RUSPETRO

Ruspetro plc
Annual Report and Accounts 2013

Welcome

Ruspetro plc Annual Report 2013

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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.

Contents

Highlights

- *In 2013 Ruspetro initiated a re-appraisal of its field development strategy. Following significant changes to strengthen its Board and management, the Company emerges with a clear set of strategic decisions as it re-initiates the development of the Company's reserves and resources.*
- *The Company, in technical partnership with Schlumberger, revised its geological development model to incorporate the use of multiple fractured horizontal wells utilising best-in-class tight oil practices.*
- *Russian Federal tax relief for a substantial reduction in the Mineral Extraction Tax ('MET') for tight oil reservoirs was passed into law and effective from September 2013.*
- *Production averaged 4,797 barrels of oil equivalent per day ('boepd') in 2013, an increase of 3% from 2012 despite significantly lower drilling activity. Natural decline in base production was mitigated through the implementation of our waterflood programme.*
- *EBITDA of US$13.0 million in 2013 compared to negative US$6.2 million in 2012 primarily due to a reduced MET effective from September 2013, lower operating expenses and higher production.*
- *The Company entered into a one-year prepayment facility with Glencore for US$30 million with the obligation to export 15,000 metric tonnes of crude oil per quarter.*
- *The Company also successfully extended the maturity of its Sberbank credit facility to 2018. As at year-end, total debt was US$403.2 million, including shareholder loans, and cash was US$15.8 million.*
- *According to DeGolyer & MacNaughton estimates as at 31 December 2013, the Company had proved reserves of 225 million barrels of oil equivalent ('mmboe'), of which 191 mmboe was crude oil and condensate and 34 mmboe was natural gas.*

	2013	2012	Change
Revenue (US$m)	79.85	76.23	+5%
Well Head Revenue per barrel (US$/boe)	29.25	24.50	+19%
Oil and Condensate Production, total (boe)	1,748,819	1,697,950	+3%
Average Production (boe)	4,797	4,639	+3%
Proved Reserves (mmboe)	225	234	–4%
Probable Reserves (mmboe)	1,662	1,604	+4%

Group Overview

Our assets

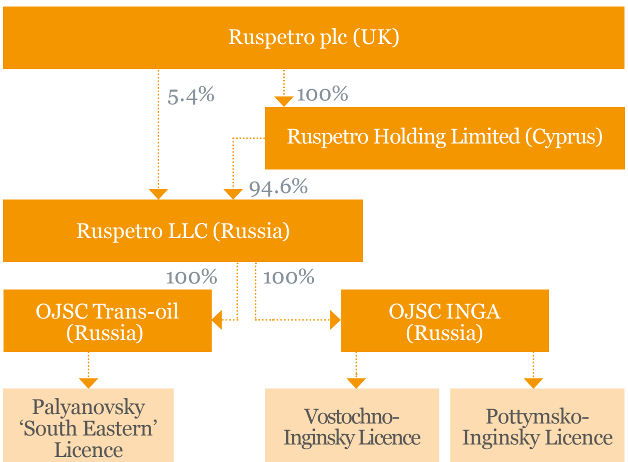
Ruspetro has three oil and gas exploration and production licences: the Pottymsko-Inginsky ('PI') Licence in the West of the field, the Vostochno-Inginsky ('VI') Licence at its centre and the Palyanovsky Licence on the North East of the field.

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.

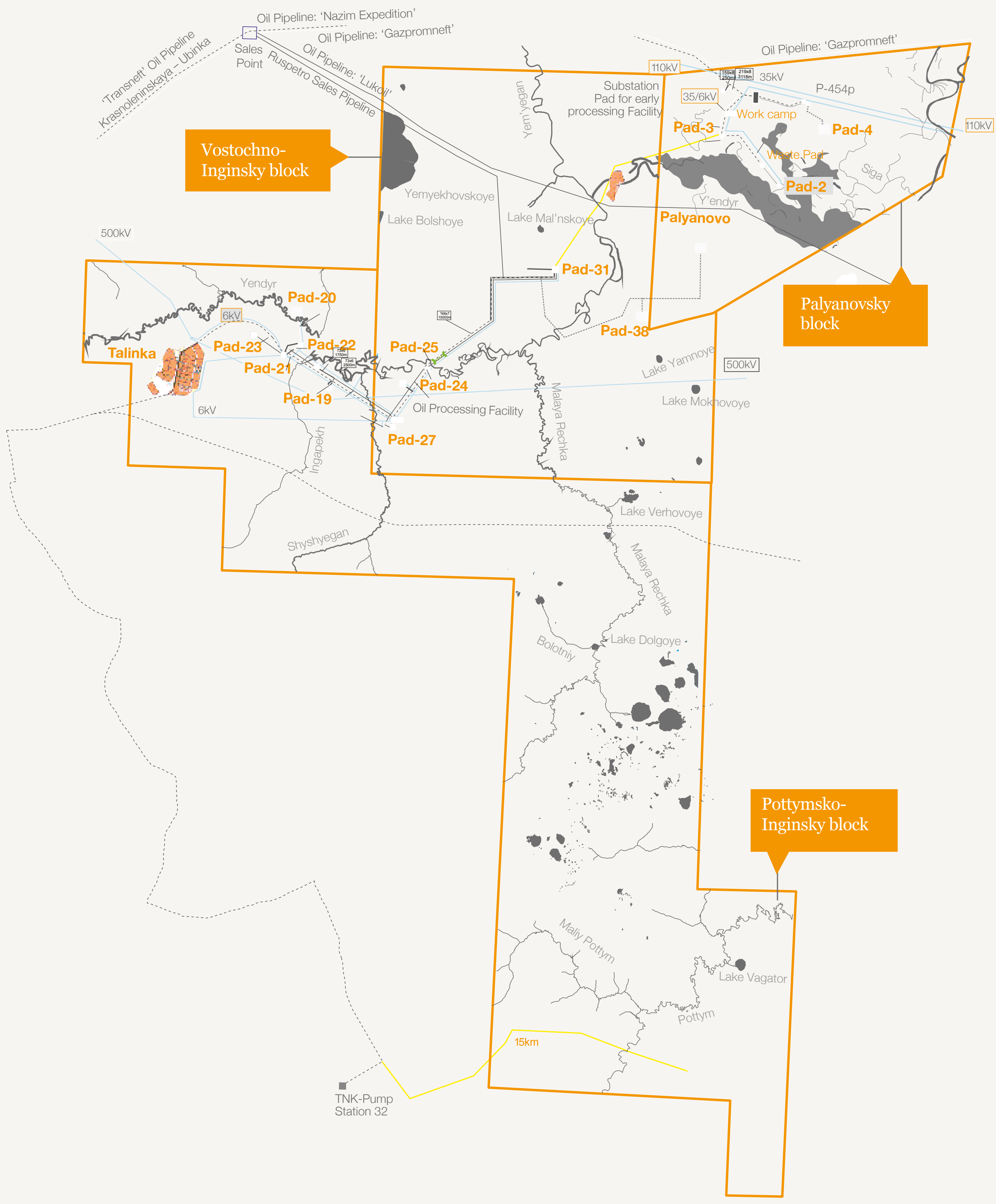
As a result, to the extent that we meet our obligations under the applicable minimum work programme required by the licences and are not in breach of any licence obligations or conditions, each of our licences issued prior to this legislation can be extended upon expiration, for the economic life of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

Group structure



199

of employees


Oil Pipeline: 'Nazim Expedition'
Oil Pipeline: 'Gazpromneft'
Oil Pipeline: 'Lukoil'
Ruspetro Sales Pipeline
Sales Point
'Transneft' Oil Pipeline Krasnoleninskaya – Ubinka
Vostochno-Inginsky block
Yemyekhovskoye
Lake Bolshoye
Lake Mal'nskoye
Substation Pad for early processing Facility
110kV
35/6kV
35kV
P-454p
Work camp
Pad-3
Pad-4
Waste Pad
Pad-2
Siga
Y'endyr
Palyanovo
Oil Pipeline: 'Gazpromneft'
110kV
Palyanovsky block
Pad-31
Pad-38
500kV
Yendyr
Pad-20
6kV
Talinka
Pad-23
Pad-22
Pad-21
Pad-25
Pad-24
Pad-19
6kV
Oil Processing Facility
Pad-27
Lake Yamnoye
500kV
Lake Mokhovoye
Malaya Rechka
Ingapekh
Lake Verhovoye
Shyshyegan
Malaya Rechka
Lake Dolgoye
Bolotniy
Pottymsko-Inginsky block
Maliy Pottym
Lake Vagator
Pottym
15km
TNK-Pump Station 32

Chairman's Statement

Alexander Chistyakov
Executive Chairman

"While the past year has been undeniably challenging, I believe that Ruspetro emerges from it with a clear set of strategic decisions which will allow the management team in place to deliver growth."

2013 has been a year of change for Ruspetro – change in strategy, team and approach. We believe that the transformation we have undergone is for the better, but we cannot deny that it has been a difficult year. We are emerging from these changes stronger, more focused and on a better footing for the future.

Since our performance has not been as successful as initially planned, our duty to shareholders was to determine how to set Ruspetro on the right track again. We felt it was time to pause and review our operational performance and determine an effective strategy for the successful development of Ruspetro's large hydrocarbon assets. The discussions led to a number of Board changes. I was elected Chairman of the Board and will continue my active involvement in the business, both in the areas of strategy, and our engagement with Russia's fiscal and legislative framework.

In order to develop the business further, John Conlin was appointed as Chief Executive Officer by the Board in December 2013. He is not only an experienced E&P executive, but he is also a petroleum engineer. Most recently he was Chairman of Aurelian Oil & Gas, a small independent E&P company which recently merged with San Leon Energy. Prior to his move to the independent sector, he spent 28 years at Shell in various senior management and operational positions, including the role of President of Sakhalin Energy in Moscow, in the late Nineties. With his extensive experience of the industry, John has a clear strategy to lead Ruspetro through a successful development phase to production. These he articulates in his CEO report.

The geological and operational expertise we are building in-house is complemented at Board level by significant input from a new Non-executive Director, Maurice Dijols. Maurice was formerly President of Schlumberger Russia and is currently a Non-executive Director of IGSS (the largest land seismic company in Russia) and Eurasia Drilling Company (the largest drilling company in Russia). His experience in the Russian market and the practicalities of operating in Western Siberia is unrivalled, and thus he has closed a key gap in our team.

In our commitment to the highest corporate governance standards, we have also made a number of strong appointments to the Board, appointing Kirill Androsov and Frank Monstrey as Non-executive Directors. Mr Monstrey's track-record in delivering production growth in Kazakhstan and Kirill's deep knowledge of the Russian energy market further strengthen our Board. The Board re-organisation along with the various committees was completed in early 2014. We are now confident we have strong leadership to support the implementation of the agreed strategy.

The team in place is now empowered to lead Ruspetro into a new phase which will reflect a different approach to geological challenge, technology application and planning. We are working to build a well-rounded and technically advanced team, and with the support of Schlumberger, to develop the capability to successfully design and execute the complex horizontal wells which we believe will unlock the potential of our substantial resources.

Ruspetro's immediate business plan objectives are both to develop and sustain its current oil production, including through the initiation of horizontal drilling. Changes in the fiscal environment in which we operate have significantly improved our production economics. In July 2013, the Russian Government signed a law to reduce Mineral Extraction Tax ('MET') with effect from 1 September 2013, which has significantly enhanced the cash flow generation from our existing oil production. This applies to oil produced from hard-to-recover reservoirs, such as our Bazhenov and Tyumen formations which have low permeability. Under this legislation, virtually all the Group's current production qualifies for an 80% reduction in MET.

These fiscal policy changes have made it realistic to consider the development of our vast shale resources in the Bazhenov formation. We believe, along with a large number of renowned global experts, that the Bazhenov could drive the new wave of investment in unconventional resources in Russia from around the world. While it is true to say that the successes in the US have not been replicated as quickly elsewhere in the world, there are practical reasons to believe that significant early progress can be anticipated in Russia. These include the scale of the resources, the advantageous geology, the significant pre-existing infrastructure in areas of low-density population, access to technical expertise and, importantly, a favourable fiscal regime.

In order to implement a sound strategy for the development of its large hydrocarbon assets, Ruspetro will begin drilling from existing financial resources, but we acknowledge additional funds will be required to implement the full development programme. Initial drilling has been facilitated by the successful restructuring during 2013 of our existing medium-term credit facility with Sberbank as well as of our shareholder loans. Additionally, the conclusion of a forward oil sale agreement with Glencore in 2013 and which has been renewed in 2014 is an important liquidity management initiative.

The continued development of Ruspetro's extensive hydrocarbon resources will be funded through a combination of reinvested cash flow and additional financial resources. The Board is also considering a range of potential strategic transactions.

While the past year has been undeniably challenging, I believe that Ruspetro emerges from it with a clear set of strategic decisions which will allow the management team in place to deliver growth. I would like to thank all Ruspetro's employees who have shown dedication through these difficult times and who have worked hard to support myself and the executive team. My consideration also goes to other Board members who have and will I am sure continue to make a sustained valuable contribution to helping Ruspetro deliver on its potential promises.

Finally and most importantly, on behalf of the Board and management, I would like to thank all our shareholders for their continued support during what has been a challenging year for the Company. As we set out in this report, Ruspetro is now in a far better position to deliver value for all its stakeholders.

Alexander Chistyakov

Alexander Chistyakov
Executive Chairman

CEO's Statement

John Conlin
Chief Executive Officer

"Now that we have a firm strategy in place, we are focused on delivery, and establishing a track-record which demonstrates our subsurface understanding, technical knowledge and operational capability."

Having joined the Company as an independent Non-executive Board member in August 2013, I had the opportunity, along with my Board colleagues, to think about the best way to take Ruspetro forward. Consequently, I welcomed the invitation to take on the role of Chief Executive Officer and look forward to implementing the revised strategy developed by the Board.

What have we learned?

2013 was the year in which reality bit hard. The very aggressive drilling campaign in 2012 and 2013 did not deliver the expected production, while consuming much of our available capital. The simple truth is that we underestimated the complexity of the development challenge in our Pottymsko-Inginsky core area. We encountered a lower reservoir permeability range than expected (0.5–1.0mD), as well as greater structural complexity and more limited reservoir continuity. Along with these issues, delayed implementation of water injection caused a large pressure sink to form in the reservoir.

Our first priority has been to stabilise production from our existing wells. This has been a real success story. We have scaled up the waterflood operations by converting a number of producing wells to water injection and have seen a very positive response in terms of slowing the previous production decline.

Perhaps the most important technical decision we have made is to switch to a development concept based on multiple fractured horizontal production wells. In addition to the improved economics of these wells, they critically mitigate by their design the observed reservoir heterogeneity.

In order to further advance our understanding of the reservoir geology and develop complex horizontal wells, the Company began a search for a technical partner, and was delighted to sign a technical partnership with Schlumberger. Through this agreement, Schlumberger will provide horizontal well designs which capitalise on their world-wide experience with this technology and will support Ruspetro in the operational execution of these wells. Subject to having the necessary funding in place, we also consider to improve our subsurface understanding next winter by shooting additional 3D seismic in areas previously only covered by 2D seismic data.

We therefore believe that we understand what went wrong in the past and that we can build a profitable business to repair our balance sheet and create shareholder value.

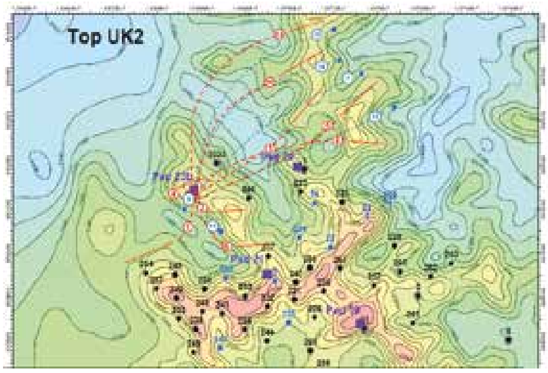
Corporate strategy moving forward

Now that we have a firm strategy in place, we are focused on delivery, and establishing a track-record which demonstrates our subsurface understanding, technical knowledge and operational capability.

Our immediate objectives are to:

- Build production in 2014 through enhanced waterflooding of the core Pottymsko-Inginsky ('PI') area and an initial horizontal well development of three areas adjacent to the PI core area.
- Create a horizontal well development toolbox of well designs and execution strategies.
- Appraise and mature a ranked inventory of development targets for drilling post 2014, outside the core area.

We have successfully positioned a rig on Pad 23b from which we can develop patterns north west of our existing producing area. In early April 2014, we spud our first multistage fractured horizontal well on the Pottymsko-Inginsky licence block. Our strategy will comprise of drilling an initial series of horizontal production wells followed by a number of vertical wells designed in due course to be converted to water injectors after a period of test production.



Pottymsko-Inginsky Pad 23b development area

An important characteristic of this plan is that, from this pad, we can alternate drilling between areas thereby giving us the breathing space to assess well performance in each area before a follow-up well is drilled. Secondly, keeping the rig on one pad gives us the opportunity to drive significant improvements in drilling and completion operations over the programme.

Medium-term activity levels will be tuned to delivering production levels which are aimed at underwriting capital investment needs and debt servicing.

Longer-term opportunities

Palyanovo

Our significant gas reserve base in the Palyanovo licence block is a valuable asset which we continue to assess opportunities to monetise. We have a market and are currently in discussion with potential joint venture partners to develop the necessary processing facilities. That being the case we closed-in the field at the beginning of 2014 to conserve gas.

Bazhenov

Russia's unconventional resource base remains an area of interest particularly following the Mineral Extraction Tax relief implemented in 2013. We are estimated to have 3.5 billion barrels of 3C oil in place across our 300,000 acres of Bazhenov shale. Given the attractive fiscal incentives, we anticipate a collaborative effort within the industry to initiate the important first steps towards commercialisation of this potential giant resource.

John Conlin

John Conlin
Chief Executive Officer

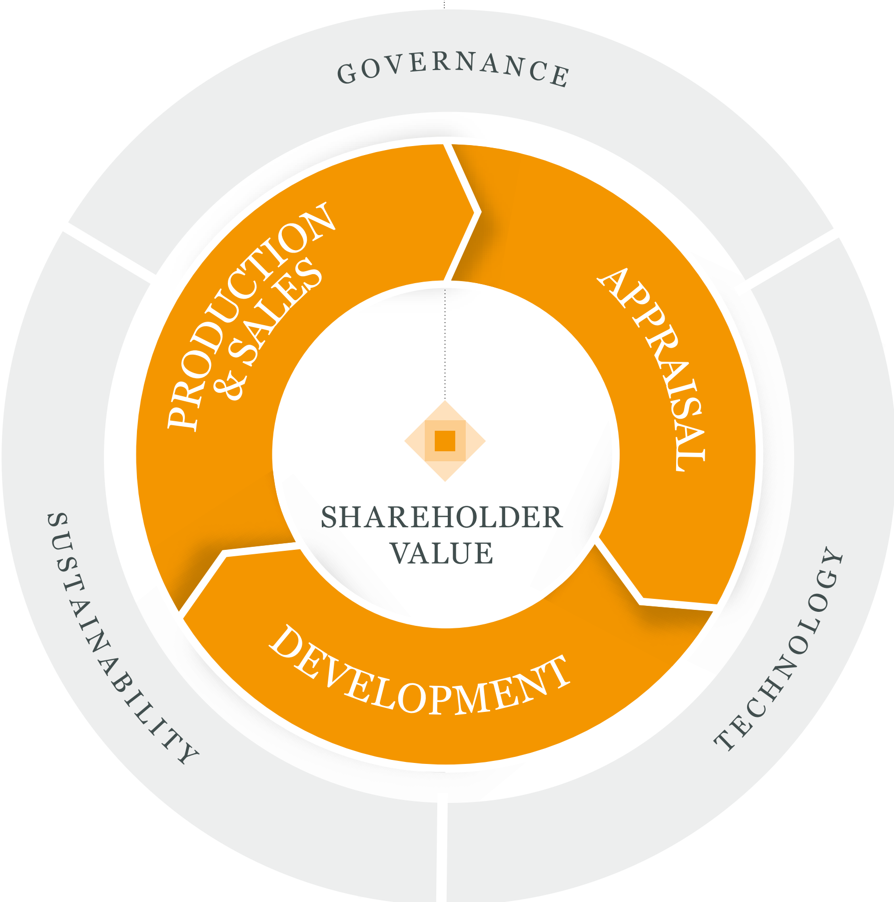
Business Model

Ruspetro's focus is to economically develop its tight oil reservoirs in Western Siberia through the application of leading technology and practices. Longer-term development of its condensate and natural gas reserves and appraisal of its Bazhenov oil shale may represent additional opportunities for growth.

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.



What we do

Appraisal

Through geological and reservoir modelling, supported by the use of advanced 3D seismic processing and interpretation, our geologists and petrophysicists target prospective areas of the field and design drilling programmes focused on both de-risking areas and the future development programme. This initially involves drilling appraisal wells to delineate the size of the reservoir and the recoverability of the reserves within that area.

The Company also reprocesses seismic data to improve its understanding of the geology of its assets.

Development

This appraisal work is the necessary preparation ahead of development and production enabling the drilling programme to be conducted with a higher degree of reservoir predictability and reduced drilling days and completion time. In addition to a low-cost development drilling programme, active reservoir management involves an extensive, carefully modelled waterflood programme which allows the Company to address natural declines in its base production and stabilise flow rates.

Production & Sales

Ruspetro produces light oil, condensate and natural gas from its fields. Near-term operations focus on the development of crude oil for which the Company has existing sales options in both domestic and export markets including access to the national pipeline system with its company-owned metering point and year-round access to a federal highway. As appropriate, the Company might sign offtake agreements with counterparties in exchange for a pre-payment for its future deliveries of crude.

How we do it

Governance

Ruspetro is committed to the highest standards of corporate governance. All the activities are governed by its Board of Directors who scrutinise every aspect of the business to ensure that the value is maximised in the interest of its shareholders.

