Integra Group

Consolidated Financial Statements
as of and for the Year Ended
31 December 2009

ZAO PricewaterhouseCoopers Audit
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INDEPENDENT AUDITOR'S REPORT

To the shareholders and Board of Directors of Integra Group:

We have audited the accompanying consolidated financial statements of Integra Group and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

29 April 2010
Moscow, Russian Federation

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Integra Group
Consolidated Statement of Comprehensive Income
(expressed in thousands of US dollars, except as indicated)

	Note	Year ended 31 December: 2009	2008
Sales	6	836,184	1,445,891
Cost of sales	6,7	(722,776)	(1,225,819)
Gross profit		**113,408**	**220,072**
Selling, general and administrative expenses	6,8	(152,148)	(315,696)
Impairment of property, plant and equipment	13	(26,296)	-
(Loss) gain from disposal of property, plant and equipment		(2,109)	1,676
Goodwill impairment	14	(18,925)	(99,109)
Gain from disposal of subsidiaries	5	10,195	-
Operating loss		**(75,875)**	**(193,057)**
Interest income		5,259	4,905
Interest expense	19	(55,488)	(49,435)
Exchange gain (loss)		13,699	(20,378)
Share of results of associates	15	(828)	(856)
Loss before income tax		**(113,233)**	**(258,821)**
Current income tax expense		(26,510)	(51,975)
Deferred income tax benefit	18	20,865	38,879
Income tax expense	18	(5,645)	(13,096)
Loss for the year		**(118,878)**	**(271,917)**
(Loss) profit attributable to:			
Shareholders of Integra Group		**(119,059)**	**(263,439)**
Non-controlling interest		181	(8,478)
Loss per share, basic and diluted (in US dollars per share)	22	(17.0)	(41.8)
Weighted average shares outstanding, basic and diluted	22	7,009,029	6,307,159

	Note	2009	2008
Other comprehensive income or loss			
Loss for the year		(118,878)	(271,917)
Effect from foreign exchange hedge	4	1,745	-
Exchange loss from translation to presentation currency		(31,350)	(143,651)
Comprehensive loss for the year		**(148,483)**	**(415,568)**
Comprehensive loss attributable to:			
Shareholders of Integra Group		**(146,478)**	**(398,626)**
Non-controlling interest		(2,005)	(16,942)

Approved for issue and signed on behalf of the Board of Directors on 29 April 2010

A.J. Campo Mejia
Chief Executive Officer

D.V. Avdeev
Chief Financial Officer

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

		31 December:	
	Note	**2009**	**2008**
Assets			
Cash and cash equivalents	10	37,272	62,393
Trade and other receivables	11	260,405	357,359
Inventories	12	98,538	146,501
Total current assets		**396,215**	**566,253**
Property, plant and equipment	13	377,215	510,066
Goodwill and intangible assets	14	104,269	166,968
Investments in associates	15	15,116	16,446
Deferred income tax assets	18	6,225	1,920
Loans provided and other assets	16	6,897	14,149
Total non-current assets		**509,722**	**709,549**
Total assets		**905,937**	**1,275,802**
Liabilities and equity			
Accounts payable and accrued liabilities	17	224,195	279,105
Income tax payable		1,883	19,443
Other taxes payable	18	34,958	48,770
Borrowings	19	70,227	394,502
Total current liabilities		**331,263**	**741,820**
Borrowings	19	142,474	3,053
Deferred income tax liability	18	18,885	37,653
Other non-current liabilities		903	812
Total non-current liabilities		**162,262**	**41,518**
Total liabilities		**493,525**	**783,338**
Share capital	20	982,698	885,664
Cumulative translation reserve		(106,471)	(77,307)
Accumulated deficit		(481,468)	(357,003)
Total equity attributable to shareholders of Integra Group		**394,759**	**451,354**
Non-controlling interest		17,653	41,110
Total equity		**412,412**	**492,464**
Total liabilities and equity		**905,937**	**1,275,802**

(expressed in thousands of US dollars)

	Notes	Year ended 31 December: 2009	2008
Cash flows from operating activities			
Loss before taxation		(113,233)	(258,821)
Adjustments for:			
Goodwill impairment	14	18,925	99,109
Gain from disposal of subsidiaries	5	(10,195)	-
Impairment of property, plant and equipment	13	26,296	-
Depreciation and amortization	7,8,13,14	141,556	225,401
(Profit) loss on disposal of property, plant and equipment		2,109	(1,676)
Interest expense, net	19	50,229	44,530
Share-based compensation	20,21	8,509	30,476
Share of results of associates	15	828	856
Receivables and inventories impairment and other write-offs		(972)	52,047
Exchange loss (gain)		(13,699)	20,378
Other		(161)	1,367
Operating cash flows before working capital changes		**110,192**	**213,667**
Change in trade and other receivables		75,529	(100,847)
Change in inventories		38,430	(1,697)
Change in accounts payable and accrued liabilities		(48,421)	108,253
Change in other taxes payable		1,896	22,845
Operating cash flows before interest and income taxes		**177,626**	**242,221**
Income tax paid		(19,342)	(56,810)
Interest paid		(40,767)	(50,520)
Net cash provided by (used in) operating activities		**117,517**	**134,891**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(43,529)	(157,778)
Proceeds from the disposal of property, plant and equipment		2,903	13,146
Cash paid for purchase of interest in subsidiaries, net of cash acquired		-	(31,820)
Cash paid for purchase of interest in non-controlling interest		(16,235)	(9,129)
Loans provided		(1,737)	(11,862)
Proceeds from repayment of loans		232	11,348
Interest received		4,485	2,091
Other		(777)	(2,908)
Net cash used in investing activities		**(54,658)**	**(186,912)**
Cash flows from financing activities:			
Proceeds from issuance of shares, net of transaction costs	20	88,525	-
Proceeds from exercise of Class B common shares and share options	20	-	2,235
Proceeds from borrowings		255,437	248,780
Repayment of borrowings		(440,953)	(224,123)
Reimbursement of IPO costs from a depository bank	20	-	6,238
Net cash provided by financing activities		**(96,991)**	**33,130**
Net increase in cash and cash equivalents		**(34,132)**	**(18,891)**
Cash and cash equivalents at the beginning of the year		62,393	101,998
Effect of exchange differences on cash balances		9,011	(20,714)
Cash and cash equivalents at the end of the year		**37,272**	**62,393**

