Integra Group

Consolidated Financial Statements
as of and for the Year Ended
31 December 2008

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Integra Group:

We have audited the accompanying financial statements of Integra Group and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and consolidated statements of income, of cash flows and of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that, at 30 June 2009, the Group expects to be in breach of certain financial covenants under a loan agreement. This expected violation of covenants, along with other matters set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

ZAO PricewaterhouseCoopers Audit

30 April 2009
Moscow, Russian Federation

Contents

Notes to the Financial Statements

(expressed in thousands of US dollars, except as indicated)

	Note	Year ended 31 December: 2008	2007
Sales	6	1,445,891	1,177,168
Cost of sales	6,7	(1,225,819)	(949,801)
Gross profit		**220,072**	**227,367**
Selling, general and administrative expenses	8	(315,696)	(200,718)
Goodwill impairment	12	(99,109)	-
Profit (loss) from disposal of property, plant and equipment		1,676	(4,222)
Operating (loss) profit		**(193,057)**	**22,427**
Interest income		4,905	9,679
Interest expense	18	(49,435)	(59,156)
Exchange (loss) gain		(20,378)	2,317
Share of results of associates	14	(856)	1,953
Loss before taxation		**(258,821)**	**(22,780)**
Current income tax expense		(51,975)	(32,558)
Deferred income tax benefit	17	38,879	4,508
Income tax expense	17	**(13,096)**	**(28,050)**
Loss for the period		**(271,917)**	**(50,830)**
Loss attributable to:			
Shareholders of Integra Group		**(263,439)**	**(45,750)**
Minority interest		(8,478)	(5,080)
Loss per share, basic and diluted (in US dollars per share)		(41.8)	(8.17)
Weighted average shares outstanding, basic and diluted		6,307,159	5,596,984

Approved and authorized for issue 30 April 2009

F.V. Lubashevsky
Chief Executive Officer

D. V. Avdeev
Chief Financial Officer

Integra Group
Consolidated Balance Sheets
(expressed in thousands of US dollars, except as indicated)

		31 December:	
	Note	**2008**	**2007**
Assets			
Cash and cash equivalents		62,319	101,998
Trade and other receivables	10	357,359	405,221
Inventories	11	146,501	176,794
Restricted cash	9	74	7,962
Total current assets		**566,253**	**691,975**
Goodwill and intangible assets	12	166,153	380,247
Property, plant and equipment	13	511,099	561,649
Investments in associates	14	16,446	19,920
Deferred tax assets	17	1,920	2,916
Loans provided and other assets	15	14,149	56,906
Total non-current assets		**709,767**	**1,021,638**
Total assets		**1,276,020**	**1,713,613**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	16	279,105	274,110
Income taxes payable		19,443	20,434
Other taxes payable	17	48,770	29,988
Short-term borrowings	18	394,502	203,011
Total current liabilities		**741,820**	**527,543**
Long-term borrowings	18	3,053	210,215
Deferred tax liability	17	37,871	83,448
Other non-current liabilities		812	63
Total non-current liabilities		**41,736**	**293,726**
Total liabilities		**783,556**	**821,269**
Shareholders' equity			
Share capital	19	885,664	831,223
Cumulative translation reserve		(77,307)	57,880
Accumulated deficit		(357,003)	(75,521)
Total equity attributable to Integra Group shareholders		**451,354**	**813,582**
Minority interest		41,110	78,762
Total equity		**492,464**	**892,344**
Total liabilities and equity		**1,276,020**	**1,713,613**

(expressed in thousands of US dollars)

	Notes	Year ended 31 December: 2008	2007
Cash flows from operating activities			
Loss before taxation		(258,821)	(22,780)
Adjustments for:			
Goodwill impairment	12	99,109	-
Depreciation and amortization	7,8	225,421	153,599
(Profit) loss on disposal of property, plant and equipment		(1,676)	4,222
Interest expense, net	18	44,530	49,477
Share-based compensation	20,22	30,476	35,281
Share of results of associates	14	856	(1,953)
Receivables and inventories impairment and other write-offs	8	52,047	(5,370)
Exchange loss (gain)		20,378	(2,317)
Other		1,347	(2,018)
Operating cash flows before working capital changes		**213,667**	**208,141**
Change in trade and other receivables		(100,921)	(141,737)
Change in inventories		(1,697)	(61,910)
Change in accounts payable and accrued liabilities		108,253	53,830
Change in other taxes payable		22,845	2,237
Operating cash flows before interest and income taxes		**242,147**	**60,561**
Income tax paid		(56,810)	(36,455)
Interest paid		(50,520)	(33,824)
Net cash provided by (used in) operating activities		**134,817**	**(9,718)**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(157,778)	(181,451)
Proceeds from the disposal of property, plant and equipment		13,146	5,275
Settlements for purchases of interests in companies, net of cash acquired		(40,949)	(152,439)
Loans provided		(11,862)	(15,214)
Proceeds from repayment of loans		11,348	6,708
Interest received		2,091	5,983
Other		(2,908)	(3,210)
Net cash used in investing activities		**(186,912)**	**(334,348)**
Cash flows from financing activities:			
Proceeds from issuance of shares, net of transaction costs	19	-	558,518
Proceeds from exercise of warrants connected with Senior Notes and Facility Agreement	19	-	17,167
Proceeds from exercise of Class B common shares and share options	19	2,235	4,385
Proceeds from borrowings		248,780	208,018
Repayment of borrowings		(224,123)	(440,833)
Reimbursement of IPO costs from a depository bank	19	6,238	-
Net cash provided by financing activities		**33,130**	**347,255**
Net increase in cash and cash equivalents		**(18,965)**	**3,189**
Cash and cash equivalents at the beginning of the year		101,998	87,553
Effect of exchange differences on cash balances		(20,714)	11,256
Cash and cash equivalents at the end of the year		**62,319**	**101,998**

The accompanying notes are an integral part of these consolidated financial statements

(expressed in thousands of US dollars, except as indicated)

	Note	Share capital	Cumulative translation reserve	Accumulated deficit	Equity attributable to Integra Group shareholders	Minority interest	Total equity
Balance at 31 December 2006		**215,872**	**9,115**	**(29,850)**	**195,137**	**81,677**	**276,814**
Translation adjustment		-	48,765	-	48,765	5,354	54,119
Loss for the year		-	-	(45,750)	(45,750)	(5,080)	(50,830)
Total for the year			**48,765**	**(45,750)**	**3,015**	**274**	**3,289**
Initial public offering	19	558,518	-	-	558,518	-	558,518
Exercise of warrants connected with Senior Notes	19	1,417	-	-	1,417	-	1,417
Exercise of warrants connected with Facility Agreement	19	15,750	-	-	15,750	-	15,750
Exercise of Class B common shares	19	2,400	-	-	2,400	-	2,400
Exercise of share options	19	1,985	-	-	1,985	-	1,985
Share-based compensation	19	35,281	-	-	35,281	-	35,281
Purchase of minority interest in subsidiaries	5	-	-	79	79	(3,189)	(3,110)
Total attributable to Integra Group's shareholders		**615,351**	**-**	**79**	**615,430**	**(3,189)**	**612,241**
Balance at 31 December 2007		**831,223**	**57,880**	**(75,521)**	**813,582**	**78,762**	**892,344**
Translation adjustment		-	(135,187)	-	(135,187)	(8,464)	(143,651)
Loss for the year		-	-	(263,439)	(263,439)	(8,478)	(271,917)
Total for the year			**(135,187)**	**(263,439)**	**(398,626)**	**(16,942)**	**(415,568)**
Exercise of share options	19	2,235	-	-	2,235	-	2,235
Share-based compensation from issuance of Class A common shares to management	19, 20	882	-	-	882	-	882
Share-based compensation from the stock option plan	19	18,086	-	-	18,086	-	18,086
Issuance of shares upon acquisition of NKRS & STS	5, 19	27,000	-	-	27,000	-	27,000
Reimbursement of IPO costs	19	6,238	-	-	6,238	-	6,238
Purchase of minority interest in subsidiaries	5	-	-	(18,043)	(18,043)	(20,710)	(38,753)
Total attributable to Integra Group's shareholders		**54,441**	**-**	**(18,043)**	**36,398**	**(20,710)**	**15,688**
Balance at 31 December 2008		**885,664**	**(77,307)**	**(357,003)**	**451,354**	**41,110**	**492,464**

	Year ended 31 December:	
Supplemental information for minority interests:	**2008**	**2007**
Share of profit attributable to holders of equity instruments with redemption rights classified as a liability	-	14
Share of loss attributable to holders of instruments classified as equity	(8,478)	(5,094)
Loss attributable to minority interest	**(8,478)**	**(5,080)**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

1 General Information

Integra Group ("Integra"), together with its consolidated subsidiaries (collectively the "Group"), engage in the manufacture of drilling tools and equipment and in the provision of drilling, workover, formation evaluation and other oilfield services to the petroleum industry in the Russian Federation and the Commonwealth of Independent States ("CIS"). The Group also performs certain procurement, research and development and management activities in the United States of America and some of the Group's holdings are registered in Cyprus and Netherlands.

Integra was incorporated in the Cayman Islands on 15 March 2004. Since inception, management of the Group have completed numerous acquisitions as part of its strategy to become a leader in the oilfield services and oil and gas equipment manufacturing business in the Russian Federation and the CIS. The Group completed an Initial Public Offering ("IPO" or "Offering") in February 2007 (note 19).

Following are the principal operating subsidiaries of the Group at 31 December 2008 and 2007. Certain subsidiaries that provide procurement, research and development and administrative functions are not presented. Acquisitions during the year are discussed in note 5. Segment information is provided in note 6.

			Effective ownership at 31 December:	
Full description	**Short description**	**Country of incorporation**	**2008**	**2007**
Drilling, workover, integrated project management ("IPM") and technology services				
OOO Integra-Drilling	Integra Drilling	Russian Federation	100.0%	100.0%
OOO Smith Production Technology	SPT	Russian Federation	100.0%	100.0%
ZAO Obnefteremont	ONR	Russian Federation	100.0%	100.0%
ZAO Nizhnevartovsk KRS	NKRS	Russian Federation	100.0%	-
OOO VNIIBT Drilling Instruments	VNIIBT-BI	Russian Federation	100.0%	100.0%
OOO Smith Drilling Services	SDS	Russian Federation	100.0%	100.0%
OOO Smith Siberian Services	SSS	Russian Federation	100.0%	100.0%
OOO Integra-Services	Integra-Services	Russian Federation	100.0%	100.0%
Formation Evaluation				
OAO Yamalgeophysika	YGF	Russian Federation	69.8%	52.9%
OAO Tyumenneftegeophysika	TNGF	Russian Federation	75.1%	75.1%
OAO Integra-Geophyzika	Integra-Geophysics	Russian Federation	100.0%	-
JSC Azimuth Energy Services	AES	Kazakhstan	95.2%	95.2%
JSC Geostan	Geostan	Kazakhstan	99.5%	99.5%
Manufacturing				
ZAO Uralmash Drilling Equipment	URBO	Russian Federation	100.0%	100.0%
OOO Stromneftemash	STM	Russian Federation	100.0%	100.0%

In April 2008, the Group established Integra-Geophysics in order to consolidate the formation evaluation companies within one legal entity. Integra-Geophysics is included in the Group's formation evaluation segment.

Principal equity associates of the Group as of 31 December 2008 and 2007 were as follows:

			Effective ownership at 31 December:	
Full description	**Short-description**	**Nature of activities**	**2008**	**2007**
OAO Nizhnevartovskgeophysika	NNGF	Formation evaluation services	35.7%	34.6%
OAO Stavropolneftegeophysika	SNGF	Formation evaluation services	25.4%	25.4%
ZAO Neftegeotechnology	NGT-G	Formation evaluation services	65.2%	62.4%

The Group's interest in NGT-G is comprised of a 49.0 percent direct investment and a 16.2 percent indirect investment via the Group's non-controlling interest in NNGF, which is not controlled by the Group. Due to the fact that NGT-G is a subsidiary of NNGF, NGT-G is accounted for as an equity associate. The Group's equity associates are discussed in note 14.

2 Summary of Significant Accounting Policies

2.1 Going concern and basis of preparation. These consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards on a "going concern" basis, which presumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. The consolidated financial statements are presented in US dollars.

The Group has made a net loss in each of its three years 2006-2008. The precipitous decline in energy prices, and liquidity constraints, in the second half of 2008 combined with the depreciation of the Russian rouble and ongoing weakness in business performance have resulted in the Group recording a write-down of goodwill and intangible assets (note 12) and higher provisions for accounts receivable and inventory.

At 31 December 2008, the Group's current liabilities exceeded its current assets by $175.6 million. The current liabilities at 31 December 2008, included $394.5 million of debt payable in 2009. Since 31 December 2008, and prior to the release of these financial statements, the Group paid $264.8 million of this current debt largely by means of a US Dollar denominated long-term facility agreement for a total amount of $250.0 million with European Bank for Reconstruction and Development (EBRD) (note 24). The EBRD loan agreement was entered into on 30 December 2008. Repayments under this loan are scheduled to begin in March 2010 and continue through March 2014.

In 2009, the Group expects to repay $102.1 million of its Russian rouble-denominated bonds (bonds) and $21.1 million of the Sberbank short-term loan primarily from its operating cash flows.