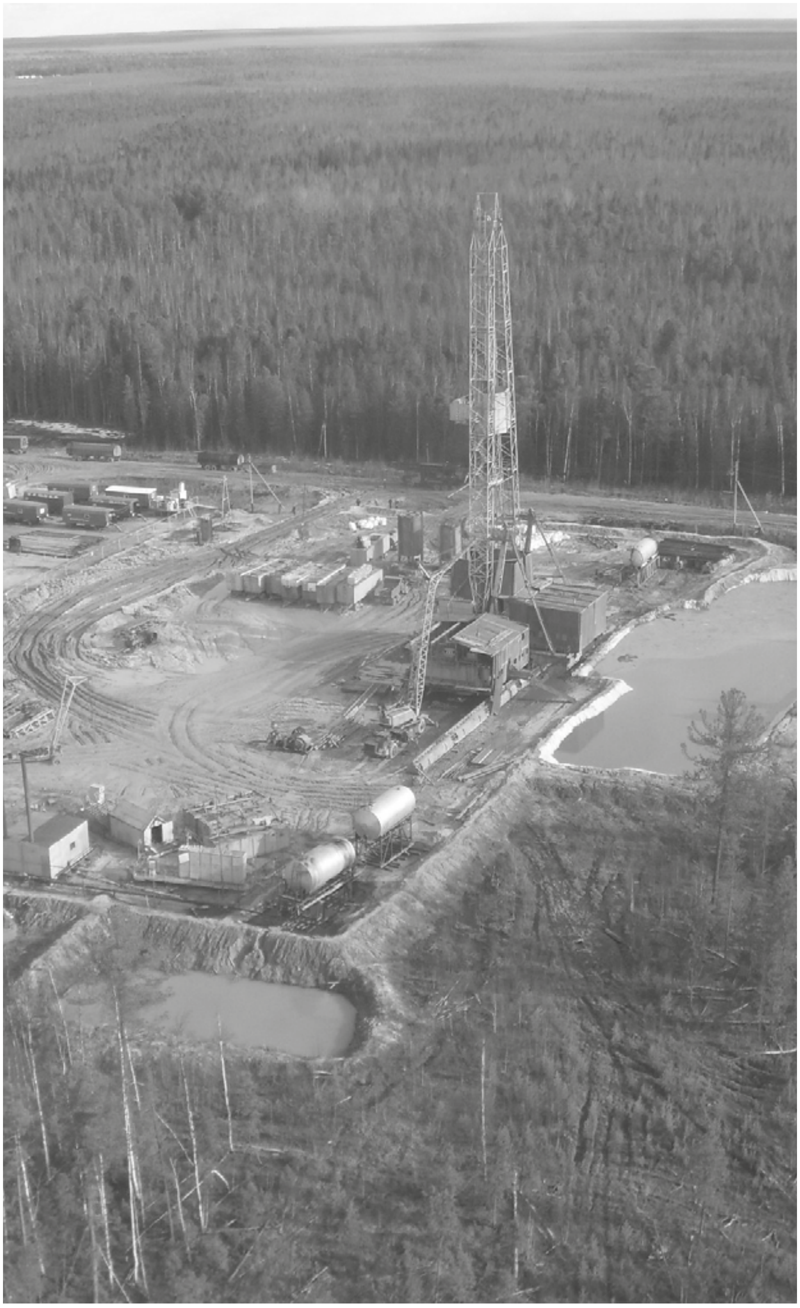
Technology

Access to and the selective application of the right technology is key to the success of our business. Ruspetro's experienced team focuses on establishing strong contractor relationships which afford the Company access to leading technology and practices. The Company also constantly improves its knowledge of the geology, completion and drilling techniques to maximise the efficiency of its operations.

Sustainability

The objective of the business is to generate long-term value for its stakeholders. The sustainable approach relies on the production growth becoming self-funding. The Company aims to achieve this in harmony with its broader environment, including legal, social or natural.

Operational and Financial Review



Production

Production in the year averaged 4,797 boepd, a 3% increase from average production in 2012 of 4,639 boepd. This increase was due to successful drilling activity and the implementation of waterflooding to reduce well decline rates.

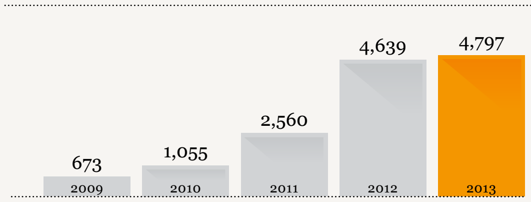
In 2013, only three wells were drilled and these were completed in the first quarter: two in the gas and condensate producing area in the Palyanovo licence block and one oil well drilled to the north-west of the main producing area in the Pottymsko-Inginsky licence area. This latter well, 254b, produced the highest initial flow rate of any well in the field to date. It continues to be a strong producer and produced 750 boepd in December 2013. The two wells completed in Palyanovo were not fracture completed and did not produce commercial volumes.

Fourth quarter 2013 production averaged 4,010 boepd, a decline of 31.5% compared to a 5,856 boepd average in the fourth quarter of 2012. Crude oil production averaged 3,680 boepd, a decline of only 11.5% compared to a 4,160 boepd average in the fourth quarter of 2012. The larger decrease in total production is due to reduced condensate production from our Palyanovo licence. The limited decline in crude oil production was due to new production from well 254b and improved response from our waterflood programme. Crude oil comprised 92% of production in the final quarter of 2013, compared to 71% in the fourth quarter 2012.

Reservoir management and waterflood

During the year the subsurface team identified falling pressure support in our main crude oil producing area in the Pottymsko-Inginsky licence area as an opportunity where effective reservoir management could stabilise and even build production without drilling. They set about expanding and refining the waterflood programme such that crude oil production towards the end of the year was stabilised. The waterflood was more compartmentalised than had been originally envisaged, in line with the findings from our 3D-seismic reprocessing. 12 wells have now shown a response to the waterflood programme and more well conversions are planned for 2014 to enhance the effectiveness of this programme further. It has been calculated that the waterflood is currently yielding 800 boepd in excess of production purely from primary depletion.

Average production (bopd)



Revising the geological model

As a result of the analysis of Ruspetro's performance throughout the year, it was decided that an extensive revision of the Company's geological model and overall approach to production was necessary. Greater permeability and more homogeneity within the reservoirs had been assumed for the 2012 drilling campaign, however it became clear from well results during the period that this was not the case.

The field required an integrated approach to the development of the reservoir including furthering our subsurface knowledge by re-analysing the data that was and has become available, bringing new drilling and completion techniques to the field that are likely to be more appropriate to the field's geology and more development planning for the lifecycle of the areas targeted.

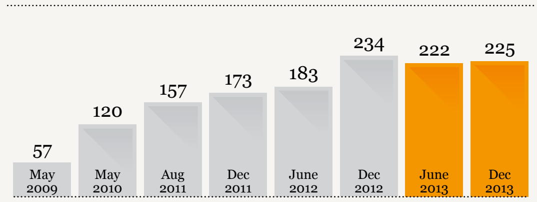
In 2013, the Company began reprocessing the 3D seismic data that covers 42% of the field. The results of the reprocessing showed structural and stratigraphic compartmentalisation in our main area of production. This poses challenges for an effective waterflood programme and demonstrates why production results from 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.

In parallel with this work, the Company entered into a technical partnership with Schlumberger in September 2013. A team of technical experts from Schlumberger joined the Ruspetro subsurface team in our office and were commissioned to build a knowledge map of the field by reviewing the subsurface data, helping the Company select target areas to appraise and develop, and to design and implement a number of horizontal multistage fractured wells.

As a result of this technical partnership, the Company has now selected a number of target areas and has within those target areas several bottom hole locations to begin the appraisal and development of the reservoirs in that area.

Schlumberger in collaboration with Ruspetro's subsurface team have produced an initial ranking of subsurface areas by risk, as well as to output production forecasts for individual wells with sensitivity tables for different well lengths and fracture numbers. This will lead to more effective capital allocation within the new drilling campaign.

Audited proved reserves (million barrels)



225 mmboe

Proved reserves

Resource potential

DeGolyer & MacNaughton conducted a reserve audit for the Company as of 31 December 2013. Proved reserves were 225 million barrels of oil equivalent ('boe'), a decrease of 4% from the year-ago estimate of 234 million boe, mainly due to a re-assessment of oil water contacts in the Vostochno-Inginsky licence area. Year end 2013 proved plus probable reserves were 1.9 billion boe, a 3% increase from 2012's estimate of 1.8 billion boe, primarily due to a removal of sales gas restrictions.

Of these reserves, natural gas comprises 34 million boe of proved reserves and 232 million boe of proved and probable reserves.

The Company has 29 million barrels of proved developed reserves. This compares to 16 million barrels as at 31 December 2012.

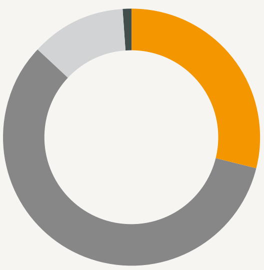
DeGolyer & MacNaughton estimate contingent resources in the Bazhenov oil shale formation of 3.5 billion boe in place.

4,797 bopd

Year average production

Operational and Financial Review
continued

2013 Revenue breakdown (%)



US$13.0m

EBITDA as at 31 December 2013

Sales and marketing

In 2013, Ruspetro produced approximately 1.75 million barrels of oil and condensate giving an average production of 4,797 boepd. Of this 85% was crude oil and 15% was condensate. Whereas the condensate is bought by a local off-taker and provided 12% of our revenues, crude oil is sold into both the domestic market and for export. Of our crude oil revenues generated in 2013, 66% were sold domestically with revenues of US$54 million and 34% of our crude oil was exported, generating revenues of US$27 million.

Overall the Company delivered 52% of its sales via the domestic pipeline network, 15% was exported by pipeline, 19% was delivered by rail as light oil and 14% of sales were condensate trucked directly from the processing facility by the off-taker.

Outlook for 2014

During this year of strategic re-evaluation, we have taken stock and evaluated our position at a technical level, determining that our strategy must revolve around increasing pressure support and economic production from our low permeability reserves. From our technical partnership with Schlumberger, to the positive effect of the Federal MET relief on our production economics, to the long-term potential in our Bazhenov resources, it is clear that Ruspetro has a diverse set of opportunities from which to gain a firm footing in the Russian oil industry.

Development in 2014 is aimed at maximising cash generation from operations while increasing capital efficiency. With the new 80% MET relief creating a well head revenue per barrel of crude equal to that of condensate, we have shut in our Palyanovo licence and will focus solely on our crude production in 2014 in the Pottymsko-Inginsky licence area.

With the help of Schlumberger, our technical team has identified several bottom hole locations and plan to begin drilling from Pad 23b in patterns north west of our existing producing area. Our strategy consists of drilling horizontal wells with roughly five multistage fracs each to both achieve a higher capital expenditure per barrel and to increase the probability of production per well. In acknowledging the strong effects of waterflooding historically, we also plan to drill a number of vertical wells designed to be converted to water injectors after an initial period of test production. We expect to spud the first horizontal well from this Pad in April 2014.

Financial summary

Revenues and EBITDA increased in 2013 over 2012 to US$79.8 million and US$13.0 million respectively due to a higher overall average production rate of 4,797 boepd, reduced operating and general expenditures and the MET relief in effect from 1 September 2013. As an illustration, at a Brent crude oil price of US$110, the 80% MET relief helped boost the Company's well head revenue by approximately 50% to US$41 per barrel in

December 2013, from US$27/barrel in August 2013, the month before the MET relief became effective. Overall, well head revenue increased by 19% from 2012 and EBITDA increased from negative US$6 million in 2012 to positive US$13 million in 2013.

Further, in August 2013, the Company arranged a US$30 million 360-day pre-payment facility with Glencore Energy UK Ltd. Due, in part, to this facility the Company had a 2013 year-end cash balance of US$15.8 million.

Long-term debt restructured

Ruspetro's principal creditor, AKB 'Sberbank' agreed to restructure its credit facility with the Company in May 2013. The restructuring extended the maturity of the facility to April 2018 and included interest payment deferrals for 2013 and 2014. The 2014 interest payment deferral was subject to covenants that have been met by the Company in 2013. The two principal shareholders with loans outstanding also extended the maturities of these loans to the Company with the debt of US$21 million (as at 31 December 2013) owed to Makayla Investments Limited now maturing in May 2015, extended from August 2013, and the US$69 million (as at 31 December 2013) owed to Limolines Transport Limited now maturing in May 2018, extended from May 2015. The Company had long-term borrowings of approximately US$403 million as at 31 December 2013.

US$41/bbl

December WHR/bbl

US$15.8m

Cash balance as at 31 December 2013

Cost of sales

2013 cost of sales, including depreciation and production related taxes, was US$63,222 thousand and represented 79.2% of revenues as compared to the 98.1% of revenues in 2012. The decrease in the cost of sales is primarily a result of the decreased expenditures in this year of reassessment and reduced drilling.

The decreased sales related costs includes MET which was 19.5% lower than 2012, largely due to the introduction of 80% MET relief. Other sales costs decreased by 12.5% majoring to large decreases both in repairs and maintenance and in transportation services, which is due to the construction and use of our own intra field pipeline, decreasing dependency on oil-transport companies. A full breakdown of cost of sales can be found on page 77. Operating expenses excluding depreciation and MET amounted to approximately US$19,134 thousand, as compared to US$24,048 thousand in 2012.

Compared with 2012 depletion, depreciation and amortisation in 2013 increased by 3.2% to US$18,488 thousand.

Selling and administrative expenses ('S&A')

S&A expenses (excluding share-based payments) decreased by 12.3% to US$24,936 thousand from 2012. These expenses include oil transportation costs, payroll expenses, rent, professional services, property and land taxes, bank charges and other expenses, including costs associated with Ruspetro's status as a public company. A full breakdown of the S&A begins on page 77. The decrease in S&A is largely due to the reduced use of external audit and legal services and decreased lower oil transport services owing to the construction and use of our own intra field pipeline.

Comprehensive loss for the year

The Company recorded a loss for the year of US$74,238 thousand. This is approximately US$46,954 thousand higher than the 2012 loss of US$27,284 thousand. After translating the results to the presentation currency, which resulted in a loss of US$11,063 thousand, the total comprehensive loss for the year was US$85,301 thousand.

Outstanding debt at year end 2013

Debt and obligations	Principal	Accrued interest	Total as at 31 Dec 2013	Maturity	Annual interest rate
Sberbank	230.3	83.1	313.4	April 2018	10.9%
Makayla	15.0	6.0	21.0	May 2015	LIBOR + 10%
Limolines	48.7	19.8	68.5	May 2018	3MLIBOR + 10%
Crossmead	0.3		0.3	Past Due	
TOTAL	**294.2**	**109.0**	**403.2**		

Operational and Financial Review
continued

"Revenues and EBITDA increased in 2013 over 2012 to US$79.8 million and US$13.0 million respectively due to a higher overall average production rate of 4,797 boepd, reduced operating and general expenditures and the MET relief in effect from 1 September 2013."

Cash flow

Ruspetro started 2013 with US$34,416 thousand in cash. In 2013, we did not receive any proceeds from the issue of share capital, nor did we pay down principal of loans and borrowings. In meeting certain covenants with Sberbank, Ruspetro's principal creditor, we were entitled to an interest payment deferral in 2013, and therefore no interest was paid during the period. In signing a forward oil sale prepayment agreement with Glencore, we received US$30,000 thousand from Glencore in August 2013. We spent US$31,755 thousand on drilling, and US$12,351 thousand on infrastructure development during the year. After an operating cash outflow before working capital adjustments of positive US$8,105 thousand, working capital adjustments of positive US$18,808 thousand and a currency translation difference of negative US$391 thousand we ended the year with a closing cash balance of US$15,832 thousand.

Purchase of property, plant and equipment ('PP&E')

The Company invested US$44,106 thousand in property, plant and equipment in 2013 representing a decrease in investment over 2012 of 58.6%. PP&E assets were US$234,203 thousand at the end of the period, an increase of 104%, whilst mineral rights and other intangibles decreased by 7.0% to US$395,533 thousand.

Financing of Ruspetro's current operations and future development

On the basis of its current financial resources and its existing external and shareholder debt financing, the Company recognises the need to raise additional funding in the short term. This will allow Ruspetro to implement the horizontal well programme in full and to generate sufficient revenues and cash flow to meet future liabilities as they fall due.

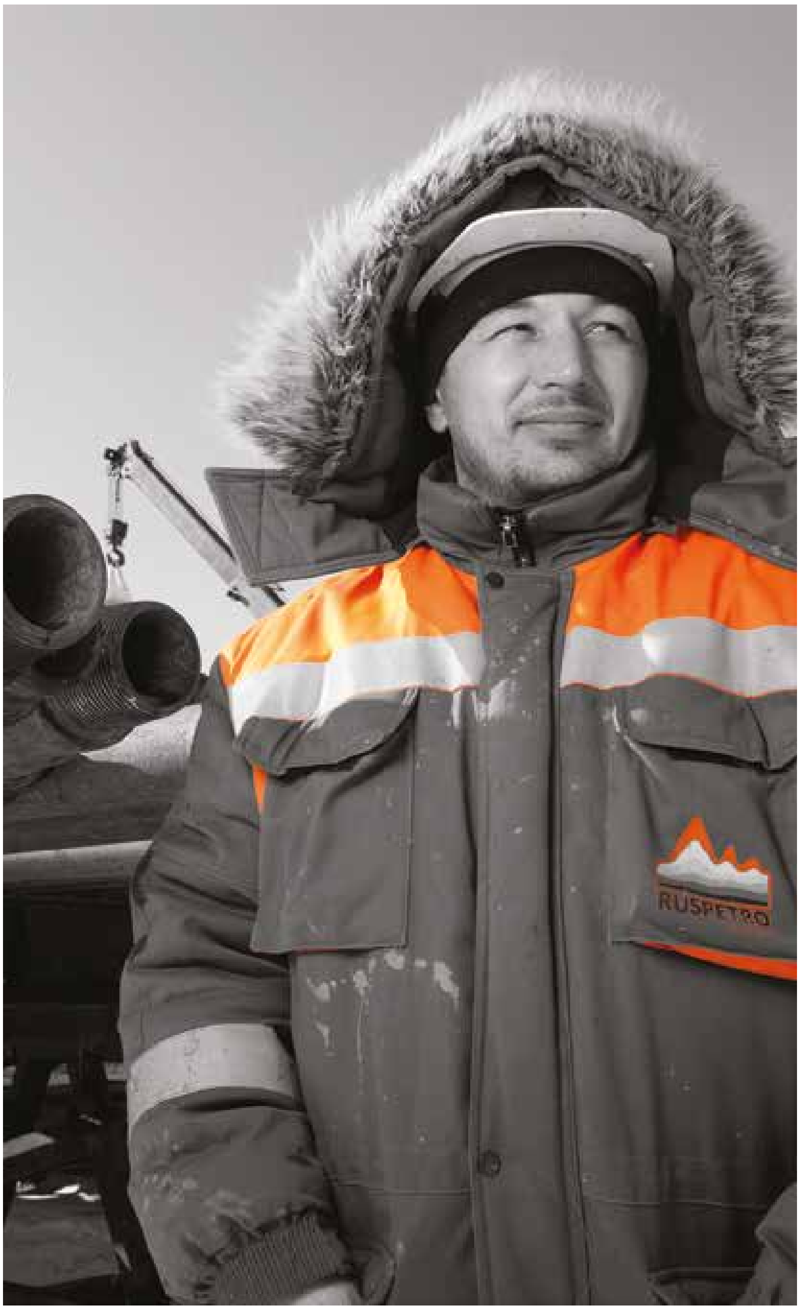
While the existing US$313.4 million credit facility with Sberbank is repayable at the end of April 2018, securing financing is essential for the continued development of the field. Therefore Ruspetro is evaluating several strategic transactions and financing alternatives, including joint venture, farm in, merger sale, or other capital raising alternatives.

If additional financing is not obtained, the Group may need to amend its development plan and may be unable to realise its assets and discharge its liabilities in the normal course of business. Management considers that these circumstances represent a material uncertainty that may cast doubt on the Group's ability to continue as a going concern, and we have described these risks in the accounts as a material uncertainty.

Strategic Review: Driving Performance

KPIs	Goals	2013 Results
Health, Safety and the Environment	• To incur no fatalities or accidents • To minimise pollution emissions	• No fatalities or major accidents occurred during the period
Annual production	• To reach a level of production that organically funds a drilling programme which generates sustainable growth	• Implemented an enhanced water injection programme which has stabilised production
Capex/barrel	• Target a development cost that allows us to economically develop our resources across the entire acreage	• Completed a comprehensive analysis of our drilling and production performance • Prepared a development plan for the initiation of a horizontal well development programme
Operating cost/ barrel	• Maintain tight cost controls to ensure safe and efficient production	• Operating costs during the period declined 21% from US$15/bbl in 2012 to US$11/bbl in 2013
Funding the business	• To improve financial flexibility in order to aid the Company's growth strategy	• Secured a new non-dilutive US$30 million forward oil sale prepayment facility with Glencore • Successfully restructured all long-term debt by extending maturities and negotiating an interest payment deferral for the Sberbank credit facility for 2014
Business integrity	• To maintain excellent legislative relationships • To hold all licences in good standing	• In April 2014 the Group renewed its subsoil VI licence for a further 20 years to June 2034 • Ruspetro acted compliantly within best practice guidelines

Sustainability Report



Introduction

The Company holds three licence blocks on the Krasnoleninsky Arch near Khanty-Mansiysk in Western Siberia. There are two communities based within these licence blocks: Talinka with a population of about 4,000 and Palyanovo with a population of some 200. We recognise that we have a duty to safeguard the environment in our area of operations, and support the way of life of those who live in the communities there.

To meet our sustainability obligations, we focus on the following themes:

- to increase operational and cost efficiencies in production;
- to recycle waste and minimise environmental harm;
- to have open and positive communication with the communities in which we operate;
- to work closely with local governmental agencies in meeting our obligations;
- to ensure the safety of our assets and employees; and
- to create a high quality working environment for our employees.

2013 has been a year of consolidation for the Company. While drilling operations have been limited we have focused on improving the efficiency of our production system and reducing the environmental impact of our operations in line with our sustainability goals. We are also working hard to improve the safety and security of our operations and building relationships with the local communities in which we work. The Company's operational base is in Talinka, from where we manage day-to-day field operations. By basing our operations in Talinka we are bringing increased investment, activity and employment to this community.

Health, Safety and the Environment

As is true for any oil and gas company, safety in both our drilling and production operations is absolutely essential. Concerns for maintaining ethical standards, employee and community satisfaction and environmental protection are equally important for Ruspetro and are reflected in everyday operations. As such, every employee is held accountable for adhering to such regulations. Ruspetro is dedicated to developing the resources within its asset base in a responsible manner, whilst respecting all key stakeholders.

Safety performance

Operating safely is a strict priority to the Ruspetro team who firmly adhere to the view that injuries are preventable. Not only is this essential for the care of our employees, but for the benefit of stakeholders, communities and environment within which we operate.

Ruspetro bases its internal management of safety on the following four safety statistics:

Lost Time Injury ('LTI')

A lost time injury is calculated as the sum of fatalities and lost time accidents. An LTI will be one which results in an employee or contractor being absent from work for three days or work shifts. During 2013, 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. The AFR for Ruspetro in 2013 was 0.50.