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

Consolidated Statement of Changes in Equity

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

	Note	Share capital	Cumulative translation reserve	Accumulated deficit	Consolidated equity attributable to shareholders of Integra Group	Non-controlling interest	Total consolidated statement of changes in equity
Balance at 31 December 2007		**831,223**	**57,880**	**(75,521)**	**813,582**	**78,762**	**892,344**
Total comprehensive loss for the period		-	(135,187)	(263,439)	(398,626)	(16,942)	(415,568)
Total		**831,223**	**(77,307)**	**(338,960)**	**414,956**	**61,820**	**476,776**
Exercise of share options	20	2,235	-	-	2,235	-	2,235
Share-based compensation from issuance of Class A common shares to management	20,21	882	-	-	882	-	882
Share-based compensation from the stock option plan	21	18,086	-	-	18,086	-	18,086
Issuance of shares upon acquisition of NKRS & STS	20	27,000	-	-	27,000	-	27,000
Reimbursement of IPO costs	20	6,238	-	-	6,238	-	6,238
Purchase of non-controlling interest in subsidiaries	5	-	-	(18,043)	(18,043)	(20,710)	(38,753)
Balance at 31 December 2008		**885,664**	**(77,307)**	**(357,003)**	**451,354**	**41,110**	**492,464**
Total comprehensive loss for the period		-	(29,164)	(117,314)	(146,478)	(2,005)	(148,483)
Total		**885,664**	**(106,471)**	**(474,317)**	**304,876**	**39,105**	**343,981**
Issuance of Class A common shares to London Stock Exchange	20	88,525	-	-	88,525	-	88,525
Share-based compensation from issuance of Class A common shares to management	20,21	202	-	-	202	-	202
Share-based compensation from stock option and RSU plans	20,21	8,307	-	-	8,307	-	8,307
Purchase of non-controlling interest in subsidiaries	5	-	-	(7,151)	(7,151)	(21,452)	(28,603)
Balance at 31 December 2009		**982,698**	**(106,471)**	**(481,468)**	**394,759**	**17,653**	**412,412**

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

(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") and other countries outside of the CIS. The Group also performs some research and development in the United States of America, and some of the Group's holdings are registered in Cyprus and the Netherlands.

Integra was incorporated in the Cayman Islands in March 2004, and through a number of strategic acquisitions, the Group became a leading independent diversified operator. Since February 2007, Integra's Class A common shares in the form of global depository receipts have been traded on the London Stock Exchange under the symbol INTE.

The Group's main operating subsidiaries are described below as of 31 December 2009 and 2008. Certain subsidiaries providing procurement, research and development and administrative functions are not presented. Acquisitions made in 2008 are discussed in note 5. Segment information is provided in note 6.

			Effective control at 31 December:	
Full description	**Short description**	**Country of incorporation**	**2009**	**2008**
Drilling, Workover, Integrated Project Management ("IPM")				
OOO Integra-Drilling	Integra Drilling	Russian Federation	100.0%	100.0%
OOO Smith Production Technology	Smith Production Technology	Russian Federation	100.0%	100.0%
ZAO Obnefteremont	Obnefteremont	Russian Federation	100.0%	100.0%
Technology Services				
OOO VNIIBT Drilling Instruments	Drilling Tools	Russian Federation	100.0%	100.0%
OOO Smith Siberian Services	Smith Siberian Services	Russian Federation	100.0%	100.0%
OOO Integra-Services	Integra-Services	Russian Federation	100.0%	100.0%
OOO Geophyzservice	Geophyzservice	Russian Federation	100.0%	100.0%
Formation Evaluation				
OAO Yamalgeophyzika	Yamalgeophyzika	Russian Federation	-	69.8%
OAO Tyumenneftegeophyzika	Tyumenneftegeophyzika	Russian Federation	-	75.1%
OAO Integra-Geophyzika	Integra Geophysics	Russian Federation	98.8%	100.0%
OOO Geoprime	Geoprime	Russian Federation	100.0%	100.0%
JSC Azimuth Energy Services	Azimuth Energy Services	Kazakhstan	95.2%	95.2%
JSC Geostan	Geostan	Kazakhstan	99.5%	99.5%
Manufacturing				
ZAO URBO	URBO	Russian Federation	100.0%	100.0%
OOO Stromneftemash	Stromneftemash	Russian Federation	100.0%	100.0%

In April 2008, the Group established Integra-Geophysics which is included in the Group's formation evaluation segment. In 2009, in the restructuring process the Group effected the following changes in its structure:

(a) The Group acquired an additional interest in Yamalgeophyzika and Tyumenneftegeophyzika and initiated a merger of Yamalgeophyzika, Tyumenneftegeophyzika and ZAO Tomsky Geophyzichesky Trest with Integra Geophysics (note 5);

(b) The Group merged OOO Yuganskpromgeophyzika and OAO Purgeophyzika with OOO Geophyzservice;

(c) The Group merged OOO Tomskkaya Geophyzicheskaya Kompaniya and OOO Irtyshgeophyzika with OOO Geoprime.

At 31 December 2009 and 2008, the main consolidated equity associates of the Group engaged in the formation and evaluation services and were as follows:

		Effective ownership at 31 December:	
Full description	**Short-description**	**2009**	**2008**
OAO Nizhnevartovskneftegeophysika	Nizhnevartovskneftegeophysika	35.7%	35.7%
OAO Stavropolneftegeophyzika	Stavropolneftegeophyzika	25.4%	25.4%
ZAO Neftegeotechnology	Neftegeotechnology	65.2%	65.2%

1 General Information (continued)

The Group's interest in Neftegeotechnology is comprised of a 49.0 percent direct investment and a 16.2 percent indirect investment via the Group's non-controlling interest in Nizhnevartovskneftegeophysika, which is not controlled by the Group. Because Neftegeotechnology is a subsidiary of Nizhnevartovskneftegeophysika Neftegeotechnology is accounted for as an equity associate (note 15).

2 Summary of Significant Accounting Policies

2.1 Going concern and basis of preparation. These consolidated financial statements have been prepared 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 in the foreseeable future. The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. These consolidated financial statements are presented in US dollars.

The Group's loss decreased significantly from $271.9 million in 2008 to 118.9 million in 2009 primarily due to decrease in impairment of goodwill and intangible assets (note 14), lower provisions for accounts receivable (note 11) and inventory (note 12), and cost optimization measures undertaken by the Group late in 2008. These measures included reduction in production and selling, general and administrative expenses such as employee costs, transport and rent expenses, consulting fees and realized benefits from lower prices for materials and supplies (notes 7 and 8). The Group focused on optimization of its capital expenditures, utilization of its existing production capacity and strengthening its working capital through tight controls over its accounts receivable, payable and inventories.