Keeping in mind the ongoing challenges of improving profitability, further compounded by the current macro economic environment, the Group has implemented cost optimization measures in late 2008 so that it could be flexible in controlling its budgets and costs as a result of changes in sales volumes. These measures included reduction in production and selling, general and administrative expenses such as employee costs, transport and rent expenses, consulting fees and realizing benefits from lower prices for materials and supplies. In the first quarter 2009, the management took further measures and reduced the fixed portion of executives' salaries by 30 to 50 percent. In addition, the Group aims to minimize its capital expenditure and will focus on utilization of its existing production capacity.

The Group further continues strengthening working capital management through tight control of outstanding accounts receivable and payment schedules agreed with its customers and optimization of inventory levels. That resulted in the Group's current assets exceeding its current liabilities net of total short-term debt repaid during the first quarter 2009.

The order backlog for 2009 as of the date of these financials was only marginally lower than the level of contracts signed and tenders won at the end of April 2008 in rouble terms, which highlights the resilience of the Group's business in revenues in a very difficult economic environment.

Primarily due to provisions discussed earlier, the Group is not in compliance with one of its covenants (Total Indebtedness to Tangible Net Worth) under the EBRD facility at 31 December 2008. This has no impact on the balance sheet classification of debt at 31 December 2008 as the EBRD facility was only drawn down in February 2009 and most of the Group's debt extant at 31 December 2008, was already classified as current.

Based on current projections, the Group expects to also be in breach of other covenants under the EBRD agreement, including measures of trailing 12 month profitability at 30 June 2009.

On 21 April 2009, the EBRD amended the Total Indebtedness to Tangible Net Worth covenant through the end of 2009 resulting the Group being in compliance at 31 December 2008. In addition, the Group has notified the EBRD of the likelihood of non-compliance with other covenants at 30 June 2009, and expects to receive a waiver for such covenant violations at 30 June 2009, should they occur.

2 Summary of Significant Accounting Policies (continued)

2.1 Going concern and basis of preparation (continued). The management is confident that its cost optimization program and its emphasis on working capital management will ensure that the Group will continue as a going concern. However, if there are violations of covenants at 31 December 2009 (or beyond) or the Group fails to deposit sufficient cash to the escrow account for subsequent repayment of the bonds and/or the EBRD (despite the notifications already provided) does not provide a waiver for the forecast covenant violations at 30 June 2009; payment under the EBRD loan could be accelerated. Should that occur, in light of current market conditions, the Group might not be able to take appropriate mitigating actions.

2.2 Statement of compliance. These consolidated financial statements of the Group and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS").

2.3 Basis of consolidation. The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December each year. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

2.4 Functional and presentation currency. Functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The US dollar is the presentation currency for the Group's consolidated operations. Management have used the US dollar to manage most financial risks and exposures, agree terms for acquisitions and to measure performance of the Group. Management has concluded that the functional currency of Integra Group, the parent company, is the US dollar. The functional currency of most other Group entities is the Russian rouble.

In individual Group entities, transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the consolidated statements of income. Non-monetary assets and liabilities that are measured at historical cost and denominated in a foreign currency are translated into the functional currency using the rates of exchange as at the dates of the initial transactions.

In the consolidated financial statements, the assets and liabilities of subsidiaries whose functional currency is other than the US dollar are translated into US dollars at the rate of exchange ruling at the balance sheet date. The results and cash flows of non-US dollar functional currency subsidiaries are translated into US dollars using the exchange rates at the respective transaction dates or using a period average exchange rate as an approximation. Exchange adjustments arising when the opening net assets and results for the year realized by non-US dollar functional currency subsidiaries are translated into US dollars are included within cumulative translation reserve in the consolidated statements of changes in shareholders' equity.

The US dollar to Russian rouble exchange rate was 29.38 and 24.55 as of 31 December 2008 and 2007, respectively.

2.5 Minority interests. Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statements of income and within equity in the consolidated balance sheet. Acquisitions of minority interests are accounted for using the economic entity method, whereby, the difference between the consideration and the book value of the net assets acquired is recognized in the consolidated statements of changes in shareholders' equity.

(expressed in US dollars (tabular amounts in thousands), except as indicated)

2 Summary of Significant Accounting Policies (continued)

2.5 Minority interests (continued). Certain of the Group's Russian subsidiaries are limited liability companies ("OOO") and non-controlling equity participants ("minorities") in such OOO's have a right to request redemption of its interest in the respective OOO in cash. The OOO's obligation to redeem those minority interests comprises a financial liability equal to the present value of the redemption amount and is conditional upon the minority shareholder exercising its rights. Such redemption amount is variable and depends on the respective company's statutory net assets. The Group determines the amount of potential liability based upon the net carrying value of the minorities' interest in the respective OOOs' net assets at each balance sheet date under both IFRS and Russian Accounting Standards. The greater amount calculated using the two methods is recorded as a liability in the consolidated balance sheets as net assets attributable to minority interests. Minority interests in other Group subsidiaries are classified within total equity in the consolidated balance sheets.

2.6 Change in the Group balances at 31 December 2007. In 2008, the Group completed the accounting for the acquisition of Obneftremont ("ONR") and Geotechsystem ("GTS"). As a result, the fair values of ONR's net assets decreased by $0.5 million and the purchase consideration in GTS decreased by $1.5 million with equivalent changes in the goodwill of the acquired companies. The opening balances were adjusted to reflect the effects of the changes in the purchase accounting of ONR and GTS (note 5). As a result of the changes in the fair values of ONR's and GTS's assets and liabilities, the Group's balance sheet as of 31 December 2007 was revised as follows:

	Integra Group 31 December 2007 As previously reported	Fair value adjustments	Integra Group 31 December 2007 Revised
Assets			
Cash and cash equivalents	101,998	-	101,998
Trade and other receivables	405,221	-	405,221
Inventories	176,794	-	176,794
Restricted cash	7,962	-	7,962
Goodwill and other intangible assets	381,245	(998)	380,247
Property, plant and equipment	561,649	-	561,649
Investments in associates	19,920	-	19,920
Deferred tax assets	2,916	-	2,916
Loans provided and other assets	56,906	-	56,906
Total assets	**1,714,611**	**(998)**	**1,713,613**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	275,137	(1,027)	274,110
Income taxes payable	20,434	-	20,434
Other taxes payable	29,871	117	29,988
Current financial liabilities	203,011	-	203,011
Non-current financial liabilities	210,215	-	210,215
Deferred tax liability	83,599	(151)	83,448
Other non-current liabilities	-	63	63
Total equity attributable to Integra Group shareholders	822,255	-	822,255
Minority interest	70,089	-	70,089
Total liabilities and equity	**1,714,611**	**(998)**	**1,713,613**

2 Summary of Significant Accounting Policies (continued)

2.7 Business combinations and goodwill. Business combinations are accounted for using the purchase method. The cost of the business combination is measured as the cash paid or payable and the fair value of other assets given in consideration, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the identified net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of income.

Where the Group does not purchase 100 percent ownership in an acquired company, the interest of non-controlling shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

Goodwill on acquisitions of subsidiaries is presented as a component of goodwill in the consolidated balance sheets, while goodwill on acquisitions of associates is included in the cost of investments in associates.

Following initial recognition, goodwill is measured at cost less accumulated impairment loss, if any. Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from synergies of the business combination. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate potential impairment. Impairment is determined by assessing the recoverable amount of the cash-generating unit, or groups of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized in the consolidated statements of income.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

2.8 Investments in associates. An associate is an entity over which the Group has significant influence but not control and which is neither a subsidiary nor a joint venture.

Investments in associates are accounted for using the equity method of accounting under which the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate, net of any accumulated impairment loss, is included in the carrying amount of the investment. The consolidated statements of income reflect the Group's share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statements of changes in shareholders' equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Accounting policies of associates have been changed, where necessary, to ensure consistency with those of the Group.

2.9 Revenue recognition. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, or receivable, net of discounts, value-added tax ("VAT") or other sales taxes or duty.

2 Summary of Significant Accounting Policies (continued)

2.9.1 Engineering and service contracts. The Group applies the percentage of completion method for revenue recognition of (a) contracts to manufacture drilling rigs and (b) certain contracts to provide drilling and formation evaluation services. Where the outcome of an engineering and service contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of an engineering and service contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Group presents as an asset the gross amount due from customers for engineering and service contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers are included within "trade and other receivables." The Group presents as a liability the gross amount due to customers for engineering and service contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

2.9.2 Sale of products. Revenue associated with the sale of oil field products is recognized when the significant risks of ownership have passed to the buyer. This usually occurs upon delivery of the goods to the buyer.

2.10 Employee benefits. The Group provides long-term employee benefits to employees before, on and after retirement in accordance with collective agreements with a number of the Group operating entities. The collective agreements provide for defined amounts of one-time retirement grants for employees. The Group recognizes its liability under the collective agreements as the present value of the defined benefit obligation arising from the current service cost, interest expense, actuarial gains and losses, past service cost and other effects. The actuarial gains and losses and all past service cost are recognized in the consolidated statements of income as incurred.

The Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Additionally, the Group contributes to a non-statutory pension scheme on behalf of its employees. The pension scheme is a defined contribution plan under which the Group pays fixed contributions to a pension fund. The contractual contributions paid to the plan are expensed when incurred.

2.11 Share-based compensation. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense over the vesting period. The total amount to be expensed is determined by reference to the fair value of the instruments granted, measured at grant date. Fair value is determined by using an appropriate valuation model. Expense is only recognized for those instruments for which management expects that the service conditions and any other non-market conditions will be met. The proceeds received, net of any directly attributable transaction costs, are credited to share capital when the options are exercised. The share-based compensation includes the grant date fair value of services received under a share option plan, share issues and discharge of prepaid services in exchange for modifying original vesting provisions of share option grant.

2.12 Cash and cash equivalents and restricted cash. Cash and cash equivalents include cash on hand and deposits held on call with banks with maturity less than three months. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

2 Summary of Significant Accounting Policies (continued)

2.13 Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, if any. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Trade receivables accrued from sales under the engineering and service contracts are recognized in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.14 Inventories. Inventories include materials, work in progress and finished goods. Cost of materials is determined using the weighted average method. The materials are accounted for at their cost of purchase, which comprises the purchase price, import duties and other taxes, other than those subsequently recoverable from the tax authorities, and transport, handling and other directly attributable costs. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The cost of work in progress and finished goods includes the cost of materials, direct labour, other direct costs and related production overheads based on normal operating capacity. The cost of inventories excludes borrowing costs. Inventories are stated at lower of cost or net realizable value which is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The excess of the carrying amount over the net realizable value of inventories and the cost of the obsolete stock are recognized as the inventories impairment reserve which is expensed in the Group's consolidated statements of income.

2.15 Intangible assets. Intangible assets are stated at the amount initially recognized, less accumulated amortization. Intangible assets include long-term customer/supplier relationships, order backlog, trademarks, patents and computer software.

Intangible assets acquired separately from a business combination are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the intangible asset. An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognized separately from goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives. The useful lives of the Group's intangible assets are as follows:

Long-term customer/supplier relationships	4-8 years
Trademarks	4-17 years
Order backlog	1-2 years

At each financial year-end the Group reviews amortization periods for the intangible assets with finite lives. If the expected useful life of an asset is different from the previous estimates, the amortization period is changed accordingly.

2.16 Impairment of tangible and intangible assets including goodwill. At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

2 Summary of Significant Accounting Policies (continued)

2.16 Impairment of tangible and intangible assets including goodwill (continued). Recoverable amount is the higher of fair value less costs to sell and the present value of future cash flows expected to be derived ("value in use"). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.17 Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any. The initial cost of the asset includes the purchase price or expenditures incurred that are directly attributable to the acquisition of the assets. The purchase price is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Major replacements of property, plant and equipment are capitalized. All other repair and maintenance costs are charged to the statement of income during the financial period in which they are incurred.

Depreciation on plant and equipment is calculated using the straight-line method over the estimated useful lives, as follows:

Rigs	10-25 years
Buildings	25-40 years
Plant and equipment	4-9 years
Motor vehicles	2-5 years

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on disposal of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item and is included in the consolidated statements of income.

2.18 Loans and borrowings. All loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Interest accrued is expensed as incurred. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in the consolidated statements of income.

An exchange between an existing borrower and lender of debt instruments with substantially different terms or a substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income.

2 Summary of Significant Accounting Policies (continued)

2.19 Deferred income taxes. Deferred income tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related temporary differences reverse.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.20 Value-added tax. Output value added tax ("VAT") related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the consolidated balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.21 Provisions. Provisions are recognised when (a) the Group has a present obligation as a result of past events; (b) it is probable that an outflow of economic resources will be required to settle the obligation; and (c) the amount of the obligation can be reliably estimated. Provisions are not recognised for future operating losses. Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. If the effect of the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects, where appropriate, current market assessments of the time value of money and the risks specific to the obligation. Where discounting is used, the increase in the provision due to passage of time is recognised as interest expense.

2.22 Share capital*.* Ordinary shares and convertible preferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are recognized as a deduction, net of tax, from the proceeds. The difference between the nominal value of shares and the issue price is recorded as share premium. If the Group purchases its own share capital, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from consolidated statements of changes in shareholders' equity until the shares are cancelled or reissued. If such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in consolidated statements of changes in shareholders' equity.

2.23 Financial assets and financial liabilities. The Group's financial assets include cash, equity instruments of other entities, contractual rights to receive cash or another financial asset from other entities, or to exchange financial assets or financial liabilities with other entities under conditions that are potentially favorable to the Group. The Group's financial liabilities include contractual obligations to deliver cash or other financial assets to other entities, or to exchange financial assets or financial liabilities with other entities under conditions that are potentially unfavorable to the Group.