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 incurred during the year that required treatment of a medical professional, including fatalities, lost time injuries, and any incidents treated with first aid. There were four incidents recorded in total for Ruspetro in 2013 of which only two required medical attention, therefore the Company's TRIF was 5.04.

Motor Vehicle Incident Frequency ('MVIF')

MVIF refers to the total number of vehicle incidents per 1,000,000 km. In 2013, the Company recorded three incidents, therefore incurring a motor vehicle incident frequency of 5.41.

Internal safety standards

In 2012 the Company introduced internal safety standards and procedures to improve our approach to safety. These are based upon recognised international guidelines within the industry and have been developed to address the main risks faced by the oil and gas industry. In 2013, these have been implemented by supervisors and employees, who have been trained to ensure that the workforce is in compliance with these procedures and processes. These include:

- 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 information;
- maintenance of specific job descriptions for all responsible employees;
- regulation on in-process control and maintenance of an action plan to ensure industrial safety; and
- instruction on standard operating procedures for employees involved in crane operation.

Security

For 2013 Ruspetro's main security goals were to protect its people, assets, data and technology infrastructure. In order to do this, the Company established transparent processes and procedures for its operations, finances and procurement of goods and services. This work will continue in 2014.

19 security cameras were successfully fitted across the Company's operational locations. Furthermore 54 GPS tracking devices were installed in both the Company's own and contractor vehicles to ensure their efficient utilisation.

Environmental performance

The Company's duty of care to the environment is of key importance. During 2012, the Company adopted an environmental protection programme for its main production subsidiaries, INGA and Trans-oil, and this programme has been continued through 2013. The production of oil causes four possible routes of contamination:

- atmospheric emissions – principally through the flaring or venting of associated gas;
- water emissions – mainly from produced water;
- solid waste – mainly drilling cuttings; and
- oil spillages and leaks.

The programme aims to:

- reduce waste at source through design and operation;
- re-injection of 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 also minimising land use in sensitive natural, community or historical areas;
- monitor the impact of operations on the environment; and
- clean up any waste materials or oil spills using recognised reclamation procedures to allow the environment to recover.

Sustainability Report
continued

In November 2012, the Russian Federal Government adopted a decree significantly increasing penalties for associated petroleum gas flaring where overall cumulative production exceeds 5% of the reserves of the reservoir. This decree came into effect from 1 January 2013 with the aim of improving the utilisation of associated gas by the oil industry. Due to this decree, increased monitoring has been required in 2013 and four additional gas meters were installed in the first quarter to provide the required data. The Company's low level of current reservoir depletion, at approximately 1%, means that, within the framework of the new decree, no penalties were paid in 2013 for gas flaring or are expected to be paid in 2014. Total fees incurred and paid at INGA and Trans-oil for negative environmental impact were US$230 thousand in 2013. In addition, INGA at the end of 2013 had recycled over 95% of associated gas, in compliance with the Russian Federation legislation.

In 2013 there were no oil spills recorded, however over US$74,000 was spent on reclamation works on previously contaminated areas. The following actions were carried out:
- the technical phase of remediation of contaminated land is still in progress; the reclamation of 4.6 hectares of land from oil contamination was completed during 2013;
- the processing of 22,040 cubic metres of drilling cuttings;
- the reclamation of 24,990 square metres of sludge pits; and
- in early September 2013, four electric gas generators were put into use. Plans have been made for the installation of 27,600 MW generators in 2014 in order to address atmospheric emissions as well as to supply in-field power demands.

Community relations
In 2013, Ruspetro renewed agreements with the local authorities in Talinka and the Oktyabrsky district in order to support the communities in which the Company operates. During the year, the Company invested approximately US$140,000 into the local community to provide support for a school in Talinka and to increase road infrastructure for the village of Palyanovo. These specific investments include:
- For the village of Palyanovo (Oktyabrsky district)
  - expenditure on the financing of social activities;
  - purchase of equipment and goods to support the kindergarten 'Cheburashka' in the village of Palyanovo;
  - purchase of equipment and goods to support the school in the village of Palyanovo; and
  - purchase of equipment and goods to support the country club in the village of Palyanovo
- For Talinka
  - purchase of equipment for Oktyabrskaya Central Regional Hospital;
  - financing the construction of an electrical grid for the ski centre in Talinka;
  - funding school trips;
  - expenditure on the financing of social activities for the Talinka community; and
  - purchase of equipment and goods for Talinka's Centre of Culture and Sports.

Human rights
Our performance as a corporate entity is dependent upon the performance of our employees as individuals. We therefore aim to achieve maximum employee satisfaction and ultimate standards of performance. To that end we are committed 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; and
- ensure equal opportunity without discrimination on the basis of age, culture, disability, gender, race and religion.

HR policy

Key objectives

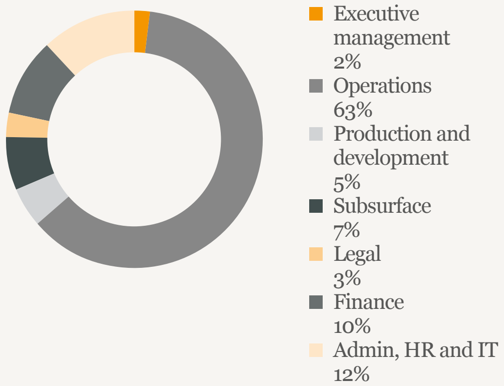
The Company's Human Resources strategy centres on the following set of key principles and priorities:

- fair and competitive salaries and benefits for all employees;
- appropriate incentive schemes to reward excellent performance;
- thoughtful and constructive development of all staff;
- preservation of contractor relationships;
- a safe working environment; and
- equal opportunities for all employees for professional and career development

The recruitment and retention of top performers is one of the main goals for Ruspetro's Human Resources team. During 2013, the Company put in place processes to employ and retain staff and enable them to grow and develop within the organisation. Ruspetro also offers a competitive set of benefits including life and medical insurance for all employees as well as a long-term incentive plan. The Group's remuneration policy has been refined and is presented in this report. Ruspetro recruited additional staff in 2013 across our locations and focused on employees with experience in horizontal drilling in West Siberia. During the year, the Ruspetro headcount decreased by 34 people.

As at 31 December 2013, 63% of the Company's total 199 employees were based in Western Siberia and 25% were female. No females are currently on the Board or in executive management. We have developed a semi-annual performance review system for all staff, which will be further refined in 2014 to clearly identify high-performing employees and to improve the transparent link between Company performance, an individual's contribution and subsequent reward.

Employee breakdown by department (%)



"As at 31 December 2013, 63% of the Company's total 199 employees were based in Western Siberia and 25% were female. The recruitment and retention of top performers is one of the main goals for Ruspetro's Human Resources team. During 2013, the Company put in place processes to employ and retain staff and enable them to grow and develop within the organisation."

Board of Directors

Alexander Chistyakov
Executive Chairman
Nomination Committee Chairman

Mr Chistyakov, aged 41, prior to joining Ruspetro was the Chief Operating Officer and first deputy chairman of the Russian Federal Grid Company ('FGC') and an executive director of Unified Energy Systems ('RAO UES') from 2001 until 2009, having joined in 1999. In 1998 he was the head of the economic analysis department and deputy director of the financial department at Russia's Federal Agency on Industry ('Rosprom'). 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 St Petersburg University of Economics and Finance.

John Conlin
Chief Executive Officer

Mr Conlin, aged 61, is a Petroleum Engineer with more than 36 years' experience in the oil and gas industry. He spent 28 years with Shell International in various senior management and operational positions. During this time he also gained significant experience outside Shell through secondments with Maersk, Woodside Petroleum and ExxonMobil. He served as President of Sakhalin Energy in Moscow in the late 90s. Since leaving Shell, Mr Conlin has held non-executive Board roles with Hardman Resources plc and Delphian Technologies Limited, and chaired the Boards of Fuelture Limited, Nautical Petroleum plc and Aurelian Oil and Gas plc.

Mr Conlin has a BSC in Chemical Engineering and Mathematics from Edinburgh University.

Thomas Reed
Chief Financial Officer

Mr Reed, aged 43, is an entrepreneur based in Moscow and a co-founder of Ruspetro. Mr Reed has been an investor and advisor in Russian private equity for 17 years. He has worked on the origination, trading, and research of equity and equity derivatives, distressed debt, and debt derivatives since 1995. Mr Reed has been an advisor to VR Capital and Raven Russia in Moscow, and was a founding shareholder of Rising Star Media. Previously, he worked with Menatep Bank and Alliance Menatep during the privatisation of the Russian oil industry.

Mr Reed graduated from the University of Southern California with a BA in Humanities, emphasis in Philosophy, minor in Finance.

Kirill Androsov
Non-executive Director
Remuneration Committee Member

Mr Androsov, aged 41, is a director of Altera Investment Fund (Luxembourg) which via Limolines Transport Limited is a major shareholder in Ruspetro. Currently, Mr Androsov is Chairman of Aeroflot JSC and Russian Railways JSC and is a board member of a number of Russian companies, including OJSC Russian Machines, OJSC LSR Group, and OJSC Channel 1 Television. Prior to this Mr Androsov was Deputy Chief of Staff in the Prime Minister's office of the Russian Federation, and Deputy Minister of Economic Development and Trade in Russia. He joined this ministry as the Director of the Tariff Regulation and Infrastructure Reform Department. During his six years in government, he also served on the boards of RAO UES, Rosneft, Zarubezhneft, Bank VTB and Svyazinvest.

Mr Androsov received an MBA from the University of Chicago and has a Doctorate of Economics from the St. Petersburg State University of Economics and Finance.

Maurice Dijols
Independent Non-executive Director
Audit Committee Member
Remuneration Committee Chairman

Mr Dijols, aged 62, is an engineer by training, and has over 37 years' experience in the oil and gas industry, 34 of which were spent with Schlumberger Limited, the oilfield services group. Mr Dijols has held a variety of executive positions during his career with Schlumberger and from 2003 to 2011 he served as President of Schlumberger Russia, where he substantially grew the business. In the past Mr Dijols served as President of SchlumbergerSema, North Central Europe and CIS. Mr Dijols also held positions as the Chief Information Officer of Schlumberger and as the President of Schlumberger Oilfield Services North and South America. Mr Dijols is also currently a Non-executive Director of IG Seismic Services PLC and Eurasia Drilling Company Limited.

Mr Dijols holds Engineering Diplomas from Ecole Superieure d'Electricite de Paris (Supelec) and Ecole d'Ingenieur de Marseille.

Robert Jenkins
Senior Independent Non-executive Director
Audit Committee Chairman
Nomination Committee Member

Mr Jenkins, aged 60, qualified as a chartered accountant with KPMG and has over 20 years' Russia-related investment experience. He previously co-managed two Russian private equity funds for Framlington Group. He subsequently became Finance Director of UK AIM listed Russian focused mining exploration company, Eurasia Mining, and then Chief Financial Officer of Urals Energy, an oil exploration and production company. Mr Jenkins is a partner of Northstar Corporate Finance, a Russia focused financial advisory business.

Mr Jenkins has an MA in Modern History and Modern Languages (Russian) from Oxford University.

James McBurney
Independent Non-executive Director
Audit Committee Member
Nomination Committee Member

Mr McBurney, aged 55, was previously CEO of White Tiger Gold Limited, HCF International Advisors and JNR (UK) Limited. He headed the European Natural Resources investment banking at Bank of America in London, was a managing director with Merrill Lynch's Energy & Power Group in New York, and was an executive director in M&A with Goldman Sachs in New York and London. Prior to his banking career he served for five years as an infantry officer in the US Marine Corps.

Mr McBurney received an MBA from Harvard Business School and a BA, cum laude, from Yale College.

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

Mr Monstrey, aged 48, is Chairman and founder of Nostrum Oil & Gas LP (formerly Zhaikmunai LP) since 2004, an oil and gas business in north-west Kazakhstan with Global Depositary Receipts listed on the London Stock Exchange. Mr Monstrey also founded Probel Capital Management in 1991, a private equity and asset management firm based in Belgium specialising in long-term capital management in emerging markets.

Mr Monstrey holds a graduate degree in Business Economics from the University of Louvain (KUL).

Corporate Governance Report

Chairman's introduction

Dear Shareholder
At Ruspetro we continue to develop appropriate policies and procedures to help maintain high standards of corporate governance. The system of governance supports the Board as it runs the Company in the best interests of our shareholders and wider stakeholder community. The governance structure also provides the Executives with the support and delegation necessary for the ongoing management of the business and to enhance its long-term performance.

The Board has undergone significant change during the year with the departure of the former Chairman of the Board and our founding Chief Executive Officer in July. We are grateful to Tom Reed, our Chief Financial Officer, for his leadership of the business as Acting CEO while we developed a clear understanding of the skill set required for the ongoing role. Having attracted John Conlin, a highly experienced oil and gas professional, as an independent Non-executive Director in August, it became clear that he was the most appropriate candidate to take the business forward. Therefore, on 17 December 2013, John was formally appointed as Chief Executive Officer.

At the same time, we strengthened the Non-executive membership of the Board by identifying appropriate, experienced and strong candidates with the assistance of Odgers Berndtson.

Together, Maurice Dijols, Frank Monstrey and Kirill Androsov (the last of whom was appointed under the terms of the Company's Shareholder Agreement with Limolines), bring a wealth of knowledge and understanding of the oil and gas exploration business and of Russia. Their contribution to the Company through its Board and Committee meetings has been considerable and much valued. Alongside Robert Jenkins and James McBurney, the Non-executive Directors as a whole provide challenge and support to executive management which is of benefit to management and to the Company.

In addition to reviewing its composition, during the year the Board focused on reappraising and developing an effective strategy for growing its oil and gas resources. The Board has considered the most appropriate strategy for the business at length and the results of these discussions are set out on page 8 of the Annual Report.

Other Board discussions on matters such as risk profile, liquidity and Directors' duties have been enhanced by the willingness of the Non-executive Directors to share their experience and to fully enter into debates with openness and candour.

With the appointment of Robert Jenkins as Senior Independent Director in early 2014 and amendments to the membership of Board Committees, we look forward to continuing to strengthen our governance structure during the year for the continued benefit of our employees, shareholders and the communities in which we operate.

Alexander Chistyakov
Executive Chairman

Governance

Compliance statements

UK Corporate Governance Code
As a UK registered company listed on the London Stock Exchange, the Company is required to comply with the UK Corporate Governance Code 2012 (the 'Code') which is publicly available on the website of the Financial Reporting Council (www.frc.org.uk).

This report, together with the individual reports from the Audit, Nomination and Remuneration Committees which follow, the Strategic Report on pages 2 to 19 and the Directors' Report on pages 38 to 40 give shareholders an understanding of the Company's corporate governance arrangements and how the Company has applied the main principles of the Code during the year.

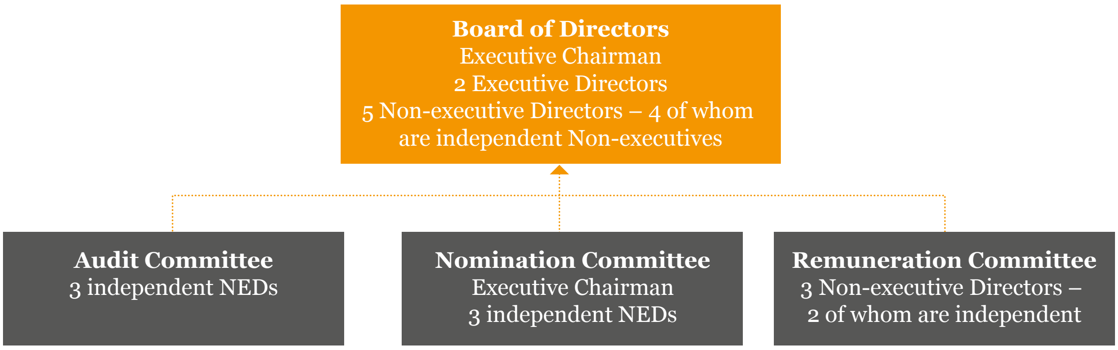
The Company has complied with the main principles and provisions of the Code throughout this financial year and to the date of this report with the exception of Code Provision A.3.1 (Independent Chairman).

Mr Alexander Chistyakov, an Executive Director of the Company and formerly the President of Ruspetro LLC (a Russian subsidiary company) was appointed as Executive Chairman on 1 August 2013. In selecting a successor to the outgoing chairman, the Board considered the requirements of the role in the context of the Group's size, geographical location, development and ongoing strategy. It was agreed that the new Chairman should provide continuity, have extensive experience of operating within the Russian market, possess a full understanding of the challenges facing the Company and be able to actively promote the Company's strategic initiatives.

Following comprehensive consideration by the Nomination Committee (excluding the outgoing chairman), and after discussion with the Company's largest shareholders, the Board agreed that the appointment of Alexander Chistyakov as Executive Chairman was in the best interests of the Company and its shareholders.

Disclosure and Transparency Rules
Certain additional information that is required to be disclosed pursuant to DTR7.2 may be found in the Directors' Report on pages 38 to 40.

Governance framework



Role of the Board

The Board is responsible for the overall management of the Company and its strategy and long-term objectives. It provides entrepreneurial leadership for the Company's business within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets out its vision for the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board also sets out the Company's values and standards and ensures that its obligations to its shareholders and other stakeholders are understood and met.

As part of the governance framework the Board has formally adopted a schedule of matters which are reserved for its approval and has delegated other matters to Board committees and management as appropriate. Their remits are illustrated in the individual Committee reports which follow.

The matters specifically reserved for Board decision are set out in writing and summarised below:

- Strategy and long-term objectives.
- Acquisitions, mergers, disposals, major capital transactions, contracts and investments.
- Business plans, annual operating and capital expenditure budgets and trading performance.
- Capital structure and adequacy of funding.
- Changes to the size and structure of the Board.
- Preliminary announcements of interim and final results and reports to shareholders.
- Ensuring effectiveness of internal controls and risk management.

Board composition

The Board currently comprises eight directors: the Executive Chairman, the Chief Executive Officer, the Chief Financial Officer and five Non-executive Directors, four of whom are considered to be independent. The biographies of these Directors can be found on pages 20 and 21 and details of all persons who were Directors of the Company at any point during the year are set out in the table on page 24.

Balance and independence of Board members

The Board comprises an appropriate balance of expertise, experience, independence and depth of knowledge of the Company and its business to enable its members to discharge their respective duties and responsibilities effectively. The Board includes a mix of Executive and Non-executive Directors, including independent Non-executives, which provides a wide range of perspectives and ensures that no individual Director or group of Directors can dominate the decision making process.

During the year the Non-executive Directors, including the former Chairman, met on a number of occasions without executive management being present.

Division of responsibilities of the Chairman and Chief Executive Officer

Whilst retaining a close working relationship, the Chairman and Chief Executive Officer have clearly defined and separate responsibilities which are set out in writing. They meet regularly between Board meetings to ensure a full understanding of evolving issues and to facilitate swift decision making.

Role of the Chairman

Alexander Chistyakov was appointed as Executive Chairman on 1 August 2013. The Chairman is responsible for the leadership of the Board and in particular for ensuring that the Board and its Committees operate in a way that conform to expected high standards of corporate governance. He sets the style and tone of Board discussions, promoting constructive challenge and debate and ensuring that there is a timely flow of accurate and clear information to Directors. The Chairman is also responsible for fostering effective relationships between the Executive and Non-executive members and for the dissemination of the views of the Company's stakeholders.

Role of the Chief Executive Officer

John Conlin was appointed as Chief Executive Officer on 17 December 2013. Supported by the Executive Directors and senior management team, the Chief Executive Officer is responsible for the day-to-day management of the Group within the authorities delegated by the Board. In particular, he will propose, develop and supervise the Group's strategy and overall commercial objectives and ensure that those agreed by the Board are implemented by the business. He should build an organisational structure which is appropriate for the business, establish processes and systems and plan resourcing to ensure

Corporate Governance Report *continued*

that the Company has the resources and capability to achieve its aims. The Chief Executive Officer should promote the Group's values, culture and standards of conduct and behaviour which underpin the Company reputation and supports the delivery of the Company's development plan and production output.

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 independent with the exception of Mr Kirill Androsov. Mr Androsov was elected to the Board under the terms of a Shareholder Agreement between the Company and Limolines, a major shareholder. 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 51 of the Directors' Remuneration Report.

Senior Independent Director

The Senior Independent Director is responsible for assisting the Chairman with effective communications to the shareholders and is available to shareholders who wish to raise issues with the Board 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 by the Non-executive Directors.

Rolf Stomberg was Senior Independent Director for the whole of 2013. Following his retirement from the Board at the end of 2013, the Board appointed Robert Jenkins as Senior Independent Director with effect from 30 January 2014.

Meetings

The Board meets on a regular basis and is responsible for organising and directing the Company and the Group in a manner that promotes the success of the Company and is consistent with good corporate governance. During 2013, the Board met ten times. Details of all Directors who served during the year and their attendance at those meetings are set out below:

Executive Directors	Date appointed (if during the year)	Date resigned	Attendance at Board meetings
Alexander Chistyakov*			9/10
John Conlin**	1 August 2013		3/3
Tom Reed			10/10
Non-executive Directors			
Robert Jenkins			10/10
Kirill Androsov	1 August 2013		3/3
Maurice Dijols	6 November 2013		2/2
James McBurney			10/10
Frank Monstrey	1 August 2013		3/3
Rolf Stomberg		31 December 2013	10/10
Chris Clark		31 July 2013	7/7
Don Wolcott		9 July 2013	4/6
James Gerson		31 July 2013	7/7
Joe Mach		9 July 2013	6/6

* Mr Chistyakov was unable to attend one Board meeting due to a prior commitment.
** Mr Conlin was appointed as a Non-executive Director of the Company on 1 August 2013 and as CEO on 17 December 2013.

Key items considered by the Board during its meetings in the year include:

Leadership and strategy	• The review of operational, and financial reports and business plans • The approval of budgets and the three-year extension of the Sberbank credit facility to April 2018 • Approving changes to the composition of the Board following a recommendation by the Nomination Committee • Considering and approving a reduction in Directors' remuneration • Approval and oversight of strategic options for capital raising and costs reductions • Approving Company policies relating to expenses, remuneration and reward
Performance, risk and internal control	• Review of financial statements and approval of Annual Report, half year and interim management statements • Review of monthly financial reports and liquidity statements • Review of the effectiveness of the Company's risk management processes and review of principal business risks and of the internal control systems and procedures including financial, operational and compliance controls • Review of the effectiveness of the Board
Shareholder communications	• Approving preliminary announcement of annual results, Annual Report, half yearly report, quarterly announcements and the release of any other Company announcements • Maintaining relationships and continued engagement with shareholders and major stakeholders

The Chairman, in conjunction with the Chief Executive Officer and the Company Secretary, is responsible for drafting the agenda for each Board meeting, which is circulated to the Directors, together with supporting papers, during the week before the meeting. Board meetings are held at either the Company's offices in London or Moscow. Non-executive Directors are encouraged to visit the operational sites in Western Siberia in order to broaden their understanding of the Company and the markets in which it operates.