In 2009, in addition to the measures described above the Group bolstered its liquidity position with the following key steps:

(a) Between February 2009 and May 2009, the Group received $250.0 million under the EBRD syndicated loan, from which it repaid certain of its debt due including the RR 2.0 billion ($59.0 million) bonds in March 2009 (note 19).

(b) In September 2009, the Group sold 1.9 million Class A common shares in the form of 38.0 million global depository receipts to the London Stock Exchange for $88.5 million of cash net of the transaction costs (note 20) from which it prepaid $66.5 million of the EBRD syndicated loan (note 19).

(c) In December 2009, the Group redeemed RR 361.0 million ($11.9 million) of the bonds and extended the maturity of RR 2.6 billion ($87.3 million) of the remaining bonds till November 2011 by offering a market annual fixed interest rate of 16.75 percent and certain other conditions and further prepaid $90.2 million of the EBRD syndicated loan from the proceeds accumulated on the escrow account for the repayment of the RR 3.0 billion ($99.2 million) bonds in December 2009 (note 19).

As a result, in 2009, the Group reduced its total debt by $184.9 million from $397.6 million outstanding at 31 December 2008 to $212.7 million outstanding at 31 December 2009 and extended the maturity of the significant debt amount till November 2011 and thereafter. In April 2010, the Group entered into a loan facility with Sberbank for $84.9 million the proceeds of which were used to refinance the EBRD syndicated loan in full and entered into loan facility with VTB Bank in the total amount of $40.0 million (note 25). The Group expects to comply with the covenants imposed by its lenders after 31 December 2009.

Despite the turbulence in the economic and financial environment in 2008 and 2009, the Group did not default on any of its debt commitments and pro-actively managed its economic and financial requirements. The Group's management is confident that the Group will continue as a going concern.

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. Its 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.

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

2 Summary of Significant Accounting Policies (continued)

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. The Group's management have used the US dollar to manage most financial risks and exposures, agree terms for acquisitions and to measure performance of the Group. The Group's 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 reporting date. Any resulting exchange differences are included in the profit or loss component of the consolidated statement of comprehensive 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 the Group's subsidiaries whose functional currency is other than the US dollar are translated into US dollars at the rate of exchange ruling at the reporting 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 other comprehensive income or loss component of the consolidated statements of comprehensive income. The US dollar to Russian rouble exchange rate was 30.24 and 29.38 as of 31 December 2009 and 2008, respectively.

2.5 Non-controlling interest. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of comprehensive income and the equity in the consolidated statement of financial position. Acquisitions of non-controlling interests are accounted for using the economic entity method, whereby, the difference between the consideration payable and the carrying value of the net assets acquired is recognized in the consolidated statement of changes in equity. Non-controlling interests in other Group subsidiaries are classified within total equity in the consolidated statement of financial positions.

2.6 Change in the Group's balances at 31 December 2008. In 2009, following the completion of the purchase accounting for Nizhnevartovsk Kapitalny Remont Skvazhin and Sibirtransservice resulted in the change of the Group's opening balances as follows:

	31 December 2008		
	As previously reported	**Adjustments**	**Revised**
Assets			
Cash and cash equivalents	62,393	-	62,393
Trade and other receivables	357,359	-	357,359
Inventories	146,501	-	146,501
Goodwill and other intangible assets	166,153	815	166,968
Property, plant and equipment	511,099	(1,033)	510,066
Investments in associates	16,446	-	16,446
Deferred income tax assets	1,920	-	1,920
Loans provided and other assets	14,149	-	14,149
Total assets	**1,276,020**	**(218)**	**1,275,802**

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

2 Summary of Significant Accounting Policies (continued)

2.6 Change in the Group's balances at 31 December 2008 (continued).

	31 December 2008		
	As previously reported	**Adjustments**	**Revised**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	279,105	-	279,105
Income taxes payable	19,443	-	19,443
Other taxes payable	48,770	-	48,770
Short-term borrowings	394,502	-	394,502
Long-term borrowings	3,053	-	3,053
Deferred income tax liability	37,871	(218)	37,653
Other non-current liabilities	812	-	812
Share capital	885,664	-	885,664
Cumulative translation reserve	(77,307)	-	(77,307)
Accumulated deficit	(357,003)	-	(357,003)
Non-controlling interest	41,110	-	41,110
Total liabilities and equity	**1,276,020**	**(218)**	**1,275,802**

2.7 Business combinations and goodwill. Business combinations are accounted for using the acquisition method. The consideration transferred is measured at fair values of the assets transferred, liabilities incurred and equity interest issued by the Group to the former owners of the acquired entity. 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 consideration transferred over the share of the vair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill. If the transaction results in the excess of the acquirer's interest in the identifiable assets acquired and the liabilities assumed over the consideration transferred, the resulting gain is recognized in the profit or loss component of the consolidated statement of comprehensive income on the acquisition date. If the Group does not purchase 100 percent ownership in an acquired company, the interest of non-controlling shareholders is stated at the non-controlling interest'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 statement of financial positions, 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. If the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized in the profit or loss component of the consolidated statement of comprehensive income. If 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. The 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 profit or loss component of the consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. If there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any such changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

2 Summary of Significant Accounting Policies (continued)

2.8 Investments in associates (continued). 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.

2.9.1 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, formation evaluation and technology 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 reporting 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 as "amounts due from customers for engineering and service contract work" within "trade and other receivables". The Group presents a liability from 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) as "advances from customers" within "accounts payable and accrued liabilities".

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 profit or loss component of the consolidated statement of comprehensive 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 in the profit or loss component of the consolidated statement of comprehensive income 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 in the profit or loss component of the consolidated statement of comprehensive income over the vesting period. The total amount to be expensed is determined by reference to the fair value of the instruments measured at the grant date. Fair value is determined by using an appropriate valuation model. The 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 share options are exercised.

2 Summary of Significant Accounting Policies (continued)

2.11 Share-based compensation (continued). If the modification of original equity instruments terms occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for the services received over the period from the modification date until the date when the modified equity instrument vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If modification occurs after vesting date, the incremental fair value granted is recognized over the vesting period if an employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

The share-based compensation includes the grant date fair value of services received under a share option plan, a restricted shares 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.