The Group recognises its financial assets and financial liabilities when it becomes a party to contractual provisions of the instrument. The Group derecognises the financial assets when the underlying contractual rights expire or it ceases to retain substantially all the risks and rewards of ownership of the financial assets. The Group derecognises its financial liabilities when the underlying obligations are discharged, cancelled or expired.

2 Summary of Significant Accounting Policies (continued)

2.23 Financial assets and financial liabilities (continued). The Group initially recognises its financial assets and financial liabilities at fair values, including transaction costs that are directly attributable to their acquisition or issuance. After initial recognition, the Group measures both its financial assets and financial liabilities at amortised cost using the effective interest method. A gain or loss from the amortisation process and from derecognition or impairment of a financial asset is recognised in the consolidated statements of income. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount is reduced or restored through the use of the allowance account. The net amount of the change in the allowance account is recognised in the consolidated statements of income. The Group does not maintain any financial assets or liabilities which are measured at fair value nor any financial assets classified as 'held-to-maturity investments' or 'available-for-sale'.

2.24 Reclassifications. Certain items related to the Group's 2007 consolidated financial statements have been reclassified to conform with presentation in the 2008 consolidated financial statements.

2.25 New IFRS effective in 2008.

- **IFRIC 14,** *IAS 19 - The Limit on a Defined Benefit Asset*, addresses minimum pension funding requirements and their interaction with defined benefit assets. This interpretation does not have any impact on the Group's consolidated financial statements.
- **IFRIC 11,** *IFRS 2 – Group and Treasury Share Transactions,* provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's consolidated financial statements.
- **IFRIC 12**, *Service Concessions Arrangements* (effective for annual periods beginning on or after 1 January 2008).

2.26 New IFRS that become effective in 2009 and not early adopted. The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the Group.

(a) New IFRS effective 1 January 2009:

- **IFRS 7** (Amendment)**,** *Financial Instruments: Disclosures* (effective for annual periods beginning from 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.
- **IFRS 2** (Amendment), *Share-based Payment*, effective for annual periods beginning from 1 January 2009. The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. This amendment is not expected to have any impact on the Group's consolidated financial statements.
- **IFRS 8,** *Operating Segments*, replaces IAS 14 and requires a management approach under which segment information is presented on the same basis as the one used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The management does not expect this standard to have any impact on the Group's consolidated financial statements.

2 Summary of Significant Accounting Policies (continued)

- **IAS 1** (Revised), *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). All non-owner changes in equity will be required to be shown separately from owner changes in equity in a performance statement. Additionally, on restatement or reclassification of comparative information, entities will be required to present restated consolidated balance sheets as at the beginning comparative period in addition to the balance sheets at the end of the current period and comparative period. The Group does not expect the standard to have an impact on the recognition or measurement of specific transactions and balances.
- **IAS 19** (Amendment), *Employee Benefits* (effective from 1 January 2009). The amendment outlines proper treatment of plan changes, return on plan assets and short term and long term employee benefits. The Group does not expect this amendment to impact its consolidated financial statements when this amendment is adopted.
- **IAS 23** (Amendment), *Borrowing Costs,* eliminates the option of recognizing the borrowing costs immediately as an expense to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset, that takes a substantial period of time to get ready for use or sale, as part of the cost of the asset. The Group will apply IAS 23 (Amended) from 1 January 2009.
- ***Improvements to International Financial Reporting Standards*** (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.
- **IAS 1** (Amendment), *Presentation of Financial Statements,* **IAS 32** (Amendment), *Financial Instruments: Presentation* and **IAS 39** (Amendment), *Financial Instruments: Recognition and measurement* (effective from 1 January 2009). The amendments clarify recognition financial assets and liabilities classified as held for trading, classification of puttable financial instruments imposing an obligation to deliver to another party a pro-rata share of the net assets of an entity only on liquidation as equity and outlining changes to the treatment of hedging instruments and financial assets or liabilities that are held for trading. The Group does not expect these amendments to impact its consolidated financial statements when this amendment is adopted.
- **IAS 31** (Amendment), *Interests in Joint Ventures*' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The Group will apply this amendment prospectively to all joint ventures from 1 January 2009.

(b) New IFRS effective 1 July 2009:

- **IFRS 3** (Revised), *Business Combinations* (effective from 1 July 2009). The revised standard provides new approaches to fair valuation of consideration transferred and measurement of non-controlling interest.
- **IAS 27** (Amendment), *Consolidated and Separate Financial Statements* (effective from 1 July 2009). The revised standard describes the accounting treatment of purchases of non-controlling interest and when control over a subsidiary is lost.

2 Summary of Significant Accounting Policies (continued)

(c) New or revised standards and interpretations were reviewed and deemed not to be relevant to the Group:

- ***IFRIC 9 and IAS 39*** (Amendments), *Embedded Derivatives* (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

- **IFRIC 13**, *Customer Loyalty Programs* (effective for annual periods beginning on or after 1 July 2008).
- **IFRIC 15**, *Arrangements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009)
- **IFRIC 16**, *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008).
- **IFRIC 17**, *Distribution of Non-Cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009).
- **IFRS 1**, *First-time Adoption of International Financial Reporting Standards* (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).
- **IFRIC 18**, *Transfers of Assets from Customers* (effective for annual periods beginning on or after 1 July 2009).

The Group will apply the new relevant IFRS effective 1 July 2009 prospectively from 1 January 2010.

3 Critical Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires that the Group management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reporting amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates are discussed below.

3.1 Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The Group estimates the recoverable amount of each cash-generating unit to which goodwill has been allocated by determining value in use of the cash-generating unit. These calculations are highly dependent on estimates of the economic and financial performance of the cash-generating unit and are sensitive to changes in the Russian economic and regulatory environments, including changes in inflation, interest and exchange rates and taxation. As discussed in note 12, during 2008 the Group recorded an impairment charge related to goodwill for its two cash generating units in the amount of $99.1 million. The values in use of the Group's cash generating units are highly dependent on operating profit margins so that if these margins were to deteriorate in future, further impairment of goodwill and other assets may be required.

3.2 Review of amortization periods of intangible assets with finite useful lives. At each financial year-end, the Group reviews amortization periods for its identified intangible assets with finite lives. The remaining useful lives of these intangible assets have been assessed based on the prior experiences and expected changes in the expected future economic benefits attributable to the intangible assets. In assessing the useful lives of each of the Group's long-term customers and suppliers relationships, the Group considers factual changes in the relationships such as status of existing contracts, availability of new contracts, changes in the local market share and strengthening and increase in activities of competitors. As a result of the year-end 2008 assessment, the Group recorded an additional amortization of its identified intangible assets in the amount of $53.7 million (note 12).

3.3 Assessment of the percentage of completion on engineering and service contracts. Certain of the Group's revenue are recognized under the percentage of completion method. The estimation of the extent of revenue to be recognized under the percentage of completion method is a matter of management judgment based upon expectations of future costs to be incurred to complete the respective contracts. Differences between such estimate and actual results may result in losses in future periods.

(expressed in US dollars (tabular amounts in thousands), except as indicated)

3 Critical Estimates and Judgments (continued)

3.4 Useful lives of property, plant and equipment. Property, plant and equipment are stated net of accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, anticipated technical obsolescence, residual value, and the environment in which the asset is operated.

3.5 Deferred income tax asset recognition. Deferred income tax assets represent income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded in the Group's consolidated balance sheets to the extent that realisation of the related tax benefits is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimates based on recent years' taxable profits and expectations of future taxable income.

3.6 Estimation of share-based compensation. The Group applies the Black-Scholes option valuation model to determine the fair value of traded options that have no vesting restrictions and are fully transferable. This option valuation model requires the input of highly subjective assumptions including the expected share price volatility. Changes in the subjective input assumptions can affect the calculated fair value.

3.7 Fair values of acquired assets and liabilities. During 2007 and 2008, the Group completed several acquisitions and IFRS 3 requires that, at the date of acquisition, all assets and liabilities, including intangible assets, of an acquired entity be recorded at their respective fair values. The estimation of fair values requires significant management judgment. To assess fair values of monetary assets and liabilities, management uses all information available to determine whether an asset is recoverable or whether it is probable that an event will result in outflows of resources from the Group, including assessment of such factors as the current overall economic conditions, specific customer, counterparty or industry conditions and the current overall legal environment. Changes in any of these conditions may result in adjustments to fair values of monetary assets and liabilities recorded by the Group. Management also engages independent experts to advise as to the fair values of acquired property, plant and equipment and intangible assets. Changes in any of the estimates subsequent to the finalization of acquisition accounting may result in losses in future periods.

The Group determines the fair values of identifiable assets, liabilities and contingent liabilities for acquired entities provisionally and recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date. Upon the completion of the initial accounting, the comparative information presented for the periods before the initial accounting was completed are presented as if the initial accounting had been completed from the acquisition date.

4 Financial Risk Management

At 31 December 2008 and 2007, the Group financial assets and financial liabilities were as follows:

		31 December:	
	Notes	**2008**	**2007**
Financial assets:			
Cash and cash equivalents		62,319	101,998
Restricted cash	9	74	7,962
Financial receivables	10	282,040	266,925
Loans provided and other assets	15	14,149	56,906
Total financial assets		**358,582**	**433,791**
Financial liabilities:			
Financial payables and accrued liabilities	16	(135,376)	(147,090)
Current financial liabilities – borrowings	18	(394,502)	(203,011)
Non-current financial liabilities – borrowings	18	(3,053)	(210,215)
Total financial liabilities		**(532,931)**	**(560,316)**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

4 Financial Risk Management (continued)

At 31 December 2008, the carrying values of the financial instruments, except for the bonds (note 18), approximated their fair values. At 31 December 2007, the carrying values of all financial instruments approximated their fair values.

At 31 December 2008, the bonds carrying and fair values were as follows:

	Carrying value	Fair value
RR 2.0 billion bonds issued in March 2006	68,073	51,252
RR 3.0 billion bonds issued in December 2006	102,109	79,543
Unamortized borrowing costs	(877)	-
Total	**169,305**	**130,795**

4.1 Financial risk factors. The Group's activities expose it to a variety of financial risks including credit, interest rate, currency and market risks which are discussed in detail below.

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to pay amounts due or fail to perform causing financial loss to the Group. The Group's credit risk principally arises from cash and cash equivalents, and from credit exposures of its customers relating to outstanding receivables and loans provided to third parties. The Group has not used any financial risk management instruments, in this or prior periods, to hedge against this exposure.

The Group maintains accounts only with high quality banks and financial institutions and believes that it therefore does not have a material credit risk in relation to its cash or cash equivalent financial instruments.

The Group trades with two distinct groups of customers: (i) large independent and Russian state-owned oil and gas exploration and production entities and (ii) small to medium-sized oil and gas producers. In 2008, due to increased tightening in the global credit markets (the "credit crunch"), declining global commodity prices, and increased time to settle amounts due from customers, the Group's relationships with certain customers were terminated (note 12).

The Group reallocated its focus on servicing the large independent and Russian state-owned oil and gas exploration and production customer group. The Group has a policy to negotiate advance payment terms where excessive concentration of credit risk exists. Additionally, the Group undertakes certain cost optimization programs allowing it greater flexibility in price negotiations with the customers.

The Group carries out regular monitoring and assessing the likelihood of collection on a customer-by-customer basis in order to mitigate the Group's exposure to potential material losses from uncollected accounts. In 2008, due to significant deterioration of the financial situation in Russia, the Group impaired certain of its accounts receivable from 30 percent to 100 percent based on information about customer creditworthiness. The Group believes that its financial receivables which are neither part nor impaired represent low exposure to credit risk.

At 31 December 2008 and 2007, the Group believes that its maximum exposure to credit risk was the carrying value of its financial assets recognized on the balance sheet, and no collateral was held as security for any trade or other receivables.

(expressed in US dollars (tabular amounts in thousands), except as indicated)

4 Financial Risk Management (continued)

At 31 December 2008 and 2007, the ageing of the financial receivables was as follows:

	31 December 2008				
				Including:	
	Total before impairment provision	Impaired	Total recognized	Neither past due nor impaired	Past due but not impaired
Within 90 days	248,097	(1,777)	246,320	215,239	31,081
91 to 360 days	48,405	(14,416)	33,989	6,698	27,291
Over 360 days	12,639	(10,908)	1,731	406	1,325
Total financial receivables	**309,141**	**(27,101)**	**282,040**	**222,343**	**59,697**

	31 December 2007				
				Including:	
	Total before impairment provision	Impaired	Total recognized	Neither past due nor impaired	Past due but not impaired
Within 90 days	236,862	(6)	236,856	213,568	23,288
91 to 360 days	24,053	(283)	23,770	2,621	21,149
Over 360 days	7,146	(847)	6,299	635	5,664
Total financial receivables	**268,061**	**(1,136)**	**266,925**	**216,824**	**50,101**

Movements of the Group's provision for impairment of financial receivables was:

	Financial receivables	
	Year ended 31 December:	
	2008	2007
Balance at the beginning of the year	(1,136)	(2,325)
Provision for financial receivables	(30,676)	-
Unused amounts reversed	-	638
Write-off of financial receivables	-	665
Exchange difference	4,711	(114)
Balance at the end of the year	**(27,101)**	**(1,136)**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

4 Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group's manages the liquidity risk by regularly updating its financing plan to closely monitor its funding needs against its medium term funding plans.