Appointment, information and training
The Chairman is responsible for ensuring that new members of the Board receive a tailored induction programme which includes visits to the Group's operations and meetings with senior management, as appropriate. They are also provided with information on relevant Company policies and governance related matters together with guidance on the legal duties and responsibilities of directors of a listed company. Board members receive ongoing training and assistance with professional development as appropriate to their needs and roles. They 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.

Re-election of Directors
All continuing Directors will stand for re-election at the 2014 Annual General Meeting in accordance with Article 113 of the Company's Articles of Association and the provisions of the Code.

Board Committees
The Board has established three standing committees; the Audit Committee, the Nomination Committee and the Remuneration Committee, the composition of which are reviewed from time to time. Each Committee has specific terms of reference which have been set down in writing and approved by the Board. 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 minutes of Committee meetings are circulated to all Board members unless it would be inappropriate to do so.

To ensure Directors are kept up to date on developing issues and to enhance the overall effectiveness of the Board and its Committees, the Committee Chairmen regularly communicate with the Chairman of the Board, the Chief Executive Officer and other Directors.

Corporate Governance Report *continued*

Conflicts of interest
Under the Companies Act 2006 (the 'Act') Directors are required to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The Act allows Directors to authorise conflicts and potential conflicts, where appropriate and where the Articles of Association contain a provision to this effect.

The Company's Articles of Association give the Board authority to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. Directors are required to give notice of any potential situational and/or transactional conflicts, and if considered appropriate, situational conflicts are authorised. We do not allow any Director to participate in such considerations or to vote regarding their own conflicts.

Performance evaluation
In view of the changes to the composition of the Board during the year, it was agreed that the most effective method of evaluating its performance and that of its Committees would be by the completion of a self-assessment questionnaire. The main consideration was the way in which the Board and its standing 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.

Notwithstanding the fact that a number of the Directors had only been Board members for a short period, the evaluation did not identify any significant areas for concern. The evaluation concluded that the Committees were appropriately constituted and that they, and the Board as a whole, continued to operate effectively.

The Board received collective training on key governance matters such as the UK Bribery Act, inside information and the Ruspetro Share Dealing Code during the year. The focus for 2014 will be to continue this collective training and to review and, if necessary, enhance the induction programme for new Directors.

Communication with shareholders
The Annual Report is sent to all shareholders and all regulatory announcements on the Company's activities, including published financial results and periodic operational updates can be found on the Company's website (www.ruspetro.com). Regular dialogue takes place with institutional shareholders and the Chairman and the Executive Directors regularly meet investors to discuss the Company's business and financial performance. Shareholders' views are communicated to the Board as a whole by way of verbal briefings and formal reports.

Annual General Meeting
Shareholders are encouraged to attend and participate in general meetings to discuss the progress of the Company. The 2014 Annual General Meeting ('AGM') of Ruspetro plc will be held at the offices of White & Case LLP, 5 Old Broad Street, London EC2N 1DW on 2 June 2014.

Internal controls and risk management

Board responsibility
The Board is responsible for determining the nature and extent of the significant risks it is prepared to accept in achieving the Company's strategic objectives.

Control environment
Responsibility levels are communicated throughout the business through documented Board policy and implemented through a matrix of control procedures including the segregation of duties. There is also a formal schedule of matters specifically reserved for decision by the Board.

Internal control
The Board implements and maintains risk management and internal control systems to support the Company's activities and ensure they comply with the minimum requirements of the Code. Specifically the Company is establishing a continuous process for identifying, evaluating and managing the significant risks of the business, and to regularly review the effectiveness of the Company and its subsidiaries' risk management and internal control systems. The internal control regime is supported by the operation of a whistle-blower reporting function. The system is operated by a specialist external third-party service provider and allows employees to report concerns anonymously and in confidence.

Business risk
The Company has an ongoing process, in accordance with best practice, that identifies, evaluates and manages risks faced by the Company which are designed to manage rather than eliminate the risk of failure in order to achieve business objectives. This process is based on each operational and corporate function producing a risk matrix which identifies the key business risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level. From these the Company has compiled a risk register, containing the key risks facing the Company during conduct of its business. The register is regularly reviewed and discussed by the Audit Committee.

Risk acceptance and reduction objectives are defined with particular attention given to safety and environmental factors, and applied to ensure that the risks are at a level that is as low as reasonably practicable. The Directors work closely with operational and functional management to ensure compliance with the Company's policies, procedures and risk management processes.

Financial reporting
The Company maintains an effective and reliable accounting system and broader management information system. The Board receives a monthly report that monitors actual performance against budget and forecasts for oil and gas production, gross revenue and well head revenue, capital expenditure and development progress. It also provides the Board with information on key issues including treasury, cash flow forecasting and the financial implications of sensitivities to changes in commodity prices and exchange rates. The Company also maintains an effective and reliable suite of policies, procedures and controls in preparing consolidated financial statements. These controls include rigorous review of the process and output data and technical support and review to ensure accounting tools and business systems are robust.

Budgetary process
There is a comprehensive budgeting system with an annual budget approved by the Board including income statement, balance sheet cash flow and capital expenditure projections. Monthly results are reported against budget and revised forecasts are prepared where necessary. Separate approval processes and authority limits are in place for budgeted and unbudgeted expenditure items.

Corporate accounting and procedures
Responsibility levels are communicated throughout the Company and its subsidiaries using a table of delegated authorities appropriate to each part of the business, through Group corporate accounting procedures and policies and through subsidiary specific procedures and controls. Each of these is continually reviewed and updated as required. The review of the application of internal financial control and operational procedures is carried out during visits to the field operations offices by the Directors and senior Moscow office management.

Investment appraisal
Capital investment is regulated by the budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board. Capital expenditures are reviewed with major overruns in terms of cost and time being investigated.

Quality and integrity of personnel
The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment. The ethical standards expected of employees are communicated through corporate presentations of policies including identification and prevention of fraud, anti-money laundering and bribery including the UK Bribery Act, whistle-blower, ethical practices, and a share dealing code.

Internal audit
The Audit Committee conducted a review into whether it was appropriate for the Company to establish an internal audit function. The Board endorsed the Audit Committee's conclusion that the Company was not yet of a sufficient size or complexity to require a separate internal audit function. Nevertheless, the Board places great emphasis on the importance of risk management and control at all operating levels in the business and continues to develop its internal control procedures and systems.

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.

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.

INTERNAL AND OPERATIONAL RISKS

Risk	Description
Production performance	Ruspetro's hydrocarbon reservoirs may not perform as expected, exposing the Group to reduced cash flow, and challenges in development funding. This under performance may be due to unforeseen geological complexity or related factors which negatively impact well production performance.
Reduction in reserves	Inherent uncertainties in predicting oil recovery in our complex reservoirs may necessitate a downward reassessment or reclassification of stated reserves, as appraised on a professional third party basis.
Health, Safety, Environment and Community relations ('HSEC')	Failure to meet HSEC obligations and expected standards could endanger life, disrupt operations and have a material adverse effect on the Group's financial position. If severe, this could result in licence revocation. Adverse publicity from any poor performance in these areas could negatively affect both Ruspetro and its stakeholders. It could be held responsible for failing to address any contamination or damage to licence and surrounding areas, with significant associated costs.
Loss of production licence	Renewal of Ruspetro's exploration and production licences (expiring in 2015, 2017 and 2034) is of critical importance.
Recruitment and retention of key people and critical skills	Ruspetro's ability to delineate an appropriate development plan and maintain and implement an effective business strategy depends to a large degree on recruiting and retaining the services of its senior operational management team, and contractors with the requisite skills.
Procurement and contract management, capital and operating expenditure	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.
Protection of Company property	Damage, theft or interference to Ruspetro's assets in the field can stop or limit production resulting in reduced cash flow and increased costs.

Inherent probability	Potential impact	Our approach
Medium/ High	**High**	Ruspetro's senior management is focused on the application of appropriate technology to improve our understanding of our reservoirs including 3D seismic. Ruspetro has engaged Schlumberger, an international oil services group, to assist with field development planning and drilling execution.
Medium	**High**	Ruspetro's strategy is to utilise internationally proven appraisal and development techniques (including 3D seismic, hydraulic fracturing and horizontal wells) to maximise the economically recoverable hydrocarbons for our reservoirs.
Low	**High**	Ruspetro treats HSEC as a priority, and its Board has formally adopted appropriate policies across the HSEC area. Ruspetro has appointed a Russia-based senior HSEC manager reporting directly to the CEO, along with local managers responsible for ensuring the implementation and the regular monitoring of Ruspetro's policies across the HSEC area. Ruspetro has put in place appropriate insurance arrangements to manage and mitigate its potential financial exposure to risks in the HSEC area.
Low	**High**	Applicable licence conditions are being fulfilled. Compliance with these licence conditions is closely monitored by the Group. Licence renewal is not expected to be problematic, but it will be essential to demonstrate an effective gas utilisation programme.
Medium/ High	**High**	The Group has recruited qualified staff and renowned contractors in key functional and technical areas to achieve its oil field development plan objectives.
Low	**High**	Ruspetro operates effective policies, procedures and controls in relation to prior approval of supplier counterparties and competitive procurement within strict levels of delegated authority with the objective of achieving arms-length, transparent purchasing. Ruspetro, its Board and Audit Committee monitor carefully and undertake close, regular scrutiny of the effectiveness of the Company's counterparty policies.
Medium	**Medium**	Development and implementation of a security strategy which includes improved training, processes and procedures for security personnel and improved technological components of physical security.

Principal Risks and Uncertainties *continued*

EXTERNAL AND FINANCIAL RISKS

Risk	Description
Adverse government policy and political environment	The political environment in the Russian Federation is volatile. There is the risk of actions by its executive and judicial authorities that may adversely affect the performance of any business operating in the country. Political instability in Russia or an increase in the perceived risk of investing in Russia could be materially detrimental to Ruspetro's business.
Exchange rate and inflation	Ruspetro's oil revenues and many of its services costs are linked to international market prices and quoted in dollars. As a result, it is not exposed to the negative effect of continuing cost inflation in Russia (e.g. currently at over 6.75% per annum) or demand led industry specific inflation. The exchange rate movement in the RUB:USD could impact negatively on Ruspetro's financial position. This reflects, in particular, the current profile of its costs, revenues and sources of capital.
Access to finance	Implementation of a development plan for its oil and gas assets will require Ruspetro to raise additional finance of either debt or equity and market conditions may preclude this on terms which Ruspetro considers satisfactory. In addition, Ruspetro's existing level of borrowings may act as a constraint to raising additional debt finance. This may result in Ruspetro being unable to implement its development plan and realise the inherent value of the oil and gas in its existing licence areas. Ruspetro has a significant level of bank and shareholder debt, with the risk that it may not be able to meet its debt service obligations, either out of cash flow or refinancing.
Oil and gas market prices	Although Russia's taxation regime for its oil producers does give some protection against declines in market prices, the reduced level of Russian Mineral Extraction Tax now applying to much of its current production means that Ruspetro is proportionately more significantly affected by movements in oil prices. Ruspetro is exposed to both Russian domestic market and international oil and gas price movements. It does not currently enter into any forward sales price hedging agreements.
Bribery and corruption	Bribery and corruption is known to be an area of vulnerability for businesses operating in Russia, and as such, Ruspetro may be exposed to such risks. In addition, the UK Bribery Act requires that companies introduce adequate procedures to combat bribery at all levels and areas of their business.

Inherent probability	Potential impact	Our approach
High	**High**	This risk cannot be mitigated by Ruspetro. However, Ruspetro monitors changes in the political environment and reviews changes to the relevant legislation, policies and practices. The continuing need for oil production as a vital source of state revenue and the recent changes in legislation for Mineral Extraction Tax indicate that the environment for oil producers remains favourable.
Medium	**Medium**	Ruspetro's policy and practice is to match, as far as practicable, receipts and payments in the same currency, in particular in relation to Russian rouble transactions. Ruspetro's risk monitoring includes the review of its actual projected financial position with particular regard to its US-dollar denominated debt.
High	**High**	Ruspetro considers that its stepwise strategy of delineating the production potential of its sizeable oil and gas reserves and resources will maximise its ability to attract both debt and equity finance. Ruspetro re-negotiated the interest repayments on the debt owed to Sberbank in 2013 and 2014, subject to meeting EBITDA targets, and extended the maturity to 2018. In addition, Ruspetro has put in place a pre-export facility with Glencore to provide US$30 million accelerated working capital in return for the supply of an agreed barrelage of oil each month by way of repayment of such facility. Ruspetro's Board will closely monitor its operations and performance so as to enable the current debt service and other financial obligations to be met.
Medium	**Medium**	In order to manage such potential well head revenue risks, Ruspetro's policy is to ensure that its development and production costs are competitive and robust against lower oil prices than current levels. In this connection, Ruspetro will give consideration and may enter into hedging transactions in order to secure future projected revenues.
Medium	**High**	Ruspetro prohibits bribery and corruption in any form by all employees and by those working for and/or connected with its business. The Company operates effective policies and procedures and controls in relation to prior approval of supplier counterparties and within strict levels of delegated authority. The Board and Audit Committee closely monitor and undertake close regular scrutiny of the effectiveness of the Company policies in this area. Employees are expected to report bribery or attempted bribery to their line managers even if it is only suspected or attempted in line with the Company whistle-blower policy which has been implemented across Ruspetro's business together with the introduction of an independent whistle-blower hotline to enable any concerns of wrongdoing to be voiced without fear of reprisal. Ruspetro has developed a code of conduct and a supporting statement of ethics which is compliant with the UK Bribery Act 2010. Training has been provided to the Directors, senior management and senior employees in this code with the implementation in the forthcoming year by a training programme for the rest of the Company employees and contractors globally.

Audit Committee

Robert Jenkins
Chairman of the Audit Committee

Dear Shareholder
As set out below, the role of the Committee is to monitor the integrity of the Group's financial statements, review the Company's internal control and risk management systems, and to review the performance and effectiveness of the external auditor.

The Code requires the Committee to report to shareholders on the significant issues considered during the year. Full details are contained later in the report, but from my perspective the most important were:

Going concern: As the Company continued with its exploration and drilling campaign, it was essential that the Committee ensure that the appropriate financing was in place to enable the Company to continue as a going concern. Detailed consideration was given to this issue prior to recommending both the full year 2012 and half year 2013 financial results to the Board. This included consideration of the external auditor's reports into those audits and consideration of the Group's budget and funding proposals. Further information is set out on page 34.

Impairment: The Committee has considered the carrying values and any impairment of the Company's non-financial assets during the year. To carry out this review, detailed reports from management and the external auditor were considered, including details of the methodology applied. The Committee concluded that the carrying value of the Company's non-financial assets was appropriate and that no impairment was required.

PricewaterhouseCoopers LLP ('PwC') continues as the Company's external auditor and the Committee's relationship with them remains strong. Following a review of the audit process, the Committee is satisfied that the incumbent firm and audit partner are effective and that robust processes are in place for maintaining their objectivity and independence.

Composition
The Committee comprises three independent Non-executive Directors and is chaired by Robert Jenkins, a chartered accountant by training and who has previous experience as both finance director and chief financial officer of Russian mining and energy companies. As a result, Mr Jenkins meets the requirements of the Code for at least one member to have recent and relevant financial experience.

Details of the Directors who served on the Committee during 2013 and their attendance at Committee meetings are set out below:

Committee members during the year	6 meetings in 2013
Robert Jenkins (Chairman)	6/6
James McBurney	6/6
Rolf Stomberg (1 January 2013 to 13 August 2013)	4/4
John Conlin (14 August 2013 to 16 December 2013)	2/2

Following Mr Conlin's appointment as Chief Executive Officer he stood down from the Committee. Subsequently, on 13 January 2014, Maurice Dijols was appointed as the third member of the Committee. Therefore, as at the date of this report, the members of the Committee are:

- Robert Jenkins (Chairman)
- James McBurney
- Maurice Dijols

The Committee meets at least three times a year and meetings are attended by the Company's Chief Financial Officer and representatives from PwC. In addition to attending Committee meetings, the external auditor is provided with the opportunity to meet regularly with the Committee without the presence of management.

Role of the Audit Committee
The primary responsibilities of the Committee are:
- to monitor the integrity of the Company's financial statements and regulatory announcements relating to its financial performance and 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 and Accounts, taken as a whole, are 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 auditors, including the agreement of their remuneration and terms of engagement, monitoring their independence, objectivity and effectiveness; and
- to ensure that policy surrounding the external auditors' engagement to provide non-audit services is appropriately applied, and to make recommendations to the Board on their appointment, reappointment or removal.

The Committee reports to the Board and will raise any matters to the Board which it considers require the Board's attention. The Committee will make recommendations as appropriate including those for the Board to put to shareholders at the AGM.

The Committee's full terms of reference are available on the Company's website www.ruspetro.com

Meetings

Key items considered by the Audit Committee in 2013

Internal controls and risk	Accounting, tax, financial and business reporting	External auditors
• Reviewed the Company's compliance with the terms and conditions of its licences and the Vostochno-Inginsky licence extension application and the provision of statutory operating permits	• Reviewed the annual and half year financial statements and interim management statements	• Considered and approved the audit plan by the external auditors as well as the approach and scope of the audit work to be undertaken and their fees for the audit
• Reviewed output from the risk reviews and considered the assessment of relevant key risks identified, and the mitigating actions and contingency plans for those risks	• Reviewed all financial related announcements issued to the London Stock Exchange via a regulatory information service	• Reviewed reports on audit findings in respect of the Company's annual and half year results
• Reviewed internal controls and business processes, including counterparties policy, IT security and systems risks, field security policies, anti-bribery and corruption and whistle-blower policy implementation and training, and the development of the Company's proposed the Enterprise Resource Planning System	• Reviewed disclosures in connection with internal controls, risk management, principal risks and uncertainties and the work of the Committee	• Reviewed the independence of the auditors and their effectiveness by considering: – non-audit work undertaken by the auditors and compliance with the Company's policy in relation to this – the Committee's own assessment of the external auditors
• Considered reports on material litigation, security, whistle-blowing, health & safety and environment and reviewed the related parties list	• Considered the liquidity risk and the basis for the preparation of the Group half year and annual financial statements on a going concern basis and related disclosures	• Considered and approved letters of representation issued to the external auditors
• Considered reports from the external auditors on their assessment of the control environment		• Carried out private review meetings with the external auditors
• Considered and approved the structure, scope of cover and renewal terms of the Group's insurance programme		• Considered the recommendations in the Code regarding the tender of the external audit contract
• Considered reports on Group tax planning and a report from the external auditors on Group tax optimisation		• Received an accounting standards update
• Considered options for the development of an internal audit function in the context of the development of the Company's internal controls and business processes		
• Reviewed the Committee's terms of reference		

Audit Committee *continued*

Significant issues considered by the Audit Committee

After discussion with management and the external auditor, the Committee considers that the significant risks of misstatement of the Group's financial statements which were discussed with management during the year and with the external auditor during the review of both the half year and interim financial statements and at the conclusion of the audit of the financial statements are listed below.

Significant financial judgements and financial reporting for 2013	How the Audit Committee addressed these judgements
Going concern	In order to satisfy itself that the Company has adequate financial resources for the future and to underpin the use of the going concern assumption in preparing the financial statements, the Committee regularly reviews the Group's committed funding and liquidity positions, its ability to generate cash from trading activities and to raise external funding. The Committee challenged management's funding projections and sensitivity analysis together with possible combinations of adverse events and considered mitigating actions available to management. The Committee considered detailed reporting from, and held discussions with, the external auditors. The Committee subsequently recommended to the Board that it was appropriate to prepare the financial statements on a going concern basis and to include the going concern statement in the Annual Report and Accounts.
Impairment of non-financial assets	The Committee considered the carrying values and need for impairment of the Company's non-financial assets, in particular oil and gas properties and mineral rights. The Committee considered detailed reports from management and also reviewed the methodology applied including to ensure that the discount rates used are within an acceptable range. In addition, the Committee constructively challenged the underlying assumptions used in the Company's short and long-term projections for the development of the Company's oil and gas assets, including consideration of different scenarios. The Committee also considered detailed reporting from and held discussions with the external auditors. The external auditors explained their audit procedures to test management's impairment assessment and on the basis of their audit work considered 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.

Other significant matters considered by the Committee in 2013	How the Audit Committee addressed these matters
Recognition of deferred tax assets	The Committee considered the effectiveness of the Group's corporate structure and financial management for the purposes of its optimising utilisation of the Group's tax losses. The Committee considered a detailed report from management proposing changes in the allocation of revenues and costs between Group companies in order to reduce the Company's future tax burden. The Committee also considered detailed reporting from, and held discussions with, the external auditors regarding deferred tax accounting.

Independence of the external auditors

PwC has been the Company's external auditor since December 2011. The Committee maintains an arms-length relationship with PwC and, as stated above, meets them regularly without management being present.

In order to ensure the independence and objectivity of the external auditor, the Company has adopted a policy on the provision of non-audit services by the external auditor. This policy provides clear definitions of services that the external auditor can and cannot provide, with any such services only being provided where they do not conflict with the external auditor's independence. The policy also establishes a formal authorisation process and pre-approval by the Committee for permissible non-audit work by the external auditor.

To ensure compliance with this policy the Committee carried out a review during the year of the remuneration received by PwC for both audit and non-audit related services. The outcome of the review was that the performance of non-audit services by PwC, as detailed in Note 9 on page 78, was in compliance with the policy. No conflicts of interest were found to exist and the Committee considers that the Company continues to receive an independent audit service.

Audit quality and approach to audit tender

As part of a formal review process, audit effectiveness questionnaires are completed by members of the Committee and members of management. Based on the responses to the questionnaires, the Company Secretary produces a report for consideration by the Committee.

Based on the Committee's review, together with an ongoing assessment of the quality of the external auditor's reports to, and the audit partner's interaction with, the Committee, the Committee remains satisfied with the efficiency and effectiveness of the audit and of the external auditor. The Committee has not, therefore, considered it necessary to require a tender of external audit services. Following the introduction of the audit tendering provisions in the Code, the Committee will annually consider if the audit should be put out to tender.

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

Internal audit

During the year the Committee reviewed the requirement for the Company to establish an internal audit function. The Committee was of the opinion, supported by the Board, that the size and scale of the Company did not currently warrant the establishment of an in-house internal audit team. This decision will be kept under review and considered by the Committee at least annually.

Statement of auditors' responsibilities

The statutory auditors are responsible for forming an independent opinion on the financial statements of Ruspetro plc as presented by the Directors. In addition, they also report on other elements of the Annual Report and Accounts as required by legislation or regulation and report their opinion to members. Their opinions are included on pages 60 to 62.