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 accrued 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 profit and loss component of the consolidated statement of comprehensive 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:

Trademarks	6-17 years
Other	5–7 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 Summary of Significant Accounting Policies (continued)

2.16 Impairment of tangible and intangible assets including goodwill. At each reporting 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. If 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.

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 the profit or loss component of the consolidated statement of comprehensive income.

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 the profit or loss component of the consolidated statement of comprehensive income.

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 profit and loss component of the consolidated statement of comprehensive 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	5-20 years
Buildings	25-80 years
Plant and equipment	3-25 years
Motor vehicles	2-10 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 profit or loss component of the consolidated statement of comprehensive 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 profit and loss component of the consolidated statement of comprehensive income.

2 Summary of Significant Accounting Policies (continued)

2.18 Loans and borrowings (continues). 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 profit or loss component of the consolidated statement of comprehensive income.

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 reporting 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 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 statement of financial position 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 are 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 discount 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 in the profit or loss component of the consolidated statement of comprehensive income.

2.22 Share capital. Common shares are classified as equity. Incremental costs directly attributable to the issue of the new common shares are recognized as a deduction, net of tax, from the proceeds of the share capital issuance. The difference between the nominal value of the 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 the consolidated statement of changes in 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 the consolidated statement of changes in 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 and 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 (continues). 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 derecognising or impairment of a financial asset is recognised in the profit and loss component of the consolidated statement of comprehensive 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 profit and loss component of the consolidated statement of comprehensive 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 2008 consolidated financial statements have been adjusted to conform to presentation in the 2009 consolidated financial statements, related to the effects of changes from completion of the purchase accounting for Nizhnevartovsk Kapitalny Remont Skvazhin and Sibirtransservice (note 5).

2.25 New IFRS effective in 2009.

Presentation of financial statements. On 1 January 2009, the Group adopted IAS 1 (Revised), *Presentation of Financial Statements*. All non-owner changes in the consolidated statement of changes in equity are shown separately from owner changes in the consolidated statement of changes in equity in a performance statement. Additionally, on restatement or reclassification of comparative information, entities are required to present restated consolidated statements of financial position as at the beginning comparative period in addition to the statements of financial position at the end of the current period and comparative period.

Segment information. On 1 January 2009, the Group adopted IFRS 8, Segment Reporting which replaced IAS 14, Segment Reporting. IFRS 8 requires entities to identify its operating segments on the basis of its internal reports that are regularly reviewed by its chief operating decision maker in order to allocate resources to the segment and assess its performance. As a result, from 1 January 2009, the Group identified the following reportable segments: (i) Drilling, Workover and Integrated Project Management (IPM), (ii) Technology Services, (iii) Formation Evaluation, and (iv) Equipment Manufacturing.

Other new standards and interpretations adopted in 2009. In 2009, the Group adopted the following new standards which did not have material impact on these consolidated financial statements:

- **IFRS 2** (Amendment), Share-based Payment
- **IFRS 3** (Revised), Business Combinations
- **IFRS 5** (Amendment), Non-current Assets Held for Sale and Discontinued Operations
- **IFRS 7** (Amendment), Financial Instruments: Disclosures
- **IAS 7** (Amendment), Statement of Cash Flows
- **IAS 17** (Amendment), Leases
- **IAS 19** (Amendment), Employee Benefits
- **IAS 23** (Revised), Borrowing Costs
- **IAS 27** (Revised), Consolidated and Separate Financial Statements
- **IAS 31** (Amendment), Interest in Joint Ventures
- **IAS 32** (Amendment), Financial Instruments: Presentation
- **IAS 36** (Amendment), Impairment of Assests
- **IAS 38** (Amendment), Intangible Assets
- **IAS 39** (Amendment), Financial Instruments: Recognition and measurement
- **IFRIC 9** (Amendment) Reassessment of Embedded Derivatives
- **IFRIC 15,** Agreements for the Construction of Real Estate
- **IFRIC 16,** Hedges of a Net Investment in a Foreign Operation
- **IFRIC 17,** Distribution of Non-Cash Assets to Owners
- **IFRIC 18,** Transfers of Assets from Customers

2 Summary of Significant Accounting Policies (continued)

2.26 New IFRS effective after 31 December 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 and the Group is assessing the impact of the amended standards on its consolidated financial statements.

- **IFRS 2** (Amendment), Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements.
- **IAS 32** (Amendment), Financial Instruments: Presentation (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.
- **IAS 24** (Amendment), Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities.
- **IFRS 9**, Financial Instruments (effective for annual periods beginning on or after 1 January 2013). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets in one of two categories: at fair value or amortized cost.

The Group has reviewed and found irrelevant the following new interpretations:

- **IFRIC 19**, *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010).
- **IFRIC 14** (Amendment)**,** *Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after 1 January 2011).
- **IFRS 1,** First time adoption of International Financial Reporting Standards, (effective for annual periods beginning on or after 1 July 2010 following amendments to IFRS 7, *Financial Instruments: Disclosures* issued in March 2009).

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 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. During 2009 the Group recorded an impairment charge related to goodwill for its two cash generating units in the amount of $18.9 million (note 14). 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 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 2009 year-end assessment, the Group recorded an additional amortization of its identified intangible assets in the amount of $26.9 million (note 14).

3 Critical Estimates and Judgements (continued)

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 and contract profit margins to be earned to complete the respective contracts. Differences between such estimate and actual results may result in losses in future periods.

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 statement of financial positions 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. In 2008, the Group completed acquisition of Nizhnevartovsk Kapitalny Remont Skvazhin and Sibirtransservice 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.

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

4 Financial Risk Management

At 31 December 2009 and 2008, the Group financial instruments were as follows:

	Notes	31 December: 2009	2008
Financial assets:			
Cash and cash equivalents	10	37,272	62,393
Financial receivables	11	215,895	282,040
Loans provided and other assets	16	6,897	14,149
Total financial assets		**260,064**	**358,582**
Financial liabilities:			
Financial payables and accrued liabilities	17	136,937	135,376
Current borrowings	19	70,227	394,502
Non-current borrowings	19	142,474	3,053
Total financial liabilities		**349,638**	**532,931**

At 31 December 2009 and 2008, the carrying values of the financial assets and financial liabilities, except for the bonds, approximated their fair values.