The Group has been successful in raising funds in debt markets to meet debt service requirements, including interest payments and principal repayments. In December 2008, the Group entered into a loan facility agreement for a total amount of $250.0 million and during the first quarter 2009 repaid its maturing debt for a total amount of $264.8 million, including bonds (note 18 and note 24). At 31 March 2009, the Group's borrowings totalled $356.2 million including short-term and long-term borrowings of $113.3 million and $242.9 million, respectively.

The Group intends to finance its internal needs as well as the debt and interest repayment primarily from the cash generated by the operating activities. In addition, the Group maintains adequate relationships with both Russian and international financial institutions and is able to attract additional financing if necessary.

At 31 December 2008 and 2007, the Group maintained committed lines of credit facilities in which the following amounts were available for drawdown to meet short and medium-term financing needs:

	31 December:	
	2008	**2007**
Total amount of credit facilities available for withdrawal	29,779	50,705
Amounts withdrawn	(28,744)	(35,340)
Amount available for withdrawal	**1,035**	**15,365**

At 31 December 2008 and 2007, interest on these facilities, if drawn, is payable at a rate of 15.2 percent and 11.1 percent per annum, respectively.

Scheduled maturities of current financial liabilities (notes 16 and 18) outstanding at 31 December 2008 and 2007 were as follows:

	31 December 2008		
	Financial payables and accrued liabilities	**Current financial liabilities - borrowings**	**Total current financial liabilities**
Within 90 days	132,040	265,485	397,525
91 to 180 days	1,915	7,110	9,025
181 to 365 days	1,421	121,907	123,328
Total current financial liabilities	**135,376**	**394,502**	**529,878**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

4 Financial Risk Management (continued)

Liquidity risk (continued)

	31 December 2007		
	Financial payables and accrued liabilities	**Current financial liabilities - borrowings**	**Total current financial liabilities**
Within 90 days	123,972	94,548	218,520
91 to 180 days	12,918	80,715	93,633
181 to 365 days	10,200	27,748	37,948
Total current financial liabilities	**147,090**	**203,011**	**350,101**

Scheduled maturities of long-term financial liabilities (note 18) outstanding at 31 December 2008 and 2007 were as follows:

	31 December	
	2008	**2007**
Year ended 31 December:		
2009	-	106,394
2010	2,920	14,563
2011	445	128,335
Total long-term financial liabilities	**3,365**	**249,292**

For purposes of this disclosure, the interest payable on floating rate borrowing to maturity has been calculated using rates in existence at 31 December 2008 and 2007, respectively.

Interest rate risk

In 2008, the Group was exposed to interest rate risk from its floating interest rate borrowings which were all short term and did not enter into transactions to manage its interest rate exposure, such as interest rate swaps. Subsequent to the 2008 year-and, the Group entered into the EBRD loan facility and (note 24) maturing in December 2013 and became exposed to the interest rate risk for the long-term. Prior to issuing the accounts, the Group signed an interest rate swap arrangement with a certain financial institution effective from 17 April 2009 under which the borrowing will bear the interest at a fixed rate thus limiting the overall exposure to floating interest rate (note 24).

If the floating interest rates increased or decreased by one percent with all other variables held constant, the Group's net loss and total equity would have changed at 31 December 2008 and 2007 as follows:

	31 December	
	2008	**2007**
Incremental loss from increase in the floating interest rate by 1%	(1,295)	(305)
Incremental profit from decrease in the floating interest rate by 1%	1,295	305

As the Group has no significant interest-bearing assets, the Group's interest income is substantially independent from changes in market interest rates.

Currency risk

The Group is exposed to currency exchange risk from borrowings denominated in US dollars whereas the functional currency of most of the Group companies is the Russian rouble. If the exchange rate increased or decreased by five Russian roubles per one US dollar with all other variables held constant, the Group's net loss and total equity would have changed from the retranslation of the borrowings denominated in US dollars existing at 31 December 2008 and 2007 as follows:

	31 December	
	2008	**2007**
Incremental loss from increase of the RR / $ exchange rate by five Russian roubles	(20,970)	(25,836)
Incremental profit from decrease of the RR / $ exchange rate by five Russian roubles	24,871	31,696

4 Financial Risk Management (continued)

Capital risk management. The Group's objectives when managing its capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure to reduce its cost. The optimal mix of debt and equity may vary depending upon changing market conditions and investment opportunities.

The Group considers capital to be the sum of total debt and total equity. The Group currently monitors capital risk on the basis of a range of financial ratios relevant to the debt markets including, but not limited to, gearing ratio, referred to as the total debt divided by the sum of total debt and total equity. At 31 December 2008 and 2007, the Group's gearing ratio was 44.7 percent and 31.7 percent respectively.

After entering into the EBRD loan in December 2008 (note 24), in order to comply with the loan agreement, the Group's objective in managing its debt is to maintain certain financial ratios, out of which applicable for the Group's financial position at 31 December 2008 was the ratio of total indebtedness to tangible net worth which was not to exceed 1.1 at any time. The total indebtedness includes the total debt and received bank guaranties, and the tangible net worth includes the total equity adjusted for outstanding amounts of goodwill, intangible assets and upward revaluations of assets acquired on business combinations. At 31 December 2008, this ratio was 1.4, and prior to issuing these consolidated financial statements, the Group obtained a letter from the bank which amended the covenant through the end of 2009 resulting in the Group being in compliance at 31 December 2008.

The Group's current policy is not to pay dividends and its subsidiaries only pay dividends on their preferred shares. As at 31 December 2008 and 2007, neither the Group nor any of its subsidiaries were subject to externally imposed capital requirements.

5 Business Combinations

The acquisitions completed during the years ended 31 December 2008 and 2007 are summarized below. As none of the acquired businesses produced financial statements prepared in accordance with IFRS prior to the acquisition, only fair values of acquired assets and liabilities are available.

Acquisitions during 2008

Due to complexities inherent in the determination of fair values, amounts for acquisitions made in 2008 are based upon management's preliminary estimates.

Acquisition of NKRS and STS ("NKRS & STS"). In May 2008, the Group purchased a 100 percent interest in both Nizhnevartovsk KRS ("NKRS") and Sibirtransservice ("STS"), companies that provide workover and transportation services to the petroleum industry in the Khanty Mansiysk Region of the Russian Federation, for $54.3 million, including transaction costs of $1.8 million. The total purchase cost included $27.3 million payable by cash and $27.0 million paid by issuance of 109,489 Class A common shares with fair value of $246.6 per share (note 19). NKRS & STS are included within the Group's drilling, workover, IPM and technology services segment. On acquisition of NKRS & STS, the Group recognized goodwill of $35.3 million based on the difference between the cost of acquisition and management's preliminary assessment of the fair value of NKRS & STS's identifiable assets, liabilities and contingent liabilities. Management attributed the goodwill to synergies expected to be realized following the acquisition of the company by the Group. For the year ended 31 December 2008, the Group recognized $0.2 million profit from the activities of NKRS & STS subsequent to the acquisition.

(expressed in US dollars (tabular amounts in thousands), except as indicated)

5 Business Combinations (continued)

Preliminary fair values of NKRS & STS acquired during the year ended 31 December 2008. The preliminary purchase accounting allocation for the acquisition of NKRS & STS is summarized below. Amounts for the acquisitions are based upon management's preliminary estimates of the fair values.

	Total
Cash and cash equivalents	676
Trade and other receivables	12,024
Inventories	423
Property, plant and equipment	21,705
Other non-current assets	107
Other current liabilities	(14,296)
Other non-current liabilities	(133)
Deferred tax liability	(1,480)
Share in net assets acquired	**19,026**
Purchase consideration	54,313
Goodwill	**35,287**

Summary combined financial information. The following table sets forth summary combined financial information for the year ended 31 December 2008 and is presented to provide information to evaluate the financial effects of the acquisition of NKRS & STS, as if it had occurred on 1 January 2008.

	Total revenues	**Loss**
Group	1,445,891	(271,917)
Results of subsidiaries acquired during the year ended 31 December 2008		
NKRS & STS	61,400	(3,141)
Adjustments and eliminations	(34,756)	(856)
Summary combined	**1,472,535**	**(275,914)**

The summary combined financial information should not be construed to represent consolidated financial information. Specifically, no adjustments have been made for financing transactions or any other arrangements associated with the acquisitions. The revenue adjustment of $34.8 million includes elimination of post-acquisition revenues that were included in both the Group and the individual acquirees' totals. The loss adjustment of $0.9 million includes elimination of post-acquisition results, which were included in both the Group and the individual acquirees' totals, and other adjustments.

Acquisition of minority interest in YGF. During 2008, the Group entered into a number of transactions to acquire a total additional 16.9 percent interest in YGF for a total consideration of $36.0 million increasing its effective ownership in YGF to 69.8 percent. These transactions resulted in $18.6 million loss from the excess of purchase prices over the carrying value of net assets acquired. This loss is recognized in its consolidated statements of changes in equity. The Group settled the transactions by discharging a portion of its loans provided to certain third parties and accrued interest in the total amount of $24.5 million (note 15) and paying the remaining $11.5 million in cash.

Acquisition of minority interest in Yaganskpromgeophizika (YPGF). In May 2008, the Group acquired an additional effective 4.7 percent interest in YPGF for a total cash consideration of $0.9 million increasing its effective ownership in YPGF to 100.0 percent. This transaction resulted in no gain or loss as the purchase price equaled the carrying value of net assets acquired.

(expressed in US dollars (tabular amounts in thousands), except as indicated)

5 Business Combinations (continued)

Acquisition of minority interest in Irtyshgeophyzika. In November 2008, the Group acquired an additional 24.9 percent interest in Irtyshgeophyzika for a total cash consideration of $0.2 million increasing its effective ownership in Irtyshgeophyzika to 100.0 percent. This transaction resulted in $0.5 million gain from excess of the carrying value of net assets acquired over purchase price, which the Group recognized in its consolidated statements of changes in equity.

Acquisitions during 2007

Certain details of acquisitions of entities during the year ended 31 December 2007 are summarized in the table below.

Acquired entity	Month of acquisition	Group Segment	Percentage acquired	Cost of acquisition	Goodwill	Profits contributed through 31 December 2007
GTS	August 2007	Formation evaluation	100%	8,422	7,969	416
ONR	October 2007	Drilling, workover, IPM and technology services	100%	81,990	67,407	1,460

Management attributes the goodwill from all acquisitions made in 2007 to synergies expected to be realized following the acquisitions made by the Group.

Acquisition of additional interest in YGF. In February 2007, the Group purchased an additional 2.15 percent interest in YGF for $1.8 million increasing the Group's effective ownership to 52.9 percent. The acquisition of the additional 2.15 percent interest in YGF resulted in a gain of $0.5 million from the excess of the carrying value of net assets acquired over the purchase price, which is recognized in the Group's consolidated statements of changes in equity for the year ended 31 December 2007.

Acquisition of additional interest in PGF. In August 2007, the Group purchased an additional 42.83 percent interest in the shares of PGF for $2.4 million increasing the Group's effective ownership to 100 percent. The acquisition of the additional 42.83 percent interest in PGF resulted in a loss of $2.3 million from the excess of the purchase price over the carrying value of net assets acquired, which is recognized in the Group's consolidated statements of changes in equity for the year ended 31 December 2007.

Acquisition of additional interest in Azimuth. In December 2007, the Group purchased an additional 1.09 percent interest in Azimuth for $0.1 million increasing the Group's effective ownership to 95.19 percent. The acquisition of the additional 1.09 percent interest in Azimuth resulted in a gain of $0.2 million from the excess of the carrying value of net assets acquired over the purchase price, which is recognized in the Group's consolidated statements of changes in shareholders' equity for the year ended 31 December 2007.

(expressed in US dollars (tabular amounts in thousands), except as indicated)

5 Business Combinations (continued)

ONR. During the year ended 31 December 2008, the Group revised the opening balances to account for the effects of changes in the Group's purchase accounting of ONR (note 2) as follows:

	31 December 2007 As previously reported	**Fair value adjustments during 2008**	**31 December 2007 Revised**
Cash and cash equivalents	250	-	250
Trade and other receivables	6,836	-	6,836
Inventories	2,348	-	2,348
Other current assets	166	-	166
Property, plant and equipment	19,190	-	19,190
Other current liabilities	(9,385)	(565)	(9,950)
Long-term borrowings	(2,508)	-	(2,508)
Other non-current liabilities	-	(63)	(63)
Deferred tax liability	(1,837)	151	(1,686)
Share in net assets acquired	**15,060**	**(477)**	**14,583**
Purchase consideration	81,990	-	81,990
Goodwill	**66,930**	**477**	**67,407**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

6 Segment Information

The Group organizes its operational activities into three reportable segments as follows:

Drilling, workover, IPM and technology services segment includes the manufacture of drilling tools and a variety of services such as rig-up work, mud system services, rig-up and drill bit management, well cementing and completion, maintenance and capital workovers, chemical treatment, well preparation and completion work. Formation evaluation segment provides both well and field geophysical services including logging, perforation and 2-D and 3-D seismic data acquisition, processing and interpretation. Manufacturing segment includes the production of heavy oil and gas drilling rigs, cementing units and other equipment. Corporate assets, liabilities and expenses represent activities that are managed on the Group basis and are not allocated to the operating segments.