Robert Jenkins
Chairman, Audit Committee

Nomination Committee

Alexander Chistyakov
Chairman of the Nomination Committee

Dear Shareholder
The Nomination Committee has had a challenging year with the various changes to the Board and to the membership of the Committee itself. With the assistance of Odgers Berndtson, we made several recommendations to the Board regarding the appointment of new independent Non-executive Directors; recommended the appointment of a new Non-executive Director under the terms of the Company's Shareholder Agreement with Limolines Transport Limited; and recommended the appointment of a new Chief Executive Officer towards the end of the year.

As a result of these changes, 2014 will see the attention of the Committee focusing on a review of the training and development needs of both Executive and Non-executive Directors in order to enhance their knowledge, skills and experience for the benefit of the Company, its shareholders and other stakeholders.

Composition of the Nomination Committee

Details of the Directors who served on the Nomination Committee during the year and their attendance at Committee meetings are set out below:

Committee members during the year	12 meetings in 2013
Alexander Chistyakov (Chairman) (from 14 August 2013)	4/4
James McBurney	12/12
Chris Clark (1 January 2013 to 31 July 2013)	7/7
Joe Mach (1 January 2013 to 9 July 2013)	5/5
Robert Jenkins (10 June 2013 to 13 August 2013)	5/5
Rolf Stomberg (14 August 2013 to 31 December 2013)	4/4

Following the resignation of Rolf Stomberg as a Director and as a member of the Committee on 31 December 2013, the Board approved the appointment of Frank Monstrey and Robert Jenkins with effect from 30 January 2014. Therefore, as at 30 January 2014 and the date of this report, the members of the Committee are:

- Alexander Chistyakov (Chairman)
- Robert Jenkins
- James McBurney
- Frank Monstrey

Mr Chistyakov is Executive Chairman of the Company and is not considered to be independent. However, the Board considers that Messrs Jenkins, McBurney and Monstrey are independent Non-executive Directors and therefore the Committee complies with provision B.2.1 of the UK Corporate Governance Code.

Role and responsibilities of the Nomination Committee

The primary responsibilities of the Committee 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;
- to consider the Board development programme and the induction process for new Directors; and
- to undertake an annual evaluation of the Committee's effectiveness and to lead the annual evaluation of the Board.

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

Meetings

The Committee met 12 times during the year, mainly to consider new Board appointments and Board Committee membership. The Committee Chairman provides a verbal update to the next Board meeting on matters considered by the Committee and the minutes are circulated to all Directors except when it would be inappropriate to do so.

Key items considered in 2013

Appointment of new Non-executive Directors	In light of the resignations of Joe Mach and James Gerson and the Company's development requirements, the Committee considered the composition of the Board and its skill set and implemented a search to identify suitable independent candidates with appropriate oil and gas experience, as well as experience of doing business in Russia, international finance and investment. This culminated in recommendations to the Board regarding the appointment of John Conlin, Frank Monstrey and Maurice Dijols as independent Non-executive Directors.
Appointment of a new Chairman	In connection with the resignation of Chris Clark as Non-executive Chairman of the Board, the Committee implemented a search for a candidate with Russian oil experience. Having considered a number of candidates, and following consultation with major shareholders, the Committee recommended to the Board that Alexander Chistyakov be appointed as Executive Chairman of the Company.
Appointment of new a Chief Executive	Following the departure of Don Wolcott, Chief Executive Officer, on 9 July 2013, the Committee recommended that Tom Reed be appointed as Acting Chief Executive Officer whilst the search for a permanent candidate was undertaken. Having considered the criteria for the role and the requirement for in-depth Russian oil and gas development experience, and having noted the matching skill set, knowledge and experience of John Conlin, an independent Non-executive Director, the Committee recommended to the Board that John Conlin be appointed as Chief Executive Officer.
Composition of Board Committees	A review of the size, composition and skill set of the Board Committees and, in conjunction with the Chairman of each Committee, made recommendations to the Board regarding ongoing membership.
Committee effectiveness	A review of the Committee effectiveness was undertaken by means of an internal evaluation questionnaire.

Appointment procedure

The Committee ensures that there is a formal, rigorous and transparent procedure for the appointment of new Directors which includes the preparation of appropriate and objective job descriptions for each role. Recommendations are made to the Board taking into account the experience, skills, knowledge and independence of each candidate, and the diversity and gender composition of the Board.

During the year ended 31 December 2013, the Committee engaged Odgers Berndtson to assist with the identification and selection of potential Non-executive Directors, based solely on the merit and suitability of those candidates. Each of Messrs Monstrey, Conlin and Dijols were appointed following due process undertaken by Odgers Berndtson, who have no connection with the Company.

Mr Androsov was appointed following his nomination by Limolines in accordance with the terms of the Relationship Agreement dated 19 January 2012 between Limolines and the Company.

Boardroom diversity

The Board is supportive of providing equal opportunities in recruitment and succession planning at all levels of the business and of gender diversity in particular. The aims and objectives of the Davies Report on 'Women on Boards' continue to be valued and as the Committee considers future Board composition and succession planning, it will seek to identify applicants from a wide experience and background having due regard for the benefit of diversity on the Board. However, the Committee also recognises that the traditionally male oil and gas industry faces a particular challenge on gender diversity. In order to address this matter, the Company operates equal opportunity policies in all areas of its activities with the aim being that, over time, the female workforce population will increase thereby creating a pool of talent from which to recruit future senior positions.

Alexander Chistyakov
Chairman, Nomination Committee

Directors' Report

The Directors present their Annual Report and audited accounts for the year ending 31 December 2013.

This Annual Report contains the consolidated financial statements of Ruspetro plc (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 December 2013, and the financial statements of Ruspetro plc (the 'Parent') for the period ended 31 December 2013.

Strategic Report

The Companies Act 2006 requires the Company to present a fair review of the business during the year to 31 December 2013 and of the position of the Group at the end of the financial year along with a description of the principal risks and uncertainties faced. The Strategic Report can be found on pages 2 to 19.

Corporate governance statement

The Disclosure and Transparency Rules require certain information to be included in a corporate governance statement in the Directors' Report. Information that fulfils this requirement can be found in the Corporate Governance Report on pages 22 to 37 and is incorporated into this Directors' Report by reference.

Corporate information

Ruspetro plc was incorporated as a public limited company in England and Wales on 20 October 2011 with company number 07817695. The registered office is situated at 1st Floor, Berkeley Square House, Berkeley Square, London W1J 6BD.

Results and dividends

The Company's results for the year are set out in the Company's consolidated income statement on page 63. The Directors have not recommended a final dividend for the year ended 31 December 2013 and did not declare any interim dividends during the year.

Directors and their interests

The names and biographies of current Directors are set out on pages 20 to 21 and the names of all persons who were Directors at any time during the year are set out on page 24. 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 which can be found on pages 42 to 59.

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 ordinary resolution of shareholders. In line with the Company's Articles of Association, any Director appointed during the year will be required to retire at the first AGM following his or her appointment and to offer themselves for election by shareholders. All continuing Directors offer themselves for re-election at each subsequent AGM.

Diversity

As stated previously, the Board is supportive of providing equal opportunities in recruitment and succession planning at all levels of the business and will seek to identify applicants from a wide experience and background having due regard for the benefit of diversity on the Board. The Company 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.

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) with each Director of the Company and the former Directors who held office during the year ended 31 December 2013, to the extent permitted by law and by the Company's Articles of Association, in respect of all liabilities incurred in connection with the performance of their duties as a Director of the Company or its subsidiaries. Copies of these indemnities are available for review at the Company's registered office.

Employees

The Group employed a total of 199 people at the end of the year. Most employees are based in the Russian Federation with eight employees at year end based in the UK. Since the Group employs 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.

Greenhouse gas emissions ('GHG')

This is the first year we are reporting on greenhouse gas emissions in our Annual Report and therefore no comparative metrics are available. Our emissions have been published through Trucost and are based on the GHG Protocol Corporate Accounting and Reporting Standards for the financial year 2013. These 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.

In 2013, we recognised the following GHG emissions, as split by source and scope:

Scope	Emission source	Unit	2013
1	Operational fossil fuel	Tonnes CO_2e	123
	Vehicle fuel	Tonnes CO_2e	298
	Methane from oil and gas field operations	Tonnes CO_2e	378,722
2	Electricity	Tonnes CO_2e	25,206
3	Air travel	Tonnes CO_2e	143
	Rail travel	Tonnes CO_2e	0.19
Total		**Tonnes CO_2e**	**404,492**

The majority of GHG emissions produced by the Company in 2013 were Scope 1, accounting for 94% of total emissions. Within Scope 1, 90% of emissions were methane from oil and gas field operations, 3% from stationary fuel use, and 7% from vehicle fuel use.

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 ending 31 December 2013, during which the Group produced circa 1.75 million barrels, the intensity measured 0.23 tCO_2e/barrel.

Political donations

No political donations were made during the year.

Financial instruments

The Company'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.

Share capital

The issued share capital of Ruspetro plc as at 31 December 2013 was 333,381,480 Ordinary shares of 10 pence each. The Company does not hold shares in treasury. At the 2013 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 AGM. 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 2014 AGM and will keep the use of the authority under review, taking into account other investment opportunities.

Substantial interests

As at 31 December 2013 the Company had been notified of the following substantial interests (three per cent or more) in its ordinary share capital:

Name	Number of Ordinary shares disclosed at 31.12.2013	% of issued capital at 31.12.2013
Limolines Transport Limited	**90,150,000**	27.04
Makayla Investments Limited	**72,360,539**	21.71
Henderson Global Investors Limited	**30,628,000**	9.19
Schroder Investment Management Limited	**16,857,716**	5.06
Nervent Limited & Bristol Technologies Ltd*	**13,758,687**	4.13
Don Wolcott and Wind River Management Limited	**12,283,341**	3.68
Securities Services Nominees Limited	**12,270,000**	3.68
Sberbank Capital LLC	**10,362,632**	3.11

* The disclosures by Nervent Limited and Bristol Technologies Ltd relate to holdings in which Alexander Chistyakov has an interest.

Between 31 December 2013 and the date of this Annual Report, the Company has been notified that the interests of Don Wolcott and Wind River Management Limited and those of Securities Services Nominees Limited have fallen below the 3% reporting threshold.

Transactions with related parties

There were no related party transactions during the year.

Rights and obligations attaching to shares

The Company's Articles of Association may be found on the Company's website www.ruspetro.com. A summary of the rights and obligations relating to the Ordinary shares of the Company are set out below:

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 of Association

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.

Directors' Report *continued*

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.

Amendments to the Articles of Association
Any amendment to the Articles of Association of the Company may be made by special resolution of the shareholders being a resolution proposed with not less than 21 days' notice as a special resolution and passed by more than 75% majority of those voting on the resolution.

Significant agreements – change of control
The Prepayment Facility which the Company has entered into with Glencore Energy UK Limited contains provisions entitling the counterparties to exercise termination or other rights in the event of the change of control of the Company.

Post balance sheet events
Note 27 to the financial statements details all significant events after the balance sheet date of 31 December 2013.

External auditors' appointment
PricewaterhouseCoopers LLP, the Company's auditor, has indicated its willingness to continue in office. Resolutions to re-appoint PricewaterhouseCoopers LLP as the Company's auditor and to authorise the Directors to determine the auditor's remuneration will be proposed at the 2014 AGM.

Going concern
On the basis of the assumptions and cash flow forecasts prepared, the Directors have assumed that the Group will continue to operate within both available and prospective financing 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 loan holders request repayment and alternative finance is not available. Further detail on the basis of preparation of the financial statements is available in Note 2 of the consolidated financial statements on page 67 of this report.

Auditors and disclosure of information to auditors
Each of the Directors in office at the date of approval of this Annual Report and Accounts confirms that:

- so far as they are aware, there is no relevant audit information (that is, information needed by the Company's external auditors in connection with preparing their report) of which the Company's external auditors are unaware; and
- each Director has taken all the steps that they ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's external auditors are aware of that information.

By order of the Board

John Conlin
Chief Executive Officer
22 April 2014

Directors' Responsibility Statements

Statement of Directors' responsibilities in relation to the Group financial statements and Annual Report

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 parent Company and those of the Group 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 parent 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 European Union ('EU') have been followed, subject to any material departures disclosed and explained in the Group and parent Company 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for preparing the Strategic Report, the Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with applicable law and regulations.

John Conlin
Chief Executive Officer

Thomas Reed
Chief Financial Officer

Responsibility statement of the Directors' in respect of the Annual Report and Accounts

The Directors consider that the Annual Report and Accounts, 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.

Each of the Directors as at the date of this report, whose names and functions are listed on pages 20 and 21, confirms that, to the best of their knowledge:

- the Group's financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

John Conlin
Chief Executive Officer

Thomas Reed
Chief Financial Officer

Directors' Remuneration Report

Maurice Dijols
Chairman of the Remuneration Committee

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 2013. It has been a year of many changes for the Company, as outlined in the Chairman's Statement on page 4, and not least for the Committee where new members have been appointed, while Rolf Stomberg retired as the Committee's Chairman at the very end of the year. On behalf of the Board as a whole, I would like to thank Dr Stomberg for his input and support. The Committee greatly benefitted from his wide experience and knowledge on all matters involving remuneration. 2014 therefore sees the inception of a new Committee which I look forward to serving as Chairman.

2013 performance
Details of the Company's performance in 2013 and the financial results for the year ended 31 December 2013 are set out in pages 1 to 14 of the Strategic Report.

While the annual bonus targets set by the Committee for 2013 were partially met, in the light of overall Company performance during the year the Committee has not recommended any payments to the Executive Directors in respect of the 2013 annual bonus plan.

Alignment with shareholders
During the year, the Committee made the decision to pay a portion of Executive Directors' salaries and Non-executive Directors' fees in shares, thereby strengthening the link between the interests of the Directors and those of our shareholders. This reduction in fees resulted in a cash saving of approximately US$1 million for the year. From 1 April 2013, a portion of each Director's salary or fees were converted into shares at the 2012 IPO price of 134 pence. These shares will be released to Directors as soon as practicable after 31 March 2014. Full details are provided on page 56 of this report.

Committee membership and activities during the year
Chris Clark, Rolf Stomberg, Joe Mach and James McBurney all stepped down from the Committee during the year, having served since the Company listed on the London Stock Exchange. John Conlin briefly joined the Committee in August but stepped down on his appointment as Chief Executive Officer. I would like to thank each of them for their significant contributions to the Committee during the course of their tenure.

Frank Monstrey and Kirill Androsov were appointed to the Committee on 14 August 2013 and 17 December 2013 respectively, whilst I was appointed as a member on 13 January 2014 and as Committee Chairman on 30 January. Frank and Kirill both bring with them a significant amount of experience and knowledge and I look forward to working with them.

Changes to the executive team
There were a number of changes to the executive team in the year. Following the departure of Don Wolcott in July, Tom Reed, the Chief Financial Officer, was appointed as Acting CEO whilst the Nomination Committee undertook a search for a permanent CEO. At the end of this process, the Board appointed John Conlin as Chief Executive Officer on 17 December 2013 at which time Tom Reed returned to his previous role.

In addition, the Board elected Alexander Chistyakov as Executive Chairman on 31 July 2013 to replace the retiring Non-executive Chairman, Chris Clark.

Changes to the executive remuneration structure for 2014

Following discussion with the Chief Executive Officer, it has been agreed that his salary will be reduced to US$970,000 (from the current level of US$1,050,000) with effect from 1 April 2014.

The Committee has also decided to increase the maximum bonus opportunity for all Executive Directors to 150% of basic salary from 2014. This level is identical to the maximum opportunity granted to the CEO for the last two years.

Following extensive consideration by the Committee, an award was made to Executive Directors under the Performance Share Plan in early 2014.

Further details are provided in the 'Implementation of Remuneration Policy in 2014' section of this report.

New remuneration reporting regulations

Last year, we took the opportunity to incorporate some of the disclosure changes proposed by the UK Government into the 2012 Directors' Remuneration Report. Following the publication of the final legislation, a number of further changes have been made to this year's report in order for it to be fully aligned with the new requirements. We are supportive of the new regulatory requirements and hope that you find this report both concise and easy to use.

I will be happy to answer questions at the Annual General Meeting on our remuneration policy and the Committee's activities and look forward to receiving your support.

Maurice Dijols
Chairman, Remuneration Committee
22 April 2014

Remuneration Policy Report

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company and has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Act'). The policy has been developed taking into account the principles of the UK Corporate Governance Code 2012 and the views of our major shareholders and describes the policy to be applied in relation to the current financial year and future financial years. The Policy Report will be put to a binding shareholder vote at the 2014 AGM and, subject to receiving shareholder support, the 'Effective Date' of the policy will be the date of the AGM, being 2 June 2014.

Remuneration Policy

The 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).

Details regarding the operation of this Policy can be found on pages 53 to 59.

Remuneration Policy Report

Policy table – Executive Directors
The following table summarises each element of the remuneration policy for Executive Directors with effect from the date of the Company's 2014 AGM.

Element	Purpose and link to strategy	Operation
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.	• 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: – 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. • The 2014 salary levels are disclosed on page 53
Benefits	• To provide appropriate benefits, in line with similarly sized companies and typical market practice. • To support the recruitment and retention of executives of the necessary calibre.	• Benefits may include medical insurance for the executive and his immediate family, life insurance and permanent health insurance, accommodation and a personal travel allowance. • 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.

Maximum opportunity	Performance measures
• 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: – 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.	• 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 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. • 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.	• None.

Remuneration Policy Report *continued*

Element	Purpose and link to strategy	Operation
Annual bonus	• To incentivise and reward the achievement of both corporate and individual performance measures. • KPIs are consistent with the Company's short-term and medium-term objectives.	• Awarded annually, usually based on performance in the annual bonus year. • The relevant bonus year runs from 1 January to 31 December. • 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 claw back any bonus paid or payable if events happen which may have an effect on bonus awards.
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.	• 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.

Maximum opportunity	Performance measures
• Maximum award opportunity in respect of each bonus year is 150% of salary for the Executive Directors.	• 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. • 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.
• 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 (subject to shareholder approval being received at the 2014 AGM).	• 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 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.

Remuneration Policy Report *continued*

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 ('PSP'): The 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 the 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	6 months
Tom Reed	1 December 2011	16 December 2011	12 months
Alexander Chistyakov	1 December 2011	12 January 2012	12 months

Russian contracts

Name	Commencement of appointment	Date of service contract	Notice period by either party
John Conlin	1 December 2013	11 December 2013	6 months
Tom Reed	1 June 2011	1 January 2012	Fixed term contract which expires on 31 May 2014
Alexander Chistyakov	12 June 2012	12 June 2012	None*

* In accordance with Russian law relating to the termination of General Directors, it is anticipated that no more than three months' average salary will be payable on termination provided the reasons for such termination comply with Russian law. The average salary is calculated on the basis of certain payments made to the employee in the preceding 12 months (which includes base salary and certain other payments, such as bonus payments received during the 12 months preceding termination).

Since the end of the financial year, the Company has renewed Tom Reed's Russian contract for a further period of three years on the same terms as the previous contract.

Both Alexander Chistyakov and Tom Reed have agreed that with effect from 1 April 2014, their notice periods under their UK contract will be reduced to six months' notice by either party. 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' 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.

Details on the treatment of the incentive plans operated by the Company on the departure of Executive Directors are set out in the table below:

Plan	Good leaver reasons	Treatment for good leavers	Treatment for other leavers
Annual bonus plan	• 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	Bonuses may be paid at the discretion of the Committee Unvested deferred awards will vest in full on the normal vesting date, or earlier in full or in part, at the Committee's discretion. If a participant dies, deferred awards which have not yet vested vest in full on death.	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.
Performance Share Plan	• 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	Awards may either vest at the normal vesting date, or at the time of cessation, at the Committee's discretion. 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). 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. 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.	Awards lapse in full.

Remuneration Policy Report *continued*

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.

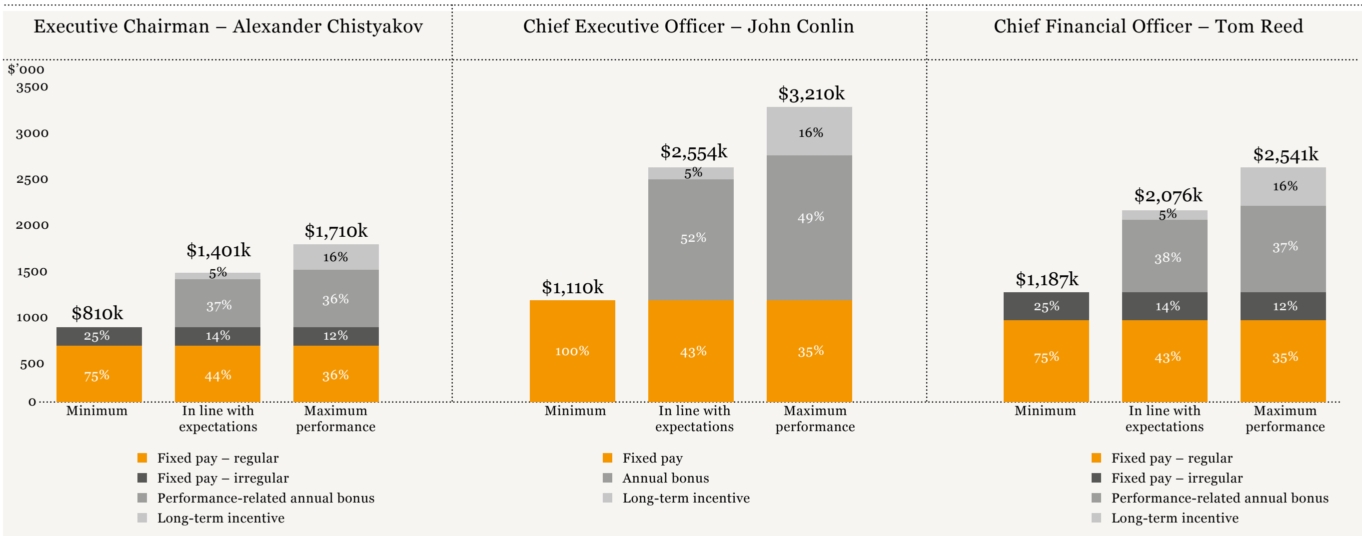
PSP

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 under various performance scenarios in 2014.