At 31 December 2009 and 2008, the carrying and fair values of the bonds were as follows:

	31 December: 2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
RR 2.0 billion bonds issued in March 2006	-	-	68,073	51,252
RR 2.6 billion bonds re-issued in December 2009	87,256	87,343	102,109	79,543
Unamortized borrowing costs	-	-	(877)	-
Total	**87,256**	**87,343**	**169,305**	**130,795**

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

4.1.1. 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 only maintains accounts with reputable 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 focuses on servicing large independent and Russian state-owned oil and gas exploration and production customer groups which are generally believed to be creditworthy. In the contracting process the Group seeks advance payment terms and uses flexibility in price negotiations with the customers attainable from its certain cost optimization programs. 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. The Group believes that its financial receivables which are neither past due nor impaired represent low exposure to credit risk. At 31 December 2009 and 2008, the Group believes that its maximum exposure to credit risk was the carrying value of its financial assets recognized on the consolidated statement of financial position.

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

4 Financial Risk Management (continued)

4.1.1. Credit risk (continued). At 31 December 2009, the ageing of the financial receivables (note 11) was as follows:

	31 December 2009				
				Including:	
	Total before impairment provision	Impaired	Total recognized	Neither past due nor impaired	Past due but not impaired
Unbilled amounts due for engineering and service contract work	100,176	-	100,176	100,176	-
Within 90 days	85,331	(132)	85,199	80,466	4,733
91 to 360 days	26,602	(3,717)	22,885	4,570	18,315
Over 360 days	19,492	(11,857)	7,635	1,378	6,257
Total trade receivables	**231,601**	**(15,706)**	**215,895**	**186,590**	**29,305**

At 31 December 2008, the ageing of the financial receivables (note 11) was as follows:

	31 December 2008				
				Including:	
	Total before impairment provision	Impaired	Total recognized	Neither past due nor impaired	Past due but not impaired
Unbilled amounts due for engineering and service contract work	112,263	-	112,263	112,263	-
Within 90 days	135,834	(1,777)	134,057	102,976	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 trade receivables	**309,141**	**(27,101)**	**282,040**	**222,343**	**59,697**

Movements of the Group’s provision for impairment of financial receivables were as follows:

	31 December:	
	2009	2008
Balance at the beginning of the year	(27,101)	(1,136)
Provision for financial receivables	(6,479)	(30,676)
Unused amounts reversed	16,224	-
Exchange differences	1,650	4,711
Balance at the end of the year	**(15,706)**	**(27,101)**

4.1.2. Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages the liquidity risk by regularly updating its financing plan to closely monitor its funding needs against its medium term funding plans.

The Group maintains adequate relationships with both Russian and international financial institutions and has been and continues to be able to raise funds in debt markets to meet its debt service requirements. In 2009, the Group earned $117.5 million from operating activities and raised finance of $88.5 million from the equity issuance (note 20) and $255.4 million from borrowings from which it timely repaid $441.0 million of borrowings due. In particular, between February 2009 and May 2009, the Group raised $250.0 million under the EBRD syndicated loan which was partially prepaid in September 2009 and December 2009 in the total amount of $156.7 million and $93.3 million remained at 31 December 2009 (note 19). In April 2010, the Group refinanced the EBRD syndicated loan using the proceeds of a loan facility with Sberbank (note 25).

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

4 Financial Risk Management (continued)

4.1.2. Liquidity risk (continued). At 31 December 2009 and 2008, 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:	
	2009	**2008**
Total amount of credit facilities available for withdrawal	13,556	29,779
Amounts withdrawn	(10,246)	(28,744)
Amount available for withdrawal	**3,310**	**1,035**

Additionally, at 31 December 2009, the Group had 361.0 thousand of bonds available for issue to the market for total proceeds of RR 361.0 million ($11.9 million) after the Group repurchased the bonds in December 2009 (note 19). At 31 December 2009 and 2008, interest on the unused facilities, if drawn, would have been payable at a rate of 18.3 percent and 15.2 percent per annum, respectively. In April 2010, the Group entered into a loan facility with VTB Bank for a total amount of $40.0 million (note 25) and drew down $26.0 million of cash by the date of signing these consolidated financial statements with $14.0 million remaining available for further draw downs.

Scheduled maturities of current financial liabilities (notes 17 and 19) outstanding at 31 December 2009 and 2008 were as follows:

	31 December 2009		
	Financial payables and accrued liabilities	**Short-term borrowings**	**Total current financial liabilities**
Within 90 days	127,807	15,813	143,620
91 to 180 days	5,318	19,253	24,571
181 to 365 days	3,812	35,161	38,973
Total current financial liabilities	**136,937**	**70,227**	**207,164**

	31 December 2008		
	Financial payables and accrued liabilities	**Short-term 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**

Scheduled maturities of long-term borrowings (note 19) outstanding at 31 December 2009 and 2008, were as follows:

	31 December:	
	2009	**2008**
Year ended 31 December:		
2010	-	2,920
2011	141,504	445
2012	10,556	-
2013	9,622	-
Total long-term borrowings	**161,682**	**3,365**

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

4 Financial Risk Management (continued)

4.1.2. Liquidity risk (continued). For purposes of this disclosure, the cash flows are presented in undiscounted nominal terms and the interest payable on floating rate borrowing to maturity has been calculated using the rates in existence at 31 December 2009 and 2008, respectively.

4.1.3. Interest rate risk. The Group is exposed to interest rate risk from its floating interest rate borrowing. In April 2009, the Group entered into an interest swap transaction under which the Group replaced the floating London Inter Bank Offer Rate (LIBOR) rate-based interest component payable under the EBRD syndicated loan with a fixed interest rate till December 2011. In October 2009 and December 2009 the terms of the swap were modified following the loan prepayments (note 19) and the Group assessed the modifications as not substantial and continued recognizing the financial instrument following on from the original terms. At both the inception and the reporting dates, the Group assessed the hedge as highly effective by comparing the present values of the LIBOR rate-based interest component payable under the EBRD syndicated loan with the LIBOR rate-based interest component receivable from the hedge provider. In April 2010, the Group terminated the swap immediately following the full prepayment of the EBRD loan (note 25).

The Group assesses the interest rate risk by reference to the market information about the ranges of changes in the floating interest rates of both actual movements during the year prior the reporting period and reasonably possible changes in the year thereafter. In 2009 and 2008, the Group determined such interest rate sensitivity as one percent and determined that if the floating interest rates increased or decreased by one percent, with all other variables held constant, the Group's loss for 2009 and 2008 and total equity at 31 December 2009 and 2008 would have changed as follows:

	31 December	
	2009	**2008**
Incremental loss from increase in the floating interest rate by one percent	(162)	(1,295)
Incremental profit from decrease in the floating interest rate by one percent	162	1,295

4.1.4. 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.