At 31 December 2008 and 2007, the Group operated substantially within one geographical segment which is the CIS.

Segment information related to the Group's financial performance for the years ended 31 December 2008 and 2007:

Year ended 31 December 2008:	**Drilling, workover, IPM and technology services**	**Formation evaluation**	**Manufacturing**	**Overheads**	**Intersegment eliminations**	**Total**
Sales	835,713	333,557	289,844	-	(13,223)	1,445,891
Cost of sales	(701,221)	(309,538)	(226,435)	-	11,375	(1,225,819)
Gross profit (loss)	**134,492**	**24,019**	**63,409**	**-**	**(1,848)**	**220,072**
Selling, general and administrative expenses	(138,871)	(35,020)	(33,820)	(107,742)	(243)	(315,696)
Goodwill impairment	(99,109)	-	-	-	-	(99,109)
Other operating incomes (expenses), net	(3,629)	4,621	901	(949)	732	1,676
Operating (loss) profit	**(107,117)**	**(6,380)**	**30,490**	**(108,691)**	**(1,359)**	**(193,057)**
Interest expense, net	(21,512)	(3,327)	(3,395)	(16,338)	42	(44,530)
Other expense, net	(7,851)	(2,038)	(791)	(10,554)	-	(21,234)
(Loss) profit before taxation	**(136,480)**	**(11,745)**	**26,304**	**(135,583)**	**(1,317)**	**(258,821)**
Income tax (expense) benefit, net	(5,415)	5,711	(3,241)	(10,177)	26	(13,096)
(Loss) profit for the year	**(141,895)**	**(6,034)**	**23,063**	**(145,760)**	**(1,291)**	**(271,917)**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

6 Segment Information (continued)

Year ended 31 December 2007:	**Drilling, workover, IPM and technology services**	**Formation evaluation**	**Manufacturing**	**Overheads**	**Intersegment eliminations**	**Total**
Sales	615,000	271,598	329,808	-	(39,238)	1,177,168
Cost of sales	(504,116)	(222,400)	(259,689)	-	36,404	(949,801)
Gross profit (loss)	**110,884**	**49,198**	**70,119**	**-**	**(2,834)**	**227,367**
Selling, general and administrative expenses	(67,588)	(27,397)	(12,334)	(94,157)	758	(200,718)
Other operating (expenses) incomes, net	(940)	(3,318)	(24)	60	-	(4,222)
Operating profit (loss)	**42,356**	**18,483**	**57,761**	**(94,097)**	**(2,076)**	**22,427**
Interest expense, net	(26,123)	(12,243)	(463)	(10,648)	-	(49,477)
Other income, net	543	2,318	48	1,361	-	4,270
(Loss) profit before taxation	**16,776**	**8,558**	**57,346**	**(103,384)**	**(2,076)**	**(22,780)**
Income tax (expense) benefit, net	(16,758)	(1,036)	(11,624)	870	498	(28,050)
(Loss) profit for the year	**18**	**7,522**	**45,722**	**(102,514)**	**(1,578)**	**(50,830)**

Segment information related to the Group's financial position as at 31 December 2008 and 2007:

	Drilling, workover, IPM and technology services	**Formation evaluation**	**Manufacturing**	**Overheads**	**Intersegment eliminations**	**Total**
At 31 December 2008:						
Total assets	717,503	475,611	224,084	258, 943	(400,121)	1,276,020
Total liabilities	(396,611)	(150,202)	(101,898)	(532,551)	397,706	(783,556)
For the year ended 31 December 2008:						
Additions to non-current assets	77,771	47,607	49,397	1,098	-	175,873
Depreciation	(80,497)	(43,163)	(8,373)	(4,620)	23	(136,630)
Amortization	(41,765)	(41,694)	(5,340)	(3)	11	(88,791)

	Drilling, workover, IPM and technology services	**Formation evaluation**	**Manufacturing**	**Overheads**	**Intersegment eliminations**	**Total**
At 31 December 2007:						
Total assets	919,013	494,558	246,939	503,379	(450,276)	1,713,613
Total liabilities	(485,428)	(231,451)	(139,658)	(413,430)	448,698	(821,269)
For the year ended 31 December 2007:						
Additions to non-current assets	92,058	50,295	26,587	18,999	-	187,939
Depreciation	(50,061)	(36,795)	(3,692)	(755)	-	(91,303)
Amortization	(35,180)	(14,253)	(12,861)	(2)	-	(62,296)

(expressed in US dollars (tabular amounts in thousands), except as indicated)

7 Cost of Sales

	Year ended 31 December:	
	2008	**2007**
Materials and supplies	282,874	323,131
Employee costs (including mandatory social contributions of $54.0 million and $40.8 million for 2008 and 2007, respectively)	356,871	245,155
Depreciation and amortization	205,030	143,938
Services	375,288	230,221
Other	5,756	7,356
Total cost of sales	**1,225,819**	**949,801**

The total depreciation and amortization of $205.0 million and $143.9 million includes the accelerated amortization of the long-term customers / suppliers relationships in the total amount of $53.7 million and $18.6 million (note 12).

8 Selling, General and Administrative Expenses

	Year ended 31 December:	
	2008	**2007**
Employee costs (including mandatory social contributions of $11.6 million and $10.0 million for 2008 and 2007, respectively)	112,238	86,160
Services	71,186	52,483
Share-based compensation expense	30,476	35,281
Transportation expenses	12,829	8,669
Taxes, other than income taxes	13,024	8,381
Depreciation and amortization	20,391	9,661
Receivables impairment, bad debt and other write-offs	42,551	(3,035)
Inventories impairment and obsolete stock write-offs	9,496	(2,335)
Other	3,505	5,453
Total selling, general and administrative expenses	**315,696**	**200,718**

The total share-based compensation expense of $30.5 million includes discharge in full of the loan issued to the management in the amount of $11.5 million through amendment to the conversion terms of Class B common shares owned by the management (note 22).

9 Restricted Cash

At 31 December 2008 and 2007, the restricted cash of $0.1 million and $8.0 million, respectively, included the cash committed for payments under contracts with the Group's counterparties.

10 Trade and Other Receivables

	31 December:	
	2008	**2007**
Financial receivables:		
Trade receivables (net of allowances for doubtful accounts of $3.7 million and $0.5 million at 31 December 2008 and 2007, respectively)	60,075	91,574
Amounts due from customers for engineering and service contract work (net of allowances for doubtful accounts of $23.4 million and $0.6 million at 31 December 2008 and 2007, respectively)	221,965	175,351
Total financial receivables	**282,040**	**266,925**
Non-financial receivables:		
VAT recoverable	13,535	37,771
Advances to suppliers	16,265	47,923
Prepaid expenses and other receivables	45,519	52,602
Total non-financial receivables	**75,319**	**138,296**
Total trade and other receivables	**357,359**	**405,221**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

11 Inventories

	31 December:	
	2008	**2007**
Materials and supplies (net of allowances for obsolete materials of $7.3 million and $3.5 million at 31 December 2008 and 2007, respectively)	108,536	133,047
Work in progress (net of allowances for obsolete work in progress of $2.4 million and nil million at 31 December 2008 and 2007, respectively)	8,871	16,526
Finished goods (net of allowances for obsolete finished goods of $1.6 million and nil million at 31 December 2008 and 2007, respectively)	29,094	27,221
Total inventories	**146,501**	**176,794**

At 31 December 2008 and 2007, inventories with carrying values of nil and $11.3 million, respectively, were pledged as collateral for the Group's borrowings (note 18).

Engineering and service contracts. The Group sales include revenues from engineering and service contracts of $1,266.2 million and $889.4 million for the years ended 31 December 2008 and 2007, respectively.

The status of engineering and service contracts in progress at 31 December 2008 and 2007 were as follows:

	31 December:	
	2008	**2007**
Contract costs incurred from inception	822,382	631,952
Contract profits (less recognized losses) incurred from inception	148,926	136,290

(expressed in US dollars (tabular amounts in thousands), except as indicated)

12 Goodwill and Intangible Assets

	Goodwill	Long-term customer / supplier relationships	Trademarks	Order backlog	Other	Total
Cost						
At 1 January 2007	**136,521**	**180,609**	**15,292**	**19,149**	**11,922**	**363,493**
Additions	-	-	-	-	3,527	3,527
Acquisitions of subsidiaries	75,376	-	-	-	-	75,376
Disposals	-	-	-	-	(616)	(616)
Exchange differences	11,493	13,131	1,121	1,347	1,110	28,202
At 31 December 2007	**223,390**	**193,740**	**16,413**	**20,496**	**15,943**	**469,982**
Additions	-	-	-	-	2,800	2,800
Acquisitions of subsidiaries	35,287	-	-	98	9	35,394
Disposals	-	-	-	-	(69)	(69)
Impairment	(99,109)	-	-	-		(99,109)
Exchange differences	(43,494)	(31,877)	(2,700)	(3,388)	(2,924)	(84,383)
At 31 December 2008	**116,074**	**161,863**	**13,713**	**17,206**	**15,759**	**324,615**
Accumulated amortization						
At 1 January 2007	**-**	**(11,093)**	**(2,950)**	**(5,359)**	**(4,089)**	**(23,491)**
Amortisation	-	(48,072)	(2,653)	(9,337)	(2,234)	(62,296)
Disposals	-	-	-	-	327	327
Exchange differences	-	(2,823)	(334)	(776)	(342)	(4,275)
At 31 December 2007	**-**	**(61,988)**	**(5,937)**	**(15,472)**	**(6,338)**	**(89,735)**
Amortisation	-	(77,047)	(3,971)	(4,770)	(3,003)	(88,791)
Disposals	-	-	-	-	18	18
Exchange differences	-	13,799	1,592	3,281	1,374	20,046
At 31 December 2008	**-**	**(125,236)**	**(8,316)**	**(16,961)**	**(7,949)**	**(158,462)**
Net carrying amount						
At 31 December 2007	**223,390**	**131,752**	**10,476**	**5,024**	**9,605**	**380,247**
At 31 December 2008	**116,074**	**36,627**	**5,397**	**245**	**7,810**	**166,153**

As described in note 5, in 2008 the Group completed the purchase accounting for its acquisitions of ONR and GTS made in 2007. This resulted in the Group revising its fair value estimates of certain items included in the opening balance sheet, including goodwill and intangible assets.

(expressed in US dollars (tabular amounts in thousands), except as indicated)

12 Goodwill and Intangible Assets (continued)

Goodwill. At 31 December 2008 and 2007, the carrying value of goodwill was attributed to the Group's cash-generating units (CGUs) as follows:

	31 December:	
Cash generating unit	**2008**	**2007**
Workover	24,885	68,546
Drilling & IPM	-	45,741
Technological services	21,021	25,161
Trade house	14,608	17,486
Formation evaluation	26,443	31,650
GeoPrime	7,606	9,058
Drilling tools	9,262	11,087
Manufacturing	12,249	14,661
Total	**116,074**	**223,390**

Goodwill is attributed to each CGU expected to benefit from the respective acquisition as required by IAS 36, *Impairment of Assets*. In assessing whether goodwill has been impaired, the carrying amount of each CGU, including goodwill, is compared with the recoverable amount of the CGU. The recoverable amount of each CGU was determined based on value-in-use calculations. The Group estimates value-in-use using a discounted cash flow model.

The future cash flows were discounted using pre-tax discount rates ranging between 17.8 and 22.3 percent for each CGU. The discount rate is derived from the Group's post-tax weighted average cost of capital, which in turn was calculated using appropriate market information for Russian and international companies operating in similar industries.

The five-year business segment plans, which are annually approved by the Group's senior management, were the source of information for determination of the various values-in-use. The cash flow forecasts beyond the five-year period were extrapolated using a growth rate linked to expected general inflation in the Russian Federation.

The key assumptions to which the calculation of value-in-use is most sensitive are the operating profit margins, discount rate, maintenance capital expenditures and the terminal value. The Group used profit margins consistent with the actual performance achieved in the past. The discount rates were determined based on the external sources of information reflecting the market assessments of (a) time value of money, and (b) the risks specific to the Group for which the future cash flows were not adjusted at 31 December 2008. The Group assessed capital expenditures sufficient to maintain its production capacity existing at 31 December 2008 to termination date which is assumed as infinity based on the petroleum industry expected life. In order to assess the cash flows to infinity the Group used a perpetuity formula.

In 2008, Russian financial market experienced significant deteriorations and a decrease in demand for oil field services. As a result, the Group estimated significant decrease in sales volumes and profit margins and increase in discount rates used in the future cash flows. At 31 December 2008, the Group determined that the carrying values of net assets of the Group's workover and drilling and IPM CGUs discounted at 20.7 percent and 18.3 percent for workover and drilling and IPM, respectively, exceeded their estimated value-in-use resulting in the goodwill impairment of $99.1 million which the Group recognized as an expense in its consolidated statements of income.

The Group determined that the estimated value-in-use of the other CGUs exceeded their assets' carrying amounts and no provision for impairment of the goodwill is recorded for such CGU's. Refer to the related disclosure in note 3. At 31 December 2008, based on the management's estimate, the value-in-use of the Technological Services CGU, which is included within the Drilling, workover, IPM and technological services segment, exceeded the carrying value of its net assets by 8 percent. The value-in-use of the Technological Services CGU's net assets would be equal to their carrying value if the operating profit margin, excluding depreciation and amortization, declined from 28.5 percent to 26.2 percent. The value-in-use for other CGUs exceeded the carrying value of their net assets by at least 20 percent.

