commitment. However, he appointed the Senior Independent Director as his alternate for the meeting and communicated his thoughts on the matters to be discussed to the Senior Independent Director and the Chief Executive prior to the meeting.

3 Mark Pearson was appointed to the Board and to the Audit Committee on 29 April 2014.

4 James McBurney resigned from the Board and all its Committees on 2 June 2014.

Board activity

The Chairman, with the assistance of the Chief Executive and the Company Secretary, is responsible for preparing the agenda for each Board meeting, at which the Chief Executive presents an update on business performance, health and safety and production. The Directors also receive reports on the Company's financial performance and a verbal update from the Chairmen of the standing Committees as to the discussions, decisions or recommendations made at their respective meetings. During 2014, the majority of Board meetings were held in Moscow with one meeting held at the Company's registered office in London.

Other matters which were considered during the year include:

- Board and Committee composition, on the recommendation of the Nomination Committee, including a change in the Company Secretary,
- Board effectiveness review,
- Related party transactions,
- Review and approval of corporate governance policies and procedures,
- Full year and half-year results and the interim management statements,
- The Group's 2014 budget including proposed capital expenditure,
- Strategic transactions including the financial restructuring, and
- The Group's development plan including the horizontal drilling programme.

Formal minutes recording decisions of all Board and Committee meetings are prepared and circulated to each Director as appropriate. If a Director objects to a particular proposal, this is recorded in the minutes of the relevant meeting. During the year under review there were no such objections.

Board induction and professional development

On appointment, Directors receive a tailored induction programme, led by the Chairman, which includes visits to the Group's operations and meetings with senior management, as appropriate. They are also provided with copies of the Company's governance policies including the share dealing code and disclosure policy together with guidance on the legal duties and responsibilities of directors of listed companies.

Board members receive ongoing training and assistance with professional development which is appropriate to their needs and addresses current business or emerging issues. During 2014, the Company's legal advisers provided advice to the Directors on their responsibilities to shareholders, including those in relation to the Group's financial restructuring. In addition, some of the Non-executive Directors visited the Company's operations in Siberia.

The Board all have access to the advice and services of the Company Secretary and are able to take independent professional advice, at the Company's expense, in support of the proper discharge and execution of their duties.

Conflicts of interest

The Board has adopted a policy which identifies and, where appropriate, approves and manages any conflict or potential conflict of interest. Directors are required to give notice of any potential situational or transactional conflicts to the Chairman and Company Secretary. Directors are not permitted to participate in the approval of any conflict in which they are interested.

During the year, Alexander Chistyakov, Kirill Androsoff and Tom Reed declared their interests in the Restructuring undertaken by the Group. Their interests were noted at each relevant Board meeting and the separate approval of the independent Directors was obtained for any related resolution.

Performance evaluation

In early 2014, the Board undertook an internal self-assessment of its performance and that of its Committees. The main consideration was the way in which the Board and Committees functioned, both individually and collectively for the benefit of shareholders. Responses were collated by the Company Secretary and the resulting report was presented to the Board for consideration. No significant areas of concern were identified during the evaluation albeit that a number of the Directors had only been in place for a relatively short time.

Following year end, the Board undertook a further questionnaire-based effectiveness review which focused on Board processes and the lessons learned from the Restructuring. The results of this review showed that, in general, Board processes were considered to be effective. Nevertheless, the Directors proposed that the structure of Board meetings be reviewed to allow for specific discussion of the Group's strategic direction. In addition, consideration will also be given to ways in which the timeliness of Board and Committee paper distribution can be enhanced.

Communication with shareholders

The Company is mindful of its obligations to treat all shareholders equally and to ensure that the Board is notified of the views of its stakeholders. A full Annual Report is distributed to each shareholder and all regulatory announcements, including published financial results and periodic operational updates, can be found on the Company's website (www.ruspetro.com).

During 2014, the Executive Directors met with the Company's institutional shareholders, particularly in relation to the Group's financial restructuring, and to discuss business and operational performance. Shareholders' views are communicated to the Board by way of verbal briefings from the Executive Directors.

Audit Committee Report

Audit Committee Membership

Robert Jenkins – Chairman of the Audit Committee

Maurice Djols (from 13 January 2014)

Mark Pearson (from 29 April 2014)

James McBurney (to 2 June 2014)

Independence and experience

The Committee comprises three independent Non-executive Directors and is chaired by Robert Jenkins. Mr Jenkins is a chartered accountant by professional qualification and has previous experience as finance director and chief financial officer of Russian mining and energy companies. Mr Jenkins is considered by the Board to have recent and relevant financial experience. The other members of the Committee have a wide range of relevant business experience.

Meetings

The Committee meets at least three times a year and otherwise as required. During the year ended 31 December 2014, the Committee met five times. The Chief Financial Officer attended all meetings during the year. The Chief Executive and members of the Finance, Legal and Permitting functions attended as appropriate and on the invitation of the Committee. In addition, representatives from PwC attended the majority of meetings during the year and are provided with the opportunity to meet Committee members without management being present.

Role of the Audit Committee

The Committee's full terms of reference are available on the Company's website www.ruspetro.com. In summary, the primary responsibilities of the Committee are:

- To monitor the integrity of the Company's financial statements, regulatory announcements and to review significant financial reporting judgements,
- To review the effectiveness of the Company's internal controls, including financial controls and risk management systems,
- To provide the Board with an independent assessment of the Group's accounting affairs and financial position,
- To ensure that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy,
- To oversee the relationship with the external auditor, including agreement of their remuneration and terms of engagement, monitoring their independence, objectivity and effectiveness, and
- To ensure that the policy regarding the provision of non-audit services by the external auditor is appropriately applied, and make recommendation to the Board on their appointment, reappointment or removal.

The Committee will make recommendation to the Board as appropriate, including those matters to be put to shareholders at the AGM.

Significant Issue considered by the Committee in 2014	Committee Activity
Reviewing the annual and half-year financial statements and the accounting policies adopted	The Committee reviewed the full year and half-year financial statements and considered the appropriateness of the accounting policies and practices adopted. As part of this review, the Committee received reports from the external auditor and the Group finance function setting out the significant issues in relation to the financial statements.
Recommending the annual report to the Board and confirming whether, taken as a whole, it is fair, balanced and understandable	The Committee reviewed the annual report and accounts for the year ended 31 December 2013 and received reports from both management and the external auditor regarding the assurance processes followed.
Reviewing the internal control environment and risk management procedures	The Committee considered the controls and processes which had been put in place to enhance the Group's internal control environment. Further information is given on page 40.
Reviewing the effectiveness of the external auditor and independence, monitoring compliance with the policy on non-audit services and recommending to the Board the reappointment of the external auditor and their remuneration	The Committee considered the effectiveness and independence of the external auditor as set out on page 41. The approval process for appointing the external auditor to undertake non-audit services was reviewed and compliance confirmed. The Committee has recommended that a resolution to reappoint the external auditor be proposed at the forthcoming AGM.
Reviewing the working capital report for the Group's financial restructuring and the Group's ability to continue as a going concern	The Committee considered in detail the working capital report required as part of the Group's financial restructuring. To assist the Committee with its deliberations, reports were received from the external auditor on the management, base and downside case scenarios provided in relation to the development plan and the prudence of the underlying assumptions.
Compliance with the Group's exploration licences, permitting and litigation	The Committee reviewed reports from the Compliance and Legal functions regarding compliance with, and renewal of, the Group's oil and gas exploration licences and reviewed all status of significant litigation by or against the Group.
Review of the Committee's terms of reference	The Committee reviewed its terms of reference which were subsequently updated to reflect current best practice and the Committee's decision to review, at least annually, the merit of establishing and internal audit function.

Financial reporting

During 2014, the Committee, in conjunction with the management and the external auditor, considered the following financial issues and judgements in relation to the Group's financial statements and disclosures

Significant financial judgements	How the Audit Committee addressed these issues
Going concern	The Committee regularly reviewed the Group's funding and liquidity positions in order to satisfy itself that the Company and the Group have adequate financial resources for the future and to underpin the use of the going concern assumption in preparing the financial statements. As part of this review, the Committee considered the Group's ability to generate cash from trading activities and raise external funding. The Committee considered detailed reports from, and held discussions with, the external auditor, regarding the significant uncertainty that existed prior to the Group financial restructuring as to whether the Company was able to continue as a going concern. These discussions covered the 12-month periods from the date of the 2013 full year audit report, the 2014 half-year report and the Prospectus for the Group financial restructuring dated 17 November 2014 respectively. The Committee recommended to the Board that it was appropriate to prepare the financial statements on a going concern basis and that it was also appropriate to include a statement as to the significant risks in relation to going concern in the Annual Report and half-year results in order to provide shareholders and other stakeholders with clear, qualitative disclosure of the associated material uncertainties.

Audit Committee Report continued

Financial reporting continued

Significant financial judgements

Impairment of non-financial assets

How the Audit Committee addressed these issues

The Committee has reviewed the carrying values of the Company's non-financial assets, in particular oil and gas properties and mineral rights. The Committee considered detailed reports from management and the external auditor and reviewed the methodology applied including to ensure that the discount rates used are within an acceptable range. The external auditor explained the procedures undertaken to test management's impairment assessment and, on the basis of its audit work, concurred that the carrying values of the non-financial assets were appropriate in the context of the financial statements as a whole. Following consideration of these reports, the Committee concluded that the non-financial assets were not impaired.

Risk management and internal controls

The Committee has delegated authority from the Board to review the Group's risk management and internal control systems and to, at least annually, monitor their effectiveness.

The Company continues to enhance its processes for identifying, evaluating and managing significant business risks, and the review of subsidiary risk management and internal control systems. These significant risks are set out on pages 24 to 27.

Processes have been adopted to provide reasonable control of the Group's operational and financial activities including the keeping of proper accounting records, safeguarding assets, detecting fraud and other irregularities. The Group has continued to develop the control environment across the business through hiring additional appropriate human resources, enhancing existing processes, and focusing on safe, ethical behaviours and fraud risk mitigation.

Since year end, the Audit Committee has undertaken its annual review of the appropriateness of the risk management processes to ensure that they are sufficiently robust to meet the needs of the Group. A Contracts Committee has been established to review and approve all contracts entered into by the Group and the delegated authority matrix is being reviewed and enhanced to reflect the current operational structure of the business.

Internal control

The Group's internal control systems are designed to manage, rather than to eliminate, the risk of failure to achieve business objectives. The Committee recognises that not all risks can be eliminated and the cost of control procedures should not exceed the expected benefits. Nevertheless, the Group's system of internal control is designed to safeguard the assets of the Company and those of its subsidiaries and to ensure the reliability of financial information for internal and external use.

Any system of internal controls can only provide reasonable, not absolute, assurance that assets are safeguarded, transactions are correctly authorised and recorded and that any material errors and irregularities are detected within a reasonable timeframe and mitigated. Under the direction of the Audit Committee, the Board has conducted a review of the effectiveness of the systems of internal control. This exercise included a review of the systems and controls relating to the financial reporting processes and the preparation of the annual report. No material failings or weaknesses were identified during the course of this review.

Budgetary process

Each year, an annual budget is considered and approved by the Board. Actual results are reviewed at each Board meeting and reported against budget with revised forecasts being prepared where necessary. Separate approval processes and authority limits are in place for expenditure items.

In addition, capital investment is regulated by the budgetary process and all expenditure beyond specified levels must receive Board approval following the submission of detailed written proposals. Major overruns, in terms of cost and time, are investigated and reported to the Board via the Audit Committee.

Personnel

High quality personnel are seen as an essential part of the control environment. The ethical standards expected of employees. Corporate policies and behaviour are presented and addressed during the monthly staff meetings and by regular internal updates on the intranet.

Whistleblowing

The Group operates a whistleblowing hotline, which is operated by a specialist external third-party service provider and allows employees to report concerns regarding any dishonest or unethical behaviour anonymously and in confidence.

Internal audit

In early 2014, following a review by the Committee, it was decided that progress on the Group's business plan was not sufficiently mature to necessitate a separate internal audit function

In March 2015 the Committee undertook a further review of internal audit matters and concluded that it would be appropriate and beneficial for the Company to develop and implement an internal audit function, including in the context of the Group's 2015 business plan and management's focus on developing the Group's internal management capability and resources to implement its business plan. During 2015 therefore, an Internal Audit Charter will be developed, outlining the internal audit function's objectives, authority, scope and responsibilities and an Internal Audit Manager appointed.

External auditor

PwC was appointed as external auditor of the Company in December 2011. The Committee maintains an arms-length relationship with PwC and meets with the lead audit partner and other members of the senior external audit team at least once a year without management being present.

Independence and the provision of non-audit services

In order to ensure that the independence and objectivity of the external auditor is maintained, the Company has adopted a policy on the provision of non-audit services by the external auditor. The policy clearly sets out the services which may and may not be provided by the external auditor and the authorisation and pre-approval process which must be followed.

During 2014, the external auditor also provided services in relation to the Group's financial restructuring including the Report on pro forma financial information and Consent Letter contained in the Prospectus. The Committee concluded that the services provided were usual for such a transaction and did not affect the external auditor's independence.

The Committee regularly reviews the remuneration received by PwC in relation to both audit and non-audit related services. Details of the fees payable to PwC in relation to both audit and non-audit services are set out in Note 9 to the financial statements.

PwC have confirmed their independence as external auditor to the Company in a letter addressed to the Board and the Committee concurs that PwC continue to provide an independent audit service.

Audit effectiveness and tender of audit services

At its meeting in April 2015, the Committee reviewed the effectiveness of the external audit process. This review included an assessment of the quality of the external auditor's reports to the Committee, the lead audit partner's interaction with Committee members and members of the Company's management team and the knowledge and experience of the external audit team members.

The Committee is aware of regulatory and legislative developments regarding the tenure of the external auditor. Having undertaken its annual review of audit effectiveness, the Committee remains satisfied with the efficiency of the external auditor and does not consider it necessary to undertake a tender of external audit services at present. The Committee will continue to keep this matter under regular review.

In the meantime, PwC has expressed its willingness to continue as the Company's external auditor and the Committee has recommended that a resolution be put to the forthcoming AGM for the re-appointment of PwC as external auditor.

Robert Jenkins

Chairman of the Audit Committee

30 April 2015

Nomination Committee Report

Nomination Committee Membership

Alexander Chistyakov – Chairman of the Nomination Committee

Robert Jenkins (from 30 January 2014)

Frank Monstrey (from 30 January 2014)

James McBurney (until 2 June 2014)

The Committee is required to meet at least once a year in order to comply with its terms of reference. During the year ended 31 December 2014, the Committee met once.

Role and responsibilities of the Nomination Committee

The terms of reference for the Nomination Committee can be found on the Company's website www.ruspetro.com

The Committee's primary responsibilities are

- To regularly review the structure, size and composition of the Board and Board Committees to ensure that there is a balance of skills, knowledge and experience,
- To oversee Board succession plans, to initiate and manage the recruitment process of additional Directors, and
- To consider the Board development programme and the induction process for new Directors

Activity during the year

Responsibility	Committee Activity
To review the structure of the Board	As the Company continued to enhance its horizontal drilling strategy, the Committee reviewed the balance of skills and experience required on the Board. As a result, the Committee, through its Chairman, approached Dr Mark Pearson, an experienced upstream oil and gas entrepreneur with outstanding success in the application of multiple fractured horizontal wells in the USA and oil and gas experience in Russia, with a view to his appointment as an independent Non-executive Director. Each of the remaining Committee members together with the Chief Executive met with or spoke to Dr Pearson regarding his experience and his commitment to Russia prior to the Nomination Committee recommending his appointment to the Board.
To review Committee composition	In light of Mr McBurney's resignation and Dr Pearson's appointment to the Board, the Committee reviewed the membership of the Company's three standing Committees and made a recommendation that Dr Pearson be appointed to the Audit Committee to the Board.

Changes since year end

As part of the Group's Restructuring, the Company entered into a Relationship Agreement with Mastin which enables Mastin to nominate one Director to the Board for so long as they hold at least 10% of the issued capital of the Company. In January 2015, Mastin notified the Company that they proposed to nominate Sergey Gordeev as the Mastin Director. Mr Gordeev is a principal of Mastin and the President, CEO and a major shareholder of PIK Group, a leading Russian real estate development group. This appointment became effective from 3 February 2015.

At the same time, in order to maintain the current balance of independence on the Board, Tom Reed resigned as Chief Financial Officer and as an Executive Director of the Company, such resignation to be effective from the appointment of Mr Gordeev.

Alexander Chistyakov

Chairman of the Nomination Committee

30 April 2015

Remuneration Committee Report

Remuneration Committee Membership

Maurice Dijols – Chairman (member since 13 January 2014 and Chairman from 30 January 2014)

Kirill Androsov

Frank Monstrey

Independence

During 2014, the Committee comprised three Non-executive Directors, two of whom were considered to be independent. Kirill Androsov is not considered to be independent since he is appointed to the Board under the terms of a Relationship Agreement with Limolines, a major shareholder. Nevertheless, the Board believes that Mr Androsov's experience and knowledge of the Russian labour market is of benefit to the Company and that his appointment to the Committee should be maintained.

In order to enhance the Committee's independence, and on the recommendation of the Nomination Committee, the Board appointed Mark Pearson, an independent Non-executive Director, as an additional member of the Committee with effect from 3 February 2015.

Meetings

The Committee meets at least twice a year and otherwise as required. During the year ended 31 December 2014, the Committee met five times. The Chief Executive attended all meetings during the year. Representatives from the Company's remuneration consultants attended as appropriate and on the invitation of the Committee.

Role of the Remuneration Committee

The Committee's full terms of reference are available on the Company's website www.ruspetro.com. In summary, the primary responsibilities of the Committee are:

- to determine the remuneration policy for all Executive Directors, including pension rights and any compensation payments, to monitor the level and structure of remuneration for senior management, so as to ensure that levels of remuneration are sufficient to attract, retain and motivate executive management of the quality required to run the Company successfully,
- to determine targets for any performance-related pay schemes operated by the Company and approve the total annual payments made,
- to review the design of all share incentive plans for approval by the Board and shareholders and determine the quantum of any award made and the performance targets for such awards, and
- to ensure that any termination payments are fair to the individual and the Company.