In October 2009, the Group entered into an agreement with ZAO ING Bank (Eurasia) ("ING") on forward foreign exchange hedge contracts under which the Group was to purchase from ING the amounts of US dollars needed to repay the EBRD syndicated loan tranches at fixed exchange rates varying from 30.09 to 32.78 on the dates immediately prior the dates of the tranches repayments by June 2011. The Group designated the contracts as a cash flow hedge against the variability in size of the EBRD loan payments arising from changes in future spot rates. At both the inception and the reporting dates, the hedge was highly effective and the Group recognized a fair value of the hedge asset in the amount of $0.3 million which generated a gain from the change in the spot exchange rates of $1.7 million recognized in the other comprehensive income or loss component of the consolidated statement of comprehensive income and additional exchange loss of $1.4 million recognized in the profit or loss component of the consolidated statement of comprehensive income. Following the repayment of the EBRD syndicated loan in April 2004 (note 25), the Group sold certain forward foreign exchange hedge contracts maturing by September 2010.

The Group assesses the currency risk by reference to the market information about the ranges of changes in the exchange rate of Russian roubles to one US dollar of both actual movements during the year prior the reporting period and reasonably possible changes in the year thereafter. In 2008 the Group determined such exchange rate sensitivity as five Russian roubles per one US dollar and determined that if the exchange rates increased or decreased by five Russian roubles, with all other variables held constant, the Group's loss and total equity of 2008 would have changed from the retranslation of the borrowings denominated in US dollars existing at 31 December 2008 as follows:

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

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

4 Financial Risk Management (continued)

4.1.4. Currency risk (continued). Since then the market in Russia has stabilized and the Group has reassessed the ranges of reasonably possible exchange rate sensitivity as one Russian rouble to one US dollar exchange rate and determined that if the exchange rates increased or decreased by one Russian rouble, with all other variables held constant, the Group's loss and total equity would have changed from the retranslation of the borrowings denominated in US dollars existing at 31 December 2009 as follows:

	31 December 2009
Incremental loss from increase of the RR / $ exchange rate by one Russian rouble	(1,461)
Incremental profit from decrease of the RR / $ exchange rate by one Russian rouble	1,510

4.2 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 the short-term and long-term borrowings 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 capital. At 31 December 2009 and 2008, the Group's gearing ratio was 34.0 percent and 44.7 percent, respectively.

After entering into the EBRD syndicated loan (note 19), in order to comply with the loan agreement, the Group's objective in managing its debt is to maintain certain financial ratios. In December 2009, the Group obtained a waiver from the lenders which released the Group from compliance with a certain financial ratio at 31 December 2009.

The Group's current policy is not to pay dividends and its subsidiaries only pay dividends on their preferred shares. At 31 December 2009 and 2008, neither the Group nor any of its subsidiaries were subject to externally imposed capital requirements.

5 Business Combinations, Transactions with Non-controlling Interest and Disposals

Acquisition of additional interest in Yamalgeophyzika. In April and June 2009, the Group purchased an additional 16.06 percent interest in Yamalgeophyzika for a total consideration of $26.1 million increasing the Group's effective ownership to 85.89 percent. In 2009, the Group settled the transactions by discharging the loans provided to certain third parties for acquisition of shares in Yamalgeophyzika in the total amount of $5.7 million (note 16) and cash payment of $16.2 million. The purchase resulted in a $14.6 million loss from an excess of the total consideration over the carrying value of net assets acquired. This loss is recognized in the consolidated statement of changes in equity.

Acquisition of additional interest in Tyumenneftegeophyzika. In June 2009, the Group purchased an additional 12.18 percent interest in Tyumenneftegeophyzika for a total consideration of $2.3 million increasing the Group's effective ownership to 87.27 percent. The Group settled the transactions by discharging the loans provided to certain third parties (note 16). The purchase resulted in a $0.1 million gain from an excess of the carrying value of net assets acquired over the total consideration transferred. This gain is recognized in the consolidated statement of changes in equity.

Merger of Yamalgeophyzika, Tyumenneftegeophyzika and Tomsky Geophyzichesky Trest with Integra Geophysics. In July 2009, the Group completed the merger of Yamalgeophyzika, Tyumenneftegeophyzika and Tomsky Geophyzichesky Trest (the "merged companies") by transferring the assets and liabilities of the merged companies to Integra Geophysics and issuing additional shares in Integra Geophysics to the shareholders of the merged companies in exchange for their stakes in these companies. At 31 December 2009, the Group controlled 98.8 percent interest in Integra Geophysics. In 2009, the merger resulted in $7.5 million gain which was recognized in the consolidated statement of changes in equity.

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

5 Business Combinations, Transactions with Non-current Interest and Disposals (continued)

Disposal of certain companies of the Group's Trade House division. In December 2009, the Group sold certain companies operating within the Group's Trade House division for $0.2 million. The disposal resulted in $10.2 million gain which was recognized in the profit or loss component of the consolidated statement of comprehensive income.

Nizhnevartovsk Kapitalny Remont Skvazhin and Sibirtransservice. In 2009, the Group completed the purchase accounting for Nizhnevartovsk Kapitalny Remont Skvazhin and Sibirtransservice made in 2008 and revised the opening balances at the acquisition date as follows:

	As previously reported	Adjustments	Revised
Cash and cash equivalents	676	-	676
Trade and other receivables	12,024	-	12,024
Inventories	423	-	423
Property, plant and equipment	21,705	(1,308)	20,397
Other non-current assets	107	(102)	5
Other current liabilities	(14,296)	202	(14,094)
Other non-current liabilities	(133)	-	(133)
Deferred tax liability	(1,480)	338	(1,142)
Share in net assets acquired	**19,026**	**(870)**	**18,156**
Purchase consideration	54,313	63	54,376
Goodwill	**35,287**	**933**	**36,220**

Acquisition of additional interest in Yamalgeophyzika. 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 was recognized in its consolidated statements of changes in equity. The Group partly 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 16).

Acquisition of additional interest in Yaganskpromgeophizika. In May 2008, the Group acquired an additional effective 4.7 percent interest in Yuganskpromgeophyzika 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.

Acquisition of additional 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.