(expressed in US dollars (tabular amounts in thousands), except as indicated)

12 Goodwill and Intangible Assets (continued)

Long-term customers/suppliers relationships. At 31 December 2008 and 2007, as part of the review of the expected useful lives of the intangibles assets, the Group reviewed the nature of its relationships with its customers/suppliers and compared them to those in existence upon initial acquisition. To the extent that the Group believes that the relationship with certain customers has been terminated for the foreseeable future, the Group charged additional amortization to eliminate the related intangible asset. Such additional amortization charge totaled $53.7 million and $18.6 million in 2008 and 2007, respectively. For relationships with customers/suppliers which existed upon acquisition and continue, the Group continues to amortize the remaining carrying amounts over estimated useful lives established upon initial recognition.

The additional amortization of $53.7 million charged in 2008 includes $32.3 million relating to customers of YGF for which the Group does not expect to maintain relationships in the long-term for various reasons, including (i) certain customers completing the formation evaluation phase on their licensed oilfields and transitioning to development activities and (ii) certain customers establishing relationships with competitors.

13 Property, Plant and Equipment

	Rigs	Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost						
At 1 January 2007	**69,989**	**101,908**	**239,115**	**45,680**	**17,023**	**473,715**
Additions	41,761	12,441	93,916	19,569	16,725	184,412
Acquisitions of subsidiaries	-	5,686	4,806	8,660	87	19,239
Disposals	(3,610)	(2,357)	(8,586)	(526)	(2,765)	(17,844)
Exchange differences	6,915	7,720	21,400	4,142	1,810	41,987
At 31 December 2007	**115,055**	**125,398**	**350,651**	**77,525**	**32,880**	**701,509**
Additions	18,258	54,244	67,926	8,084	24,561	173,073
Acquisitions of subsidiaries	-	1,996	7,897	11,410	402	21,705
Disposals	(4,671)	(6,065)	(12,547)	(4,201)	(2,301)	(29,785)
Exchange differences	(18,659)	(26,662)	(64,009)	(14,549)	(8,975)	(132,854)
At 31 December 2008	**109,983**	**148,911**	**349,918**	**78,269**	**46,567**	**733,648**
Accumulated depreciation						
At 1 January 2007	**(11,712)**	**(4,174)**	**(26,451)**	**(4,832)**	**(1,903)**	**(49,072)**
Depreciation	(17,831)	(6,672)	(50,467)	(11,755)	(4,578)	(91,303)
Disposals	1,393	239	3,960	291	2,457	8,340
Exchange differences	(1,773)	(661)	(4,286)	(869)	(236)	(7,825)
At 31 December 2007	**(29,923)**	**(11,268)**	**(77,244)**	**(17,165)**	**(4,260)**	**(139,860)**
Depreciation	(29,375)	(9,580)	(71,757)	(17,445)	(8,473)	(136,630)
Disposals	2,512	1,256	8,039	2,012	1,034	14,853
Exchange differences	7,816	3,090	21,631	4,576	1,975	39,088
At 31 December 2008	**(48,970)**	**(16,502)**	**(119,331)**	**(28,022)**	**(9,724)**	**(222,549)**
Net book value						
At 31 December 2007	**85,132**	**114,130**	**273,407**	**60,360**	**28,620**	**561,649**
At 31 December 2008	**61,013**	**132,409**	**230,587**	**50,247**	**36,843**	**511,099**

At 31 December 2008 and 2007, certain property, plant and equipment with a net book value of $8.8 million and $52.7 million, respectively, was pledged as collateral for the Group's borrowings (note 18).

(expressed in US dollars (tabular amounts in thousands), except as indicated)

14 Investments in Associates

	31 December:	
	2008	**2007**
NNGF	11,534	13,468
NGT-G	2,527	2,460
SNGF	2,385	3,211
Yamal Fund	-	781
Total investments in associates	**16,446**	**19,920**

In April 2008, the Group disposed of its entire interest of 32.5 percent in Yamal Fund in exchange for certain quoted equity instruments with fair value of $0.8 million at the exchange date.

As a result of increasing the Group's interest in YPGF to 100 percent in May 2008 (note 5), the Group's effective ownership in NNGF and NGT-G increased to 35.7 percent and 65.2 percent, respectively. In 2007, the Group acquired an additional 5.47 percent interest in NNGF, increasing its effective interest in NNGF to 34.6 percent and in NGT-G to 62.4 percent.

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

	Year ended 31 December:	
	2008	**2007**
Carrying amount at the beginning of the year	19,920	15,375
Share of results of associates	(856)	1,953
Acquisition of minority interests	-	1,670
Acquisition of additional interest in NNGF and NGT-G	804	-
Dividends received	(166)	(316)
Exchange differences	(3,256)	1,238
Carrying amount at the end of the year	**16,446**	**19,920**

Summarized balance sheet information of the Group's investments in associates is provided in the table below:

	31 December:	
	2008	**2007**
Total assets	66,198	67,291
Total liabilities	22,489	17,583

Summarized income and expense information of the Group's investments in associates are provided in the table below:

	Year ended 31 December:	
	2008	**2007**
Total revenues	87,012	56,792
Total operating expenses	(78,789)	(48,840)
Operating profit	**8,223**	**7,952**
Interest income (expense), net	(564)	192
Income tax expense	(2,004)	(2,172)
Minority share	1,201	(3)
Profit for the year	**6,856**	**5,969**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

15 Loans Provided and Other Assets

	31 December:	
	2008	**2007**
Financial loans provided and other assets:		
Advances to purchase additional interest in the Group's subsidiaries	8,243	41,644
Loans receivable and other assets (net of allowance for doubtful accounts of nil million at 31 December 2008 and 2007, respectively)	5,906	15,262
Total loans provided and other assets	**14,149**	**56,906**

Advances to purchase additional interests in the Group's subsidiaries. The Group provided advances to third parties as follows:

	31 December:	
	2008	**2007**
YGF	5,480	33,018
Other	2,763	8,626
Total advances to third parties	**8,243**	**41,644**

Advances to purchase minority interest in Yamalgeophyzika ("YGF"). The Group provided the advances to third parties to assist in the identification and purchase of minority interests share in YGF. Some of the advances were provided in the form of short-term loans bearing interest at a rate of 14.0 percent per annum which was reduced to 10.8 percent from January 2008.

In August 2008, the Group signed an agreement to purchase 3.1 percent in YGF by July 2009 for $4.9 million which is increased by a fixed annual interest rate of 12 percent. Under the agreement the seller can charge the Group $0.6 million in the event that the agreement is cancelled. The Group made a prepayment of $1.1 million in August 2008 under the agreement.

In September 2008, the Group discharged $24.5 million of outstanding loans and interest due from a certain third party as partial payment for the acquisition of minority interest in YGF (note 5).

(expressed in US dollars (tabular amounts in thousands), except as indicated)

16 Accounts Payable and Accrued Liabilities

	31 December:	
	2008	**2007**
Financial payables and accrued liabilities:		
Trade payables	35,883	44,600
Amounts due to customers for engineering and service contract work	96,633	98,616
Interest payable	2,860	3,874
Total financial payables and accrued liabilities	**135,376**	**147,090**
Non-financial payables and accrued liabilities:		
Accrued liabilities and other creditors	73,222	60,855
Advances from customers	70,507	66,165
Total non-financial payables and accrued liabilities	**143,729**	**127,020**
Total accounts payable and accrued liabilities	**279,105**	**274,110**

17 Taxes

Reconciliation of income taxes. The table below reconciles actual income tax expense and theoretical income tax, determined by applying the Russian statutory income tax rate to income before income tax and minority interest.

	Year ended 31 December:	
	2008	**2007**
Loss before taxation	(258,821)	(22,780)
Theoretical tax benefit at Russian statutory income tax rate of 24 percent	62,117	5,467
Effect from change in income tax rate	9,097	-
Effect of income taxed at rates lower than 24 percent	16,396	10,800
Effect of (loss) taxed at rates higher than 24 percent	(1,502)	(621)
Tax losses not expected to be utilized against future profits from overseas activities	(26,920)	(14,063)
Tax losses not expected to be utilized against future profits from domestic activities	(22,509)	(13,626)
Tax losses recognized as deferred tax benefit	-	3,647
Share-based compensation	(7,315)	(8,468)
Goodwill impairment	(23,786)	-
Non-tax deductible expenses and other	(18,674)	(11,186)
Total income tax expense	**(13,096)**	**(28,050)**

The effect from change in income tax rate of $9.1 million resulted from the reduction in the statutory income tax rates in Russian Federation from 24 percent to 20 percent effective from 1 January 2009 and in Kazakhstan decreasing from 30 percent to 15 percent between 2009 and 2011.

Tax losses not expected to be utilized against future profits relate primarily to interest expense and other administrative expenses recorded in the Group's drilling entities where management does not anticipate sufficient taxable profits will be generated through which it may realize tax benefits for their expenditures. This refers to entities operating in the CIS and other jurisdictions.

(expressed in US dollars (tabular amounts in thousands), except as indicated)

17 Taxes (continued)

Deferred income tax. Differences between IFRS and statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes their income tax bases.

Movements in deferred income tax assets and liabilities during the year ended 31 December 2008 were as follows:

	31 December 2007	Income statement effect	Acquisitions	Effect of exchange differences	31 December 2008
Assets					
Accounts receivable	7,050	(5,062)	102	(402)	1,688
Tax losses carried forward	6,463	2,942	205	(1,558)	8,052
Other	4,438	2,467	683	(1,636)	5,952
Deferred income tax assets	**17,951**	**347**	**990**	**(3,596)**	**15,692**
Liabilities					
Property, plant and equipment	(37,663)	10,869	(2,450)	5,024	(24,220)
Intangible assets	(36,415)	25,596	(25)	2,053	(8,791)
Engineering and service contracts	(19,736)	(3,050)	-	3,714	(19,072)
Inventories	(913)	4,576	5	(549)	3,119
Other	(3,756)	541	-	536	(2,679)
Deferred income tax liabilities	**(98,483)**	**38,532**	**(2,470)**	**10,778**	**(51,643)**
Net deferred income tax liability	**(80,532)**	**38,879**	**(1,480)**	**7,182**	**(35,951)**

Movements in deferred income tax assets and liabilities during the year ended 31 December 2007 were as follows:

	31 December 2006	Income statement effect	Acquisitions	Effect of exchange differences	31 December 2007
Assets					
Accounts receivable	6,935	2	(401)	514	7,050
Tax losses carried forward	182	6,158	-	123	6,463
Other	670	3,558	151	59	4,438
Deferred income tax assets	**7,787**	**9,718**	**(250)**	**696**	**17,951**
Liabilities					
Property, plant and equipment	(34,241)	562	(1,746)	(2,238)	(37,663)
Intangible assets	(48,105)	14,574	-	(2,884)	(36,415)
Engineering and service contracts	(3,684)	(15,102)	(45)	(905)	(19,736)
Inventories	2,407	(3,317)	3	(6)	(913)
Other	(1,485)	(1,927)	(135)	(209)	(3,756)
Deferred income tax liabilities	**(85,108)**	**(5,210)**	**(1,923)**	**(6,242)**	**(98,483)**
Net deferred income tax liability	**(77,321)**	**4,508**	**(2,173)**	**(5,546)**	**(80,532)**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

17 Taxes (continued)

The deferred tax on the temporary differences associated with undistributed earnings of its subsidiaries amounted to $84.8 million and $81.7 million as of 31 December 2008 and 2007, respectively. As the Group is able to control the timing and reversal of the temporary differences, and it is highly likely that the temporary differences will not reverse in the foreseeable future, no deferred tax liability was recognised for the temporary differences associated with the undistributed earnings of the Group.