Activity during the year

Responsibility	Committee Activity
Directors' Remuneration Policy	The Committee considered the requirement to submit the Company's remuneration policy for directors to a binding vote of the shareholders and, together with Deloitte LLP, developed a policy which was appropriate for the Group. The Policy (which is summarised on pages 54 to 60) was approved by shareholders at the 2014 AGM and will apply until 2 June 2017 unless otherwise amended.
Awards under the Performance Share Plan	The Committee considered management's proposals in relation to the quantum, nominees and performance conditions of awards under the Performance Share Plan. A number of performance conditions were proposed by management and, after consideration, the Committee believed that the most appropriate performance condition for any award granted in 2014 was absolute share price performance. Further information is provided on page 50 of the Directors' Remuneration Report.
Bonus payments	In January 2014, the Committee considered the extent to which the corporate KPI for 2013 had been met and any bonus payable to the Executive Directors. While the Committee noted that the 2013 corporate KPI had been partially met, it was agreed that the overall Company performance did not merit payment of a corporate bonus. Nevertheless, in order to retain the services of the Executive Chairman and Chief Financial Officer during a key period for the Group, the Committee approved discretionary bonuses for these two individuals which were dependent on their continued employment during 2014.
Terms and conditions for senior joiners	In accordance with the terms of reference, the Committee considers and, if appropriate, approved employment contracts within the Group where total basic salary and guaranteed benefits to any employee exceeds US\$200,000. During the year, the Committee reviewed and approved six such contracts.
Termination payments	The Committee considered and approved the settlement agreement with the Company's former Chief Executive, Don Wolcott, in relation to his UK salary. In addition, following year end, the Committee reviewed and approved the settlement agreements reached with the former Chief Financial Officer in relation to his UK and Russian contracts. Further details are set out on page 51 of the Directors' Remuneration Report.

Advisers to the Committee

During the year, the Committee received independent advice on executive remuneration matters from Deloitte LLP. Total fees for advice provided during the year were £16,375 of which the majority related to advice on compliance with new legislation on Directors' remuneration. The Committee is satisfied that the advice they received was objective and independent.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. The Committee does not consider there to be any conflict of interest in this regard.

In addition, the Committee received independent advice from White & Case LLP in connection with settlement agreements with former Directors and the arrangement to issue shares in lieu of pay.

Maurice Dijols

Chairman of the Remuneration Committee
30 April 2015

Statement from the Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Remuneration Committee, I am pleased to introduce the Directors' Remuneration Report for 2014. It has been another year of change for the Company, and the Committee has been called upon to review the compensation arrangements for key senior managers joining the business as well as for departing Executives.

2014 performance

Details of the Company's performance in 2014 are set out in the Strategic Report. This year the annual bonus targets set by the Committee were partially met, and after careful consideration, the Committee recommended that the Executive Directors receive an award equal to 53% of their base salary. All employees are eligible to participate in the corporate bonus and they too received 53% of their entitlement in respect of 2014 performance – corresponding to 13.25% of annual salary.

Additionally, as disclosed in the 2013 Remuneration Report, during 2014 Alexander Chistyakov and Tom Reed received a discretionary bonus of US\$200,000 and US\$300,000 respectively in order to 'lock in' these individuals for the duration of 2014.

Committee membership

The Committee membership has been stable this year following my appointment to the Committee, and then as Chairman, in January 2014. Since year end, on the recommendation of the Nomination Committee, the Board has also appointed Mark Pearson as an additional member of the Committee. His knowledge and experience of the oil and gas exploration industry has been greatly appreciated by the Board and we look forward to his contributions to Committee discussions in 2015.

Changes to the Executive remuneration structure for 2015

As disclosed in last year's annual report, with effect from 1 April 2014, the Chief Executive's annual salary was temporarily reduced from US\$1,050,000 to US\$970,000. This temporary reduction has ended and effective from 1 December 2014, John Conlin's salary reverted to the sum agreed on his appointment. No other changes to the salary of the Executive Directors have been proposed for 2015 and the maximum bonus opportunity remains at 150% of basic salary.

Performance Share Plan

The award granted to the Executive Directors and other key members of the senior management team in 2014 did not vest and has therefore lapsed. A further award was made under the Performance Share Plan following the announcement of the Company's financial results for the year ended 31 December 2014 and details are set out in the Implementation Report which follows.

Alignment with shareholders

As detailed in last year's annual report, the Board resolved to pay a portion of Executive and Non-executive Directors' salaries for the period from 1 April 2013–31 March 2014 in shares. As well as providing the Company with cash savings during the year, this proposal strengthened the link between the interests of the Directors as whole and those of our shareholders. The relevant proportion of each Director's salary or fees was converted into shares at the 2012 IPO price of 134 pence per share.

These shares were issued to Directors on 19 December 2014 following the conclusion of the Restructuring.

Remuneration reporting regulations

At the AGM held on 2 June 2014, our shareholders passed a resolution to adopt the Directors' Remuneration Policy for 2014 and future years. For ease of reference, a summary of that Policy has been included on pages 54 to 60.

I will be attending this year's AGM in London and will be happy to answer any question you may have on our Remuneration Policy and the Committee's activities.

Maurice Dijols

Chairman of the Remuneration Committee

30 April 2015

Annual Report on Remuneration

This part of the Remuneration Report has been prepared in accordance with Part 3 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and 9.8.6R of the Listing Rules. The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2015 AGM. The information on pages 49 to 53 has been audited.

Details on membership of the Remuneration Committee and the advisers to the Committee are set out on pages 44 to 45 of the Corporate Governance Report.

Implementation of Remuneration Policy in 2015

Base salary

The table below shows base salaries for 2015.

US\$'000	Base salary from 1 January 2015		
	UK salary	Russian salary	Total salary
Alexander Chistyakov	250,000	300,000	550,000
John Conlin ¹	20,000	1,030,000	1,050,000
Tom Reed ²	200,000	627,000	827,000

¹ From 1 December 2014, the temporary reduction in John Conlin's base salary ceased and his base salary returned to its previous level of US\$1,050,000. At the same time, the structure of John Conlin's salary was revised with the UK element reduced to US\$20,000 and the Russian element increased to US\$1,030,000.

² Tom Reed resigned as an Executive Director on 2 February 2015.

Benefits

There will be no changes to the benefits package for Executive Directors in 2015.

Annual bonus

In 2015, the maximum annual bonus opportunity for Executive Directors will be 150% of salary. The 2015 bonus is fully performance-linked and the table below provides further information on the KPIs and targets against which performance will be measured.

KPI	Target performance	Weighting	Description
Average production	4,089 b/d avg	30%	—
Capex/bbl	US\$44/bbl	20%	Drilling Capex and Engineering Capex
Operating cost/bbl	US\$23/bbl	15%	Production Opex of US\$14/bbl and S&A Opex of US\$9/bbl
Funding the business	Trade and strategic deal targets	15%	Funding Cash management Trade, debt financing or joint ventures Payables and treasury cash management
HSE	No serious incidents or spills	10%	Safety Environment Incidents and LTIs Limited oil spills and CO ₂ emissions
Business integrity	Strict adherence	10%	Licences and permits in good standing Legal robustness – no penalties, fines or violations Procurement – ACL adherence and competitiveness Legislative relationships – in Russia, with FCA and the UK Corporate Governance Code Strong governance – UKBA, FCPA, Bribery laws

Performance Share Plan

In 2015, the maximum potential award level for Executive Directors is 150% of salary. Awards take the form of a notional number of share options. The notional share options will have an exercise price of 12.92 pence, being the average price of an ordinary share during Q4 2014. Directors will only be able to realise value from the increase in share price above the exercise price.

Vesting will be on a straight-line basis and is dependent on the Company's performance against a share price target as set out in the table below

3x Metric Band	12.92p +	19.4p +	25.8p +	32.3p +	38.8p +
Absolute share performance %	<50%	50-100%	100-150%	150-200%	≥200%
Vesting %	0%	25%	50%	75%	100%

The Committee believes that share price growth is the most appropriate measure of performance for the year ending 31 December 2015 given the current market price of the Company's shares. By setting this as the performance measure for the Performance Share Plan, Executive Directors will be encouraged to deliver strong share price growth as a priority. The share price used to assess performance will be the average for the 90 days ending on 31 December 2015. However, in order to fully align the interests of Executive Directors with those of our shareholders, the Executive Directors will not be able to exercise any resulting award for a further three years (i.e. until at least four years after grant). Not only will this incentivise Directors to increase share price as a priority over the coming 12 months but will also encourage them to maintain a strong share price over the longer-term. On exercise, the gain in the notional share options will be payable wholly in cash.

Given that full vesting of this award will only be achieved where the share price has increased significantly over a 12 month period, the Committee considers the target to be extremely stretching.

Non-executive Director fees

The basic annual fee payable to the Non-executive Directors remains at US\$120,000. With effect from February 2015, the Non-executive Directors appointed under the terms of the Relationship Agreements with Limolmes and Mastin respectively, agreed to waive their fees. Therefore, with effect from February 2015 inclusive, neither Mr Kirill Androsov nor Mr Sergey Gordeev will receive a fee in relation to their appointment as Non-executive Directors.

The 2015 fees for the remaining Non-executive Directors are as set out below

	US\$
Non-executive Director	120,000
Additional fee for Chairmanship of the Audit Committee	20,000
Additional fee for Senior Independent Director	20,000

Single total figure of remuneration

The following table sets out the total remuneration for Executive Directors and non-Executive Directors for the year ended 31 December 2014, with prior year figures also shown

US\$ '000	Salary/fees ¹		Benefits ²		Annual bonus ³		LTI awards ⁴		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Executive Directors										
John Conlin	953	58	99	5	556	—	—	—	1,608	63
Tom Reed	783	696	37	45	738	—	—	—	1,558	741
Alexander Chistyakov	528	420	56	60	491	—	—	—	1,075	480
Non-executive Directors										
Robert Jenkins	160	198	—	—	—	—	—	—	160	198
Kirill Androsov	120	54	—	—	—	—	—	—	120	54
Maurice Djols	120	21	—	—	—	—	—	—	120	21
Frank Monstrey	120	59	—	—	—	—	—	—	120	59
Mark Pearson	80	—	—	—	—	—	—	—	80	—
Directors who resigned during the year										
James McBurney	50	187	—	—	—	—	—	—	50	187

- The salary/fees figure in the table above comprise total salary/fees payable and include cash payments and the value of shares in lieu of salary/fees. With the agreement of the Directors, the Committee determined that from 1 April 2013 (or later in the case of Directors who joined the Company after this date) to 31 December 2013 (for Non-executive Directors) and 31 March 2014 (for Executive Directors) a portion of Directors' salaries or fees would be paid in shares. Salaries and fees were converted into the Company's shares at the 2012 IPO price, being 134 pence per share. These shares are valued in this table at 15.25 pence each, being the closing mid-market share price on 31 March 2014.
- Benefits relate to the cost to the Company of medical insurance, life insurance, permanent health insurance, housing allowance and private travel allowance.
- No annual bonus paid in 2013.
- No PSP awards with performance conditions vested during the years ended 31 December 2013 or 31 December 2014.

Annual Report on Remuneration continued

Additional disclosures in respect of the single total figure of remuneration table

Base salary and fees

Set out below are details of the basic salaries for each Executive Director who served during 2014. Salaries are set in US dollars for the UK contract and Russian ruble for the Russian contract (although paid in US dollars). Any difference in the disclosures in the 2013 annual report, relate to changes in the US\$/RUR exchange rate.

- Alexander Chistyakov's annual salary during the whole of 2014 was US\$550,000, which consisted of a UK salary of US\$250,000 (40% of which was payable in shares for the period from 1 January to 31 March 2014) and a Russian salary of US\$300,000.
- John Conlin's annual salary for the period from 1 January to 31 March 2014 was US\$1,050,000 (pro rata), consisting of a UK salary of US\$200,000 (in shares) and a Russian salary of US\$850,000. With effect from 1 April 2014, John Conlin agreed that his overall basic salary be temporarily reduced to US\$970,000 per annum, consisting of a UK salary element of US\$120,000 and a Russian salary element of US\$850,000. The structure of the Chief Executive's annual salary was further reviewed and amended effective from 1 December 2014 when the UK element was reduced to US\$20,000 and the Russian element increased to US\$1,030,000.
- Tom Reed's salary throughout the year was US\$827,000, which consisted of a UK salary of US\$200,000 and a Russian salary of US\$627,000.
- In making decisions regarding basic salary, the Committee takes a number of factors into account, including market data, wider employee pay and current business conditions. As a result, with the exception of the reversal of the temporary reduction to John Conlin's salary, no pay increases were recommended for the Executive Directors during 2014 or 2015.

During the period from 1 January to 31 March 2014, with the agreement of the Executive Directors in place at that time, an element of each Director's UK salary was paid in shares (with salaries converted into shares at the 2012 IPO price, being 134 pence per share). As a result of this decision, on 19 December 2014 Alexander Chistyakov received 12,355 ordinary shares in the Company, John Conlin received 24,711 ordinary shares in the Company and Tom Reed received 24,711 ordinary shares in the Company all of which was in relation to their 2014 salary.

Benefits in kind

The single total figure of remuneration table on page 49 sets out the total amount of benefits received by each Executive Director. During the year, Executive Directors received private medical insurance cover, life insurance, permanent health insurance, housing allowance and the cost of the preparation of tax returns to the relevant tax authorities. The Company does not operate any pension plans for Executive Directors or any other employees.

Annual bonus

The maximum potential bonus opportunity for Executive Directors in 2014 was 150% of base salary. The actual bonus payable in respect of 2014 has been determined by the Committee taking into account the following factors:

KPI and target	Weighting	Performance outcome
Production in excess of 4,233 boepd	20%	The final production rate averaged a daily rate of 3,541 boepd
Capex cost/bbl	20%	Capex cost per barrel was inside target
Operating cost/bbl	15%	Operating cost per barrel was inside target
HSE, no serious incidents or spills	10%	Much more safety awareness within the business. No serious incidents.
Funding the business	25%	The financial restructuring was completed in the final weeks of the year, providing funding for 2015.
Business integrity	10%	Many important objectives achieved e.g. licences approvals.

The Committee retains overall discretion to adjust awards, including a recommendation that no payment or award be granted, dependent on its assessment of exceptional items. Following discussion, the Committee determined that a bonus of 53% of base salary should be awarded to the Executive Directors under the 2014 annual bonus plan. In addition, as stated in the 2013 Directors' Remuneration Report, Alexander Chistyakov and Tom Reed received a discretionary retention bonus of US\$200,000 and US\$300,000 respectively in 2014 which was dependent on their continued employment with the Company until the end of the calendar year. This discretionary element forms part of the maximum bonus opportunity for the Executive Directors.

Performance Share Plan

On 30 January 2014, the Committee granted awards to the Executive Directors under the Performance Share Plan ("PSP") in the form of options over shares worth 150% of base salary. Awards were in the form of notional shares options with an exercise price of 33 pence per share, compared to the share price at the date of grant of 24.75 pence per share, to ensure that the Directors could only benefit if material shareholder value was created. These options were subject to a range of share price targets (from 49.5 pence to 99 pence) to be measured over the 90 days ending on 31 December 2014. The threshold share price target of 49.5 pence was not met at 31 December 2014 and so these options (as set out below) have lapsed.

	Number of options granted	Face value of options at grant US\$	End of performance period	% receivable for threshold performance
Alexander Chistyakov	2,011,667	825,000	31 December 2014	25%
John Conlin	3,840,456	1,575,000		
Tom Reed	3,024,816	1,240,500		

Outstanding awards – pre-IPO options

On 17 January 2012, prior to the Company's Initial Public Offering ("IPO") on the London Stock Exchange, the Company granted market priced options to the Executive Directors in position at that time at an exercise price equal to the IPO offer price. These options vested one-third annually on the first, second and third anniversaries of the date of grant but can only be exercised between the third and tenth anniversary of the date of grant. The vesting of these options was not subject to the satisfaction of any performance criteria other than continued employment. The number of options granted to the Executive Directors in position at IPO is shown on page 52 of this report.

Directors' external appointments

With the agreement of the Chairman or, in the case of the Executive Chairman, the Senior Independent Director, Executive Directors may normally be permitted to take one non-executive directorship in a UK listed company outside the Group. Such appointments must be notified to the Board as a whole and the time commitment required for the appointment is taken into consideration. Executive Directors may retain fees for external appointments. During the year ended 31 December 2014, none of the Company's Executive Directors held any such Directorship.

Payments to past Directors

The payments disclosed below were made to past Directors during the year.

Payments for loss of office

Don Wolcott's leaving arrangements

Prior to his departure on 9 July 2013, Don Wolcott was employed under two separate employment contracts, a Russian contract and a UK contract. Settlement of Mr Wolcott's Russian contract and details of his outstanding share options were disclosed in last year's Directors' Remuneration Report.

During 2014, settlement was reached relating to Mr Wolcott's UK contract. The Company paid 12 months' base salary, together with related benefits and a contribution towards professional costs. This comprised US\$155,385 for salary, £12,182 for benefits and £2,500 for professional costs.

Tom Reed's settlement agreement

Prior to his resignation on 2 February 2015, Tom Reed was employed under two separate employment contracts – a Russian contract and a UK contract. His Russian contract was for three-year fixed term, expiring on 31 May 2017. Mr Reed's Russian and UK contracts were terminable on six months' notice by settlement agreement.

Following his resignation, the Company paid six months' base salary together with related benefits and a contribution towards professional costs to Mr Reed regarding his entitlement under his UK contract. This comprised US\$100,000 for salary, US\$56,509 for benefits and £5,750 for professional costs. In addition, Mr Reed received US\$420,242 for salary and accrued holiday pay and US\$5,000 for professional costs regarding his entitlement under his Russian contract.

All of the share options granted to Tom Reed prior to the Company's IPO have vested and continue to be exercisable until 17 January 2022 at an exercise price of £1.34 per share.

Directors' Report

Annual Report on Remuneration continued

Statement of Directors' shareholdings and share interests

Directors' shareholdings

There are currently no shareholding guidelines in place for Directors. The shareholdings for the Directors as at 31 December 2014 are set out below.

	Shareholding as at 31.12.14 (or date of resignation if earlier)	Share options ¹
Alexander Chistyakov	138,058,018	—
John Conlin	46,164	—
Tom Reed	23,966,665	4,145,053
Robert Jenkins	197,974	—
Kirill Androsov ²	—	—
Maurice Djols	180,322	—
Frank Monstrey	17,689	—
Mark Pearson	—	—

¹ The share options are exercisable up until 17 January 2022, being the tenth anniversary of grant.

² Kirill Androsov is appointed to the Board under a Relationship Agreement between the Company and Lamolines and is deemed to have a beneficial interest in 217,299,368 ordinary shares which are held by Lamolines, in which Altera IF (of which he is a board member) is interested in 50% of the issued share capital.

Sergey Gordeev was appointed to the Board on 3 February 2015 under a Relationship Agreement between the Company and Mastin and is deemed to have a beneficial interest in 217,422,943 ordinary shares which are held by Mastin.