6 Segment Information

From 1 January 2009, the Group identified its reporting segments based on IFRS 8 as follows:

- Drilling, Workover and IPM segment providing rig-up work, well construction, workover and maintenance services on individual and integrated management basis.
- Technology Services segment providing various services supporting the drilling, workover and IPM, including down hole motors manufacturing and services, coiled tubing, cementing, directional drilling, drill bit management, well logging and perforation.
- Formation Evaluation segment providing field geophysical services including 2-D and 3-D seismic data acquisition, processing and interpretation.
- Manufacturing segment producing a range of oilfield equipment including 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.

The Group uses adjusted earnings before interest, tax, depreciation and amortization ("adjusted EBITDA") as a major measure for its performance. The adjusted EBITDA is calculated as a profit (loss) before interest income (expense), exchange gains (losses), incomes taxes, depreciation of property, plant and equipment and amortization of intangible assets, goodwill impairment and impairment of the property, plant and equipment, gains (losses) on disposal of subsidiaries, share-based compensation, share of results in associates and non-controlling interest.

Segment information related to the Group's financial performance for the periods ended 31 December 2009 and 2008 is set out as follows:

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

6 Segment Information (continued)

Year ended 31 December 2009:	**Drilling, workover, IPM**	**Technology services**	**Formation evaluation**	**Equipment manufacturing**	**Other**	**Corporate**	**Intersegment eliminations**	**Total**
Sales external	339,818	133,400	197,071	149,283	16,612	-	-	836,184
Sales to other operating segments	165	6,216	5	2,691	5,574	-	(14,651)	-
Total sales	**339,983**	**139,616**	**197,076**	**151,974**	**22,186**	**-**	**(14,651)**	**836,184**
Cost of sales	(332,678)	(103,900)	(160,780)	(118,962)	(21,043)	-	14,587	(722,776)
Gross profit (loss)	**7,305**	**35,716**	**36,296**	**33,012**	**1,143**	**-**	**(64)**	**113,408**
Selling, general and administrative expenses	(26,125)	(18,764)	(23,792)	(18,613)	(9,939)	(54,938)	23	(152,148)
Impairment of property, plant and equipment	(2,194)	-	(2,286)	(21,816)	-	-	-	(26,296)
(Loss) profit from disposal of property, plant and equipment	(2,263)	618	(150)	(88)	321	(22)	(525)	(2,109)
Goodwill impairment	-	-		(4,734)	(14,191)	-	-	(18,925)
Gain from disposal of subsidiaries	-	-	-	-	10,195	-	-	10,195
Operating (loss) profit	**(23,277)**	**17,570**	**10,068**	**(12,239)**	**(12,471)**	**(54,960)**	**(566)**	**(75,875)**
Interest income	2,808	4,798	9,268	2,076	1,190	14,006	(28,887)	5,259
Interest expense	(7,620)	(1,302)	(9,214)	(2,311)	(347)	(63,581)	28,887	(55,488)
Exchange (loss) gain	(2,261)	(18)	1,287	(541)	(1,396)	16,628	-	13,699
Share of results of associates	-	(828)	-	-	-	-	-	(828)
(Loss) profit before taxation	**(30,350)**	**20,220**	**11,409**	**(13,015)**	**(13,024)**	**(87,907)**	**(566)**	**(113,233)**
Income tax benefit (expense)	4,133	(2,755)	(2,962)	(965)	(1,043)	(2,226)	173	(5,645)
(Loss) profit for the period	**(26,217)**	**17,465**	**8,447**	**(13,980)**	**(14,067)**	**(90,133)**	**(393)**	**(118,878)**
Reconciliation of operating (loss) profit to the adjusted EBITDA								
Operating (loss) profit	**(23,277)**	**17,570**	**10,068**	**(12,239)**	**(12,471)**	**(54,960)**	**(566)**	**(75,875)**
Depreciation of property, plant and equipment	39,465	20,230	32,352	6,987	266	2,520	-	101,820
Amortization of intangible assets	10,213	6,784	11,541	6,212	4,982	73	(69)	39,736
Share-based compensation	-	-	-	-	-	8,509	-	8,509
Goodwill impairment	-	-		4,734	14,191	-	-	18,925
Gain on disposal of subsidiaries	-	-	-	-	(10,195)	-	-	(10,195)
Impairment of property, plant and equipment	2,194	-	2,286	21,816	-	-	-	26,296
Adjusted EBITDA	**28,595**	**44,584**	**56,247**	**27,510**	**(3,227)**	**(43,858)**	**(635)**	**109,216**

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

6 Segment Information (continued)

Year ended 31 December 2008:	**Drilling, workover, IPM**	**Technology services**	**Formation evaluation**	**Equipment manufacturing**	**Other**	**Corporate**	**Intersegment eliminations**	**Total**
Sales external	618,854	193,262	312,280	286,105	35,390	-	-	1,445,891
Sales to other operating segments	574	29,816	-	3,739	25,106	-	(59,235)	-
Total sales	**619,428**	**223,078**	**312,280**	**289,844**	**60,496**	**-**	**(59,235)**	**1,445,891**
Cost of sales	(585,262)	(139,930)	(290,009)	(226,394)	(41,336)	-	57,112	(1,225,819)
Gross profit (loss)	**34,166**	**83,148**	**22,271**	**63,450**	**19,160**	**-**	**(2,123)**	**220,072**
Selling, general and administrative expenses	(91,650)	(35,360)	(30,615)	(33,867)	(16,774)	(107,742)	312	(315,696)
(Loss) profit from disposal of property, plant and equipment	(2,043)	(1,916)	4,953	901	-	(949)	730	1,676
Goodwill impairment	(99,109)	-	-	-	-	-	-	(99,109)
Operating (loss) profit	**(158,636)**	**45,872**	**(3,391)**	**30,484**	**2,386**	**(108,691)**	**(1,081)**	**(193,057)**
Interest income	2,365	3,051	9,735	1,094	988	120,653	(132,981)	4,905
Interest expense	(24,908)	(3,035)	(12,671)	(4,489)	(361)	(136,991)	133,020	(49,435)
Exchange loss	(2,216)	(3,114)	(1,183)	(791)	(2,520)	(10,554)	-	(20,378)
Share of results of associates	-	(137)	(719)	-	-	-	-	(856)
(Loss) profit before taxation	**(183,395)**	**42,637**	**(8,229)**	**26,298**	**493**	**(135,583)**	**(1,042)**	**(258,821)**
Income tax benefit (expense)	1,467	(5,047)	5,651	(3,241)	(1,776)	(10,177)	27	(13,096)
(Loss) profit for the period	**(181,928)**	**37,590**	**(2,578)**	**23,057**	**(1,283)**	**(145,760)**	**(1,015)**	**(271,917)**
Reconciliation of operating (loss) profit to the adjusted EBITDA								
Operating (loss) profit	**(158,636)**	**45,872**	**(3,391)**	**30,484**	**2,386**	**(108,691)**	**(1,081)**	**(193,057)**
Depreciation of property, plant and equipment	62,305	20,402	40,655	8,373	277	4,620	(22)	136,610
Amortization of intangible assets	28,179	4,105	41,683	5,340	9,493	2	(11)	88,791
Goodwill impairment	99,109	-	-	-	-	-	-	99,109
Share-based compensation	-	-	-	-	-	30,476	-	30,476
Adjusted EBITDA	**30,957**	**70,379**	**78,947**	**44,197**	**12,156**	**(73,593)**	**(1,114)**	**161,929**