The illustrations for 2014 are based on the following assumptions:

	Minimum	In line with expectations	Maximum
Fixed pay (regular)	Base salary as at 1 January 2014. The annual value of benefits has been estimated at $60,000.		
Fixed pay (irregular)	The discretionary bonuses of $200,000 and $300,000 to be paid to Alexander Chistyakov and Tom Reed respectively, subject to continued employment until the end of 2014, have been included as part of fixed pay for the purposes of this illustration. This will not form part of our regular fixed pay policy going forward.		
Performance-related annual bonus	None	125% of salary (CEO)/95% of salary (other Directors). Other Directors' performance-related annual bonus potential is lower than the equivalent figure for the CEO in 2014 due to the discretionary bonuses described above. The Committee reserves the right to offer a standard level of performance-related annual bonus potential to all Directors in future years.	150% of salary (CEO)/114% of salary (other Directors)
Performance Share Plan	None	25% vesting under the PSP. The charts show share options granted under the PSP in 2014 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.	100% vesting under the PSP.

No share price growth has been assumed in this illustration. PSP awards in this illustration assume that shareholder approval is received at the 2014 AGM for an increase in the size of permitted awards to the Executive Chairman and the CFO.

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.	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 of Association do not set a maximum level of fees payable. 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. Details of fees payable in 2014 are set out on page 55. 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.
Benefits	To reimburse Non-executive Directors for reasonable expenses, where relevant.	Non-executive Directors 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 Directors 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, other than the former Chairman, Christopher Clark, whose notice period was set at three months by either party. Non-executive Directors are not entitled to any compensation on leaving the Board but may, in certain circumstances, receive their fee during the notice period. Copies of the letters of appointment for Non-executive Directors are available from the Company Secretary. Details of each Non-executive Director's date of appointment and notice period are set out below:

Name	Commencement of appointment	Date of letter of appointment	Notice period	Unexpired term as at 31 December 2013
James McBurney	2 December 2011	9 December 2011	1 month	12 months
Robert Jenkins	2 December 2011	9 December 2011	1 month	12 months
Frank Monstrey	1 August 2013	30 July 2013	1 month	31 months
Kirill Androsov	1 August 2013	30 July 2013	1 month	31 months
Maurice Dijols	6 November 2013	5 November 2013	1 month	34 months

Remuneration Policy Report *continued*

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 comments on our remuneration policy and its application. We would normally seek to consult with our major shareholders regarding any significant future changes to remuneration policy or arrangements.

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 2014 AGM. The information on pages 55 to 59 has been audited.

Membership and attendance

The Committee met nine times during the year under review. The members of the Committee during the year ended 31 December 2013, together with details of their individual attendance at Committee meetings during the year, are set out below:

Committee member	Meetings attended
Rolf Stomberg (Committee Chairman)[1]	9/9
Christopher Clark (1 January 2013 to 31 July 2013)	5/5
Joe Mach (1 January 2013 to 9 July 2013)	4/5
James McBurney (1 January 2013 to 13 August 2013)	6/6
Frank Monstrey (from 14 August 2013)[3]	3/3
John Conlin (14 August 2013 to 16 December 2013)[3]	3/3
Kirill Androsov (from 17 December 2013)[2,3]	–

1 Rolf Stomberg resigned from the Board, and the Committee, on 31 December 2013.
2 No meetings were held between the date of Kirill Androsov's appointment to the Committee and the end of the financial year.
3 These Directors also attended meetings as observers prior to their formal appointment to the Committee.

Subsequent to the year end, on 13 January 2014 Maurice Dijols was appointed as a member of the Committee and, with effect from 30 January 2014, as Committee Chairman.

Members of the Committee are appointed by the Board and at least two of its members are considered to be independent. Apart from Committee members, the former Chief Executive Officer, the Acting CEO and Chief Financial Officer, the former HR & HSSE Director and the Company Secretary attended meetings where appropriate and materially assisted the Committee in their consideration of executive remuneration. None of these individuals were present at any part of the meeting in which their own compensation was discussed.

Role and activities of the Remuneration Committee

The role of the Committee is to determine the remuneration policy of the Company in order to facilitate the recruitment, retention and motivation of the Executive Directors and key senior management. The policy is reviewed at least annually in order to ensure that it remains consistent with the business strategy and appropriate for a Company of its size and development.

The Committee's full terms of reference are reviewed regularly and are available on the Company's website.

During the year, the Committee considered a number of issues including to:

- assess the performance of Executive Directors and determined annual bonuses for 2013;
- establish the Executive Directors' Key Performance Indicators for 2014;
- set bonus targets for the Executive Directors for 2014;
- review and determine that all Executive Directors should receive part payment of remuneration in Ruspetro plc shares until 31 March 2014;
- review remuneration benchmarking for Executive Directors and senior management and determine base salaries for Executive Directors;
- consider remuneration market trends and corporate governance developments;
- review and revise the Company's Remuneration Policy;
- approve a Long Term Incentive Plan policy;
- approve and establish an Employee Benefit Trust;
- review the revised remuneration reporting regulations; and
- review Committee effectiveness.

Advisers to the Committee

During the year, the Committee received independent advice on executive remuneration matters from Deloitte LLP. During the year, Deloitte's executive compensation practice provided advice in relation to a number of factors. Total fees for advice provided during the year were £38,700 of which the majority related to advice on compliance with new legislation on Directors' remuneration. The Committee is satisfied that the advice they have received has been 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. In addition to these services, other parts of Deloitte LLP provided unrelated taxation services to the Group. 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 the pre-IPO share options, the shares in lieu of pay arrangement and the Performance Share Plan.

Implementation of Remuneration Policy in 2014

Base salary

The table below shows base salaries for 2014.

	Base salary from 1 January 2014		
US$'000	UK salary	Russian salary	Total salary
John Conlin*	200,000	850,000	1,050,000
Tom Reed	200,000	627,000	827,000
Alexander Chistyakov	250,000	300,000	550,000

* From 1 April 2014 John Conlin's total salary will reduce to US$970,000 as a result of a reduction in his UK salary to US$120,000.

Annual Report on Remuneration *continued*

Until 31 March 2014, John Conlin and Tom Reed received their entire UK salary (pro rata) in Company shares and Alexander Chistyakov received 40% of his UK salary (pro rata) in Company shares. As a result, John Conlin and Tom Reed will receive 24,711 Ordinary shares each in lieu of $50,000 of UK salary and Alexander Chistyakov will receive 12,355 Ordinary shares in lieu of $25,000 of UK salary. From 1 April 2014, John Conlin, Tom Reed and Alexander Chistyakov's UK salaries will revert to being paid entirely in cash, with payments made on a monthly basis.

Benefits
There will be no changes to the benefits package for Executive Directors in 2014.

Annual bonus
In 2014, the annual bonus for Executive Directors will be up to 150% of salary and consist of two parts, as detailed below:

'Performance' bonus
For this portion of the bonus, the maximum opportunity for the CEO will be 150% of salary, with a target opportunity of 125% and for the other Executive Directors the maximum opportunity will be 114% of salary with a target of 95%. The table below provides further information on the KPIs and targets against which performance will be measured:

KPI	Target performance	Weighting	Description	
Average production	4,233 b/d avg	20%	–	
Capex/bbl	$47/bbl	20%	Drilling Capex and Engineering Capex	
Operating cost/bbl	$32/bbl	15%	Production Opex and S&A Opex	
Funding the business	Trade and strategic deal targets	25%	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 in good standing Legal robustness Procurement Legislative relationships Governance	Licences, permits and renewals Penalties, fines and violations ACL adherence and competitiveness Russia, FCA and UK Code UKBA, FCPA, RF Bribery laws

'Discretionary' bonus – for 2014 only
Alexander Chistyakov and Tom Reed will receive a 'discretionary' bonus of US$200,000 and US$300,000 respectively in 2014. This award will be dependent on continued employment with the Company until the end of the calendar year. The Committee is satisfied that there is a need to 'lock in' these individuals if we are to realise the Company's full potential and, as such, a bonus of this nature is justified.

Performance Share Plan
In 2013, the maximum potential award levels for the Chief Executive Officer and other Executive Directors were 150% and 125% of salary respectively. Shareholder approval is being sought at the 2014 AGM to increase this maximum to 150% of salary for all Directors. Conditional awards have been granted at this level for 2014 but should shareholder approval not be obtained, the portion of the award above 125% will lapse in respect of the Chief Finance Officer and Executive Chairman.

Awards take the form of a notional number of share options. The notional share options will have an exercise price of 33p compared to a share price at the date of grant of 24.75p. 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:

Share price at the end of the performance period	<49.5p	49.5p+	66p+	82.5p+	99p+
% 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 2014 given the current price of a Ruspetro plc share. By setting this as the performance measure for the PSP, 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 2014. 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 remuneration

The Non-executive Directors have agreed to reduce their basic fee and additional fees for Committee membership. With effect from 1 January 2014 therefore, the fees for the Non-executive Directors will be payable wholly in cash at the levels set out below:

	2014 fees US$
Non-executive Director (basic fee)	120,000
Additional fee for chairmanship of the Audit Committee	20,000
Senior Independent Director (includes basic fee for appointment as Non-executive Director)	140,000

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 2013, with prior year figures also shown.

	Salary/fees[1]		Benefits[2]		Annual bonus[3]		LTI awards[4]		Total	
US$'000	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Executive Directors										
John Conlin[5]	**58**	–	**5**	–	**–**	–	**–**	–	**63**	–
Tom Reed	**696**	883	**45**	27	**–**	–	**–**	–	**741**	910
Alexander Chistyakov	**420**	615	**60**	30	**–**	–	**–**	–	**480**	645
Non-executive Directors										
Rolf Stomberg	**221**	288	**–**	–	**–**	–	**–**	–	**221**	288
Robert Jenkins	**198**	273	**–**	–	**–**	–	**–**	–	**198**	273
James McBurney	**187**	268	**–**	–	**–**	–	**–**	–	**187**	268
Frank Monstrey[6]	**59**	–	**–**	–	**–**	–	**–**	–	**59**	–
Kirill Androsov[6]	**54**	–	**–**	–	**–**	–	**–**	–	**54**	–
Maurice Dijols[7]	**21**	–	**–**	–	**–**	–	**–**	–	**21**	–
Directors who resigned during the year										
Don Wolcott[8,9]	**680**	1,433	**34**	36	**–**	–	**–**	–	**714**	1,469
Christopher Clark[10]	**259**	576	**–**	12	**–**	–	**–**	–	**259**	588
Joe Mach[8]	**102**	240	**–**	–	**–**	–	**–**	–	**102**	240
James Gerson[10]	**93**	200	**–**	–	**–**	–	**–**	–	**93**	200

1 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. During the year, and with the agreement of the Directors in place at that time, the Committee determined that from 1 April 2013 (or later in the case of Directors who joined the Company after this date), a portion of Directors' salaries or fees would be paid in shares. Salaries and fees were converted into Ruspetro plc 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. Further details on the 2013 salaries of the Executive Directors are set out in the 'Additional disclosures' section below.
2 Benefits relate to the cost to the Company of items such as medical insurance, life insurance, permanent health insurance, housing allowance and private travel allowance.
3 No annual bonus paid in 2013 or 2012.
4 No PSP awards with performance conditions vested during the years ended 31 December 2012 or 31 December 2013.
5 John Conlin was appointed to the Board as a Non-executive Director on 1 August 2013 and was subsequently appointed as CEO on 17 December 2013. The fees shown are in relation to his Non-executive fees prior to his appointment as CEO and the UK element of his CEO salary (paid in shares) for the period from 17 to 31 December 2013. John Conlin did not receive any salary in relation to his Russian contract in 2013.
6 Frank Monstrey and Kirill Androsov were appointed as Directors on 1 August 2013.
7 Maurice Dijols was appointed as a Director on 6 November 2013.
8 Don Wolcott and Joe Mach resigned as Directors on 9 July 2013.
9 Don Wolcott's salary is shown in this table based only on the cash value for the period he was a Director. The Company is in discussion with Don Wolcott as to the precise form of his salary payment post 1 April 2013.
10 Christopher Clark and James Gerson resigned as Directors on 31 July 2013.

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 2013, either in whole or in part. Salaries are set in US dollars for the UK contract and Russian roubles for the Russian contract (although paid in US dollars). Any difference in the disclosures in the 2012 Annual Report, relate to changes in the US$/RUR exchange rate.

- Between 1 January and 13 August 2013, Alexander Chistyakov's annual salary was US$500,000, which consisted of a UK salary of US$200,000 and a Russian salary of US$300,000. Following his appointment as Executive Chairman, his UK salary was increased to US$250,000 to reflect the significant increase in scope and responsibilities, as well as the additional time commitment required. There was no change to his Russian salary.
- John Conlin was appointed as a Non-executive Director on 1 August 2013, receiving an annual fee of US$200,000 (pro rata). On 17 December 2013, John was appointed as the Company's Chief Executive Officer with a salary of US$1,050,000, consisting of a UK salary of US$200,000 and a Russian salary of US$850,000. John has agreed a reduction in his overall basic salary with effect from 1 April 2014. At that date, his UK salary element will reduce to US$120,000 while his Russian salary element remains at US$850,000, giving an overall basic salary of US$970,000.
- 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. The Committee considered that the salary payable to Tom remained appropriate during his tenure as Acting CEO and therefore did not award any increase for that period.
- Don Wolcott's salary prior to his resignation was US$1,360,000, which consisted of a UK salary of US$200,000 and a Russian salary of US$1,160,000. The figures in the table above only relate to the period prior to his resignation as a Director of the Company.
- In making decisions regarding basic salary, the Committee has taken a number of factors into account, including market data, wider employee pay, current business conditions and the unique circumstances of the business.

For the period from 1 January to 31 March 2013, all Executive salaries were paid entirely in cash. With effect from 1 April 2013, with the agreement of the Executive Directors in place at that time, the Committee determined that each Director's UK salary would be paid in shares (with salaries converted into shares at the 2012 IPO price, being 134 pence per share) for the year ending 31 March 2014. The Committee considered that paying part of the salary in the form of shares would strengthen the link between the interests of the Directors and those of the Company's shareholders, whilst also demonstrating the Board's confidence in the Company's potential. This reduction resulted in a cash cost saving of approximately US$1 million. When Alexander Chistyakov's salary was reviewed following his appointment as Executive Chairman, it was agreed that US$100,000 of the UK salary payable from 1 August 2013 (equating to 40% of his UK salary) would be paid in shares, with the remainder paid in cash.

As a result of this determination on 31 March 2014 or shortly thereafter, in relation to their 2013 salary, Alexander Chistyakov will receive 55,599 Ordinary shares in the Company, John Conlin will receive 21,453 Ordinary shares in the Company (part of which relates to shares issued in lieu of his Non-executive Director fee) and Tom Reed will receive 74,133 Ordinary shares in the Company. The Company is in discussions with Mr Wolcott regarding the precise form of his salary payment for the period post 1 April 2013.

With regard to the Non-executive Directors, all fees were paid in cash for the period from 1 January to 31 March 2013. With effect from 1 April 2013, and with the agreement of all the Non-executive Directors, the Board determined that 40% of each Non-executive Director's fees for the remainder of 2013 would be paid in shares at the same conversion rate as for the Executive Directors above.

As a result, the following shares will be released to the Non-executive Directors on 31 March 2014 or shortly thereafter:

Director	Period of eligibility	Number of shares
Robert Jenkins	1 April – 31 December 2013	38,605
James McBurney	1 April – 31 December 2013	37,066
Rolf Stomberg	1 April – 31 December 2013	44,480
Frank Monstrey	1 August – 31 December 2013	17,689
Maurice Dijols	6 November – 31 December 2013	5,322
Chris Clark	1 January – 31 October 2013*	64,117
Joe Mach	1 April – 9 July 2013	13,030

* Includes shares in relation to his notice period.

Due to their relationship with Limolines, neither Kirill Androsov nor James Gerson is able to receive Ordinary shares in the Company. The Company will therefore transfer the cash value of the Ordinary shares due to them (being 16,474 shares and 13,179 shares respectively) on 31 March 2014 or shortly thereafter.

Benefits in kind

The single total figure of remuneration table on page 55 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 target bonus for 2013 was 100% of base salary for the CEO and 75% of base salary for the other two Executive Directors, with a maximum opportunity of 150% and 100% of base salary, respectively.

The actual bonus payable in respect of 2013 has been determined by the Committee taking into account the following factors:

KPI and target	Weighting	Performance outcome
Production in excess of 3,200 bopd	25%	The final production rate averaged a daily rate of 4,800 bopd
EBITDA of US$12.3 million	12.5%	EBITDA exceeded target
HSE, zero fatalities	12.5%	Zero HSE fatalities
Strategic transaction	50%	Although a number of strategic options involving the sale of assets and a farm-in have been progressed during the year, no transformation transaction was completed or presented to the Board for approval prior to the end of 2013.

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, such as major health, safety and environmental incidents, major changes in oil price or actions by third party companies. Despite satisfying three of the required KPI targets, the Committee determined that in the light of overall Company performance, no payments should be awarded to the Executive Directors under the 2013 annual bonus plan.

Performance Share Plan

No awards were granted under the PSP in 2013.

Outstanding awards – pre-IPO options

Prior to the Company's IPO on the London Stock Exchange, the Company granted market priced options to Don Wolcott and Tom Reed on 17 January 2012, with an exercise price equal to the IPO offer price. These awards were intended to enhance the alignment between Executive Directors and shareholders, as the inherent share price hurdle will ensure that rewards will only be earned if shareholder value has been created. In addition, these options were intended to reward the contribution of the Directors in preparing the Company for IPO.

These options vest 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 is not subject to the satisfaction of any performance criteria other than continued employment. The number of options granted to each Executive Director is shown on page 58 of the 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 2013, or, in the case of John Conlin, since his appointment as Chief Executive Officer, none of the Company's Executive Directors held any such Directorship.

Payments to past Directors

No payments other than those disclosed below have been 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.

His Russian contract was for a fixed term, and expires on 19 April 2014. Following his departure on 9 July 2013, he continued to receive a monthly salary and benefits for the remainder of his contract which comprises US$858,441 for salary and US$15,871 for benefits.

The Company is in discussions with Mr Wolcott regarding his entitlement to payment for loss of office when his UK contract was terminated. The maximum sum payable to Mr Wolcott would be 12 months' base salary, related benefits and a contribution towards professional costs.

Don Wolcott was granted share options prior to the Company's IPO on the London Stock Exchange. Under the terms of the scheme, a third of these vested on the first anniversary of the grant, and he will be entitled to exercise these at any time until January 2022. The remaining options lapsed upon his departure from the Company. Details of these awards are set out in the table headed 'Outstanding share option awards to Executive Directors' on page 58.

Christopher Clark

In accordance with his letter of appointment, Christopher Clark received three months' pay in lieu of notice on his departure. The total sum paid to him in lieu of notice was US$90,371.

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 Directors' shareholding in the Company as at 31 December 2013, or the date of resignation for those Directors who stood down during the year, are set out below:

	Shareholding as at 31 December 2013 (or date of resignation if earlier)	Share options[1]
Alexander Chistyakov	13,758,687	–
John Conlin	–	–
Tom Reed	3,271,440	4,145,053
Robert Jenkins	100,000	–
James McBurney	40,000	–
Frank Monstrey	–	–
Kirill Androsov[2]	90,150,000	–
Maurice Dijols	175,000	–
Rolf Stomberg	100,000	–
Former Directors		
Christopher Clark	100,000	–
Donald Wolcott	12,786,288	2,072,526
Joe Mach	–	–
James Gerson[2]	90,150,000	–

1 No performance conditions apply to the share options which vest in equal tranches over a three-year period from grant (being 17 January 2012). The share options will be exercisable on 17 January 2015.
2 Limolines owns 90,150,000 shares. Kirill Androsov, and previously James Gerson, are deemed to be beneficially interested in such shares by virtue of their relationship with Limolines.

Subsequent to the year end, on 30 January 2014, Alexander Chistyakov, John Conlin and Tom Reed were awarded conditional awards over a maximum of 2,011,667 Ordinary shares, 3,840,456 Ordinary shares and 3,024,816 Ordinary shares respectively under the terms of the PSP.

Between the end of the financial year and the date of this report, there have been no changes to the shareholdings of the continuing Directors. However, on 31 March 2014 the Directors became entitled to the shares which are being issued in lieu of salary as set out on page 56 and which will be released as soon as practicable.

Outstanding share option awards to Executive Directors

Director	Date of grant	Number of options granted	Options exercised in the year	Options vested in the year	Options lapsed in the year	Unvested options outstanding at year end	Exercise price (p)	Date from which exercisable	Expiry date
Tom Reed	17 Jan 2012	4,145,053	–	1,381,684	–	2,763,369	134	17 Jan 2015	17 Jan 2022
Don Wolcott	17 Jan 2012	6,217,579	–	2,072,526	4,145,053	–	134	17 Jan 2015	17 Jan 2022

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

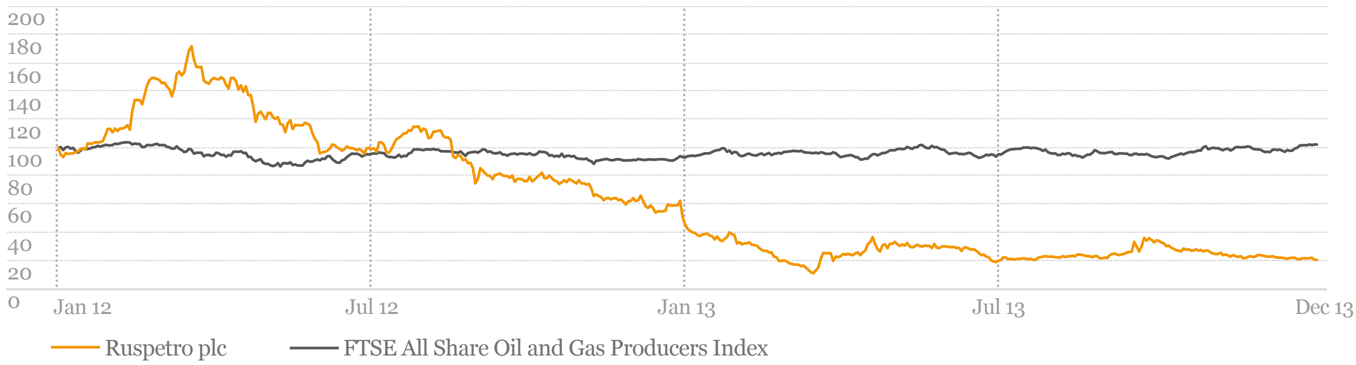
The highest and lowest closing prices for the Company's shares during the year ended 31 December 2013 were 83.5p and 14.75p respectively. The closing price for a Ruspetro plc share on 31 December 2013 was 27.5p.

Historical Company performance and CEO 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 and Gas Producers Index. This index was chosen as it is a broad based index of which the Company is a constituent.