There were no changes to the shareholders of the continuing Directors between the end of the financial year and the date of this Annual Report.

Outstanding share option awards to former Executive Directors

Director	Date of grant	Number of options granted	Vested options as at 01.01.14	Options vested in the year	Options lapsed in the year	Unvested Options at year-end	Exercise price (p)	Date from which exercisable	Expiry date
Tom Reed	17 Jan 2012	4,145,053	1,381,684	1,381,684	—	1,381,685	134	17 Jan 2015	17 Jan 2022
Don Wolcott	17 Jan 2012	6,217,579	2,072,526	—	—	—	134	17 Jan 2015	17 Jan 2022

Options vest one-third annually on first, second and third anniversaries of date of grant. The exercise of these options is not subject to the satisfaction of any performance criteria.

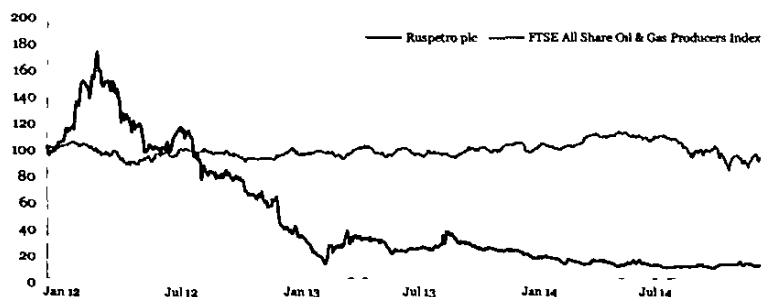
The highest and lowest closing prices for the Company's shares during the year ended 31 December 2014 were 29 5p and 10 5p respectively. The closing price of the Company's shares on 31 December 2014 was 16 5p.

Historical Company performance and Chief Executive pay

Total shareholder return

The chart below shows the Company's total shareholder return since trading for Ruspetro shares began on the London Stock Exchange on 19 January 2012 against the FTSE All Share Oil & Gas Exploration & Production Index. The FTSE All Share Oil & Gas Producers Index was chosen as it is a broad based index of which the Company is a constituent.

Total Shareholder Return



Historical Chief Executive Remuneration outcomes

The table below shows the single total figure of remuneration for the Chief Executive over the same period as the chart above (i.e. over the last three years). It is based on remuneration received by Don Wolcott, who served as Chief Executive until 9 July 2013, Tom Reed as Acting Chief Executive until 16 December 2013 and John Conlin, the current Chief Executive.

US\$000s	2014 John Conlin	2013 John Conlin	2013 Don Wolcott	2013 Tom Reed	2012 Don Wolcott
Chief Executive Single total figure of remuneration	1,608	6	714	303	1,469
Annual bonus payout	556	—	—	—	—
(% of maximum opportunity)	(35%)				
PSP vesting					
(% of maximum opportunity)	N/A	N/A	N/A	N/A	N/A

Percentage change in remuneration of the Chief Executive compared to employees elsewhere in the Group

The table below sets out the increase in salary, benefits and annual bonus for the Chief Executive compared to that of the rest of the Company's employees.

	% change in base salary ¹	% change in benefits	% change in annual bonus
	2014/2013	2014/2013	2014/2013
Chief Executive	-1.4%	69%	53%
All employees ²	0%	0%	13.25 ³

¹ The base salary figure for 2013 is a composite of the base salaries payable to Messrs Wolcott, Reed and Conlin in relation to their tenures as Chief Executive during that year.

² Employees did not receive an annual salary increase during 2014 although increases were granted for any change in role or responsibilities.

³ Employees (excluding the Executive Directors) are also eligible for a personal bonus of up to 25% of base salary which is based on personal performance during the period.

Relative importance of spend on pay

The table below illustrates the current and prior year overall expenditure on pay and distributions made to shareholders during the year.

	2014	2013	% change
Overall expenditure on pay	18,892	17,030	10.9%
Distributions to shareholders	0	0	0%

Statement of Shareholder voting

The table below sets out the results of the vote on the Remuneration report at the 2014 AGM.

	Votes For Number	%	Votes Against Number	%	Total Votes Number	Votes Withheld Number
Directors' Remuneration policy	186,128,604	93.33	13,299,731	6.67	199,428,335	5,154
Annual remuneration report	186,048,517	93.29	13,381,878	6.71	199,430,395	3,094

Maurice Dijols

Chairman of the Remuneration Committee

30 April 2015

Remuneration Policy Report

For the purposes of transparency, this part of the Directors' Remuneration Report includes a summary of the Remuneration Policy that was put to a binding vote at the Company's AGM on 2 June 2014 and received overwhelming shareholder support. The Effective Date of the Policy is 2 June 2014 and it is expected to apply for three years from that date.

References made in the 2013 Policy Report to specific levels of pay for 2014 or explanations as to changes in remuneration practices from prior years have been removed, with the relevant information relating to 2015 included in the Annual Report on Remuneration. Disclosures relating to specific Directors have been updated where required, for example where there have been changes to Board membership.

The full Policy Report approved by the Company's shareholders at last year's AGM can be accessed in the 2013 Annual Report on the Company's website at www.ruspetro.com.

Remuneration Policy

The Remuneration Committee's purpose in developing an appropriate remuneration policy is to adequately attract, motivate and retain executives of the highest calibre. The remuneration structure for Executive Directors is made up of two elements: fixed remuneration (consisting of base salary and benefits) and variable remuneration (annual bonus and long term incentives).

Policy table – Executive Directors

The following table summarises each element of the remuneration policy for Executive Directors with effect from 2 June 2014

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary			
To provide fixed pay that is sufficient to attract and retain a management team with significant expertise and experience to deliver the Company's strategic objectives	<ul style="list-style-type: none"> – Executives currently have two elements to their salary: a UK element and a Russian element – Executive Director salaries may be paid in cash, Company shares, or a mixture of both – The Committee takes a number of factors into account when setting Executive Directors' salaries, including <ul style="list-style-type: none"> • The individual's skills, experience and recent performance • The scope of the role • Business performance and affordability • Typical salary levels at comparable companies • Pay and conditions elsewhere in the Company – Salaries are typically reviewed annually, with any change taking effect from 1 January. However, the Committee may determine salary changes at any other time as it considers appropriate 	<ul style="list-style-type: none"> – Whilst there is no absolute maximum, salary increases for Executive Directors will generally be in line with the average increase awarded in the wider employee population within the relevant geographic area – Higher increases may be awarded in certain circumstances, at the Committee's discretion. For example, this may include <ul style="list-style-type: none"> • An increase in the scope and/or responsibility of the individual's role, • A new Executive Director being moved to market positioning over time, or • Where the Committee considers that there is a genuine commercial need to do so 	<ul style="list-style-type: none"> – None – However, the performance of the individual in the role is one of the considerations taken into account by the Committee in setting the level of salary and any future changes
Benefits			
To provide appropriate benefits, in line with similarly sized companies and typical market practice	<ul style="list-style-type: none"> – Benefits may include medical insurance for the executive and his immediate family, life insurance and permanent health insurance, accommodation and a personal travel allowance 	<ul style="list-style-type: none"> – Benefits are generally set at an appropriate market level, taking into account a number of factors including market practice for comparable roles within appropriate pay comparators 	<ul style="list-style-type: none"> – None
To support the recruitment and retention of executives of the necessary calibre	<ul style="list-style-type: none"> – Other benefits may be provided based on individual circumstances and business requirements, such as appropriate relocation and expatriate allowances – The Committee may remove and amend any benefit received by Executive Directors if it is appropriate to do so – The Company does not currently operate a pension scheme 	<ul style="list-style-type: none"> – The Committee may review the benefit allowance for an existing or new executive Director at any point. Given the complexity of setting an absolute cap on benefits (the cost of which may vary from year to year as a result of, for example, changes in healthcare premiums) the Committee has not set such a maximum 	
Annual bonus			
To incentivise and reward the achievement of both corporate and individual performance measures	<ul style="list-style-type: none"> – Awarded annually, usually based on performance in the annual bonus year – The relevant bonus year runs from 1 January to 31 December 	<ul style="list-style-type: none"> – Maximum award opportunity in respect of each bonus year is 150% of salary for the Executive Directors 	<ul style="list-style-type: none"> – The Committee determines the precise measures at the start of each year, ensuring that these are aligned to the Company's key strategic objectives for the year
KPIs are consistent with the Company's short-term and medium-term objectives	<ul style="list-style-type: none"> – Targets are set annually by the Committee and are assessed following the year end – Bonuses may be paid either in cash or in shares in the Company at the Committee's discretion following the Committee's determination of bonus levels – Where the Committee decides to make awards in shares, these may be deferred to such later date as the Committee determines. In such circumstances, share awards may incorporate the right to receive the value of dividends, which may assume reinvestment of those awards in the Company's shares – The Committee may take such action as it considers appropriate to clawback any bonus paid or payable if events happen which may have an effect on bonus awards 		<ul style="list-style-type: none"> – These will usually include production measures, financial measures and key strategic and operational milestones. The award based on overall Company performance may be adjusted to reflect the executive's individual contribution – Production and financial metrics will usually account for at least 40% of the award. – Financial measures will be based on a sliding scale from threshold to maximum performance – All payments are subject to the Committee's discretion – Where the Committee reasonably determines that any performance condition is no longer a fair measure of performance the Committee may (a) waive that condition or (b) amend it provided that the amended performance condition is, in the opinion of the Committee, a fairer measure – The Committee, in its sole discretion, may also determine that no performance condition will apply to all or some of the award.

Remuneration Policy Report continued

Policy table – Executive Directors continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Performance Share Plan			
To link a substantial proportion of reward to the achievement of long-term shareholder value creation as Ruspetro moves into the next stage of its development	<ul style="list-style-type: none"> Eligible employees may receive awards, the vesting of which is usually based on performance over a reasonable period, as determined by the Committee. Awards may be settled in cash or shares (in the form of conditional share awards or nil-cost or market value options) The Committee sets performance targets which are assessed by it following the end of the relevant performance period. The Committee may determine that any awards vesting under the plan must be held by the Company for an additional period following vesting before being released to Directors Share awards may be reduced or cancelled at any time prior to vesting, at the discretion of the Committee, in certain circumstances such as a material misstatement of audited financial results, a failure of risk management, a breach of health and safety regulations or serious reputational damage to the Company or one of its business units Awards may be (a) adjusted in the event of any variation of the Company's share capital, demerger, dividend in specie or any other exceptional event reasonably determined by the Committee or (b) amended in accordance with the plan rules 	<ul style="list-style-type: none"> The maximum value of shares over which an award may be granted in respect of any financial year of the Company under the plan is 150% of salary for the Executive Directors 	<ul style="list-style-type: none"> Awards usually vest based on performance against a performance measure or combination of performance measures set by the Committee Where the Committee subsequently determines any such measure(s) are no longer a fair measure, it may (a) waive the target or (b) amend it, provided that the amended target would be, in its reasonable opinion, a fairer measure, in accordance with the rules of the plan In 2015, as for 2014, the award will be based solely on the Company's share price performance 25% of the award will vest for threshold performance, increasing on a straight-line basis up to 100% for exceptional performance The Committee, in its sole discretion, may also determine that no performance condition will apply to all or some of the award

Notes to the Policy table

Performance measures

Annual bonus plan The actual bonus measures and targets are set by the Committee at the start of each year, to ensure that Executive Directors are appropriately focused on the Company's short-term and medium-term objectives. The aim is to provide an appropriate balance between incentivising the achievement of annual production and financial targets and to deliver key strategic and operational milestones. This balance allows the Committee to effectively reward performance against the key elements of our strategy.

In exceptional circumstances, the Committee reserves the flexibility to make a minority element of the bonus not subject to any performance conditions. Such circumstances will include situations where retention of management is considered to be a key priority for the year, and where this is considered to be in the best interests of the Company's shareholders.

Performance Share Plan The Remuneration Committee considers that performance measures based on either financial/operational performance and on value delivered to shareholders would be appropriate for the PSP. The exact measures are chosen to be aligned with the long-term strategy of the Company, however the Committee considers that strong performance under these measures should result in sustainable value creation for both shareholders and Executive Directors.

Provisions for the recovery of sums paid and the withholding of payments apply to payments in the manner explained in this report. There are no other such provisions relating to Directors.

Legacy plans

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Recruitment policy

The Committee's policy on recruitment is to offer remuneration packages which facilitate the employment of individuals with the requisite knowledge, expertise and experience to deliver Company's strategic objectives. When appointing a new Executive Director, the Committee seeks to ensure that remuneration arrangements are appropriate and in the best interests of both the Company and its shareholders.

Generally, pay on recruitment will be consistent with the usual policy for Executive Directors as set out in the policy table above. However, the Committee may, in its absolute discretion, include remuneration components or awards which are not set out in the policy table where this would facilitate the recruitment of candidates of an exceptional calibre and skill-set, including market competitive pension arrangements, where necessary. The Committee will ensure that this is only done where there is a genuine commercial need and where this is in the best interests of the Company and its shareholders. The absolute maximum level of variable pay set on recruitment will be in accordance with the policy table. The Committee does not propose to make any non-performance related payments on recruitment.

In certain circumstances, the Committee may need to buy-out long-term incentive arrangements relinquished on leaving a previous employer. When doing so, the Committee will take a number of relevant factors into account, including but not limited to performance conditions attached to these awards and the time and likelihood of vesting. Any payments or awards made under these circumstances are excluded from the maximum level of variable remuneration referred to above.

The Committee may, in a recruitment scenario, rely upon the Listing Rules exemption from shareholder approval to implement arrangements to facilitate the recruitment of a Director.

Service contracts

Each of the Executive Directors has a UK plc and a Russian service contract, details of which are shown below.

UK plc contracts

Name	Commencement of appointment	Date of service contract	Notice period by either party
John Conlin	17 December 2013	31 January 2014	Six months
Tom Reed	1 December 2011	16 December 2011	Six months
Alexander Chistyakov	1 December 2011	12 January 2012	Six months

Russian contracts

Name	Commencement of appointment	Date of service contract	Notice period by either party
John Conlin	1 December 2013	11 December 2013	Six months
Tom Reed	1 June 2011	1 January 2012	Six months
Alexander Chistyakov	12 June 2012	12 June 2012	Six months

Both Alexander Chistyakov and Tom Reed agreed that, with effect from 1 April 2014, the notice periods under their UK contract be reduced from twelve months' to six months' notice by either party. As detailed earlier in this report, Tom Reed resigned from the Board on 2 February 2015. The Company may terminate employment under the UK contracts by making a payment in lieu of the individual's notice period plus the cost to the Company of providing the contractual benefits for the notice period. The Executive Directors do not have any contractual entitlement to any bonus amounts under the Annual Bonus Plan or the vesting of awards under the PSP upon termination of employment. In respect of the Russian contracts, there is no equivalent right to bring the fixed term contract to an immediate end. A Director's contract can be brought to an immediate end in limited circumstances, provided the reasons for such termination comply with Russian law. In addition, contracts may be terminated by mutual agreement of the parties on payment of six months' base salary.

Copies of the Executive Directors' service contracts are available from the Company Secretary.

Policy on payment to Executive Directors for loss of office

The Committee takes a number of factors into account when determining leaving arrangements for Executive Directors.

- The Committee will give due consideration to the circumstances under which a Director left.
- The Committee must satisfy any contractual obligations agreed with the Executive Director. This is dependent on the contractual obligations (i) not being in contradiction with the policy set out in this report, or (ii) if so, not having been entered into or amended on or after 27 June 2012 (in accordance with the relevant legislation).

In such circumstances the Committee may use its discretion to determine that an Executive Director may be eligible to receive an appropriate bonus amount for the year in which he left, which would be subject to performance up to the date of termination and pro-rated for time, unless the Committee determines otherwise. The Committee may also approve a contribution towards a departing executive's legal or other professional costs, where appropriate.

Remuneration Policy Report continued

Policy on payment to Executive Directors for loss of office continued

Further details on the incentive plans operated by the Company in which Executive Directors participate are set out in the table below

Plan	Good leaver reasons	Treatment for good leavers	Treatment for other leavers
Annual bonus plan	<ul style="list-style-type: none"> – Illness, injury or disability – Employing company ceasing to be under the control of the Company – Transfer of employing business outside Group – Any other reason, at the Committee's discretion – Death 	<p>Bonuses may be paid at the discretion of the Committee</p> <p>Unvested deferred awards will vest in full on the normal vesting date, or earlier in full or in part, at the Committee's discretion</p> <p>If a participant dies, deferred awards which have not yet vested vest in full on death</p>	<p>Unless the Committee determines otherwise, any entitlement to a bonus or rights to receive deferred bonus shares will be forfeited for leavers prior to the normal payment date</p>
Performance share plan	<ul style="list-style-type: none"> – Illness, injury or disability – Redundancy – Employing company ceasing to be under the control of the Company – Transfer of employing business outside group – Any other reason, at the Committee's discretion – Death 	<p>Awards may either vest at the normal vesting date, or at the time of cessation, at the Committee's discretion</p> <p>The award shall vest to the extent to which the performance condition has been met (where the condition is assessed early, in such manner as the Committee considers reasonable)</p> <p>Where the awards vest in these circumstances, awards will also vest pro rata to reflect the elapsed proportion of the performance period, unless the Committee determines otherwise in relation to a particular grant</p> <p>In the case of death, awards vest to the extent performance conditions have been met (as determined by the Committee) and reduced pro rata to reflect the number of complete months elapsed in the vesting period</p>	<p>Awards lapse in full</p>

Change of control

Bonus

In the event of a takeover or merger the Committee may make bonus awards early having made such adjustments to the size of awards and any relevant performance targets as it considers appropriate. Where bonus awards are made in shares, in the event of any variation of the Company's share capital, demerger, special distribution, change of control, delisting or other transaction which would in the opinion of the Committee affect the current or future value of shares, the Committee may allow awards to vest early or amend the terms of any such awards.

PSP

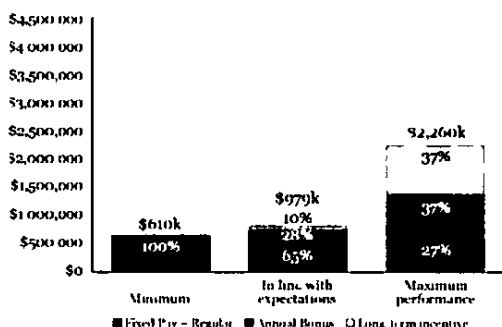
In the event of a takeover of the Company, outstanding awards under the PSP will vest on the date on which the change of control occurs, taking into account the extent to which any performance condition has been satisfied. The level of vesting of awards may also be reduced in these circumstances, at the Committee's discretion. Alternatively, awards may be exchanged for shares in the acquiring company.