Deferred income tax assets associated with tax losses available for carry-forward are recognized when management believes it is probable that the Group will be able to apply the losses to offset future tax profits. At 31 December 2008 and 2007, the Group had accumulated tax losses available for carry forward in the amount of $8.1 million and $6.5 million, respectively, which expire between 2012 and 2019. Additionally, for the years 2008 and 2007, the Group did not recognise deferred income tax assets on tax loss carry-forwards totalled $49.4 million and $27.7 million, respectively, of which $26.9 million and $14.1 million, respectively, relate to the tax losses that do not have expiration dates and $22.5 million and $13.6 million, respectively, relate to the tax losses expiring after 2018. Management does not believe that such tax losses can be used to reduce taxes on income in the foreseeable future. Accordingly, no related deferred tax asset was recognized in these consolidated financial statements

The movements in deferred income tax assets and liabilities for the years 2008 and 2007, described above, reflect the net deferred income tax assets and net deferred income tax liabilities of separate companies of the Group. On the balance sheet, the consolidated net deferred income tax assets are disaggregated from the consolidated net deferred income tax liabilities as follows:

	31 December:	
	2008	**2007**
Total deferred tax assets of separate Group companies	1,920	2,916
Total deferred tax liabilities of separate Group companies	(37,871)	(83,448)
Net deferred income tax liability	**(35,951)**	**(80,532)**

Other taxes payable. Current taxes payable at 31 December 2008 and 2007 are detailed below, as follows:

	31 December:	
	2008	**2007**
Value-added tax	39,056	19,678
Unified social tax	3,584	4,164
Personal income tax	2,895	2,327
Property tax	2,024	1,997
Other taxes	1,211	1,822
Total other taxes payable	**48,770**	**29,988**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

18 Borrowings

	31 December 2008			31 December 2007			
	Amounts due within one year	**Amounts due after more than one year**	**Total**	**Amounts repaid after reporting date**	**Amounts due within one year**	**Amounts due after more than one year**	**Total**
Bonds	169,305	-	169,305	(67,960)	-	202,114	202,114
Bank loans	220,106	2,464	222,570	(196,844)	196,527	3,775	200,302
Other	5,091	589	5,680	-	6,484	4,326	10,810
Total financial liabilities	**394,502**	**3,053**	**397,555**	**(264,804)**	**203,011**	**210,215**	**413,226**

The following table shows, by major currency, the Group's borrowings at 31 December 2008 and 2007 and the weighted average interest rates at those dates:

	31 December 2008					
	Fixed rate		**Floating rate**		**Total**	
	Average interest rate	**Amount**	**Average interest rate**	**Amount**	**Average interest rate**	**Amount**
US dollar-denominated	18.2%	35,000	4.4%	135,000	7.2%	170,000
Russian rouble-denominated	11.6%	220,777	-	-	11.6%	220,777
Other	-	-	5.1%	3,725	5.1%	3,725
Total amounts due within one year	**12.5%**	**255,777**	**4.4%**	**138,725**	**9.7%**	**394,502**
Russian rouble-denominated	12.9%	3,053	-	-	12.9%	3,053
Total financial liabilities	**12.5%**	**258,830**	**4.4%**	**138,725**	**9.7%**	**397,555**

	31 December 2007					
	Fixed rate		**Floating rate**		**Total**	
	Average interest rate	**Amount**	**Average interest rate**	**Amount**	**Average interest rate**	**Amount**
US dollar-denominated	-	-	8.5%	155,000	8.5%	155,000
Russian rouble-denominated	11.6%	46,903	-	-	11.6%	46,903
Other	15.0%	1,108	-	-	15.0%	1,108
Total amounts due within one year	**11.7%**	**48,011**	**8.5%**	**155,000**	**9.1%**	**203,011**
Russian rouble-denominated	10.8%	208,515	-	-	10.8%	208,515
Other	10.6%	1,700	-	-	10.6%	1,700
Total amounts due after more than one year	**10.8%**	**210,215**	**-**	**-**	**10.8%**	**210,215**
Total financial liabilities	**10.9%**	**258,226**	**8.5%**	**155,000**	**10.0%**	**413,226**

(expressed in US dollars (tabular amounts in thousands), except as indicated)

18 Borrowings (continued)

Short-term borrowings. The borrowings due within one year include amounts due to the following institutions:

	31 December: 2008	2007
ABN AMRO & ING	135,000	75,000
Amsterdam Trade Bank	30,000	80,000
Sberbank	21,103	16,773
Uralsib	20,422	-
Alfa-Bank	3,404	9,204
Other	6,789	1,089
Current portion of long-term borrowings	177,784	20,945
Total short-term borrowings and current portion of long-term borrowings	**394,502**	**203,011**

ABN AMRO & ING. In November 2007, the Group entered into a US dollar-denominated loan agreement with ABN AMRO Bank N.V ("ABN AMRO") for the amount of $75.0 million and in January 2008, the Group repaid the loan and outstanding interest of $0.4 million from the proceeds received under a new syndicated loan facility of $150.0 million with ABN AMRO and ING Bank N.V. ("ING"). Under the new loan facility, initially the interest rate was LIBOR plus 2.35 percent for the first six months from receipt of each loan tranche which the Group paid in the total amount of $3.5 million, and thereafter the loan tranches bore floating interest rate of LIBOR plus 2.75 percent (4.4 percent at 31 December 2008) payable quarterly. The Group pledged as collateral 26 percent of shares in its wholly owned subsidiary IG Holdings Limited. The Group fully repaid the loan in February 2009 (note 24).

Amsterdam Trade Bank. In November 2007, the Group obtained a US dollar-denominated loan from Amsterdam Trade Bank, a subsidiary of Alfa-Bank, in the amount of $80.0 million. Initially the loan bore a floating annual interest rate of LIBOR plus 4.8 percent plus a facility fee of 0.5 percent per annum which the Group paid until October 2008 in the total amount of $5.2 million. Further the Group agreed to a fixed effective interest rate of 18.0 percent from November to December 2008 and a fixed effective interest rate of 19.0 percent, thereafter, payable monthly. The Group pledged as collateral 100 percent of the shares in its wholly owned subsidiary URBO and secured the loan by certain of the Group's sales contracts. The loan was repaid in full in January 2009 (note 24).

Sberbank. In November 2007, the Group entered into Russian rouble-denominated loan facility with Sberbank in the amount of RR 600.0 million ($16.8 million equivalent at 31 December 2007), bearing a fixed annual interest rate of 10.3 percent payable monthly. The Group fully repaid the loan in October 2008.

In May and October 2008, the Group entered into a Russian rouble-denominated loan facility agreements with Sberbank for the amounts of RR 20.0 million and RR 600.0 million ($0.7 million and $20.4 million at 31 December 2008, respectively). The loan facilities bear fixed annual interest rates of 15.2 percent and 15.5 percent per annum payable monthly maturing in May and October 2009, respectively.

Uralsib. In September 2008, the Group entered into a Russian rouble-denominated loan facility agreement with Urals Siberian Bank (Uralsib) for a total amount of RR 600.0 million ($20.4 million at 31 December 2008) bearing a fixed annual interest rate of 13.5 percent payable monthly. The Group fully repaid the loan in March 2009 (note 24).

Alfa-Bank. In November 2008, the Group fully repaid the loans outstanding at 31 December 2007 in the amount of $9.2 million. In April 2008, the Group obtained a Russian rouble-denominated loan from Alfa-Bank in the amount of RR 100.0 million ($3.4 million at 31 December 2008). The loan bore a fixed annual interest rate of 13.5 percent per annum to November 2008 and 17.1 percent per annum thereafter, payable monthly. At 31 December 2008, the Group had certain of its property, plant and equipment with a carrying value equivalent to $6.0 million pledged as collateral for the loan. The Group repaid the loan in January 2009 (note 24).

(expressed in US dollars (tabular amounts in thousands), except as indicated)

18 Borrowings (continued)

Other. At 31 December 2008 and 2007, other short-term borrowings of $6.8 million and $1.1 million, respectively, were collateralized by certain of the Group's property, plant and equipment with carrying value equivalent to nil and $2.4 million, respectively.

Long-term borrowings. The borrowings due after more than one year include the following:

	31 December:	
	2008	**2007**
Bonds	169,305	202,114
Alfa-Bank	-	14,939
Sberbank	3,916	3,775
Comerzbank Eurasia	3,726	-
Other	3,890	10,332
Subtotal	180,837	231,160
Less: current portion of long-term borrowings	(177,784)	(20,945)
Total long-term financial liabilities	**3,053**	**210,215**

Bonds. In March 2006, the Group issued Russian rouble-denominated bonds with a total nominal value of RR 2.0 billion ($68.1 million at 31 December 2008). The bonds bear fixed interest of 10.5 percent per annum, payable semi-annually. The bonds were repaid in full in March 2009 (note 24).

In December 2006, the Group issued Russian rouble-denominated bonds with a total nominal value of RR 3.0 billion ($102.1 million at 31 December 2008). The bonds bear fixed interest of 10.7 percent per annum, payable semi-annually, and mature in November 2011. The bonds were classified as short-term due to a put option held by the bondholders and expected to be exercised in December 2009.

At 31 December 2008 and 2007, the outstanding balances of $169.3 million and $202.1 million were recognized net of the unamortized amounts of the borrowing costs of $0.9 million and $1.6 million, respectively.

Alfa-Bank. In August and November 2008, the Group fully repaid the loans outstanding at 31 December 2007 in the amount of $14.9 million.

Sberbank. In December 2007, the Group entered into a Russian rouble-denominated loan facility with Sberbank in the total amount of RR 115.0 million ($3.9 million equivalent at 31 December 2008). Initially the loan bore a fixed interest rate of 11.0 percent per annum payable monthly, and in September 2008 the Group agreed with the bank to increase the fixed interest rate to 13.0 percent per annum to December 2008 and 16.0 percent per annum thereafter. The loan matures in February 2011. At 31 December 2008, the Group had certain of its property, plant and equipment with carrying value equivalent to $2.8 million pledged as collateral to the loan.

Commerzbank Eurasia. In March 2008, the Group entered into a euro-denominated loan facility with Commerzbank Eurasia of which 2.6 million euros ($3.7 million) were outstanding at 31 December 2008. The loan facility bears floating interest rate of EURIBOR plus 2.2 percent per annum (5.1 percent per annum at 31 December 2008) payable monthly. The Group repaid the loan in March 2009 (note 24).

(expressed in US dollars (tabular amounts in thousands), except as indicated)

18 Borrowings (continued)

Interest expense. Interest expense for the years ended 31 December 2008 and 2007 comprised the following:

	Year ended 31 December:	
	2008	**2007**
Short-term borrowings		
Renaissance Capital	-	15,424
ABN AMRO & ING	10,761	1,263
Amsterdam Trading Bank	6,821	1,740
Sberbank	3,159	702
Alfa-Bank	3,958	3,308
Other	2,156	6,168
Total interest expense on short-term borrowings	**26,855**	**28,605**
Long-term borrowings		
Bonds	21,533	20,757
Facility Agreement	-	3,746
Senior Notes and Restructured Senior Notes	-	2,064
Other	1,047	3,984
Total interest expense on long-term borrowings	**22,580**	**30,551**
Total interest expense	**49,435**	**59,156**

In 2007, the short-term and long-term interest of $15.4 million and $5.8 million, respectively, related to the borrowings obtained prior to IPO and repaid from the IPO proceeds (note 19).

(expressed in US dollars (tabular amounts in thousands), except as indicated)

19 Share Capital

The following table summarizes the change in share capital for the year ended 31 December 2008

	Number of common shares:		Number of preferred shares:					
	Class A	Class B	Series A	Series B	Share Premium	Treasury shares	Warrants	Total share capital
Balance at 31 December 2006	**2,085,844**	**940,000**	**598,862**	**1,156,585**	**217,354**	**(1,598)**	**116**	**215,872**
Initial Public Offering	1,791,676	-	-	-	558,518	-	-	558,518
Issuance of Class A common shares from exercise of warrants connected with Senior Notes	101,393	-	-	-	1,533	-	(116)	1,417
Issuance of Class A common shares from exercise of warrants connected with Facility Agreement	62,686	-	-	-	15,750	-	-	15,750
Conversion of Series A and Series B preferred shares into Class A common shares	1,755,447	-	(598,862)	(1,156,585)	-	-	-	-
Exercise of Class B common shares	200,000	(200,000)	-	-	2,400	-	-	2,400
Exercise of stock options	147,661	-	-	-	1,985	-	-	1,985
Share-based compensation (note 20)	-	-	-	-	35,281	-	-	35,281
Balance at 31 December 2007	**6,144,707**	**740,000**	**-**	**-**	**832,821**	**(1,598)**	**-**	**831,223**
Issuance of Class A common shares on acquisition of NKRS and STS	109,489	-	-	-	27,000	-	-	27,000
Re-imbursement of IPO-related costs	-	-	-	-	6,238	-	-	6,238
Exercise of stock options – for cash	91,333	-	-	-	2,235	-	-	2,235
Exercise of stock options – cashless	65,596	-	-	-	-	-	-	-
Share-based compensation from issuance of Class A common shares to management	5,000	-	-	-	882	-	-	882
Share-based compensation from stock option plan (note 20)	-	-	-	-	18,086	-	-	18,086
Balance at 31 December 2008	**6,416,125**	**740,000**	**-**	**-**	**887,262**	**(1,598)**	**-**	**885,664**

Class A and Class B common shares. Each Class A common share has a nominal value of $0.0001 (one ten-thousandth of one US dollar). The holders of Class A common shares have a residual interest in the assets of the Group after deducting all of its liabilities and have voting rights equal to the number of shares held. The holder of the Class B common shares, the beneficiary of whom is the CEO of the Group, is entitled to cast a vote on each share equal to that of one Class A common share on all matters submitted to a vote of Class A common shareholders.

In 2007, at the request of the holder, the Group exchanged 200,000 Class B common shares into 200,000 Class A common shares at the exchange price of $12.0 per share for total cash proceeds of $2.4 million.

Originally, the holder of the remaining 740,000 Class B common shares was entitled to exchange them one for one for Class A common shares for an exchange price of $12.00 per share. In December 2008, the Group agreed with the holder to reinstate the vesting period which had expired and to increase the exchange price for conversion into Class A common shares to $34.39 per share in exchange for discharge of a loan (note 22). Because of the exchange option, the Class B common shares are accounted for as share-based compensation in these consolidated financial statements (note 20).

19 Share Capital (continued)

Initial public offering. In February 2007, the Group completed its Initial Public Offering ("IPO") of 1,791,676 Class A common shares on the London Stock Exchange ("LSE") in the form of 35,833,520 Global Depository Receipts ("GDRs"), each with a nominal value of 0.0001 per GDR and 20 GDRs representing an interest in one common share. The offering was at a price of $335.00 per share or $16.75 per GDR.

The Group raised $600.2 million in cash from the offering, inclusive of $41.7 million of associated transaction fees. As a result, the Group's proceeds from the IPO, net of directly attributable costs, were $558.5 million.

During 2008, the Group received $6.2 million upon fulfillment of certain contractual conditions with its depository bank associated with the IPO completed in February 2007.