Total shareholder return



Source: Thomson Reuters DataStream

Historical Chief Executive Officer remuneration outcomes

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

	2012	2013		
US$000s	Don Wolcott	Don Wolcott	Tom Reed	John Conlin
CEO single total figure of remuneration	US$1,469	US$714	US$303	US$6
Annual bonus payout (% of maximum opportunity)	–	–	–	–
PSP vesting (% of maximum opportunity)	N/A	N/A	N/A	N/A

Percentage change in remuneration of the CEO compared to employees elsewhere in the Group

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

	% change in base salary 2013/2012	% change in benefits 2013/2012	% change in annual bonus 2013/2012
Chief Executive Officer	-32%	50%	0%
All employees	12%	29%	11%

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.

US$000s	2012	**2013**	% change
Overall expenditure on pay	15,609	**17,030**	9%
Distributions to shareholders	0	**0**	0%

Shareholder voting

The table below outlines the result of the vote on the 2012 Directors' Remuneration Report at the 2013 AGM:

Number of votes cast	For	Against	Withheld
276,830,831	260,002,176 (93.93%)	16,818,655 (6.07%)	14,357,614

Maurice Dijols
Chairman of the Remuneration Committee
22 April 2014

Independent Auditor's Report to the Members of Ruspetro plc

Report on the Group financial statements

Our opinion

In our opinion the financial statements of Ruspetro plc

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of the Group's 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 obtain additional financing and successfully complete its investment programme resulting in increase in production. Those conditions, along with other matters explained in Note 2 to the financial statements indicate the existence of 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, which are prepared by Ruspetro plc, comprise:

- the consolidated statement of financial position as at 31 December 2013;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended; and
- the notes to the financial statements, which include the accounting policies and other related notes.

The financial reporting framework that has been applied in their preparation comprises 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 to identify material inconsistencies with the audited Group 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 $3.3 million. This represents 0.5% of total assets. We selected total assets as a benchmark because revenues or profit before tax were not considered suitable benchmark as the Company is in the development stage.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $328,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group has five reporting units, Ruspetro plc, Ruspetro Holding 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 performed 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 34.

Area of focus	How the scope of our audit addressed the area of focus
Going concern We 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. Our conclusion on going concern is below.
Carrying value of non-current assets We focused on this area because the carrying value of non-current assets is US$629.7m and the annual impairment review involves complex and subjective judgements by management over the future results of the business.	We have assessed management's production profiles and cost, and challenged the key assumptions for reservoirs quantities, discount rates and other factors. We also performed sensitivity analysis over these key assumptions. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, we also considered the likelihood of such movements.
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 tested the amount and timing of revenue recognition, taking into account the key revenue streams, contractual obligations and validity of manual journal entries. We also tested the reconciliations between the revenue systems used by the Group and its financial ledgers.
Management override of controls Auditing standards require that we consider the risk that management may override controls within their 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 tested key reconciliations and manual journal entries. We considered whether there was any evidence of bias by the Directors in the significant accounting estimates and judgements relevant to the financial statements. We also assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management and the Group's internal audit function.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 40, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that, notwithstanding the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern, it is appropriate to prepare the Group's 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 them 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. Refer also to the emphasis of matter described above.

Independent Auditor's Report to the Members of Ruspetro plc *continued*

Opinion on 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 Group financial statements are prepared is consistent with the Group 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 have not been made. We have no exceptions to report arising from these responsibilities.

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'). We have nothing to report having performed our review.

On page 41 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 34, 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 Group 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 41, the Directors are responsible for the preparation of the Group 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 Group 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 2013 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
22 April 2014

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.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013 (presented in US$ thousands, except otherwise stated)

	Note	Year ended 31 December 2013	2012
Revenue	7	**79,849**	76,230
Cost of sales	8	**(63,222)**	(73,771)
Gross profit		**16,627**	2,459
Selling and administrative expenses	9	**(25,146)**	(40,481)
Other operating (expenses)/income	10	**(2,086)**	19,170
Operating loss		**(10,605)**	(18,852)
Finance costs	11	**(32,996)**	(29,815)
Change in fair value of call option	17	**–**	(3,240)
Foreign exchange (loss)/gain, net		**(25,586)**	23,804
Other (expenses)/income, net	10	**(5,062)**	–
Loss before income tax		**(74,249)**	(28,103)
Income tax benefit	12	**11**	819
Loss for the period		**(74,238)**	(27,284)
Other comprehensive (loss)/income that may be reclassified subsequently to (loss)/profit, net of income tax			
Exchange difference on translation to presentation currency		**(11,063)**	6,061
Total comprehensive loss for the period		**(85,301)**	(21,223)
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	**(0.22)**	(0.09)

John Conlin
Chief Executive Officer

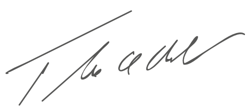
Thomas Reed
Chief Financial Officer

The accompanying notes on pages 67 to 91 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2013 (presented in US$ thousands, except otherwise stated)

		31 December	
	Notes	2013	2012
Assets			
Non-current assets			
Property, plant and equipment	13	**234,203**	226,736
Mineral rights and other intangibles	14	**395,533**	425,551
		629,736	652,287
Current assets			
Inventories	15	**1,681**	2,567
Trade and other receivables	16	**6,660**	19,721
Income tax prepayment		**35**	37
Other current assets	17	**–**	24
Cash and cash equivalents	18	**15,832**	34,416
		24,208	56,765
Total assets		**653,944**	709,052
Shareholders' equity			
Share capital	19	**51,226**	51,226
Share premium		**220,506**	220,506
Retained loss		**(153,106)**	(87,741)
Exchange difference on translation to presentation currency		**(35,124)**	(24,061)
Other reserves		**11,759**	20,517
Total equity		**95,261**	180,447
Liabilities			
Non-current liabilities			
Borrowings	20	**402,896**	348,493
Provision for dismantlement	21	**7,940**	7,697
Deferred tax liabilities	12	**83,502**	89,900
Other non-current liabilities	17	**–**	15,365
		494,338	461,455
Current liabilities			
Borrowings	20	**303**	21,804
Trade and other payables	22	**43,842**	39,721
Taxes payable other than income tax		**2,265**	4,544
Other current liabilities	17	**17,935**	1,081
		64,345	67,150
Total liabilities		**558,683**	528,605
Total equity and liabilities		**653,944**	709,052



John Conlin
Chief Executive Officer

Thomas Reed
Chief Financial Officer

The accompanying notes on pages 67 to 91 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013 (presented in US$ thousands, except otherwise stated)

	Notes	Share capital	Share premium	Retained earnings/ (loss)	Exchange difference on translation to presentation currency	Other reserves	Equity attributable to owners of the Company	Non-controlling interest	Total equity
Balance as at 1 January 2012		**7**	**49,994**	**(60,208)**	**(30,122)**	**–**	**(40,329)**	**(408)**	**(40,737)**
Loss for the period		–	–	(27,284)	–	–	(27,284)	–	(27,284)
Other comprehensive income for the period		–	–	–	6,061	–	6,061	–	6,061
Total comprehensive income/(loss) for the period		**–**	**–**	**(27,284)**	**6,061**	**–**	**(21,223)**	**–**	**(21,223)**
Reorganisation of the Group		31,818	(49,994)	(249)	–	18,176	(249)	408	159
Issue of share capital		19,401	220,506	–	–	–	239,907	–	239,907
Share options of shareholders		–	–	–	–	(9,694)	(9,694)	–	(9,694)
Share-based payment compensation		–	–	–	–	12,035	12,035	–	12,035
Balance as at 31 December 2012		**51,226**	**220,506**	**(87,741)**	**(24,061)**	**20,517**	**180,447**	**–**	**180,447**
Balance as at 1 January 2013		**51,226**	**220,506**	**(87,741)**	**(24,061)**	**20,517**	**180,447**	**–**	**180,447**
Loss for the period		–	–	(74,238)	–	–	(74,238)	–	(74,238)
Other comprehensive income for the period		–	–	–	(11,063)	–	(11,063)	–	(11,063)
Total comprehensive loss for the period		**–**	**–**	**(74,238)**	**(11,063)**	**–**	**(85,301)**	**–**	**(85,301)**
Share options of shareholders	17	–	–	8,873	–	(8,873)	–	–	–
Share-based remuneration of Board of Directors		–	–	–	–	115	115	–	115
Balance as at 31 December 2013		**51,226**	**220,506**	**(153,106)**	**(35,124)**	**11,759**	**95,261**	**–**	**95,261**

John Conlin
Chief Executive Officer

Thomas Reed
Chief Financial Officer

The accompanying notes on pages 67 to 91 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2013 (presented in US$ thousands, except otherwise stated)

	Note	Year ended 31 December 2013	2012
Cash flows from operating activities			
Loss before income tax		**(74,249)**	(28,103)
Adjustments for:			
Depreciation, depletion and amortisation	13, 14	**21,748**	19,762
Foreign exchange loss/(income)		**25,586**	(23,804)
Finance costs	11	**32,996**	29,815
Change in fair value of call option	17	**–**	3,240
Gain on settlement of Makayla debt	10	**–**	(21,282)
Share-based payment compensation		**115**	12,035
Other operating expenses		**1,909**	826
Operating cash inflows/(outflows) before working capital adjustments		**8,105**	(7,511)
Working capital adjustments:			
Change in trade and other receivables		**(1,565)**	(964)
Change in inventories		**886**	43
Change in trade and other payables		**7,140**	12,259
Change in other taxes receivable/payable		**12,347**	(12,629)
Net cash flows from/(used in) operating activities		**26,913**	(8,802)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(44,106)**	(106,583)
Net cash used in investing activities		**(44,106)**	(106,583)
Cash flows from financing activities			
Proceeds from issue of share capital (net)		**–**	213,699
Repayments of loans and borrowings		**–**	(18,575)
Interest paid		**–**	(50,645)
Cash inflow on reorganisation		**–**	87
Other financing charges paid	20	**(1,000)**	–
Net cash (used in)/generated from financing activities		**(1,000)**	144,566
Net (decrease)/increase in cash and cash equivalents		**(18,193)**	29,181
Effect of exchange rate changes on cash and cash equivalents		**(391)**	3,941
Cash and cash equivalents at the beginning of the period		**34,416**	1,294
Cash and cash equivalents at the end of the period		**15,832**	34,416

John Conlin
Chief Executive Officer

Thomas Reed
Chief Financial Officer

The accompanying notes on pages 67 to 91 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013 (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 2013 were approved by its Board of Directors on 22 April 2014.

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 1st Floor, Berkeley Square House, Berkeley Square, London W1J 6BD, UK.

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:

				Effective ownership	
				31 December	
Company	Business activity	Country of incorporation	Year of incorporation	**2013**	2012
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 Company, including those of its subsidiaries have been prepared in accordance with International Financial Reporting Standards ('IFRSs') 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.

Going concern

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

At the reporting date the Group had net current liabilities of $40,137 thousand, which included cash in hand of $15,832 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. 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.

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, prepayment from a forward oil sale agreement, and additional debt or equity financing as required.

During 2013, management renegotiated the terms of the outstanding credit facility with Sberbank with a resulting roll up of interest accruing in 2013 and 2014 and the deferral of its capital repayment until 2018 (see Note 20), and obtained US$30 million as a forward oil sale prepayment from Glencore. Since the year end, management has agreed with Sberbank to defer the exercise period for the outstanding put option to April 2015 at the earliest (refer to Note 27) and negotiated a roll-over of the US$30 million advance financing arrangement with Glencore.

In addition to its operational requirements the Group has debt obligations falling due in April 2015 and May 2015 totalling US$56 million. To meet this obligation, in addition to the measures already taken, described above, management has commenced a number of negotiations to (1) secure further shareholder finance, (2) obtain prepayment finance in respect of domestic crude oil, (3) renegotiate the repayment terms of the shareholder loans and (4) secure a further restructuring of the Sberbank loan and deferral of the Sberbank put option. Additionally, management is continuing to develop and evaluate potential strategic and capital raising options in relation to its assets to meet its long-term debt obligations.

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

2. Basis of preparation *continued*

Management considers that there is a material uncertainty as to the realisation of these potential financing transactions and successfully complete its investment programme resulting in an increase in production to meet the Group's future capital requirements. Their occurrence may also 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 outcome of these matters is a subject of material uncertainty and may give rise to significant doubt as to the ability of the Group 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.

Business combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

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.

3. Summary of significant accounting policies *continued*

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 programmes 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 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.

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

3. Summary of significant accounting policies *continued*

Financial instruments carried on the consolidated statement of financial position include loans and receivables, cash and cash equivalent balances, borrowings, accounts payable and put and call 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.

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.

3. Summary of significant accounting policies *continued*

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.

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

3. Summary of significant accounting policies *continued*

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).

Non-controlling interests

Non-controlling interests ('NCI') is the equity in subsidiaries not attributable, directly or indirectly, to the Company. NCI at the end of the reporting period represents the non-controlling shareholders' portion of the carrying value of the identifiable assets and liabilities of the subsidiary. NCI are presented within equity, separately from the equity, attributable to the Company's shareholders.

The Group treats transactions with NCI as transactions with equity owners of the Group. For purchases from NCI the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recognised in equity.

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, value-added tax 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. Dividend income is recognised where the shareholders' right to receive a dividend payment is established.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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 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.

3. Summary of significant accounting policies *continued*

Foreign currency translation

Foreign currency transactions are initially recognised 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 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 rouble (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 32.73 and 30.37 as at 31 December 2013 and 31 December 2012, respectively, and the average rates for the years ended 31 December 2013 and 2012 were 31.85 and 31.07, respectively. The US$ to GBP exchange rates were 0.61 and 0.62 as at 31 December 2013 and 31 December 2012, respectively, and the average rates for the years ended 31 December 2013 and 2012 were 0.64 and 0.63, respectively. The increase in the US$ to RUR exchange rate for the year ended 31 December 2013 has resulted in a loss of US$25,586 thousand in the consolidated statement of comprehensive income and an adjustment of US$11,063 thousand in other comprehensive income (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.

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 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.

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

4. Significant accounting judgements, estimates and assumptions *continued*

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). Management at the end of each reporting period 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 the 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 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 the 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:

	Effect on loss before tax for the year ended 31 December	
Increase/decrease in reserves estimation	**2013**	2012
+ 10%	**(1,977)**	(1,628)
- 10%	**2,416**	1,989

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.

4. Significant accounting judgements, estimates and assumptions *continued*

If there are indications of loss in value, the recoverable amount is estimated. The recoverable amount is the higher of the asset's FVLCS, or its VIU. Management considers that an appropriate approach to determining FVLCS is by discounting the post-tax cash flows expected to be generated by the oil and gas assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. The VIU is a discounted cash flow calculation based on continued use of the assets in its present condition, excluding potential exploitation of improvement or expansion potential.

The determination of the recoverable amount for both the FVLCS and the VIU involves assumptions as to future hydrocarbon prices, taxes, production volumes, and inflation. The models also use estimates of proved developed for VIU and proved and probable reserves for FVLCS as developed by the independent reservoir engineers, DeGolyer & MacNaughton. Estimated cash flows are 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%.

Based on our estimation of fair value less cost of sale, management do not consider that the Group's non-current assets are impaired as at 31 December 2013.

Assumption used in developing cash flow forecasts of the Group

Assumption	Value
Average crude oil price	100 USD per barrel
Average effective rate of Mineral Extraction Tax of crude oil	1,150 RUB per tonne
Average effective rate of Mineral Extraction Tax of gas condensate	600 RUB per tonne
Production volume of crude oil and gas condensate over economic life of the fields	1,653,690 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 2013 and 2012 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.

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

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 2013, 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 (postponed).

Amendments

- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).
- Amendments to IFRS 10 and IFRS 12 – Transition Guidance (effective for annual periods beginning on or after 1 January 2014).
- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014).
- Amendments to IFRS 2 – Clarifying definitions.

(ii) Endorsed by the European Union

New standards and interpretations

- IFRS 10 – Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014).
- IFRS 12 – Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2014).
- IFRIC Interpretation 21 Levies (effective for annual periods beginning on or after 1 January 2014).

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.

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 2013, and are effective and therefore have been applied:

- IFRS 13 – Fair Value Measurement.
- Amendments to IAS 1 – The disclosure of items presented in other comprehensive income.

6. Segment reporting

The management views the operations of the Group as one operating segment. Should the Group diversify its operations the financial reporting will be adjusted to reflect the 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	
	2013	2012
Revenue from crude oil sales	**67,326**	63,614
Revenue from gas condensate sales	**11,267**	11,230
Other revenue	**1,256**	1,386
Total revenue	**79,849**	76,230

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

For the years ended 31 December 2013 and 2012, revenue from export sales of crude oil amounted to US$13,306 thousand and US$16,877 thousand, respectively.

7. Revenue *continued*

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 2013	2012
Customer 1	**36,623**	20,047
Customer 2	**23,368**	8,779
Customer 3	**13,306**	16,877
	73,297	45,703

8. Cost of sales

	Year ended 31 December 2013	2012
Mineral Extraction Tax	**25,600**	31,816
Depletion, depreciation and amortisation	**18,488**	17,907
Employee benefit expense	**7,915**	5,264
Production services	**6,649**	7,113
Repairs and maintenance	**1,587**	4,431
Transportation services	**1,292**	4,541
Reserves evaluation	**608**	815
Change of inventories	**491**	812
Other	**592**	1,072
Total cost of sales	**63,222**	73,771

The decrease of Mineral Extraction Tax in 2013 related to the 80% relief by reference to a base tax rate of RUR470 per tonne. Relief was effective from September 2013, applicable to tight oil, which relates to approximately 97% of the Group's current crude oil production.

The decrease in transportation services in 2013 related to the construction of the Group's own intra-field pipeline, which enabled the Group to cease using the services of oil transport companies.

9. Selling and administrative expenses

	Year ended 31 December 2013	2012
Selling expenses		
Oil transportation costs	**1,838**	2,564
Administrative expenses		
Employee benefit expense	**9,108**	10,345
Share-based payment compensation	**210**	12,035
Depreciation and amortisation	**3,260**	1,855
Professional services	**2,781**	4,259
Taxes, other than income tax	**2,678**	3,288
Rent expenses	**1,717**	1,698
Travel expenses	**1,240**	981
IT, telecom and other information services	**1,036**	1,039
Bank charges	**72**	414
Other	**1,206**	2,003
Total selling and administrative expenses	**25,146**	40,481

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

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

9. Selling and administrative expenses *continued*

Auditor remuneration

During the year the Group obtained the following services from the Company's auditor and its associates:

	Year ended 31 December	
	2013	2012
Fees payable to the Company's auditor and its associates for the audit of Company and consolidated financial statements	**370**	486
Fees payable to the Company's auditor and its associates for other services:		
– Tax advisory services	**80**	16
– Other consulting services	**360**	–

Employee benefit expense

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

	Year ended 31 December	
	2013	2012
Wages and salaries	**14,543**	13,505
Social security costs	**2,487**	2,104
Total employee costs	**17,030**	15,609
Share-based payment compensation	**210**	12,035
Average number of employees (including Directors)	**211**	183

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

10. Other expenses/income

Other operating income in 2012 arose in connection with the settlement of debt owed to Makayla Investments Limited.

For a better presentation of the economic nature the expenses of maintenance of the temporary idle wells, which in 2012 were presented in the cost of sales amounting to US$1,045 thousand, in 2013 are presented in other operating expenses. For comparability, these costs in 2012 were also restated from the cost of sales to other operating expenses.

Other operating expenses mainly include expenses incurred in the process of Board restructuring.

Other expenses include professional fees, incurred in connection with the Company's cancelled previously proposed bond issue.

11. Finance costs

	Year ended 31 December	
	2013	2012
Interest expense on borrowings	**28,132**	27,912
Unwinding discount of put option liabilities (Note 17)	**1,147**	1,058
Unwinding discount of provision for dismantlement (Note 21)	**793**	682
Other financial expenses	**2,924**	163
Total finance costs	**32,996**	29,815

For the years ended 31 December 2013 and 2012, borrowing costs amounting to US$5,722 thousand and US$5,220 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 2013 and 2012 was 10% per annum.

Other financial expenses include interest on the outstanding amount of the Glencore Energy UK Ltd ('Glencore') prepayment facility (see Note 22).

12. Income tax

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

	Year ended 31 December 2013	2012
Current income tax expense	**51**	–
Deferred tax (benefit)/expense	**(62)**	(819)
Total income tax benefit	**(11)**	(819)

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

	Year ended 31 December 2013	2012
Loss before income tax	**(74,249)**	(28,103)
Income tax benefit at applicable tax rate	**14,850**	5,621
Tax effect of losses for which no deferred income tax asset was recognised	**(24,533)**	(9,026)
Tax effect for losses utilised	**13,752**	10,333
Tax effect of share-based payment compensation	**(41)**	(2,407)
Tax effect interest on shareholders' loans	**(1,730)**	(1,573)
Tax effect LLC 'Sberbank Capital' share options	**–**	(1,129)
Tax effect of non-deductible expenses	**(2,287)**	(1,000)
Income tax benefit	**11**	819

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 2013	Recognised in the income statement	Exchange differences	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)**

	1 January 2012	Recognised in the income statement	Exchange differences	31 December 2012
Liabilities				
Property, plant and equipment	(6,427)	289	(265)	(6,403)
Mineral rights and intangible assets	(80,300)	50	(4,809)	(85,059)
Accounts payable	682	277	57	1,016
Accounts receivable	319	203	24	546
Deferred income tax liabilities	**(85,726)**	**819**	**(4,993)**	**(89,900)**

The Group recognised previously unrecognised deferred tax assets in respect of tax loss incurred by INGA, because it is probable that sufficient taxable profit to utilise the deductible temporary difference will be available in the future.

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12. Income tax *continued*

The Group did not recognise deferred income tax assets of US$39,682 thousand and US$37,180 thousand, in respect of losses that can be carried forward against future taxable income amounting to US$198,410 thousand and US$185,899 thousand as at 31 December 2013 and 31 December 2012, 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 and 2023 respectively. As at 31 December 2012 losses amounting to US$70,031 thousand, US$43,020 thousand, US$28,990 thousand and US$43,858 thousand expire in 2018, 2019, 2020 and 2021 respectively.