In the event of a demerger, special distribution or other transaction or arrangement that in the opinion of the Committee would affect the current future value of the awards, the Committee may allow awards to vest on the same basis as for a takeover.

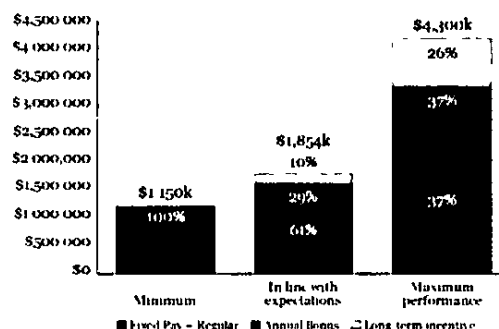
Illustration of the remuneration policy

The charts below illustrate the values of the remuneration package for the Executive Directors (in US\$) under various performance scenarios in 2015

Executive Chairman – Alexander Chistyakov



Chief Executive Officer – John Conlin



The illustrations are based on the following assumptions

	Minimum	In line with expectations	Maximum
Fixed pay (regular)	Base salary as at 1 January 2015 The annual value of benefits has been estimated at US\$100,000 for the Chief Executive and US\$60,000 for the Executive Chairman		
Performance-related annual bonus	None	50% of salary	150% of salary
Performance Share Plan	None	25% vesting under the PSP	100% vesting under the PSP

The charts show share options granted under the PSP in 2015 which have been valued at a third of the 'face value' of 150% of salary at maximum in line with the methodology set out by the Financial Reporting Lab. However, the Committee reserves the right to grant conditional awards of shares under the PSP in the future

No share price growth has been assumed in this illustration

Policy table – Non-executive Directors

Role	Purpose	Operation
Non-executive Director fees	To enable the Company to attract and retain high calibre Non-executive Directors with substantial experience of leading and advising large international companies within the Company's sector and with Russian and UK experience	<p>Fees may be paid in cash, in shares in the Company or a mixture of both, taking account of the typical time commitment and the level of involvement required, as well as the challenging sector and geography within which the Company operates insofar as this impacts the demands placed on the role. The Company's Articles do not set a maximum level of fees payable.</p> <p>In addition to the basic Non-executive Director fee, additional fees may be paid for the performance of special services, including but not limited to the election of one of their number as Chairman of the Board, as Senior Independent Director or to the chairmanship of any Committee.</p> <p>Fees are determined by the Chairman of the Board (except in relation to his or her own fees) and the Executive Directors, and are reviewed periodically.</p>

Remuneration Policy Report continued

Policy table – Non-executive Directors continued

Role	Purpose	Operation
Benefits	To reimburse Non-executive Directors for reasonable expenses, where relevant	Non-executives are reimbursed for travel and accommodation expenses incurred in connection with their duties e.g. for attendance at Board and Board Committee meetings. If any such expenses are recognised as a taxable benefit, then the Non-executive may receive the grossed-up costs of the expense as a benefit

Non-executive Director letters of appointment

Non-executive Directors do not have service contracts and their terms are set out in a letter of appointment. Each appointment is for an initial term of three years, subject to re-election at each AGM and may be terminated by either party on one month's notice. Non-executive Directors are not entitled to any compensation beyond their notice period, where appropriate, on leaving the Board. Copies of the letters of appointment for Non-executive Directors are available from the Company Secretary.

Consideration of pay and conditions elsewhere in the Company

When considering the remuneration arrangements for the Company's Executive Directors, the Committee gives due regard to the pay and conditions of employees throughout the Company. The Committee recognises that the roles and responsibilities of Executive Directors are such that the structure of remuneration will be different from that of the wider employee population, with a greater proportion of Executive Director remuneration being linked to the financial performance of the Company. The Committee is advised of the salary increases across the Company when considering Executive Directors' salaries and while due regard is given to employee views, the Committee does not directly consult with employees on executive remuneration matters.

Remuneration arrangements across the Company

The remuneration policy for our Executive Directors has been designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group. While the structure may differ, all reward arrangements are built around the common objectives and principles outlined below:

- Reward should be driven by performance – rewards provided through the remuneration policy are fairly earned and justified by performance. To that effect, a proportion of remuneration should be performance-related and linked to both individual and corporate performance. The intention is to ensure that individuals are rewarded based on their contribution to the Group and on the success of the Group.
- Pay should be competitive in the relevant market – rewards are intended to be competitive in the market without paying more than is necessary to recruit and retain individuals. Within this framework, reward packages may differ based on the location, seniority and level of responsibility of each individual.

Consideration of the views of our shareholders

The Committee is committed to ongoing dialogue with our shareholders and welcomes feedback on our remuneration policy and its application. We would normally seek to consult with shareholders regarding any significant future changes to remuneration policy or arrangements.

Directors' Report

Directors' Responsibilities Statements

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements of the Group and those of the Company in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and applicable law.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that period. In preparing these financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgements and accounting estimates that are reasonable and prudent,
- State whether IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the Group and Parent financial statements respectively, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge

- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole,
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face, and
- The Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Alexander Chistyakov
Executive Chairman

John Conlin
Chief Executive Officer

Independent auditors' report to the members of Ruspetro plc

Report on the group financial statements

Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the group's affairs as at 31 December 2014 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

This opinion is to be read in the context of what we say in the remainder of this report

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the Group's ability to continue as a going concern. This ability is dependent on whether the Group can renegotiate its debt covenants successfully. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

What we have audited

The group financial statements (the "financial statements"), which are prepared by Ruspetro plc, comprise

- the Consolidated statement of financial position as at 31 December 2014,
- the Consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the Consolidated statement of changes in equity and Consolidated statement of cash flows for the year then ended, and
- the notes to the financial statements which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the group financial statements as a whole to be \$2.0 million. This represents approximately 0.5% of total assets. We have applied this benchmark because revenues or profit before tax were not considered suitable benchmarks as the company remains in the development stage.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$0.2 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of the audit

The Group has five reporting units, Ruspetro plc, Ruspetro Holdings Limited, Ruspetro LLC, INGA and Trans-oil. The Group financial statements are a consolidation of these reporting units and centralised functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at reporting units by us, as the Group engagement team, or component auditors from other PwC Network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole.

We performed an audit of the complete financial information for the following reporting units

- Ruspetro plc
- Ruspetro LLC
- INGA, and
- Trans-oil

This, together with additional procedures at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 38.

Area of focus	How the scope of our audit addressed the area of focus
Going Concern Management and the Directors have the primary responsibility for preparing the financial statement on the going concern basis. As with last year, we have considered the Directors' decision to adopt the going concern basis in preparing the financial statements.	We obtained the directors' forecast of the Group's funding requirements for the next 12 months from the date of approval of these financial statements and details of the available financing facilities. We considered whether appropriate account had been taken of the seasonal cash flows inherent in the Group's business. We discussed and challenged the actions the directors said they could take to alter the timing and/or amount of cash flows, and the status of the directors' negotiations with the Group's providers of finance. We have obtained at the calculation of the covenants and the company's compliance over the projected period. Our conclusion on going concern is below.
Accounting for the Debt Restructure The Group completed the transfer and simultaneous restructuring of its existing debt and put option obligations with Sberbank and with a debt and equity obligation with a new provider Bank Otkritie and Mastin Holdings Limited respectively.	We obtained legal and other supporting documentation completed in connection with the transfer of the debt and put option, along with appropriate approvals from the Board of Directors. The accounting of restructure was tested to ensure it complied with the applicable accounting standards and has been correctly reflected in the disclosures in the financial statements.
Risk of fraud in revenue recognition Auditing standards require that we consider the risk of fraud in revenue recognition.	We have focused on the potential manipulation of revenue by the manual posting of journal entries on top of the day-to-day recording of transactions. We have also tested the amount and timing of revenue recognition, taking into account the key revenue streams, contractual obligations and validity of manual journal entries.
Risk of management override of internal controls Auditing standards require that we consider the risk that management may override controls within the organisation. Employees in management positions are incentivised by financial performance measures and as a result, fraud risk, due to over-ride of controls and/or manipulation of results may be increased.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and those responsible for Group's compliance. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. In particular, we tested key reconciliations and manual journal entries.

Independent auditors' report to the members of Ruspetro plc continued

Going concern

The directors have voluntarily complied with Listing Rule 9.8.6(R)(3) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 61, required for companies with a premium listing on the London Stock Exchange

We have nothing to report having performed our review

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ("the Code"). On page 61 of the Annual Report, as required by the Code Provision C 1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's performance, business model and strategy. On page 38, as required by C 3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion

- the statement given by the directors is materially inconsistent with our knowledge of the group acquired in the course of performing our audit, or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We have no exceptions to report arising from this responsibility

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit, or
- is otherwise misleading

We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 61, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Other matter

We have reported separately on the parent company financial statements of Ruspetro plc for the year ended 31 December 2014 and on the information in the Directors' Remuneration Report that is described as having been audited That report includes an emphasis of matter

Kevin Reynard (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Aberdeen

30 April 2015

Notes

- (a) The maintenance and integrity of the Ruspetro plc website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2014 (presented in US\$ thousands, except otherwise stated)

	Note	Year ended 31 December	
		2014	2013
Revenue	7	55,100	79,849
Cost of sales	8	(51,688)	(65,900)
Gross profit		3,412	13,949
Selling and Administrative expenses	9	(20,822)	(22,468)
Other operating expenses		(1,160)	(2,086)
Operating loss		(18,570)	(10,605)
Finance costs	11	(37,965)	(32,996)
Foreign exchange loss	20	(202,410)	(25,586)
Other expenses	10	(4,443)	(5,062)
Loss before income tax		(263,388)	(74,249)
Income tax benefit	12	495	11
Loss for the period		(262,893)	(74,238)
Other comprehensive (loss)/income that may be reclassified subsequently to (loss)/profit, net of income tax			
Exchange difference on translation to presentation currency		(9,832)	(11,063)
Total comprehensive loss for the period		(272,725)	(85,301)

The entire amount of loss and total comprehensive loss for the period are attributable to equity holders of the Company

Loss per share

Basic and diluted loss per ordinary share (US\$)	26	(0.72)	(0.22)
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John Conlin
Chief Executive Officer

Alexander Betsky
Finance Director


The accompanying notes on pages 70 to 93 are an integral part of these consolidated financial statements

Consolidated Statement of Financial Position

as at 31 December 2014 (presented in US\$ thousands, except otherwise stated)

		31 December	
	Notes	2014	2013
Assets			
Non-current assets			
Property, plant and equipment	13	148,139	234,203
Mineral rights and other intangibles	14	231,562	395,533
		379,701	629,736
Current assets			
Inventories	15	584	1,681
Trade and other receivables	16	6,565	6,660
Income tax prepayment		21	35
Other current assets	17	5,065	–
Cash and cash equivalents	18	12,022	15,832
		24,257	24,208
Total assets		403,958	653,944
Shareholders' equity			
Share capital	19	135,493	51,226
Share premium		389,558	220,506
Retained loss		(429,752)	(153,106)
Exchange difference on translation to presentation currency		(44,956)	(35,124)
Other reserves		25,397	11,759
Total equity		75,740	95,261
Liabilities			
Non-current liabilities			
Borrowings	20	238,801	402,896
Provision for dismantlement	21	4,238	7,940
Deferred tax liabilities	12	49,457	83,502
		292,496	494,338
Current liabilities			
Borrowings	20	8,303	303
Trade and other payables	22	25,447	43,842
Taxes payable other than income tax		1,550	2,265
Other current liabilities	17	422	17,935
		35,722	64,345
Total liabilities		328,218	558,683
Total equity and liabilities		403,958	653,944


John Conlin
 Chief Executive Officer


Alexander Betsky
 Finance Director

The accompanying notes on pages 70 to 93 are an integral part of these consolidated financial statements

Financial Statements

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014 (presented in US\$ thousands, except otherwise noted)

	Note	Share capital	Share premium	Retained earnings	Exchange difference on translation to presentation currency	Other reserves	Total equity
Balance as at 1 January 2013		51,226	220,506	(87,741)	(24,061)	20,517	180,447
Loss for the period		–	–	(74,238)	–	–	(74,238)
Other comprehensive loss for the period		–	–	–	(11,063)	–	(11,063)
Total comprehensive loss for the period		–	–	(74,238)	(11,063)	–	(85,301)
Share options of shareholders	17	–	–	8,873	–	(8,873)	–
Share-based payment compensation		–	–	–	–	115	115
Balance as at 31 December 2013		51,226	220,506	(153,106)	(35,124)	11,759	95,261
Balance as at 1 January 2014		51,226	220,506	(153,106)	(35,124)	11,759	95,261
Loss for the period		–	–	(262,893)	–	–	(262,893)
Other comprehensive loss for the period		–	–	–	(9,832)	–	(9,832)
Total comprehensive loss for the period		–	–	(262,893)	(9,832)	–	(272,725)
Issue of shares		84,202	168,986	–	–	–	253,188
Share options of shareholders	17	–	–	(13,753)	–	13,753	–
Share-based payment compensation		65	66	–	–	(115)	16
Balance as at 31 December 2014		135,493	389,558	(429,752)	(44,956)	25,397	75,740

John Conlin
Chief Executive Officer

Alexander Betsky
Finance Director

The accompanying notes on pages 70 to 93 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

for the year ended 31 December 2014 (presented in US\$ thousands, except otherwise stated)

	Note	Year ended 31 December	
		2014	2013
Cash flows from operating activities			
Loss before income tax		(263,388)	(74,249)
Adjustments for			
Depreciation, depletion and amortisation	13, 14	26,992	21,748
Foreign exchange loss	20	202,410	25,586
Finance costs	11	37,965	32,996
Impairment of assets	10	2,137	—
Impairment of financial instruments	10	1,285	—
Share-based payment compensation		16	115
Other operating expenses		353	1,909
Operating cash inflows before working capital adjustments		7,770	8,105
Working capital adjustments			
Change in trade and other receivables		(631)	(1,565)
Change in inventories		575	886
Change in trade and other payables		(2,461)	7,140
Change in other taxes receivable/payable		(1,943)	12,347
Net cash flows from operating activities		3,310	26,913
Cash flows from investing activities			
Purchase of property, plant and equipment		(42,541)	(44,106)
Purchase of financial instruments		(7,062)	—
Net cash used in investing activities		(49,603)	(44,106)
Cash flows from financing activities			
Proceeds from issue of share capital (net)	19	37,466	—
Proceeds from loans and borrowings	20	160,000	—
Repayments of loans and borrowings	20	(150,750)	—
Interest paid		(690)	—
Other financing charges paid	20	(1,500)	(1,000)
Net cash generated from/(used in) financing activities		44,526	(1,000)
Net decrease in cash and cash equivalents		(1,767)	(18,193)
Effect of exchange rate changes on cash and cash equivalents		(2,043)	(391)
Cash and cash equivalents at the beginning of the period		15,832	34,416
Cash and cash equivalents at the end of the period		12,022	15,832

Refer to Note 20 for the refinancing transaction that did not require the use of cash and cash equivalents and was excluded from the cash flow statement

John Conlin
Chief Executive Officer

Alexander Betsky
Finance Director

The accompanying notes on pages 70 to 93 are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

1. Corporate information

The consolidated financial statements of Ruspetro plc (the 'Company' or 'Ruspetro') and its subsidiaries, together referred to as 'the Group' for the year ended 31 December 2014 were approved by its Board of Directors on 30 April 2015

The Company was incorporated in the United Kingdom on 20 October 2011 as a public company under the provisions of the Companies Act 2006 of England and Wales. The Company's registered office is 58 Grosvenor Street, London W1K 3JB, England

The principal activities of the Group are exploration for and production of crude oil. The operating subsidiaries of the Group – OJSC INGA and OJSC Trans-Oil (hereinafter referred to as INGA and Trans-Oil respectively) hold three licences for exploration for, and extraction of, crude oil and natural gas in the Khanty-Mansiysk region of the Russian Federation

Details of subsidiaries consolidated within the Group are as follows

Company	Business activity	Country of incorporation	Year of incorporation	Effective ownership	
				31 December	
				2014	2013
Ruspetro Holding Limited	Holding company	Republic of Cyprus	2007	100%	100%
Ruspetro LLC ("Ruspetro Russia")	Crude oil sale	Russian Federation	2005	100%	100%
INGA	Exploration and production of crude oil	Russian Federation	1998	100%	100%
Trans-oil	Exploration and production of crude oil	Russian Federation	2001	100%	100%

2. Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements are prepared under the historical cost convention, modified for fair values under IFRS

The consolidated financial statements are presented in US dollars (US\$) and all values are rounded to the nearest thousand unless otherwise indicated

Group financial restructuring

On 5 December 2014 the shareholders of the Company approved a financial restructuring (the Restructuring) at a general meeting. The restructuring included the issue of shares under an Open Offer and Placing, as well as in consideration for the capitalisation of existing indebtedness as described below

On 9 December 2014 OJSC Sberbank of Russia ("Sberbank") transferred its creditors rights and LLC Sberbank Capital ("Sberbank Capital") transferred its rights under its put option to Mastin Holdings Limited ("Mastin") in total amount of US\$358,076 thousand. Part of the debt in the amount of US\$150,000 thousand was repaid by means of a five-year term credit facility received on 10 December 2014 from OJSC "Bank Otkritie Financial Corporation" ("Otkritie"). The remaining debt was capitalised through the issue of new ordinary shares to Mastin, which also purchased Sberbank Capital's shareholding in the Company's capital, resulting in Mastin having an aggregate 25% shareholding in the Company's enlarged issued share capital, following the Open Offer and Placing.

On 11 December 2014 the Company completed a fully underwritten Open Offer and a Placing at 10 pence per ordinary share, raising United Kingdom Sterling ("£") 32.9 million (approximately US\$52.3 million) before expenses

The Company's obligation to repay a shareholder loan from Limolines Transport Limited (Limolines) with principal and interest amounting to US\$10.7 million in February 2015 (the Limolines Loan) was off-set against Limolines' subscription for new ordinary shares in the Placing and Open Offer. Additionally, the Company undertook to pay US\$5.0 million in respect of accrued interest on a shareholder loan from Makayla Investments Limited in May 2015. Total shareholder outstanding loans as at 31 December 2014 were equal to US\$99.4 million

Following the restructuring, Otkritie has committed to provide a new development facility for up to US\$100.0 million as well as a new credit facility for up to US\$44.7 million

The guaranteed net proceeds of the Restructuring, comprising the initial tranche of the development facility of US\$50.0 million and gross proceeds of £32.9 million (approximately US\$52.3 million) from the Placing and Open Offer less costs of the Restructuring of approximately US\$5.7 million, comprised approximately US\$96.6 million. In addition, the Company will be able to draw down up to US\$44.7 million under the Credit Facility

The drawdown of the development facility second tranche of US\$50.0 million (expected to be available from July 2015) is dependent on the Group meeting certain covenants under the development facility. Should the applicable development facility covenants not be met or the development facility second tranche is not drawn down, then the Company will only receive the guaranteed net proceeds of the Restructuring.