Conversion of Series A and Series B preferred shares into Class A common shares. As a result of the IPO, all Series A and Series B preferred shares were converted into Class A common shares on a one-for-one basis in accordance with the terms of their respective certificates of designation.

Issuance of Class A common shares from exercise of warrants. In February 2007, a total of 12,400 warrants were exercised in exchange for 101,393 Class A common shares. The total par value of the newly issued Class A common shares of $1.5 million is comprised of the initial fair value of $0.1 million assigned upon issuance of the warrants and the cash proceeds of $1.4 million received upon exercise of the warrants into common shares.

In February 2007, warrant holders exercised 90,000 warrants in exchange for 62,686 Class A common shares at an exercise price of $251.25 per common share. The Group received total proceeds of $15.8 million from the exercise of these warrants.

Issuance of shares on acquisition of NKRS & STS. In May 2008, the Group issued 109,489 Class A common shares at $246.6 per share for a total value of $27.0 million as a part of a total consideration paid for the acquisition of NKRS & STS (note 5).

Issuance of Class A common shares to management. In July 2008 and September 2008, the Group issued 5,000 Class A common shares to certain management as compensation for services performed. The total grant date fair value of the shares issued was $0.8 million.

Exercise of stock options. In 2008, option holders exercised 163,314 stock options into 156,929 Class A common shares, including 91,333 shares issued for cash proceeds of $2.2 million and 65,596 shares issued through cashless transactions under which 6,385 stock options were cancelled in lieu of payment of the exercise price of the options. In 2007, the option holders exercised 65,834 stock options into 65,834 Class A common shares for total cash proceeds of $2.0 million and 84,641 stock options were exercised into 81,827 Class A common shares through cashless transactions under which 2,814 common shares were cancelled in lieu of payment of the exercise price of the options.

(expressed in US dollars (tabular amounts in thousands), except as indicated)

20 Share-based Compensation

Stock Option Plan. In 2008 and 2007, the Group's Board of Directors authorized the issuance of an additional 158,751 and 92,784 options, respectively, to purchase the Group's Class A common shares. At 31 December 2008 and 2007, a total of 157,833 and nil options, respectively, remained available to grant. Options granted vest over periods of up to four years and are exercisable for ten years from the grant date. Vesting provisions differ by award.

Options outstanding. The following summarizes information about stock options movements including Class B common shares:

	Weighted average exercise price in USD $ per share	Number of Options
Options outstanding at 31 December 2006	**$56.24**	**2,035,087**
Granted	335.83	160,600
Exercised	15.36	(350,475)
Forfeited	16.00	(26,666)
Options outstanding at 31 December 2007	**$89.40**	**1,818,546**
Granted (including Class B shares which terms were changed, note 22)	79.67	970,750
Exercised	28.27	(163,314)
Unvested forfeited	228.37	(166,331)
Vested expired unexercised (including Class B shares whose terms were changed)	30.70	(803,501)
Options outstanding at 31 December 2008	**$104.25**	**1,656,150**

In 2008 and 2007, the total grant date fair value of stock options granted were $27.5 million and $24.7 million, respectively.

	Number of Options outstanding			Number of Options exercisable	
Range of exercise prices (in US dollars per share)	**Number of options outstanding**	**Weighted-average remaining contractual life (years)**	**Weighted average exercise price**	**Options exercisable at year end**	**Weighted average exercise price**
$4.00 - $34.39	1,098,016	6.9	$30.69	358,016	$25.37
$91.00 - $250.00	287,034	8.4	$192.54	137,371	$208.98
$275.00 - $382.00	271,100	8.7	$305.65	143,246	$312.34
	1,656,150		**$104.25**	**638,633**	**$197.79**

The Black-Scholes option valuation model is used for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Based on the assumptions below, the weighted average fair value of employee stock options granted in 2008 and 2007 was $119.2 and $154.09 per option, respectively. The significant inputs into the option valuation model were as follows.

	Awards granted during the Year ended 31 December:	
	2008	**2007**
Share price	$91.0 – $278.0	$301.0 – 382.0
Dividend yield	-	-
Expected volatility	45.0% - 155.0%	40.0%
Risk-free interest rate	2.4% – 4.0%	3.5% – 5.0%
Expected life	5 – 8 years	5 – 7 years

The loan issued to management in the amount of $11.5 million and subsequently discharged through revision of the terms of the Class B common shares is included into the total share-based compensation expense of $30.5 million (note 22).

(expressed in US dollars (tabular amounts in thousands), except as indicated)

21 Loss per Share

The following table sets forth the computation of basic and diluted loss per share.

	Year ended 31 December:	
	2008	**2007**
Numerator		
Loss attributable to shareholders of Integra Group for basic earnings per share	(263,439)	(45,750)
Loss attributable to shareholders of Integra Group for diluted earnings per share	(263,439)	(45,750)
Denominator		
Weighted average number of common shares outstanding during the year – basic and diluted	6,307,159	5,596,984
Basic and diluted loss per share (in US dollars per share)	(41.8)	(8.17)

At 31 December 2008 and 2007, the conversion of exercisable stock options would be accretive because they result in a reduction in diluted loss per share from $41.8 to $36.0 and from $8.17 to $6.43, respectively, and are ignored for purpose of the calculation of diluted loss per share.

22 Related Party Transactions

The related parties with whom the Group had significant transactions with during the years ended, or had significant balances outstanding as of 31 December 2008 and 2007, are an affiliate of the Chairman of the Board of Directors, the Group's associates (note 14) and certain third parties related through common directorship. Details of transactions between the Group and related parties are disclosed as follows:

	Year ended 31 December:	
	2008	**2007**
Sales of production services by Integra to related parties	3,146	13,292
Sales of management services by Integra Group to related parties	-	685
Purchase of administrative services by Integra Group from related parties	(300)	(300)
Purchase of materials by Integra Group	(10,010)	(2,846)
Purchase of formation evaluation services by Integra Group	-	(5,030)
Purchase of property, plant and equipment by Integra Group from related parties	(695)	-
Other income	622	682

	Year ended 31 December	
	2008	**2007**
Trade receivables, net	565	3,653
Advances received	(576)	-
Trade payables, current	(3,026)	(5,703)
Loans issued to employees	337	1,432

Third parties related through common directorship. During 2008 and 2007, the Group entered into contracts with certain third parties: (a) to sell oilfield services to certain third parties for a total amount of $2.9 million and $6.9 million, respectively, and (b) to purchase materials and property, plant and equipment and services used by the Group in its operating activities for a total amount of $10.5 million and $3.8 million, respectively.

Management compensation. During 2008 and 2007, the Group's senior management team comprised eighteen and eight individuals whose compensation totalled $24.1 million and $22.4 million, respectively, including salary, bonuses and other benefits of $7.2 million and $5.4 million, respectively, and share-based compensation of $16.9 million and $17.0 million, respectively.

22 Related Party Transactions (Continued)

Administrative services contract. During each of 2008 and 2007, the Group incurred expenses of $0.3 million under an administrative services contract with an affiliate of the Chairman of the Board of Directors.

Loans provided to employees. Between July 2006 and April 2007, the Group issued a number of Russian rouble-denominated loans to its employees in the amount equivalent to $1.4 million. In 2008, certain employees repaid their loans in full and a balance of $0.3 million remained at 31 December 2008.

Loan provided to management. Between September 2008 and December 2008, the Group advanced several payments under the loan facility in the total amount of $11.0 million to Starway Finance Limited (SFL), an entity 100 percent owned by Starway Partners LDC (SPL) which, in turn, is 100 percent owned by the Group's chief executive officer (CEO) . Each advance was made on a secured basis on commercial terms and was approved by the Group's board of directors. In December 2008, the outstanding loan and accrued interest in the total amount of $11.5 million were discharged in full by increasing the conversion price for 740,000 Class B common shares held by SPL which are convertible into Integra Group's Class A common shares from $12.00 per share to $34.39 per share. The vesting provisions of these shares were modified such that 370,000 shares vest in December 2009 and 370,000 shares vest in December 2010 so long as the CEO continues to be employed by the Group. The expiration date of the conversion right was also modified and is now July 2015.

In December 2008, the Group charged the entire amount of the loan of $11.5 million as a share-based compensation expense in the Group's consolidated statement of income and, if and when these Class B shares are converted, will credit the full exercise proceeds to the share premium.

23 Contingencies, Commitments and Operating Risks

Operating environment of the Group. The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian rouble has depreciated significantly against some major currencies. The Russian Federation Central Bank (RF CB) official Russian rouble to US dollar exchange rate increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 33.25 at 30 April 2009.

Due to increased market volatility, one-day MosPrime rate fluctuated between 4,75 percent per annum and 25.2 percent per annum from 31 December 2008 to 28 February 2009.

International reserves of the Russian Federation decreased from $556.8 billion at 30 September 2008 to $427.1 billion at 31 December 2008 and to $384.8 billion at 30 April 2009.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price of Urals oil decreased from $95.84 at 29 September 2008 to $41.83 at 31 December 2008 and $47.47 at 30 April 2009.

A number of measures have been undertaken to support the Russian financial markets, including the following:

- In October 2008 the RF CB reduced the mandatory reserves ratio to 0.5 percent and raised the guarantee repayment of individual deposits under the state deposit insurance scheme to RR 0.7 million per individual in case RF CB withdraws of a licence of a bank or a CBRF-imposed moratorium on payments.
- The list of assets which can be pledged under repurchase agreements with the CBRF was significantly extended.

23 Contingencies, Commitments and Operating Risks (continued)

Russian Federation (continued). The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Group may also be adversely affected by the financial and economic environment which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in their impairment assessments.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

Contractual commitments and guarantees. In the normal course of business, the Group entered into contracts for the purchase of property, plant and equipment and other assets. At 31 December 2008 and 2007, the Group had unpaid contractual commitments of $12.6 million and $42.4 million, respectively.

Employee benefits. A number of the Group operating entities have existing contractual commitments under collective agreements requiring them to provide certain social and other benefits to their employees. The terms and conditions of each collective agreement are specific to each particular operating entity and actual annual outlays can vary from entity to entity. The Group recorded a liability in the amount of $0.8 million in these consolidated financial statements upon receiving an independent actuarial assessment of its obligation for one-time retirement grants provided for in the collective agreements.

Environmental matters. The enforcement of environmental regulation in 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 recognized 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.

Taxation. Tax, currency and customs legislation of various jurisdictions in which the Group has its operations 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. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. 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.

The expansion of the Group's overseas operations results in increased tax risks in additional jurisdictions outside of the Russian Federation.

As of 31 December 2008, management believes that its interpretation of the relevant legislation is appropriate and that 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 has been accrued for in these financial statements.

23 Contingencies, Commitments and Operating Risks (continued)

Insurance policies. The Group holds certain insurance policies in relation to its operations and assets including, but not limited to, life insurance of employees, in respect of public liability and other insurable risks. The Group has Directors and Officers insurance policies in respect of its public liability. The Group management believes it has sufficient insurance coverage to correspond with the risks associated with its operations.

Legal proceedings. At 31 December 2008, the Group was involved in a number of court proceedings, both as a plaintiff and a defendant, arising in the ordinary course of business. The Group management believes that there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations or financial position of the Group and which have not otherwise been accrued or disclosed in these consolidated financial statements.

24 Subsequent Events

EBRD loan. In December 2008, the Group entered into a loan agreement with the European Bank for Reconstruction and Development (EBRD) which acts as a lender of a record on behalf of a consortium of certain banks for a total amount of $250.0 million. The loan is split into several tranches received from February 2009 and repayable in certain installments between March 2010 and December 2013. The loan tranches bear floating interest rates of LIBOR plus 7.0 percent per annum for three year tranche and between LIBOR plus 8.0 percent per annum and LIBOR plus 12.0 percent for five year tranches, respectively, payable quarterly.

The loan agreement provides for the Group to comply with various covenants including certain financial ratios. Prior to issuing these consolidated financial statements, the Group obtained a letter from the EBRD which amended the Total Indebtedness to Tangible Net Worth covenant through the end of 2009. As a result, at 31 December 2008, the Group is in compliance with the financial covenants under the loan. If the Group is in breach with the financial ratios at 30 June 2009, the management expects that a waiver will be obtained from the lenders. Additionally, the Group is required to deposit monthly at least RR 300.0 million ($10.2 million at 31 December 2008) into an escrow bank account to accumulate funds sufficient for repayment of the bonds in the amount of RR 3.0 billion ($102.1 million equivalent at 31 December 2008) maturing in November 2011 with a one-time put option in December 2009. After the put option expires, the unused amounts in an escrow account are required to be used to make a partial payment to EBRD. Additionally, the Group is required to prepay to the banks the loan in the amount of any other financing raised by any member of the Group other than short-term loans for working capital purposes. The loan is secured by a pledge of 99.97 percent of IGHL's shares along with the shares of certain Group's subsidiaries and certain property, plant and equipment and an assignment of monetary claims under certain services contracts.

The Group received the loan tranches in February and March 2009 and used the proceeds of the loan to repay its maturing debt, including bonds (note 18), and to finance its capital expenditures.

Bonds repurchase. In January 2009, the Group repurchased 20,000 bonds maturing in November 2011 for RR 16.3 million ($0.5 million).

Interest rate swap transaction. In April 2009, the Group entered into an interest rate swap transaction agreement with BNP Paribas maturing in December 2011 under which the Group effectively converted the floating interest rates under the EBRD loan into fixed rates.

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