13. Property, plant and equipment

	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**

	Oil and gas properties	Other property, plant and equipment	Construction in progress	Total
Cost as at 1 January 2012	**106,324**	**2,632**	**38,432**	**147,388**
Additions	–	–	127,104	127,104
Transfers to fixed assets	97,999	8,332	(106,331)	–
Change in provision for dismantlement (Note 21)	665	–	–	665
Disposals	(926)	(79)	(155)	(1,160)
Effect of translation to presentation currency	8,355	454	2,153	10,962
Cost as at 31 December 2012	**212,417**	**11,339**	**61,203**	**284,959**
Accumulated depletion and impairment as at 1 January 2012	**(34,957)**	**(1,118)**	**–**	**(36,075)**
Charge for the period	(17,452)	(1,839)	–	(19,291)
Disposals	426	65	–	491
Effect of translation to presentation currency	(3,194)	(154)	–	(3,348)
Accumulated depletion and impairment as at 31 December 2012	**(55,177)**	**(3,046)**	**–**	**(58,223)**
Net book value as at 31 December 2012	**157,240**	**8,293**	**61,203**	**226,736**

For the year ended 31 December 2013, 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 2013, 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 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**

	Mineral rights	Other intangible assets	Total
Cost as at 1 January 2012	**402,351**	**53**	**402,404**
Additions	–	266	266
Effect of translation to presentation currency	24,139	1	24,140
Cost as at 31 December 2012	**426,490**	**320**	**426,810**
Accumulated depletion and impairment as at 1 January 2012	**(855)**	**(36)**	**(891)**
Charge for the period	(453)	(19)	(472)
Effect of translation to presentation currency	103	1	104
Accumulated depletion and impairment as at 31 December 2012	**(1,205)**	**(54)**	**(1,259)**
Net book value as at 1 January 2012	401,496	17	401,513
Net book value as at 31 December 2012	**425,285**	**266**	**425,551**

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

15. Inventories

	31 December	
	2013	2012
Spare parts, consumables and other inventories	**957**	1,990
Crude oil	**724**	577
Total inventories	**1,681**	2,567

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

16. Trade and other receivables

	31 December	
	2013	2012
Trade receivables	**2,629**	1,998
Other receivables and prepayments	**2,783**	1,849
VAT recoverable	**1,248**	15,874
Total trade and other receivables	**6,660**	19,721

Trade receivables are mainly denominated in US$ 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 2013 and 31 December 2012, the Group has impaired prepayments amounting to US$384 thousand and US$531 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.

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

17. Other current liabilities

Options on shares of the Company

On 2 December 2011, the Company and LLC 'Sberbank Capital' entered into an option agreement which became effective on 17 January 2012, pursuant to which LLC 'Sberbank Capital' granted the Company a call option to acquire the 10,362,632 Ordinary shares held by LLC '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 IPO, at an exercise price equal to the IPO price (GBP1.34) per share less 10%. Reserves, amounting to US$4,059 thousand, initially recognised in equity, were transferred to retained earnings.

In addition, pursuant to this agreement, LLC 'Sberbank Capital' may put these Ordinary shares issued back to the Company. The put option may be exercised once only at any time between the second and third anniversary of admission, which took place on 24 January 2012, at an exercise price equal to the Offer price (GBP1.34) less 20%. With respect to the put option, a current liability of US$17,026 thousand has been recorded as at 31 December 2013.

The following table shows the changes of value of the put option for the year ended 31 December 2013:

	2013	2012
As at 1 January	**15,365**	–
Initial recognition of the option	**–**	13,753
Unwinding of discount	**1,147**	1,058
Foreign exchange loss related to put option	**514**	554
As at 31 December	**17,026**	15,365

During 2013, one of the Executive Directors, who has been granted an option to acquire shares of the Company, left the Company. In accordance with the terms of the option, this Director lost the right to exercise part of the 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 include mainly environmental tax obligations arising in the ordinary course of business.

18. Cash and cash equivalents

	31 December	
	2013	2012
Cash in bank denominated in US$	**10,653**	13,402
Cash in bank denominated in GBP	**4,921**	10,796
Cash in bank denominated in RUR	**258**	10,218
Total cash and cash equivalents	**15,832**	34,416

Cash balances generally carry no interest. The Group holds its cash with Sberbank (Moody's rating Baa1/D+/P2 (Stable) at 31 December 2013), Bank of America (Moody's rating (P)A1/P1 (Stable) at 31 December 2013), Citibank (Fitch's rating BBB+/bbb-/F2 (Stable) at 31 December 2013) and Bank of Cyprus (Moody's rating Ca/E/NP (Negative) at 31 December 2013).

19. Shareholders' equity

Share capital

	31 December	
	2013	2012
Ordinary share capital	**51,226**	51,226

Issued and paid up share capital as at 31 December 2013 and 2012 consisted of 333,381,480 Ordinary shares with nominal value of GBP 0.1 each.

20. Borrowings

	31 December 2013	31 December 2012
Current		
Sberbank	–	2,469
Short-term loans from shareholders of the Company	**303**	19,335
Total current borrowings	**303**	21,804

	31 December 2013	31 December 2012
Non-current		
Sberbank	**313,393**	286,671
Long-term loans from shareholders of the Company	**89,503**	61,822
Total long-term borrowings	**402,896**	348,493

Sberbank credit facility

On 24 May 2013, the terms of Sberbank's credit facility were amended whereby, inter alia, repayment of a portion of accrued interest and its principal were deferred until April 2018. Payment of part of the accrued interest will be deferred until 25 May 2015 if the Group complies with certain covenants (principally an agreed EBITDA level). The Group was in compliance with covenants at 31 December 2013. The Group paid an agreement amendment fee of US$1,000 thousand for the amendment of the agreement, which is amortised over the remaining term of the facility, with the unamortised part of the fee netted with the credit facility. These amendments did not substantially alter the terms of the original credit facility, and were therefore 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 the instrument by adjusting the effective interest rate.

The Group recognised a net foreign exchange loss amounting to US$21,979 thousand and a net foreign exchange gain amounting to US$19,512 thousand during the years ended 31 December 2013 and 2012 respectively on the Sberbank credit facility and outstanding accrued interest which is denominated in US$.

Loans from shareholders of the Company

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

On 6 June 2013 and 2 October 2013, the Group rescheduled the maturity of the main shareholders' loans until May 2015 and May 2018 respectively. These amendments did not substantially alter the terms of these original loans, and were therefore 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 the instrument by adjusting the effective interest rate.

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 2013.

	2013	2012
As at 1 January	**7,697**	5,961
Additions for new obligations and changes in estimates (Note 13)	**26**	665
Unwinding of discount (Note 21)	**793**	682
Effect of translation to presentation currency	**(576)**	389
As at 31 December	**7,940**	7,697

This provision has been created based on the Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believe 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.

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for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

22. Trade and other payables

	31 December 2013	2012
Trade payables	**23,888**	34,242
Other non-financial liabilities	**19,954**	5,479
Total trade and other payables	**43,842**	39,721

Trade and other payables are denominated primarily in Russian roubles.

On 20 August 2013 the Group signed a forward oil sale prepayment agreement with Glencore. The prepayment received from Glencore amounted to US$30,000 thousand. Under the provisions of the prepayment agreement, the Group shall supply up to 72,000 metric tonnes of crude oil commencing in August 2013 for a duration of one year. The interest rate on the outstanding amount of the prepayment is Libor +7% per annum. The outstanding amount of the prepayment is presented in other non-financial liabilities.

23. Capital commitments and other contingencies

Capital commitments

The Group did not have any non-cancellable capital commitments at 31 December 2013 or 2012.

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 2013. The Directors note that breach of licence performance conditions has not given rise to any material fines or penalties. Furthermore, management have 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 2013 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 procedures against an entity with negative net assets. Ruspetro Russia as at 31 December 2013 reported net liabilities under Russian GAAP. However, no such bankruptcy procedures have been initiated either by the creditors or the tax authorities against them. The Directors consider their net liability position to be normal given that the Company 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 to 2021. 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 2013 and 2012 were as follows:

	31 December 2013	2012
Within one year	**803**	774
After one year but not more than five years	**822**	907
More than five years	**14**	22
Total capital commitments and other contingencies	**1,639**	1,703

Operating risks and contingencies

Pledge of shares and promissory notes

On the opening of its credit facility with Sberbank, the Group provided to Sberbank as collateral its shares in INGA and Trans-oil.

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 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.

23. Capital commitments and other contingencies *continued*

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, it may be 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 (Note 23). The 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 have 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.

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:

	Year ended 31 December	
	2013	2012
Share-based payment compensation	**210**	12,035
Employee remuneration	**1,934**	2,931
Benefits in kind	**102**	93
Non-executive Directors fees	**1,316**	1,844

Effective from April 2013 a proportion of Directors' remuneration paid in cash has been reduced and will be payable in shares in March 2014. Fair value of employee services received by the Group is determined with reference to share price at the end of each remuneration accrual period.

Ruspetro leased a car from a company, in which one of its Directors has an interest, for an annual rent and service charge of RUR2,576 thousand (US$83 thousand (excluding VAT)). The lease will terminate on 31 December 2015.

Notes to the Consolidated Financial Statements *continued*

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24. Related party disclosures *continued*

All related party transactions are on an arms length basis and no financial period end balances have arisen as a result of these transactions.

Loans from related parties

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

	2013	2012
As at 1 January	**81,157**	74,331
Interest accrued	**8,649**	7,790
Principal amount repaid	–	(630)
Interest repaid	–	(334)
As at 31 December	**89,806**	81,157

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

25. Financial risk management objectives and policies

The Group's principal financial liabilities comprise accounts payable, bank borrowings and other loans, and obligations under the put option. 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 2013 and 2012, 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 2013 and 2012 using the amounts of debt and other financial assets and liabilities held as at those statement of financing position dates.

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, retained earnings and non-controlling interests. Equity of the Group was equal to US$95,261 thousand and US$180,447 thousand as at 31 December 2013 and 2012 respectively.

Total debt of the Group was equal to US$403,199 thousand and US$370,297 thousand as at 31 December 2013 and 31 December 2012 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 the 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 2013 and 2012, the Group was not subject to any externally imposed capital requirements (except for described in Note 23). As at 31 December 2013 the Group is subject to certain covenants (Note 20).

25. Financial risk management objectives and policies *continued*

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 a five-day average Brent price at the bill of lading less a mutually agreed discount. 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.

	Year ended 31 December	
Commodity price risk	**2013**	2012
Favourable +10%	**7,859**	7,484
Unfavourable -10%	**(7,859)**	(7,484)

For the purposes of this analysis, the effect of a variation in crude oil prices on the 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 the 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.

	Year ended 31 December Effect on loss before tax	
Increase/decrease in interest rate	**2013**	2012
+1.0%	**895**	809
-1.0%	**(895)**	(809)

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 mainly concentrated in the Sberbank credit facility.

The following table demonstrates the sensitivity to a reasonably possible change in the RUR:US$ 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.

	Year ended 31 December Effect on loss before tax	
Increase/decrease in RUR:US$ exchange rate	**2013**	2012
+20%	**(52,232)**	(48,190)
-20%	**78,348**	72,285

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25. Financial risk management objectives and policies *continued*

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 2013 and 2012 based on contractual undiscounted payments.

	31 December 2013					
	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
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**

	31 December 2012					
	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
Borrowings (including interest)	303	45,171	24,962	376,126	–	446,562
Trade payables	–	34,242	–	–	–	34,242
Other non-current liabilities	–	–	–	17,952	–	17,952
Other current liabilities	–	1,081	–	–	–	1,081
	303	80,494	24,962	394,078	–	499,837

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

The Group is exposed to concentrations of credit risk. At 31 December 2013 the Group had six counterparties (2012: nine counterparties) with aggregated receivables balances of 2,629 (2012: 1,998) or 39% of the gross amount of trade and other receivables (2012: 10%).

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).

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 2013	31 December 2012	**31 December 2013**	31 December 2012
Financial assets				
Cash and cash equivalents	**15,832**	34,416	**15,832**	34,416
Trade receivables	**2,629**	1,998	**2,629**	1,998
Financial liabilities				
Trade payables	**23,888**	32,897	**23,888**	32,897
Borrowings	**403,199**	370,297	**403,199**	370,297

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	
	2013	2012
Loss attributable to equity holders of the Company	**74,238**	27,284
Weighted average number of Ordinary shares in issue	**333,381,480**	315,539,053
Basic loss per share (US$)	**0.22**	0.09

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 2013 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

On 6 March 2014, the Company and LLC 'Sberbank Capital' signed an amendment to the option agreement, whereby the put option exercise period has been deferred and is now exercisable between 30 April 2015 to 29 April 2016 inclusive, previously exercisable between 24 January 2014 and 24 January 2015; and the put exercise price has been amended to GBP1.22 per share (being the IPO offer price of GBP1.34 per share less 9%) from GBP1.07 previously (Note 17).

In April 2014 the Group renewed its subsoil licence, which expires in June 2014, for 20 years until June 2034.

On 27 March 2014 the Group signed a prepayment agreement with Glencore, which renews and replaces the existing prepayment facility with Glencore entered into in August 2013 ('Existing Facility'). The sum of prepayment that will be received from Glencore is amounting to US$30,000 thousand. The facility is for a period of one year and requires the Company to deliver a minimum of 15,000 metric tonnes per quarter of crude oil to Glencore. The US$10,000 thousand outstanding from the Existing Facility will be paid down in full as part of the new facility resulting in net proceeds of US$20,000 thousand to the Company.

The US$ significantly appreciated against RUR from 31 December 2013 until the date of approval of these consolidated financial statements, which could potentially have an impact on the financial position of the Company.

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

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

28. Supplementary information (Unaudited)

Reserve quantity information

For the purposes of evaluation of reserves as of 31 December 2013, 2012 and 2011 the Company used the oil and gas reserve information prepared by DeGolyer & MacNaughton, independent reservoir engineers, 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 reserves for the period ended 31 December 2013 and 31 December 2012, are shown in '000 barrels in the table set out below.

	2013	2012
As at 1 January	**204,588**	172,624
Revisions of previous estimates	**(12,127)**	33,618
Production	**(1,718)**	(1,654)
As at 31 December	**190,743**	204,588

Estimated net proved developed crude oil reserves as at 31 December 2011, 31 December 2012 and 31 December 2013 are shown in the table set out below.

	'000 barrels
31 December 2011	**11,556**
31 December 2012	**16,126**
31 December 2013	**12,744**

Estimated net probable crude oil reserves as at 31 December 2011, 31 December 2012 and 31 December 2013 are shown in the table set out below.

	'000 barrels
31 December 2011	**1,372,028**
31 December 2012	**1,479,619**
31 December 2013	**1,462,947**

28. Supplementary information (Unaudited) *continued*

Estimated net proved gas reserves as at 31 December 2011, 31 December 2012 and 31 December 2013 are shown in the table set out below.

	Millions of cubic feet
31 December 2011	**–**
31 December 2012	**174,166**
31 December 2013	**202,701**

Estimated net probable gas reserves as at 31 December 2011, 31 December 2012 and 31 December 2013 are shown in the table set out below.

	Millions of cubic feet
31 December 2011	**–**
31 December 2012	**746,071**
31 December 2013	**1,192,221**

Parent Company Financial Statements

Independent Auditor's Report to the Members of Ruspetro plc

Report on the parent company financial statements

Our opinion

In our opinion the parent financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 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 parent company financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2 to the parent company financial statements concerning the going concern basis of accounting. This ability is dependent whether the Company can obtain additional financing and successfully complete its investment programme resulting in increase in production. Those conditions, along with other matters explained in Note 2 to the parent company financial statements indicate the existence of 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:

- statement of financial position as at 31 December 2013;
- statement of cash flows for the year then ended;
- 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.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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 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 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 41, 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 2013. 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
22 April 2014

(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 2013 (presented in US$ thousands, except otherwise stated)

	Note	31 December 2013	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment		**1,164**	615
Investments in subsidiaries	5	**237,882**	237,882
		239,046	238,497
Current assets			
Loans issued to Ruspetro LLC		**14,800**	6,800
Trade and other receivables		**369**	306
VAT recoverable		**104**	77
Other current assets	6	**–**	24
Cash and cash equivalents	7	**5,209**	23,877
		20,482	31,084
Total assets		**259,528**	269,581
Shareholders' equity			
Share capital	8	**51,226**	51,226
Share premium	8	**220,506**	220,506
Retained loss		**(25,976)**	(22,240)
Other reserves		**(6,417)**	2,341
Total equity		**239,339**	251,833
Liabilities			
Non-current liabilities			
Other non-current liabilities	6	**–**	15,365
		–	15,365
Current liabilities			
Payables to Ruspetro LLC		**1,388**	1,788
Trade and other payables		**1,774**	595
Other current liabilities	6	**17,027**	–
		20,189	2,383
Total liabilities		**20,189**	17,748
Total equity and liabilities		**259,528**	269,581

John Conlin
Chief Executive Officer

Thomas Reed
Chief Financial Officer

Parent Company Financial Statements

Statement of Changes in Equity

for the year ended 31 December 2013 (presented in US$ thousands, except otherwise noted)

	Note	Share capital	Share premium	Retained loss	Other reserves	Total equity
Balance as at 1 January 2012		**79**	**–**	**(249)**	**–**	**(170)**
Loss for the period		–	–	(21,991)	–	(21,991)
Other comprehensive income for the period		–	–	–	–	–
Total comprehensive expense for the period		**–**	**–**	**(21,991)**	**–**	**(21,991)**
Issue of share capital		51,147	220,506	–	–	271,653
Share options of shareholders	8	–	–	–	(9,694)	(9,694)
Share-based payment compensation	8	–	–	–	12,035	12,035
Balance as at 31 December 2012		**51,226**	**220,506**	**(22,240)**	**2,341**	**251,833**

	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**

Parent Company Financial Statements

Statement of Cash Flows

for the year ended 31 December 2013 (presented in US$ thousands, except otherwise stated)

	Note	Year ended 31 December 2013	2012
Cash flows from operating activities			
Loss before income tax		**(12,609)**	(21,991)
Adjustments for:			
Depreciation, depletion and amortisation		**126**	96
Foreign exchange gain		**515**	(1,038)
Finance costs		**1,147**	1,058
Change in fair value of call option	8	**24**	3,240
Restated other operating expenses		**–**	103
Share-based compensation expense	8	**115**	12,035
Operating cash flow before working capital adjustments		**(10,682)**	(6,497)
Working capital adjustments:			
Change in trade and other receivables		**(63)**	5,901
Change in trade and other payables		**779**	(2,645)
Change in other taxes receivable/payable		**(27)**	864
Net cash flows used in operating activities		**(9,993)**	(2,377)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(675)**	(699)
Investments in Ruspetro LLC		**(8,000)**	(186,833)
Net cash used in investing activities		**(8,675)**	(187,532)
Cash flows from financing activities			
Proceeds from issue of share capital on IPO (net of expenses)		**–**	213,699
Net cash generated from financing activities		**–**	213,669
Net increase in cash and cash equivalents		**(18,668)**	23,790
Cash and cash equivalents at the beginning of the period		**23,877**	87
Cash and cash equivalents at the end of the period	8	**5,209**	23,877

Parent Company Financial Statements

Notes to the Financial Statements

for the year ended 31 December 2013 (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 2013 were approved by its Board of Directors on 22 April 2014.

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 1st Floor, Berkeley Square House, Berkeley Square, London W1J 6BD, UK.

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 2012
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 ('IFRSs') 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$12,609 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 2013, the Company had net current liabilities of US$13,766 thousand, which included cash in hand of US$5,209 thousand.

Management consider 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, management are in discussions with existing lenders of the subsidiaries with regard to the provision of additional long-term debt financing and the extension of the maturity of the existing long-term loans.

Management consider the additional financing and the maturity extension of existing debt of the subsidiaries will provide sufficient financial resources such that the subsidiaries can further invest in field development with the intention of raising production. Management further consider 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 have 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.

Agreements with the existing lenders as to additional financing and maturity extension have not been entered into as of the date of these financial statements. In the event that such additional financing and maturity extension is not obtained, the subsidiaries may be unable to realise its assets and discharge its liabilities in the normal course of business. These circumstances represent a material uncertainty that may cast significant doubt on the subsidiaries and Company's ability to continue as a going concern.

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.

Parent Company Financial Statements

Notes to the Financial Statements *continued*

for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

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's 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.

Parent Company Financial Statements

3. Summary of significant accounting policies *continued*

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 recognised 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 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 GBP exchange rates were 0.61 and 0.62 as at 31 December 2013 and 31 December 2012, respectively, and the average rates for the years ended 31 December 2013 and 2012 were 0.64 and 0.63 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's significant accounting judgements, estimates and assumptions as presented in the notes to the Group financial statements.

5. Investments in subsidiaries

	31 December	
	2013	2012
Ruspetro LLC	**206,138**	206,138
Ruspetro Holding Limited	**31,744**	31,744
Total investments in subsidiaries	**237,882**	237,882

Parent Company Financial Statements

Notes to the Financial Statements *continued*

for the year ended 31 December 2013 (all tabular amounts are in US$ thousands unless otherwise noted)

6. Options on shares of the Company

On 2 December 2011, the Company and LLC 'Sberbank Capital' entered into an option agreement which became effective on 17 January 2012, pursuant to which LLC 'Sberbank Capital' granted the Company a call option to acquire the 10,362,632 Ordinary shares held by LLC 'Sberbank Capital'. The call option may be exercised once only at any time prior to the day which is 15 months from the date of IPO, at an exercise price equal to the IPO price (GBP1.34) per share less 10%. A call option expired on 19 April 2013. Reserves, amounting to US$4,059 thousand, initially recognised in equity, were transferred to retained earnings.

In addition, pursuant to this agreement, LLC 'Sberbank Capital' may put the Ordinary shares issued back to the Company. The put option may be exercised once only at any time between the second and third anniversary of admission, which took place on 24 January 2012, at an exercise price equal to the offer price (GBP1.34) less 20%. With respect to the put option, a non-current liability of US$15,365 thousand has been recorded as at 31 December 2013.

The following table presents the changes of value of put option for the year ended 31 December 2013:

	2013	2012
As at 1 January	**15,365**	–
Initial recognition of the option	**–**	13,753
Unwinding of discount	**1,147**	1,058
Foreign exchange loss related to put option	**515**	554
As at 31 December	**17,027**	15,365

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 recognised in equity, were transferred to retained earnings.

7. Cash and cash equivalents

	31 December	
	2013	2012
Cash in bank denominated in GBP	**4,709**	10,796
Cash in bank denominated in US$	**500**	13,081
Total cash and cash equivalents	**5,209**	23,877

Cash balances generally bear no interest. The Company holds its cash with Bank of America (Moody's rating Baa2/P2 (Stable) at 31 December 2013).

8. Shareholders' equity

Share capital

	31 December	
	2013	2012
Ordinary share capital	**51,226**	51,226

Issued and paid up share capital as at 31 December 2013 and 2012 consisted of 333,381,480 Ordinary shares with a nominal value of GBP 0.1 each.

Shareholder Information

Annual General Meeting

The Company's Annual General Meeting will be held at 11 am on Monday 2 June 2014 at the offices of White & Case LLP, 5 Old Broad Street, London EC2N 1DW, United Kingdom.

Company Website

The Company's Annual Report and results announcements are available on our website, www.ruspetro.com.

The website can also be used to access the latest information about the Company, press announcements and future events as they are released, as well as who to contact for further information.

Registrars

For information about your shareholdings in the Company and to notify any changes in your personal details, you should contact:

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