The completion of the Restructuring occurred on 11 December 2014 with the admission of 536,310,294 new ordinary shares to listing on the premium segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities (the Admission). In addition, the Company issued 420,242 new ordinary shares in lieu of salary to certain current and former Directors. Following the Admission, and as at the date of these financial statements, the Company's issued share capital comprises 870,112,016 ordinary shares.

Going concern

These consolidated financial statements are prepared on a going concern basis.

At 31 December 2014 the Group reported net current liabilities of US\$11,465 thousand, which included cash in hand of US\$12,022 thousand.

The Group's continuing operations are dependent upon its ability to make further investments in field development in order to grow its hydrocarbon production and sales. In the short term, this field development is planned to involve, in particular, the drilling of a number of horizontal wells, the success of which will only be known with certainty once each well is completed. The first and the second horizontal wells were drilled and launched into production in July and October 2014 respectively. In the light of these results, the nature and extent of the Group's drilling programme may change over time, with a consequent change in investment requirements.

Accordingly, the ability of the Group to generate sufficient cash from operations may be materially affected by the results of the Group's current appraisal activity and the success of future drilling activities, as well as by a number of economic factors to which the Group's financial forecasts are particularly sensitive, such as crude oil prices, the level of inflation in Russia, and foreign exchange rates.

The Group finances its exploration and development activities using a combination of cash in hand, operating cash flow generated mainly from the sale of crude oil production, prepayments from forward oil sale agreements and additional debt or equity financing as required.

In addition to the agreement with Otkritie, during the reporting period, the Group negotiated a roll-over of the US\$30 million advance financing arrangement with Glencore Energy UK Ltd (Glencore) and obtained Russian ruble ("RUR") 750,000 thousand (US\$21,646 thousand) and RUR200,000 thousand (US\$4,689 thousand) as forward oil sale prepayments from LLC EnergoResurs ("EnergoResurs") (see Note 22). The Group also secured further shareholder finance of US\$10 million in short-term funding, as announced on 26 August 2014, from Limolines, a major shareholder of the Company.

On 14 November 2014 an extension of existing shareholder loans was agreed until October 2016 and February 2020.

As further discussed in Note 20, the credit facility obtained from Otkritie contains certain covenants which the Group needs to meet to avoid acceleration of the debt repayment schedule. The two sensitive covenants are EBITDA and production volumes.

The projections prepared by management for the purposes of preparation of these financial statements shows that the Group might breach its EBITDA covenant for the year ending 31 December 2015 and four consecutive quarters ending 31 March 2016. The main reason for this is a substantial decline of the oil price, which is beyond the control of the Group. To mitigate this risk, management has commenced negotiations with Otkritie to revise the covenants to a level that is within the current forecasts. The Group has also received, in April 2015, a written confirmation that Otkritie has no intention to take any actions to accelerate repayment of the loans as a result of the possible breach of covenants for the periods referred to above. The outcome of such negotiations cannot be certain and, therefore, the directors recognise that this represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

However, on the basis of the assumptions and cash flow forecasts prepared, management has assumed that the Group will continue to operate within both available and prospective facilities. Accordingly, the Group financial statements are prepared on the going concern basis and do not include any adjustments that would be required in the event that the Group were no longer able to meet its liabilities as they fall due.

3. Summary of significant accounting policies

Principles of consolidation

Subsidiaries

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated, unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

3. Summary of significant accounting policies continued

Oil and natural gas exploration, evaluation and development expenditure

Oil and gas exploration activities are accounted for in a manner similar to the successful efforts method. Costs of successful development and exploratory wells are capitalised.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

Property, plant and equipment, Mineral rights and other intangibles

Oil and gas properties and other property, plant and equipment, including mineral rights are stated at cost, less accumulated depletion, depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation and Depletion

Oil and gas properties are depreciated on a unit-of-production basis over proved developed reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Mineral rights are depleted on the unit-of-production basis over proved and probable reserves of the relevant area.

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives as follows:

	years
Buildings and constructions	30-50
Other property, plant and equipment	1-6

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. Inspection costs associated with major maintenance programs are capitalised and amortised over the period to the next inspection. All other maintenance costs are expensed as incurred.

Intangible assets

Intangible assets are stated at the amount initially recognised, less accumulated amortisation and accumulated impairment losses. Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over their useful lives, except for mineral rights that are depleted on the unit-of-production basis as explained above.

Impairment of assets

The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use (VIU) calculations and fair values less costs to sell (FVLCS). These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of long-term assets.

Given the shared infrastructure and interdependency of cash flows related to the three licences the Group holds, the assets are considered to represent one Cash Generating Unit (CGU), which is the lowest level where largely independent cash flows are deemed to exist.

Share option plan

The share option plan, under which the Group has the ability to choose whether to settle it in cash or equity instruments at the discretion of the Board of Directors is accounted for as an equity settled transaction. The fair value of the options granted by the Company to employees is measured at the grant date and calculated using the Trinomial option pricing model and recognised in the consolidated financial statements as a component of equity with a corresponding amount recognised in selling, general and administrative expenses over the time share reward vest to the employee.

Modifications of the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement or is not otherwise beneficial to the employee, are accounted for as services received in consideration for the equity instruments granted as if the modification had not occurred

Financial instruments

A financial instrument is any contract that gives rise to financial assets or liabilities

Financial assets within the scope of International Accounting Standard (IAS) 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss

The Group determines the classification of its financial assets at initial recognition

Financial instruments carried on the consolidated statement of financial position include loans and receivables, cash and cash equivalent balances, borrowings, accounts payable and put options. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item

An obligation to acquire own shares is classified as a liability. The liability to repurchase own shares is initially recognised at the fair value of consideration payable (being the net present value of estimated redemption amount) and it is recorded as deduction of equity. Subsequent changes (revision of estimate, unwinding of discount) are recognised in profit or loss. If options are not exercised, the amount recognised as a liability is transferred to equity

Rights to acquire own shares are classified as assets. The right to repurchase own shares is initially recognised at the fair value of consideration payable, estimated using the Black-Scholes option pricing model, and it is recorded as increase of equity. Subsequent changes (revision of estimate) are recognised in profit and loss

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any provision for impairment

A provision for impairment is recognised when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of the loans and receivables. The amount of provision is the difference between the assets' carrying value and the present value of the estimated future cash flows, discounted at the original effective interest rate. The change in the amount of the loan or receivable is recognised in profit or loss. Interest income is recognised in profit or loss by applying the effective interest rate

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts if any

Borrowings and accounts payable

The Group's financial liabilities are represented by accounts payable and borrowings

Borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method, any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the borrowings

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

3. Summary of significant accounting policies continued

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using rates that reflect, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provision for dismantlement

Provision for dismantlement is related primarily to the conservation and abandonment of wells, removal of pipelines and other oil and gas facilities together with site restoration activities related to the Group's licence areas. When a constructive obligation to incur such costs is identified and their amount can be measured reliably, the net present value of future decommissioning and site restoration costs is capitalised within property, plant and equipment with a corresponding liability. Provisions are estimated based on engineering estimates, licence and other statutory requirements and practices adopted in the industry and are discounted to net present value using discount rates reflecting adjustments for risks specific to the obligation.

Adequacy of such provisions is periodically reviewed. Changes in provisions resulting from the passage of time are reflected in profit or loss each year under finance costs. Other changes in provisions, relating to a change in the expected pattern of settlement of the obligation, changes in the discount rate or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change and are reflected as an adjustment to the provision and a corresponding adjustment to property, plant and equipment. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

Taxes

Income tax

The income tax expense comprises current and deferred taxes calculated based on the tax rates that have been enacted or substantively enacted at the end of the reporting period. Current and deferred taxes are charged or credited to profit or loss except where they are attributable to items which are charged or credited directly to equity, in which case the corresponding tax is also taken to equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred taxes provide for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or carry forward losses can be utilised.

Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to set off current tax assets and liabilities, when deferred tax balances are referred to the same governmental body (i.e. federal, regional or local) and the same subject of taxation and when the Group intends to perform an offset of its current tax assets and liabilities.

Value added tax

Russian Value Added Tax (VAT) at a standard rate of 18% is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT could be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

VAT related to sales and purchases is recognised in the consolidated balance sheet on a gross basis and disclosed separately as a current asset and liability.

Mineral extraction tax

Mineral extraction tax on hydrocarbons, including natural gas and crude oil, is due on the basis of quantities of natural resources extracted. Mineral extraction tax for crude oil is determined based on the volume produced per fixed tax rate adjusted depending on the monthly average market prices of the Urals blend and the RUR/US\$ exchange rate for the preceding month. The ultimate amount of the mineral extraction tax on crude oil depends also on the depletion and geographic location of the oil field. Mineral extraction tax on gas condensate is determined based on a fixed percentage from the value of the extracted mineral resources. Mineral extraction tax is accrued as a tax on production and recorded within cost of sales.

Equity**Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of shares issued or liabilities extinguishment over the par value of shares issued is recorded as share premium.

Other reserves

Other reserves include a reserve on reorganisation of the Group, the amount of share options of shareholders and an amount related to fair value of Directors' options (Note 17).

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods provided or services rendered less any trade discounts, VAT and similar sales-based taxes after eliminating sales within the Group.

Revenue from sale of crude oil and gas condensate is recognised when the significant risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and costs incurred or to be incurred in respect of this transaction can be measured reliably. If the Group agrees to transport the goods to a specified location, revenue is recognised when goods are passed to the customer at the designated location.

Other revenue is recognised in accordance with contract terms.

Interest income is accrued on a regular basis by reference to the outstanding principal amount and the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time the assets are substantially ready for their intended use, i.e. when they are capable of production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short-term out of money borrowed specifically to finance a project, the income generated from such short-term investments is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognised in the profit or loss account as finance costs in the period in which they are incurred.

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses are expensed as incurred.

Foreign currency translation

Foreign currency transactions are initially recognized in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the end of the reporting period.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

3. Summary of significant accounting policies continued

The US dollar (US\$) is the presentation currency of the Group and the functional currency of the Company. The functional currency of subsidiaries operating in the Russian Federation is the Russian ruble (RUR). The assets and liabilities of the subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the end of each of the reporting periods. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions). All the resulting exchange differences are recorded in other comprehensive income.

The US\$ to RUR exchange rates were 56.26 and 32.73 as at 31 December 2014 and 31 December 2013, respectively and the average rates for the year ended 31 December 2014 and 2013 were 38.47 and 31.85, respectively. The US\$ to £ exchange rates were 0.64 and 0.61 as at 31 December 2014 and 31 December 2013, respectively and the average rates for the year ended 31 December 2014 and 2013 were 0.61 and 0.64, respectively. The increase in the US\$ to RUR exchange rate for the year ended 31 December 2014 has resulted in a loss of US\$202,410 thousand in the consolidated statement of profit or loss and other comprehensive loss and an adjustment of US\$9,832 thousand in other comprehensive loss (refer to Notes 13 and 14).

4. Significant accounting judgements, estimates and assumptions

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas of accounting requiring the use of the Group's management estimates and assumptions relate to oil and gas reserves, useful economic lives and residual values of property, plant and equipment, impairment of tangible assets, provisions for dismantlement, taxation and allowances.

Subsoil licences

The Group conducts operations under exploration and production licences which require minimum levels of capital expenditure and mineral production, timely payment of taxes, provision of geological data to authorities and other such requirements. The current periods of the Group's licences expire between December 2015 and June 2034.

The Russian regulatory authorities exercise considerable discretion in issuing and renewing licences and in monitoring licensees' compliance with licence terms. The loss of licence would be considered a material adverse event for the Group.

It is management's judgement that each of the three licences held by the Group will be renewed for the economic lives of the fields which are projected to be up to 2040 (two licences held by INGA) and 2029 (the licence held by Trans-oil). The appraised economic lives of the fields are used as the basis for reserves estimation, depletion calculation and impairment analysis. In making this assessment, management considers that the licence held by Trans-oil, which was extended for three years to December 2015, will be further extended. This further extension will be dependent on management demonstrating to the licensing authorities that associated petroleum gas produced in the course of oil production is being utilised.

Useful economic lives of property, plant and equipment and mineral rights

Oil and gas properties and mineral rights

The Group's oil and gas properties are depleted over the respective life of the oil and gas fields using the unit-of-production method based on proved developed oil and gas reserves (Note 13). Mineral rights are depleted over the respective life of the oil and gas fields using the unit-of-production method based on proved and probable oil and gas reserves (Note 14).

Reserves are determined using estimates of oil in place, recovery factors and future oil prices.

When determining the life of the oil and gas field, assumptions that were valid at the time of estimation, may change when new information becomes available. The factors that could affect the estimation of the life of an oil and gas field include the following:

- Changes of proved and probable oil and gas reserves,
- Differences between actual commodity prices and commodity price assumptions used in the estimation of oil and gas reserves,
- Unforeseen operational issues, and
- Changes in capital, operating, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of oil and gas reserves.

Any of these changes could affect prospective depletion of mineral rights and oil and gas assets and their carrying value.

Other non-production assets

Property, plant and equipment other than oil and gas properties are depreciated on a straight-line basis over their useful economic lives (Note 13). At the end of each reporting period management reviews the appropriateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and their estimated residual value.

Estimation of oil and gas reserves

Unit-of-production depreciation, depletion and amortisation charges are principally measured based on Group's estimates of proved developed and proved and probable oil and gas reserves. Estimates of proved and probable reserves are also used in determination of impairment charges and reversals. Proved and probable reserves are estimated by an independent international reservoir engineers, by reference to available geological and engineering data, and only include volumes for which access to market is assured with reasonable certainty.

Information about the carrying amounts of oil and gas properties and the depreciation, depletion and amortisation charged is provided in Notes 13 and 14.

Estimates of oil and gas reserves are inherently imprecise, require the application of judgements and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Group's estimates of proved and probable reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of mineral rights and oil and gas properties.

Were the estimated proved reserves to differ by 10% from management's estimates, the impact on depletion would be as follows:

Increase/decrease in reserves estimation	Effect on loss before tax for the year ended 31 December	
	2014	2013
+10%	(2,454)	(1,977)
-10%	2,999	2,416

Provision for dismantlement

The Group has a constructive obligation to recognise a provision for dismantlement for its oil and gas assets (Note 21). The fair values of these obligations are recorded as liabilities on a discounted basis, which is typically at the time when assets are installed. The Group performs analysis and makes estimates in order to determine the probability, timing and amount involved with probable required outflow of resources. Estimating the amounts and timing of such dismantlement costs requires significant judgement. The judgement is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Provision for dismantlement is subject to change because of change in laws and regulations, and their interpretation.

Estimated dismantlement costs, for which the outflow of resources is determined to be probable, are recognised as a provision in the Group's financial statements.

Impairment of non-current assets

The Group accounts for the impairment of non-current assets in accordance with IAS 36 Impairment of Assets. Under IAS 36, the Group is required to assess the conditions that could cause assets to become impaired and to perform a recoverability test for potentially impaired assets held by the Group. These conditions include whether a significant decrease in the market value of the assets has occurred, whether changes in the Group's business plan for the assets have been made or whether a significant adverse change in the business environment has arisen.

Subsequent to the year end, the Group's shares have been trading at a level which indicate that the market capitalisation of the Group is below the carrying value of net assets. This has resulted in a review of the Group's non-current assets (Oil and Gas properties and Mineral Rights) to determine whether they are impaired as at the reporting date.

The recoverable amount was estimated using value in use approach. The models developed by management to calculate value in use involved assumptions as to future hydrocarbon prices, taxes, production volumes, and inflation. The models also use estimates of proved developed reserves at 31 December 2014 as calculated by the management of the Group. Estimated cash flows were discounted with a risk adjusted discount rate derived as the weighted average cost of capital (WACC). For the Group's businesses the after tax nominal discount rate is estimated at 10 percent.

Based on the impairment analysis performed, management does not consider that the Group's non-current assets are impaired as at 31 December 2014.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

4. Significant accounting judgements, estimates and assumptions continued

Assumptions used in developing cash flow forecasts of the Group

Assumption	Value
Average crude oil price	gradual increase from US\$60 to 80 per barrel by January 2017
Average effective rate of mineral extraction tax of crude oil	gradual increase from RUR3,263 to 7,213 per ton by January 2018
Production volume of crude oil over economic life of the fields	246,077 thousand barrels

Taxation

The Group is subject to income and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to complexity of the tax legislation of the Russian Federation. Deferred tax assets are recognised to the extent that it is probable that it will generate enough taxable profits to utilise deferred income tax recognised. Significant management judgement is required to determine the amount of deferred tax assets recognised, based upon the likely timing and the level of future taxable profits. Management prepares cash flow forecasts to support recoverability of deferred tax assets. Cash flow models are based on a number of assumptions relating to oil prices, operating expenses, production volumes, etc. These assumptions are consistent with those, used by independent reservoir engineers. Management also takes into account uncertainties related to future activities of the Group and going concern considerations. When significant uncertainties exist deferred tax assets arising from losses are not recognised even if recoverability of these is supported by cash flow forecasts.

Segment reporting

Management views the Group as one operating segment and uses reports for the entire Group to make strategic decisions. 98% of total revenues from external customers in 2014 and 2013 were derived from sales of crude oil and gas condensate. These sales are made to domestic and international oil traders. Although there are a limited number of these traders, the Group is not dependent on any one of them as crude oil is widely traded and there are a number of other potential buyers of this commodity. The Group's operations are entirely located in Russia.

The Company's Board of Directors evaluates performance of the entity on the basis of different measures, including total expenses, capital expenditures, operating expenses per barrel and others.

5. Adoption of the new and revised standards

At the date of approval of these consolidated financial statements the following accounting standards, amendments and interpretations were issued by the International Accounting Standards Board and IFRS Interpretations Committee in the year ended 31 December 2014 or earlier, but are not yet effective and therefore have not been applied.

(i) Not endorsed by the European Union

New standards and interpretations

- IFRS 9 – Financial Instruments (effective for annual periods on or after 1 January 2018)
- IFRS 14 – Regulatory Deferral Accounts (effective for annual periods on or after 1 January 2016)
- IFRS 15 – Revenue from Contracts with Customers (effective for annual periods on or after 1 January 2017)

Amendments

- Annual Improvements to IFRSs 2010–2012 Cycle (effective for annual periods beginning on or after 1 July 2014)
- Amendments to IAS 19 – Defined benefit plans: Employee Contributions (effective for annual periods beginning 1 July 2014)
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 1 – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016)
- Annual Improvements to IFRSs 2012–2014 Cycle (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 27 – Equity Method in Separate Financial Statements (effective for annual periods beginning 1 January 2016)
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for the periods beginning on or after 1 January 2016)
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (effective for the periods beginning on or after 1 January 2016)

Management expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Group.

6. Segment reporting

Management views the operations of the Group as one operating segment. Should the Group diversify its operations its financial reporting will be adjusted to reflect such change.

The Company's Board of Directors evaluates performance of the Group on the basis of different measures, including, production volumes, related revenues, capital expenditures, operating expenses per barrel and others.

7 Revenue

	Year ended 31 December	
	2014	2013
Revenue from crude oil sales	53,795	67,326
Revenue from gas condensate sales	299	11,267
Other revenue	1,006	1,256
Total revenue	55,100	79,849

Other revenue includes proceeds from third parties for crude oil transportation.

For the years ended 31 December 2014 and 2013, revenue from export sales of crude oil amounted to US\$18,811 thousand and US\$13,306 thousand, respectively.

Revenues from certain individual customers from sales of crude oil and gas condensate approximately equalled or exceeded 10% of total Group revenue.

Customer	Year ended 31 December	
	2014	2013
Customer 1	18,811	13,306
Customer 2	15,936	–
Customer 3	9,406	36,623
Customer 4	3,383	23,368
	47,536	73,297

8. Cost of sales

	Year ended 31 December	
	2014	2013
Depletion, depreciation and amortisation	24,722	18,488
Employee benefit expense	8,614	7,915
Production services	5,567	6,649
Mineral extraction tax	5,506	25,600
Taxes other than income tax	2,511	2,678
Repairs and maintenance	2,010	1,587
Change of inventories	1,138	491
Transportation services	543	1,292
Reserves evaluation	377	608
Other	700	592
Total cost of sales	51,688	65,900

The decrease of mineral extraction tax in 2014 related to the 80% relief by reference to a base tax rate per ton, which is established monthly on the monthly average market prices of the Urals blend and the RUR/US\$ exchange rate for the preceding month. Relief was effective from September 2013, applicable to tight oil, and relates to approximately 97% of the Group's current crude oil production.

For a better presentation of their economic nature, taxes, other than income tax, (mainly property tax), which in 2013 were included in administrative expenses amounting to US\$2,678 thousand, in 2014 are included in cost of sales. For comparability, these costs in 2013 were also restated and reallocated from administrative expenses to cost of sales.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

9. Selling and administrative expenses

	Year ended 31 December	
	2014	2013
Selling expenses		
Oil transportation costs	2,605	1,838
Administrative expenses		
Employee benefit expense	10,278	9,108
Share-based payment compensation	16	210
Depreciation and amortisation	2,270	3,260
Professional services	2,083	2,781
Rent expenses	1,625	1,717
IT, telecom and other information services	465	1,036
Travel expenses	465	1,240
Bank charges	172	72
Other	843	1,206
Total selling and administrative expenses	20,822	22,468

Oil transportation costs represent the cost of transferring oil to export customers through the "Transneft" pipeline system

Auditor remuneration

During the year the Group obtained the following services from the Company's auditor and its network firms

	Year ended 31 December	
	2014	2013
Fees payable to the Company's auditor and its associates for the audit of company and consolidated financial statements	370	370
Fees payable to the Company's auditor and its associates for other services		
– Tax advisory services	32	80
– Other consulting services	665	360

Employee benefit expense

The employee numbers and costs incurred in the reporting years were as follows

	Year ended 31 December	
	2014	2013
Selling expenses		
Wages and salaries	16,698	14,543
Social security costs	2,194	2,487
Total employee costs	18,892	17,030
Share-based payment compensation	16	210
Average number of employees (including Directors)	205	211

Details of the remuneration of senior management are set out in Note 24

10. Other expenses

Other expenses mainly consist of impairment of fixed and other assets in amount of US\$2,137 thousand, impairment of financial instruments in amount of US\$1,285 thousand, and professional fees, incurred in connection with the cancellation of a previously proposed financial transaction by the Company, in amount of US\$709 thousand

11. Finance costs

	Year ended 31 December	
	2014	2013
Interest expense on borrowings	30,883	28,132
Unwinding discount of put option liabilities (Note 17)	2,032	1,147
Unwinding discount of provision for dismantlement (Note 21)	807	793
Other financial expenses	4,243	2,924
Total finance cost	37,965	32,996

For the years ended 31 December 2014 and 2013, borrowing costs amounting to US\$3,912 thousand and US\$5,722 thousand, respectively, were capitalised in Property, plant and equipment and are not included above. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation for both of the years ended 31 December 2014 and 2013 was 10% per annum.

Other financial expenses include interest on the outstanding amount of Glencore and EnergoResurs prepayment facility (see Note 22) and amortisation of payment for the Sberbank credit facility.

12. Income tax

The major components of income tax expense for the years ended 31 December 2014 and 2013 were

	Year ended 31 December	
	2014	2013
Current Income tax expense	22	51
Deferred tax benefit	(517)	(62)
Total income tax benefit	(495)	(11)

Loss before taxation for financial reporting purposes is reconciled to the tax calculation for the period as follows

	Year ended 31 December	
	2014	2013
Loss before income tax	(263,388)	(74,249)
Income tax benefit at applicable tax rate	52,678	14,850
Tax effect of losses for which no deferred income tax asset was recognized	(48,419)	(24,533)
Tax effect of losses utilised	–	13,752
Tax effect of share-based payment compensation	(4)	(41)
Tax effect interest on shareholders' loans	(1,910)	(1,730)
Tax effect of non-deductible expenses	(1,850)	(2,287)
Income tax benefit	495	11

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% for Group companies incorporated in the Russian Federation.

The movements in deferred tax assets and liabilities relates to the following

	1 January 2014	Recognised in profit or loss	Translation difference	31 December 2014
Assets				
Tax loss carry-forward	2,682	2,485	(1,907)	3,260
Deferred income tax assets	2,682	2,485	(1,907)	3,260
Liabilities				
Property, plant and equipment	(8,870)	(2,060)	3,107	(7,823)
Mineral rights and intangible assets	(79,050)	(441)	33,201	(46,290)
Inventories	21	(60)	32	(7)
Loans and borrowings	–	(439)	139	(300)
Accounts payable	1,214	943	(806)	1,351
Accounts receivable	501	89	(238)	352
Deferred income tax liabilities	(86,184)	(1,968)	35,435	(52,717)

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

12. Income tax continued

	1 January 2013	Recognised in profit or loss	Translation difference	31 December 2013
Assets				
Tax loss carry-forward	–	2,757	(75)	2,682
Deferred income tax assets	–	2,757	(75)	2,682
Liabilities				
Property, plant and equipment	(6,403)	(2,870)	403	(8,870)
Mineral rights and intangible assets	(85,059)	(118)	6,127	(79,050)
Inventories	–	21	–	21
Accounts payable	1,016	278	(80)	1,214
Accounts receivable	546	(6)	(39)	501
Deferred income tax liabilities	(89,900)	(2,695)	6,411	(86,184)
Deferred income tax liabilities	(86,184)	(1,968)	35,435	(52,717)

The Group recognises deferred tax assets in respect of tax losses incurred only by INGA, because it is probable that sufficient taxable profits will be available in the future to utilise the deductible temporary difference

The Group did not recognise deferred income tax assets of US\$65,172 thousand and US\$39,682 thousand, in respect of losses that can be carried forward against future taxable income amounting to US\$325,861 thousand and US\$198,410 thousand as at 31 December 2014 and 31 December 2013, respectively. As at 31 December 2014, losses amounting to US\$29,230 thousand, US\$21,578 thousand, US\$15,139 thousand, US\$24,009 thousand, US\$25,210 thousand and US\$210,695 thousand expire in 2018, 2019, 2020, 2021, 2023, 2024 respectively. As at 31 December 2013, losses amounting to US\$51,087 thousand, US\$36,899 thousand, US\$26,559 thousand, US\$41,400 thousand and US\$42,465 thousand expire in 2018, 2019, 2020, 2021, 2023 respectively.

13. Property, plant and equipment

	Oil and gas properties	Other property, plant and equipment	Construction in progress	Total
Cost as at 1 January 2014	223,088	11,425	74,258	308,771
Additions	–	–	38,143	38,143
Transfers to fixed assets	70,070	1,082	(71,152)	–
Change in provision for dismantlement (Note 21)	(1,354)	–	–	(1,354)
Disposals	(314)	(181)	(311)	(806)
Effect of translation to presentation currency	(108,831)	(4,501)	(18,268)	(131,600)
Cost as at 31 December 2014	182,659	7,825	22,670	213,154
Accumulated depletion and impairment as at 1 January 2014	(68,789)	(5,779)	–	(74,568)
Charge for the period	(24,487)	(2,149)	–	(26,636)
Impairment	(336)	(801)	(952)	(2,089)
Disposals	215	78	–	293
Effect of translation to presentation currency	35,095	2,890	–	37,985
Accumulated depletion and impairment as at 31 December 2014	(58,302)	(5,761)	(952)	(65,015)
Net book value as at 31 December 2014	124,357	2,064	21,718	148,139

	Oil and gas properties	Other property, plant and equipment	Construction in progress	Total
Cost as at 1 January 2013	212,417	11,339	61,203	284,959
Additions	–	–	45,507	45,507
Transfers to fixed assets	26,268	1,009	(27,277)	–
Change in provision for dismantlement (Note 21)	26	–	–	26
Disposals	(187)	(154)	–	(341)
Effect of translation to presentation currency	(15,436)	(769)	(5,175)	(21,380)
Cost as at 31 December 2013	223,088	11,425	74,258	308,771
Accumulated depletion and impairment as at 1 January 2013	(55,177)	(3,046)	–	(58,223)
Charge for the period	(18,060)	(3,101)	–	(21,161)
Disposals	119	77	–	196
Effect of translation to presentation currency	4,329	291	–	4,620
Accumulated depletion and impairment as at 31 December 2013	(68,789)	(5,779)	–	(74,568)
Net book value as at 31 December 2013	154,299	5,646	74,258	234,203

For the year ended 31 December 2014, additions to construction in progress are primarily made up of additions to production facilities, including wells, as well as additions to infrastructure. As at 31 December 2014, the construction in progress balance mainly represents production wells and oil production infrastructure not finalised (e.g. pads, electricity grids, etc.)

None of the Group's property, plant and equipment was pledged as at the reporting dates

14. Mineral rights and other intangibles

	Mineral rights	Other intangible assets	Total
Cost as at 1 January 2014	395,779	1,495	397,274
Additions	–	2,482	2,482
Effect of translation to presentation currency	(165,526)	(1,411)	(166,937)
Cost as at 31 December 2014	230,253	2,566	232,819
Accumulated depletion and impairment as at 1 January 2014	(1,587)	(154)	(1,741)
Charge for the period	(255)	(101)	(356)
Impairment	–	(48)	(48)
Effect of translation to presentation currency	779	109	888
Accumulated depletion and impairment as at 31 December 2014	(1,063)	(194)	(1,257)
Net book value as at 1 January 2014	394,192	1,341	395,533
Net book value as at 31 December 2014	229,190	2,372	231,562

	Mineral rights	Other intangible assets	Total
Cost as at 1 January 2013	426,490	320	426,810
Additions	–	1,231	1,231
Effect of translation to presentation currency	(30,711)	(56)	(30,767)
Cost as at 31 December 2013	395,779	1,495	397,274
Accumulated depletion and impairment as at 1 January 2013	(1,205)	(54)	(1,259)
Charge for the period	(480)	(107)	(587)
Effect of translation to presentation currency	98	7	105
Accumulated depletion and impairment as at 31 December 2013	(1,587)	(154)	(1,741)
Net book value as at 1 January 2013	425,285	266	425,551
Net book value as at 31 December 2013	394,192	1,341	395,533

Intangible assets of the Group are not pledged as security for liabilities and their titles are not restricted

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

15. Inventories

	31 December	
	2014	2013
Spare parts, consumables and other inventories	109	957
Crude oil	475	724
Total Inventories	584	1,681

The Group did not have any obsolete or slow-moving inventory at either of the reporting dates

16. Trade and other receivables

	31 December	
	2014	2013
Trade receivables	1,205	2,629
Other receivables and prepayments	1,953	2,783
VAT recoverable	3,407	1,248
Total trade and other receivables	6,565	6,660

Trade receivables are mainly denominated in RUR and are not past-due or impaired. Other receivables and prepayments are mostly RUR denominated and relate to counterparties with no history of delays in settlements. VAT recoverable is used either to offset against amounts due for mineral extraction tax or is recovered in cash. The VAT is recovered within three to six months from its initiation, following a review by the tax authorities.

As at 31 December 2014 and 31 December 2013, the Group has impaired prepayments amounting to US\$129 thousand and US\$384 thousand, respectively. In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date.

17. Other current assets and liabilities

Other current assets

In November 2014 the Group entered into an agreement to purchase promissory notes denominated in RUR and valued at US\$7,062 thousand at the date of agreement. Due to a significant weakening of RUR exchange rate against US\$ by the date of payment and further weakening of RUR exchange rate against US\$ by the reporting date the Group recognised an impairment loss in amount of US\$1,285 thousand and a foreign exchange loss in amount of US\$712 thousand.

Options on shares of the Company

On 2 December 2011, the Company and Sberbank Capital entered into an option agreement which became effective on 17 January 2012, pursuant to which Sberbank Capital granted the Company a call option to acquire the 10,362,632 ordinary shares held by Sberbank Capital. The call option expired on 19 April 2013. The call option was only able to be exercised once only at any time prior to the day which is 15 months from the date of the Company's IPO on 24 January 2012, at an exercise price equal to the IPO offer price of £1.34 per share less 10%. Resulting reserves, amounting to US\$4,059 thousand, initially recognised in equity, were transferred to retained earnings.

In addition, pursuant to this agreement, Sberbank Capital may have put these ordinary shares issued back to the Company. The put option may have been exercised once only at any time between the second and third anniversary of the Company's IPO on 24 January 2012, at an exercise price equal to the IPO offer price of £1.34 per share less 20%. With respect to the put option, a liability of US\$17,026 thousand was recorded as at 31 December 2013.

In November 2014 an Investment and Assignment Agreement was entered into between Sberbank Capital, Mastin and the Company. In accordance with the agreement Sberbank Capital transferred its rights under the put option agreement to Mastin. As part of the Restructuring 20,115,743 ordinary shares were issued as a consideration for cancellation of the put option.

The following table shows the changes of value of the put option for the year ended 31 December 2014 and its cancellation by means of share issue.

	2014	2013
As at 1 January	17,026	15,365
Unwinding of discount	2,032	1,147
Settlement against share issue	(17,725)	—
Foreign exchange loss related to put option	(1,333)	514
As at 31 December	—	17,026

During 2013, one of the Executive Directors, who has been granted an option to acquire shares in the Company, left the Group's employment. In accordance with the terms of the option, this Director lost the right to exercise part of his option to acquire 4,145,053 ordinary shares. Reserves, amounting to US\$4,814 thousand, initially recognised in equity, were transferred to retained earnings.

Other liabilities

Other liabilities mainly include environmental tax obligations arising in the ordinary course of business.

18. Cash and cash equivalents

	31 December	
	2014	2013
Cash in bank denominated in US\$	4,248	10,653
Cash in bank denominated in £	7,713	4,921
Cash in bank denominated in RUR	45	258
Cash in bank denominated in EUR	16	—
Total cash and cash equivalents	12,022	15,832

Cash balances generally carry no interest. The Group holds its cash with Sberbank (Moody's rating Ba1/ D+/P2 (Negative) at 31 December 2014), Bank of America (Moody's rating Baa2/P2 (Stable) at 31 December 2014), Citibank (Fitch's rating BBB/bbb-/F3 (Negative) at 31 December 2014) and Bank of Cyprus (Moody's rating Caa3/E/NP (Stable) at 31 December 2014).

19 Shareholders' equity

Share capital

	31 December	
	2014	2013
Ordinary share capital	135,493	51,226

On 11 December 2014 on completion of the Restructuring 536,730,536 new ordinary shares were issued as follows:

- 179,061,411 new ordinary shares were issued pursuant to applications received for Open Offer and Excess shares
- 4,298,403 new ordinary shares were taken up by the underwriting shareholders pursuant to their underwriting commitment under the Open Offer
- 145,890,169 new ordinary shares were taken up by underwriting shareholders pursuant to the terms of the Placing

In total 329,249,983 new ordinary shares were issued at par value of 10 pence per share, with existing shareholders being offered the right to subscribe for 0.55 new shares for each existing share held.

Mastin purchased from Sberbank Capital 10,362,632 existing ordinary shares. Including 20,115,743 new ordinary shares issued to it to set off the put obligation of the Company, a total 207,060,311 new ordinary shares were issued to Mastin resulting in it having a 25% holding in the enlarged issued ordinary share capital as at 31 December 2014.

In addition, on 19 December 2014 a further 420,242 shares were issued to current and former Directors in lieu of salary for the period from 1 April 2013 to 31 March 2014.

Reflecting these transactions, the issued and paid-up share capital of the Company consisted of 870,112,016 and 333,381,480 ordinary shares with a par value of £0.10 each at 31 December 2014 and 2013 respectively.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

20. Borrowings

	31 December	
	2014	2013
Current		
Otkritie	3,000	–
Short-term loans from shareholders of the Company	5,303	303
Total current borrowings	8,303	303
	31 December	
	2014	2013
Non-current		
Otkritie	144,750	–
Sberbank	–	313,393
Long-term loans from shareholders of the Company	94,051	89,503
Total long-term borrowings	238,801	402,896

Otkritie credit facilities Under the terms of the Restructuring the Group obtained a loan from Otkritie in the amount of US\$150,000 thousand on 8 December 2014, pursuant to a loan agreement dated 14 November 2014. The loan is repayable in November 2019, bears interest at 8% per annum and is subject to certain covenants, including EBITDA and production targets.

14 November 2014 loan agreements for US\$100,000 thousand and US\$44,700 thousand were entered into with Otkritie for the Group's field development and for general working capital purposes respectively. As at 31 December 2014, no facilities were drawn down under these agreements.

Sberbank credit facility On 10 December 2014 an assignment and transfer agreement was entered into between Ruspetro Russia, Ruspetro Holding Limited and Mastin. In accordance with the agreement, the creditor rights in relation to the total debt in the amount of US\$337,894 thousand being due to Sberbank as at 10 December 2014 were transferred to Mastin. Part of the loan in the amount of US\$150,000 thousand was repaid through the corresponding credit facility provided by Otkritie in December 2014. The remaining part of the loan in the amount of US\$187,894 thousand was settled by the issuance to Mastin of new ordinary shares in the Company.

Loans from shareholders of the Company The Group has a number of US\$ denominated loans obtained from Shareholders of the Company. All of these loans are unsecured and the interest rate on most of these loans is Libor +10% per annum.

14 November 2014, the Group rescheduled the maturity of the main Shareholders' loans until October 2016 and February 2020 with US\$5,000 thousand payable in accrued interest on 31 May 2015. These amendments did not substantially alter the terms of these original loans, and were therefore were not treated as extinguishment of an existing liability and recognition of a new liability. The present value difference arising from the renegotiation was recognised over the remaining life of these loans by adjusting the effective interest rate.

Foreign exchange losses The Group recognised a net foreign exchange loss amounting to US\$202,410 thousand and US\$25,586 thousand during the years ended 31 December 2014 and 2013 respectively, out of which US\$196,084 thousand and US\$24,694 thousand relate to the US\$ denominated credit facilities and outstanding accrued interest for the years ended 31 December 2014 and 2013 respectively.

21. Provision for dismantlement

The provision for dismantlement represents the net present value of the estimated future obligations for abandonment and site restoration costs which are expected to be incurred at the end of the production lives of the oil and gas fields which is estimated to be in 20 years from 31 December 2014.

	2014	2013
As at 1 January	7,940	7,697
Additions for new obligations and changes in estimates (Note 13)	(1,354)	26
Unwinding of discount	807	793
Effect of translation to presentation currency	(3,155)	(576)
As at 31 December	4,238	7,940

This provision has been created based on the Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate future dismantlement liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual dismantlement costs will ultimately depend upon future market prices for the necessary dismantlement works required which will reflect market conditions at the relevant time. Furthermore, the timing is likely to depend on when the fields cease to produce at economically viable levels. This in turn will depend upon future oil and gas prices and future operating costs which are inherently uncertain.

22. Trade and other payables

	31 December	
	2014	2013
Trade payables	6,135	23,888
Other non-financial liabilities	19,312	19,954
Total trade and other payables	25,447	43,842

Trade and other payables are denominated primarily in Russian rubles

On 27 March 2014 the Group signed a prepayment agreement with Glencore, which renewed and replaced an original prepayment facility with Glencore entered into in August 2013 ("Original Facility"). The sum of prepayment received from Glencore amounted to US\$30,000 thousand. The facility is for a period of one year and requires the Group to deliver a minimum of 112,050 barrels per quarter of crude oil to Glencore. The US\$10,000 thousand outstanding under the Original Facility was paid down in full as part of the new facility, resulting in net proceeds of US\$20,000 thousand to the Group.

In May and October 2014 the Group entered into two domestic forward oil sale prepayment agreements with EnergoResurs. The prepayments received from EnergoResurs amounted to RUR750,000 thousand (US\$21,646 thousand) and RUR200,000 thousand (US\$4,689 thousand). Under the provisions of the corresponding prepayment agreements, the Group is obliged to supply up to 627,480 barrels of crude oil commencing in June 2014 for a duration of one year and up to 149,400 barrels of crude oil commencing in November 2014 for a duration of six-months period. The interest rates on the outstanding amounts of the prepayments are 13.00% and 18.34% per annum. The outstanding amounts of the prepayments are presented in other non-financial liabilities.

23. Capital commitments and other contingencies

Capital commitments

As at 31 December 2014, the Group had contractual commitments for capital expenditures of US\$2,360 thousand (31 December 2013: nil).

Licence commitments

The Group's exploration and production licences require certain operational commitments. These include performance criteria certain of which have not been fully met during 2014. The Directors note that breach of licence performance conditions has not given rise to any material fines or penalties. Furthermore, management has been undertaking particular actions to meet required licence performance criteria. The Directors also note that the Group's production programme has been inspected by the Russian licensing authorities subsequent to 31 December 2014 and that no material fines or penalties have resulted.

Liquidity of subsidiary undertakings

In accordance with the legal framework in the Russian Federation, creditors and tax authorities may initiate bankruptcy proceedings against an entity with negative net assets. As at 31 December 2014, Ruspetro Russia reported net liabilities under Russian GAAP. However, no such bankruptcy proceedings have been initiated either by the creditors or the tax authorities against them. The Directors consider such net liability position to be not abnormal given that the Group is still at a development stage.

Operating lease commitments – Group as Lessee

The Group has entered into leases for land plots, woodlots and motor vehicles. The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group leases land through operating lease agreements, which expire in various years through 2034. These leases have renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December 2014 and 2013 were as follows:

	31 December	
	2014	2013
Within one year	609	803
After one year but not more than five years	56	822
More than five years	86	14
Total operating lease commitments and other contingencies	751	1,639

Operating risks and contingencies

Pledge of shares

On the opening of its credit facility with Otkritie, the Group provided to Otkritie as collateral its shares in INGA and Trans-oil. As at 31 December 2013, the shares of INGA and Trans-oil were provided to Sberbank as a collateral.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

23. Capital commitments and other contingencies continued

Taxation contingencies

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities in the Russian Federation.

Recent events within the Russian Federation indicate that the Russian tax authorities may be taking a more assertive position in their interpretation of the prevailing legislation and assessments, and it is possible that transactions and activities which have not been challenged in the past may be challenged in the future. The Supreme Arbitration Court of the Russian Federation has issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of the tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated. However, such challenge could prove significant to the financial conditions and/or the overall operations of the Group.

The Group includes companies incorporated outside Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated, however, it may be significant to the financial condition and/or the overall operations of the entity.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount is accrued for in these consolidated financial statements.

Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations.

Political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of the Rouble and making it harder to raise international funding. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which, if they were to be implemented, are at this stage difficult to determine. The financial markets are uncertain and volatile. These and other events may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict. Management has assessed the ability of the Group to continue as a going concern as well as possible impairment of the Group's long-term assets by considering the current economic environment and outlook (refer to Note 2). The future economic and regulatory situation may differ from management's current expectations.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. The management is of the opinion that there are no current legal proceedings or other claims outstanding that could have a material effect on the results of operations or financial position of the Group for the period until 31 December 2014, which have not been disclosed in these consolidated financial statements.

24. Related party disclosures

Compensation of key management personnel of the Group

Key management includes Executive and Non-executive Directors of the Group. The compensation paid or payable to key management for employee services is shown below.

	31 December	
	2014	2013
Share-based payment compensation	16	210
Employee remuneration	4,035	1,934
Benefits in kind	192	102
Non-executive Directors' fees	650	1,316
Total compensation of key management personnel of the Group	4,893	3,562

From April 2013 a proportion of Directors' remuneration paid in cash has been reduced and was paid in shares. The fair value of employee services received by the Group was determined with reference to share price at the end of each remuneration accrual period.

On 19 December 2014, the Board issued, in aggregate, 420,242 new ordinary shares to certain current and former Directors in lieu of salaries and fees due for the period from 1 April 2013 to 31 March 2014. The salaries and fees were converted into shares at the Company's 2012 IPO offer price of 134 pence per ordinary share.

All related party transactions are on an arm's-length basis and no financial period end balances have arisen as result of these transactions.

Loans from related parties

The Group has a number of loans from shareholders of the Company with the following balances.

	2014	2013
As at 1 January	89,806	81,157
Loan obtained	10,000	–
Interest accrued	10,248	8,649
Loan and interest settled through share issue	(10,700)	–
As at 31 December	99,354	89,806

The effective interest rates and conversion options of loans received are disclosed in Note 20.

Transactions with other related parties

Ruspetro Russia leased an office space in a building from a company, in which one of its shareholders has an interest, for an annual rent and service charge of RUR36,401 thousand/US\$946 thousand (excluding VAT). The lease will terminate on 14 September 2015 or earlier, when long-term lease agreement is entered into between the parties. Ruspetro Russia leased parking places at the office building from the same company for an annual rent and service charge of RUR2,029 thousand/US\$53 thousand (excluding VAT). This lease will terminate on 1 October 2021.

25. Financial risk management objectives and policies

The Group's principal financial liabilities comprise accounts payable, bank borrowings and other loans. The main purpose of these financial instruments and liabilities is to manage short-term cash flow and raise finance for the Group's capital expenditure programme. The Group has various financial assets such as accounts receivable and cash, which arise directly from its operations.

It is, and has been throughout the years ended 31 December 2014 and 2013, the Group's policy that no speculative trading in derivatives shall be undertaken.

The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are commodity price-, interest rate-, foreign currency-, liquidity- and credit- risk related. Management reviews and agrees policies for managing each of these risks which are summarised below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable. Financial instruments affected by market risk include bank loans and overdrafts, accounts receivable, accounts payable and accrued liabilities.

The sensitivity has been prepared for the years ended 31 December 2014 and 2013 using the amounts of debt and other financial assets and liabilities held as at those statement of financing position dates.

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25. Financial risk management objectives and policies continued

Capital risk management

The Group considers capital to comprise both debt and equity. Total debt comprises long-term and short-term loans and borrowings, as shown in the consolidated statement of financial position. Equity of the Group comprises share capital, share premium, other reserves and retained earnings. Equity of the Group was equal to US\$75,740 thousand and US\$95,261 thousand as at 31 December 2014 and 2013 respectively.

Total debt of the Group was equal to US\$247,104 thousand and US\$403,199 thousand as at 31 December 2014 and 31 December 2013 respectively.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide adequate levels of financing for its current development and production activities. In order to maintain or adjust the capital structure, the Group may issue new shares, attract new or repay existing loans and borrowings.

The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group, in order to support its construction and production activities. The Group is at a development stage, as such it is dependent on external financing to fund its activities. In order to carry out its planned construction and production activities and pay for administrative costs, the Group will spend its existing capital and raise additional amounts as needed.

There were no changes in the Group's approach to capital management during the period. As at 31 December 2014 and 2013, the Group was not subject to any externally imposed capital requirements (except for described in Note 23). As at 31 December 2014 the Group is subject to certain covenants (Note 20).

Commodity price risk

The Group sells crude oil and gas condensate under spot contracts on a monthly basis. Sales are centrally managed and during the reporting periods were made principally to domestic customers. The basis for determining the export price is the price of Brent Crude. Changes in commodity prices can affect the Group's financial performance, either positively or negatively and make the Group's revenues subject to volatility in line with fluctuations in crude oil reference prices. Currently the Group does not use commodity derivative instruments to mitigate the risk of crude oil price volatility.

The table below provides the sensitivity of the Group's revenues to a 10% change in price of crude oil.

Commodity price risk	Year ended 31 December	
	2014	2013
Favourable +10%	5,409	7,859
Unfavourable -10%	(5,409)	(7,859)

For the purposes of this analysis, the effect of a variation in crude oil prices on Group's profit is calculated independently of any change in another assumption. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract these sensitivities.

Interest rate risk

The Group is exposed to interest rate risk, however, the possible impact of changes in interest rates are not significant since the Group's major borrowings are at fixed interest rates. There is no specific policy in place to hedge against possible adverse changes in interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax through the impact on floating rate borrowings.

Increase/decrease in interest rate	Year ended 31 December Effect on loss before tax	
	2014	2013
+1.0%	991	895
-1.0%	(991)	(895)

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from borrowing in currencies other than the functional currency. The Group limits foreign currency risk by monitoring changes in exchange rates in the currencies in which its cash and borrowings are denominated.

The Group's exposure to foreign currency exchange rate risk at the end of the reporting period was mainly concentrated in the Otkritie credit facility.

The following table shows the sensitivity to a reasonably possible change in the US\$ RUR exchange rate, with all other variables held constant, of the Group's loss before tax due to changes in the carrying value of monetary assets and liabilities

US\$ strengthening/weakening against RUR	Year ended 31 December Effect on loss before tax	
	2014	2013
US\$ strengthening by 20%	(25,875)	(52,232)
US\$ weakening by 20%	38,813	78,348

Liquidity risk

The Group monitors liquidity risk by monitoring its debt rating and the maturity dates of existing debt

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted payments

	31 December 2014					Total
	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	
Borrowings (including interest)	303	23,040	40,016	184,106	127,019	374,484
Trade payables	—	6,135	—	—	—	6,135
	303	29,175	40,016	184,106	127,019	380,619
	31 December 2013					Total
	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	
Borrowings (including interest)	303	—	49,155	503,507	—	552,965
Trade payables	—	23,888	—	—	—	23,888
Other current liabilities	—	19,225	—	—	—	19,225
	303	43,113	49,155	503,507	—	596,078

Credit risk

The Group manages its own exposure to credit risk. The Group trades only with recognised, creditworthy third parties. All external customers undergo a creditworthiness check. The Group performs an ongoing assessment and monitoring of financial position and the risk of default. In addition, receivable balances are monitored on an ongoing basis thus the Group's exposure to bad debts is not significant.

The Group had one major customer in 2014 being an international oil trader and accounting for at least 34% of total sales in 2014 (2013 17%). Other sales are made to domestic customers. The Group is, however, not dependent on any of its major customers or any one particular customer as there is a ready market for crude oil. Analysis of sales to key customers is included into Note 7.

The Group is exposed to concentrations of credit risk. As at 31 December 2014, the Group had six counterparties (2013 six counterparties) with aggregated receivables balances US\$1,103 thousand (2013 2,629) or 17% of the gross amount of trade and other receivables (2013 39%).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The credit risk on cash is limited because the counterparties are either highly rated banks or banks approved by the management of the Group. Approval is made after certain procedures are performed to assess the reliability and creditworthiness of banks.

Fair values

The Group has financial instruments carried at fair value only in the 'Level 3' category.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

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25. Financial risk management objectives and policies continued

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried at amortised cost in the financial statements

	Carrying amount		Fair value	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Financial assets				
Cash and cash equivalents	12,022	15,832	12,022	15,832
Trade receivables	1,205	2,629	1,205	2,629
Other current assets	5,065	—	5,065	—
Financial liabilities				
Trade payables	6,135	23,888	6,135	23,888
Borrowings	247,104	403,199	247,104	403,199

26. Loss per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period

	Year ended 31 December	
	2014	2013
Loss attributable to equity holders of the Company	262,893	74,238
Weighted average number of ordinary shares in issue	364,252,656	333,381,480
Basic Loss per share (US\$)	0.72	0.22

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all dilutive potential ordinary shares

The Company has incurred a loss from continuing operations for the year ended 31 December 2014 and the effect of considering the exercise of the options on the Company's shares would be anti-dilutive, that is, it would reduce the loss per share

27. Events after the statement of financial position date

The Group entered in a number of pledge agreements on 27 February 2015 in accordance with the terms of its credit facility agreements with Otkritie

The Group has received US\$21,000 thousand of the US\$50 million first tranche under its US\$100 million development facility loan agreement and US\$7,242 thousand under its US\$44.7 million working capital financing loan agreement with Otkritie

There have been no other material events after the end of reporting period which require disclosure in these consolidated financial statements

28. Supplementary information (unaudited)

Reserve quantity information

The Company used the oil, condensate and gas reserve information prepared by DeGolyer and MacNaughton to evaluate reserves as at 31 December 2013 and 30 June 2014. The reserves estimate as at 31 December 2014 was made by the Company by adjusting reserves numbers as at 30 June 2014 for actual oil production in the second half of 2014. No third party was involved in estimating reserves as at 31 December 2014 as no significant new data was gathered since 30 June 2014 to justify independent review. The Company plans to engage an independent third party in 2015 to prepare updated reserve information based on the results of horizontal wells completed in 2014 and 2015.

In 2014 the Company suspended production in its Palyanovo licence area due to poor economics of condensate production and to reduce unnecessary gas flaring. Consequently, condensate reserves as at 31 December 2014 were reclassified from proved developed to proved undeveloped.

Additionally, the reserves assessment as at 30 June 2014 prepared by DeGolyer and MacNaughton represented a horizontal well development programme which is reflected in the revisions of reserves estimates.

Reserves information has been prepared in accordance with Petroleum Resources Management System (PRMS) definition and classification system.

Developed reserves are expected quantities to be recovered from existing wells and facilities.

Proved reserves are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgement and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licences. The Subsoil Law of the Russian Federation states that, upon expiration, a licence is subject to renewal at the initiative of the licence holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the licence holder has not violated the terms of the licence. Since the law applies both to newly issued and old licences, management believes that licences will be renewed upon their expiration for the remainder of the economic life of each respective field.

Estimated net proved crude oil and condensate reserves for the period ended 31 December 2014 and 31 December 2013, are shown in '000 barrels in the table set out below.

Net proved crude oil and condensate reserves	2014	'000 barrels 2013
As at 1 January	190,743	204,588
Revisions of previous estimates	16,530	(12,127)
Production	(1,294)	(1,718)
As at 31 December	205,979	190,743

Estimated net proved developed crude oil and condensate reserves as at 31 December 2013 and 31 December 2014 are shown in the table set out below.

Crude oil and condensate reserves	Proved Developed	Proved Undeveloped	Total Proved	Probable	'000 barrels Total Proved Plus Probable
31 December 2013	12,744	177,999	190,743	1,462,947	1,653,690
31 December 2014	5,876	200,103	205,979	1,539,452	1,745,431

Estimated net proved and probable gas reserves as at 31 December 2013 and 31 December 2014 are shown in the table set out below.

Gas reserves	Proved Developed	Proved Undeveloped	Total Proved	Probable	Millions of cubic feet Total Proved Plus Probable
31 December 2013	96,573	106,128	202,701	1,192,221	1,394,922
31 December 2014	—	307,576	307,576	1,204,356	1,511,932

Crude oil and condensate reserves breakdown

The Company shut in the Palyanovo field in early 2014 due to uneconomic production of condensate, and to conserve gas for future commercialisation. As a result D&M re-classified 5,881 thousand barrels of condensate from proved developed category to the proved undeveloped category as at 30 June 2014.

The table below reflects the split of crude oil and condensate as at 31 December 2014. Comparative data as at 31 December 2013 is not presented as D&M did not prepare the split as at this date.

Crude oil and condensate as at 31 December 2014	Crude oil	Condensate	'000 barrels Total Crude oil and condensate
Proved Developed	5,876	—	5,876
Total Proved	199,948	6,031	205,979

Independent auditors' report to the members of Ruspetro plc

Report on the parent company financial statements

Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the parent company's affairs as at 31 December 2014 and of its cash flows for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- have been prepared in accordance with the requirements of the Companies Act 2006

This opinion is to be read in the context of what we say in the remainder of this report

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the parent company's ability to continue as a going concern. This ability is dependent on whether the Company can renegotiate its debt covenants successfully. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

What we have audited

The parent company financial statements (the "financial statements"), which are prepared by Ruspetro plc, comprise

- the statement of financial position as at 31 December 2014,
- the statement of cash flows for the year then ended,
- the statement of changes in equity for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinions on other matters prescribed by the Companies Act 2006

In our opinion

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit, or
- is otherwise misleading

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit**Our responsibilities and those of the directors**

As explained more fully in the Directors' Responsibilities Statement set out on page 61, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the group financial statements of Ruspetro plc for the year ended 31 December 2014. That report includes an emphasis of matter.

Kevin Reynard (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Aberdeen

30 April 2015

Notes

- (a) The maintenance and integrity of the Ruspetro plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Parent Company Financial Statements

Statement of Financial Position

as at 31 December 2014 (presented in US\$ thousands, except otherwise noted)

	Note	31 December 2014	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment		25	1,164
Investments in subsidiaries	5	441,676	237,882
Loans issued to Ruspetro LLC		22,988	–
		464,689	239,046
Current assets			
Receivables from Ruspetro Holding Limited		7,100	–
Loans issued to Ruspetro LLC		–	14,800
Trade and other receivables		195	369
VAT recoverable		834	104
Cash and cash equivalents	7	8,121	5,209
		16,250	20,482
Total assets		480,939	259,528
Shareholders' equity			
Share capital	8	135,493	51,226
Share premium	8	389,558	220,506
Retained loss		(53,275)	(25,976)
Other reserves		7,221	(6,417)
Total equity		478,997	239,339
Liabilities			
Non-current liabilities			
Other non-current liabilities		–	–
		–	–
Current liabilities			
Payables to Ruspetro LLC		397	1,388
Trade and other payables		1,545	1,774
Other current liabilities	6	–	17,027
		1,942	20,189
Total liabilities		1,942	20,189
Total equity and liabilities		480,939	259,528


John Conlin
 Chief Executive Officer


Alexander Betsky
 Finance Director

Statement of Changes in Equity

as at 31 December 2014 (presented in US\$ thousands, except otherwise noted)

	Note	Share capital	Share premium	Retained loss	Other reserves	Total equity
Balance as at 1 January 2013		51,226	220,506	(22,240)	2,341	251,833
Loss for the period		–	–	(12,609)	–	(12,609)
Other comprehensive income for the period		–	–	–	–	–
Total comprehensive expense for the period		–	–	(12,609)	–	(12,609)
Share options of shareholders	8	–	–	4,059	(4,059)	–
Share-based payment compensation	8	–	–	4,814	(4,699)	115
Balance as at 31 December 2013		51,226	220,506	(25,976)	(6,417)	239,339

	Note	Share capital	Share premium	Retained loss	Other reserves	Total equity
Balance as at 1 January 2014		51,226	220,506	(25,976)	(6,417)	239,339
Loss for the period		–	–	(13,546)	–	(13,546)
Other comprehensive income for the period		–	–	–	–	–
Total comprehensive expense for the period		–	–	(13,546)	–	(13,546)
Issue of share capital		84,202	168,986	–	–	253,188
Share options of shareholders	8	–	–	(13,753)	13,753	–
Share-based payment compensation	8	65	66	–	(115)	16
Balance as at 31 December 2014		135,493	389,558	(53,275)	7,221	478,997

Parent Company Financial Statements

Statement of Cash Flows

as at 31 December 2014 (presented in US\$ thousands, except otherwise noted)

	Note	Year ended 31 December	
		2014	2013
Cash flows from operating activities			
Loss before income tax		(13,546)	(12,609)
Adjustments for			
Depreciation, depletion and amortization		305	126
Foreign exchange (gain)/loss		(1,914)	515
Finance costs		2,732	1,147
Loss on initial recognition		5,812	—
Change in fair value of call option	8	—	24
Impairment of property, plant and equipment		801	—
Share-based compensation expense	8	16	115
Loss on disposal of property, plant and equipment		33	—
Operating cash flow before working capital adjustments		(5,761)	(10,682)
Working capital adjustments			
Change in trade and other receivables		174	(63)
Change in trade and other payables		(1,237)	779
Change in other taxes receivable/payable		(730)	(27)
Net cash flows used in operating activities		(7,554)	(9,993)
Cash flows from investing activities			
Purchase of property, plant and equipment		—	(675)
Investments in Ruspetro LLC and RHL		(37,000)	(8,000)
Net cash used in investing activities		(37,000)	(8,675)
Cash flows from financing activities			
Proceeds from issue of share capital (net of expenses)		37,466	—
Proceeds from loans and borrowings		10,000	—
Net cash generated from financing activities		47,466	—
Net increase/(decrease) in cash and cash equivalents		2,912	(18,668)
Cash and cash equivalents at the beginning of the period		5,209	23,877
Cash and cash equivalents at the end of the period		8,121	5,209

Notes to the Financial Statements

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

1. Corporate information

The financial statements of Ruspetro plc (the 'Company' or 'Ruspetro') for the year ended 31 December 2014 were approved by its Board of Directors on 30 April 2015

The Company was incorporated in the United Kingdom on 20 October 2011 as a public company under the provisions of the Companies Act 2006 of England and Wales. The Company's registered office is 58 Grosvenor Street, London, W1K 3JB, England

The Company is a parent of Ruspetro Group, the principal activities of which are exploration for and production of crude oil in the Khanty-Mansiysk region of the Russian Federation

Details of subsidiaries of the Company are as follows

Company	Business activity	Country of incorporation	Year of incorporation	Effective ownership
				31 December 2014
Ruspetro Holding Limited	Holding company	Republic of Cyprus	2007	100%
RusPetro LLC ("Ruspetro Russia")	Crude oil sale	Russian Federation	2005	100%
INGA	Exploration and production of crude oil	Russian Federation	1998	100%
Trans-oil	Exploration and production of crude oil	Russian Federation	2001	100%

2. Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are prepared under the historical cost convention, modified for fair value under IFRS

These financial statements are presented in US dollars (US\$) and all values are rounded to the nearest thousand unless otherwise indicated

As permitted by Section 408 of the Companies Act 2006, the Statement of Comprehensive Income of the Parent Company is not presented as part of these Financial Statements. The loss dealt with in the Financial Statements of the Company is US\$13,546 thousand

Going concern

These financial statements are prepared on a going concern basis, which presumes that the Company will be able to realise its assets and discharge its liabilities in the normal course of business in the foreseeable future

At 31 December 2014, the Company had net current assets of \$14,308 thousand, which included cash in hand of \$8,121 thousand

Management considers that the continued operational existence of the Company is dependent upon the ability to make further investment in field development of the subsidiaries in order to increase hydrocarbon production and sales. In response to these circumstances, the subsidiary of the Company entered into development loan agreement for US\$100,000 thousand, no facilities were drawn down under this agreement at the reporting date

Management considers the development loan facility of the subsidiary will provide sufficient financial resources such that the subsidiary can further invest in field development with the intention of raising production. Management further considers that the additional cash flows to be generated from production would allow the subsidiaries to service debt, further increase production and fund other activities. In developing their cash flow forecasts, management has a number of significant assumptions. These include assumptions as to future hydrocarbon prices, taxes, production volumes, and inflation and are further discussed in Note 4

The development loan agreement obtained contains certain covenants which the subsidiary needs to meet to avoid acceleration of the debt repayment schedule. The two sensitive covenants are EBITDA and production volumes

The projections prepared by management for the purposes of preparation of these financial statements show that the subsidiary might breach its EBITDA covenant. To mitigate this risk, management has commenced negotiations with the lender to revise the covenants. The subsidiary has also received, in April 2015, a written confirmation that the lender has no intention to take any actions to accelerate repayment of the loans as a result of the possible breach of covenants. The outcome of such negotiations cannot be certain and, therefore, the directors recognise that this represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern

Notes to the Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

2. Basis of preparation continued

However, on the basis of the assumptions and cash flow forecasts prepared, management have assumed that the Company will continue to operate within both available and prospective facilities. Accordingly, the Company's financial statements are prepared on the going concern basis and do not include any adjustments that would be required in the event that the loan holders do request repayment and alternative finance is not available.

3. Summary of significant accounting policies

Investments

Investments in subsidiary undertakings are included in the balance sheet of the Company at cost less any provision for impairment.

Impairment of non-financial assets

The Company performs impairment reviews in respect of fixed asset investments whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised when the recoverable amount of an asset, which is the higher of the asset's net realisable value and its value in use, is less than its carrying amount.

Financial instruments

The accounting policy for financial instruments is consistent with the Group accounting policy as presented in the notes to the Group financial statements. The Company's financial risk management policy is consistent with the Group's financial risk management policy outlined in the Group financial statements.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any provision for impairment.

A provision for impairment is recognised when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of the loans and receivables. The amount of provision is the difference between the assets' carrying value and the present value of the estimated future cash flows, discounted at the original effective interest rate. The change in the amount of the loan or receivable is recognised in profit or loss. Interest income is recognised in profit or loss by applying the effective interest rate.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts if any.

Borrowings and accounts payable

The Company's financial liabilities are represented by trade and other payables.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Taxes

Income tax

The income tax expense comprises current and deferred taxes calculated based on the tax rates that have been enacted or substantively enacted at the end of the reporting period. Current and deferred taxes are charged or credited to profit or loss except where they are attributable to items which are charged or credited directly to equity, in which case the corresponding tax is also taken to equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred taxes provide for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or carry forward can be utilised.

Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to set off current tax assets and liabilities, when deferred tax balances are referred to the same governmental body (i.e. federal, regional or local) and the same subject of taxation and when the Company intends to perform an offset of its current tax assets and liabilities.

Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium.

Foreign currency translation

Foreign currency transactions are initially recognized in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the end of the reporting period.

The US dollar ("US\$") is the functional and presentation currency of the Company. The assets and liabilities are translated into the presentation currency at the rate of exchange ruling at the end of each of the reporting period. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions). All the resulting exchange differences are recorded in other comprehensive income.

The US\$ to £ exchange rates were 0.64 and 0.61 as at 31 December 2014 and 31 December 2013, respectively and the average rates for the year ended 31 December 2014 and 2013 were 0.61 and 0.64 respectively.

Share option plan

The share option plan, under which the Group has the ability to choose whether to settle it in cash or equity instruments at the discretion of the Board of Directors is accounted for as an equity settled transaction. The fair value of the options granted by the Parent to employees is measured at the grant date and calculated using the Trinomial option pricing model and recognised in the financial statements as a component of equity with a corresponding amount recognised in selling, general and administrative expenses over the time share reward vest to the employee.

Modifications of the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement or is not otherwise beneficial to the employee, are accounted for as services received in consideration for the equity instruments granted as if the modification had not occurred.

4. Significant accounting judgements, estimates and assumptions

The significant accounting judgements, estimates and assumptions are consistent with the Group significant accounting judgements, estimates and assumptions as presented in the notes to the Group financial statements.

5. Investments in subsidiaries

	31 December	
	2014	2013
Ruspetro Holding Limited	219,638	31,744
Ruspetro LLC	222,038	206,138
Total investments in subsidiaries	441,676	237,882

Notes to the Financial Statements continued

for the year ended 31 December 2014 (all tabular amounts are in US\$ thousands unless otherwise noted)

6. Options on shares of the Company

On 2 December 2011, the Company and Sberbank Capital entered into an option agreement which became effective on 17 January 2012, pursuant to which Sberbank Capital granted the Company a call option to acquire the 10,362,632 ordinary shares held by Sberbank Capital. The call option expired on 19 April 2013. The call option was only able to be exercised once only at any time prior to the day which is 15 months from the date of the Company's IPO on 24 January 2012, at an exercise price equal to the IPO offer price of £1.34 per share less 10%. Resulting reserves, amounting to US\$4,059 thousand, initially recognised in equity, were transferred to retained earnings.

In addition, pursuant to this agreement, Sberbank Capital may have put these ordinary shares issued back to the Company. The put option may have been exercised once only at any time between the second and third anniversary of the Company's IPO on 24 January 2012, at an exercise price equal to the IPO offer price of £1.34 per share less 20%. With respect to the put option, a liability of US\$17,026 thousand was recorded as at 31 December 2013.

In November 2014 an Investment and Assignment Agreement was entered into between Sberbank Capital, Mastin and the Company. In accordance with the agreement Sberbank Capital transferred its rights under the put option agreement to Mastin. As part of the Restructuring 20,115,743 ordinary shares were issued as a consideration for cancellation of the put option.

The following table shows the changes of value of the put option for the year ended 31 December 2014 and its cancellation by means of share issue.

	2014	2013
As at 1 January	17,027	15,365
Initial recognition of the option	—	—
Unwinding of discount	2,032	1,147
Settlement against share issue	(17,726)	—
Foreign exchange (gain)/loss related to put option	(1,333)	515
As at 31 December	—	17,027

During 2013, one of the executive directors, who has been granted an option to acquire shares of the Company had left the Company. In accordance with the terms of the option, this director lost the right to exercise the part of the option to acquire 4,145,053 Ordinary shares. Reserves, amounting to US\$4,814 thousand, initially recognized in equity, was transferred to retained earnings.

7. Cash and cash equivalents

	31 December	
	2014	2013
Cash in bank denominated in £	7,709	4,709
Cash in bank denominated in US\$	412	500
Total Cash and cash equivalents	8,121	5,209

Cash balances generally bear no interest. The Company holds its cash with Bank of America (Moody's rating Baa2/P2 (Stable) at 31 December 2014).

8. Shareholders' equity

	31 December	
	2014	2013
Share capital		
Ordinary share capital	135,493	51,226

On 11 December 2014 on completion of the Restructuring 536,730,536 new ordinary shares were issued as follows:

- 179,061,411 new ordinary shares were issued pursuant to applications received for Open Offer and Excess shares
- 4,298,403 new ordinary shares were taken up by the underwriting shareholders pursuant to their underwriting commitment under the Open Offer
- 145,890,169 new ordinary shares were taken up by underwriting shareholders pursuant to the terms of the Placing

In total 329,249,983 new ordinary shares were issued at par value of 10 pence per share, with existing shareholders being offered the right to subscribe for 0.55 new shares for each existing share held. Mastin purchased from Sberbank Capital 10,362,632 existing ordinary shares. Including 20,115,743 new ordinary shares issued to it to set off the put obligation of the Company, a total 207,060,311 new ordinary shares were issued to Mastin resulting in it having a 25% holding in the enlarged issued ordinary share capital as at 31 December 2014.

In addition, on 19 December 2014 a further 420,242 shares were issued to current and former Directors in lieu of salary for the period from 1 April 2013 to 31 March 2014.

Reflecting these transactions, the issued and paid up share capital of the Company therefore consisted of 870,112,016 and 333,381,480 ordinary shares with a par value of £0.10 each at 31 December 2014 and 2013 respectively.

Shareholder Information

Rights and obligations attaching to ordinary shares

The rights and obligations of shareholders are set out in the Company's Articles. A summary of the rights and obligations attaching to the Company's shares are as follows

Voting

Holders of ordinary shares are entitled to

- receive all shareholder documents, including notice of any general meetings of the Company,
- attend, speak and exercise voting rights at any general meetings of the Company either in person or by proxy, and
- subject to applicable law and the Company's Articles every shareholder shall have one vote for every share of which they are the holder if they are present in person, by proxy or, if a corporate shareholder, by a duly authorised representative. A shareholder, entitled to attend and vote at a general meeting, may appoint one or more proxies to attend and vote instead of him. If a shareholder appoints more than one proxy the shareholder must specify the number of shares over which each proxy is entitled to exercise rights

No shareholder holds securities carrying special rights as to the control of the Company. There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer of voting rights

Transfer of shares

A member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any form which the Board may approve. An instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register in respect of the shares. All transfers which are in uncertificated form shall be affected by means of the relevant system unless the CREST Regulations provide otherwise.

The Board may, in its absolute discretion, refuse to register the transfer of a certificated share which is not a fully paid share, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer is

- lodged, stamped (if required), at the office or at another place appointed by the Board, accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer,
- in respect of one class of share only, and
- in favour of not more than four persons

If the Board refuses to register a transfer of a share in certificated form, it shall send the transferee notice of its refusal within two months after the date on which the instrument of transfer was lodged with the Company. No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to a share. Subject to the provisions of the CREST Regulations, the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class, by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

If a notice is given to a member in respect of a share, which is subsequently transferred, a person entitled to that share is bound by the notice if it was given to the member before the person entitled to that share was entered into the register as the holder of that share.

Dividend rights

The Company may, by ordinary resolution, declare dividends in accordance with the respective rights of the members provided that no dividend shall exceed the amount recommended by the Board. The Board may also pay interim dividends. No dividend may be paid other than out of profits available for distribution. Dividends may be declared and paid in any currency or currencies that the Board shall determine.

Return of capital

If the Company is wound up, the liquidator may, with the sanction of a special resolution, divide among the members in specie, the whole or any part of the Company's assets, or vest the Company's assets in whole or in part in trustees upon such trusts for the benefit of the members but no shareholder is compelled to accept any asset on which there is a liability.

Amendments to the Articles of Association

The Articles may only be amended by special resolution of the shareholders approved by not less than 75% of those shareholders voting on the resolution.

Shareholder Information continued

Registrars

Shareholders should contact the Company's registrar, Capita Asset Services using the details below in relation to all general enquiries concerning their shareholding

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU
Telephone – UK shareholders 0871 664 0300*
Telephone – Overseas shareholders +44 20 3728 5000
Website www.capitaregistrars.com

*Lines are open Monday – Friday from 9.00am – 5.30pm, excluding bank holidays. Calls to 0871 numbers are charged at 10p per minute from a BT landline. Other telephone providers' costs may vary.

Registered and Other Offices

Registered office:

4th Floor
58 Grosvenor Street
London W1K 3JB
Telephone +44 (0)20 7318 1630
Website www.ruspetro.com

Moscow office:

11th Floor, ARCUS III Business Center,
37A BLD 4, Leningradsky Prospect
Moscow 125167
Telephone +7 495 745 56 65

Trading Market and Shareholder Profiles

Ruspetro plc's shares are traded on the London Stock Exchange with ticker RPO. The Company's SEDOL number is B4ZH7J1 and ISIN number is GB00B4ZH7J18.

Advisers**Auditors:**

PricewaterhouseCoopers LLP
32 Albyn Place
Aberdeen AB10 1YL
United Kingdom

Corporate Broker:

Mirabaud Securities LLP
33 Grosvenor Place
London SW1X 7HY
United Kingdom

Financial Advisers:

Strand Hanson Limited
26 Mount Row
London W1K 3SQ
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