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

6 Segment Information (continued)

Segment information related to the Group's financial position as at 31 December 2009 and 2008:

	Drilling, workover & IPM	Technology services	Formation evaluation	Equipment manufacturing	Other	Corporate	Intersegment eliminations	Total
At 31 December 2009:								
Total assets	290,232	253,072	380,706	168,660	16,462	1,100,687	(1,303,882)	905,937
Total liabilities	134,021	56,474	92,358	79,860	16,684	407,081	(292,953)	493,525
Year ended 31 December 2009:								
Additions to non-current assets	7,061	8,824	16,301	2,140	555	109	-	34,990

	Drilling, workover & IPM	Technology services	Formation evaluation	Equipment manufacturing	Other	Corporate	Intersegment eliminations	Total
At 31 December 2008:								
Total assets	461,852	274,819	442,413	224,082	64,701	258,943	(451,008)	1,275,802
Total liabilities	303,705	89,050	137,544	101,899	49,529	532,551	(430,940)	783,338
Year ended 31 December 2008:								
Additions to non-current assets	77,774	-	47,604	49,397	-	1,098	-	175,873

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

6 Segment Information (continued)

In 2009 and 2008, the Group earned its external revenues by its geographical segments as follows:

	Year ended 31 December:	
	2009	**2008**
Russia	758,292	1,362,967
Other countries	77,892	82,924
Total external sales	**836,184**	**1,445,891**

At 31 December 2009 and 2008, the Group had its goodwill and intangible assets, property, plant and equipment and investments in associates by their geographical segments as follows:

	31 December:	
	2009	**2008**
Russia	442,145	645,922
Other countries	54,455	47,558
Total property, plant and equipment, goodwill and intangible assets, and investments in associates	**496,600**	**693,480**

In 2009, the Group earned transaction revenues each exceeding 10 percent of the Group's consolidated revenues, with three major customers in the amounts of $245.6 million, 117.3 million and $97.1 million reported by the Group's drilling, workover and IPM, technology services, formation evaluation and equipment manufacturing.

In 2008, the Group earned transaction revenues each exceeding 10 percent of the Group's consolidated revenues, with the three major customers in the amounts of $257.9 million, $191.4 million and $159.7 million reported by the Group's drilling, workover and IPM, technology services, formation evaluation and equipment manufacturing.

7 Cost of Sales

	Year ended 31 December:	
	2009	**2008**
Services	222,869	375,288
Employee costs (including mandatory social contributions of $32.0 million and $54.0 million for 2009 and 2008, respectively)	213,868	356,871
Materials and supplies	152,943	282,874
Depreciation of property, plant and equipment	91,798	119,250
Amortization of intangible assets	39,128	85,780
Other	2,170	5,756
Total cost of sales	**722,776**	**1,225,819**

In 2009 and 2008, the employee costs included one-off employee redundancy payments of $9.5 million and $5.7 million, respectively. The amortization of $39.1 million and $85.8 million included the accelerated amortization of the long-term customers and suppliers relationships of $26.9 million and $53.7 million, respectively (note 14).

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

8 Selling, General and Administrative Expenses

	Year ended 31 December:	
	2009	**2008**
Employee costs (including mandatory social contributions of $7.6 million and $11.6 million for 2009 and 2008, respectively)	75,435	112,238
Services	36,786	71,186
Depreciation of property, plant and equipment	10,022	17,380
Taxes, other than income tax	9,331	13,024
Share-based compensation expense	8,509	30,476
Transportation expenses	5,733	12,829
Inventories impairment and obsolete stock write-offs	3,266	9,496
Amortization of intangible assets	608	3,011
Receivables impairment, bad debt and other write-offs	(4,238)	42,551
Other	6,696	3,505
Total selling, general and administrative expenses	**152,148**	**315,696**

In 2009 and 2008, the employee costs included the one-off employee redundancy payments of $1.8 million and $1.0 million, respectively.

9 Engineering and Services Contracts

The Group sales include revenues from engineering and service contracts of $580.3 million and $1,266.2 million for the years ended 31 December 2009 and 2008, respectively. The status of engineering and service contracts in progress at 31 December 2009 and 2008 were as follows:

	31 December:	
	2009	**2008**
Contract costs incurred from inception	547,050	822,382
Contract profits (less recognized losses) incurred from inception	94,910	148,926

10 Cash and Cash Equivalents

At 31 December 2009 and 2008, the cash of $37.3 million and $62.4 million, respectively, included the restricted cash committed for payments under contracts with the Group’s counterparties in the amount of nil and $0.1 million.

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

11 Trade and Other Receivables

	31 December:	
	2009	**2008**
Financial receivables:		
Trade receivables (net of allowances for doubtful accounts of \$3.1 million and \$3.7 million at 31 December 2009 and 2008, respectively)	45,138	60,075
Amounts due from customers for engineering and service contract work (net of allowances for doubtful accounts of \$12.6 million and \$23.4 million at 31 December 2009 and 2008, respectively)	170,757	221,965
Total financial receivables	**215,895**	**282,040**
Non-financial receivables:		
VAT recoverable	6,732	13,535
Advances to suppliers	10,584	16,265
Prepaid expenses and other receivables	27,194	45,519
Total non-financial receivables	**44,510**	**75,319**
Total trade and other receivables	**260,405**	**357,359**

12 Inventories

	31 December:	
	2009	**2008**
Materials and supplies (net of allowances for obsolete materials \$5.3 million and \$7.3 million at 31 December 2009 and 2008, respectively)	77,960	108,536
Work in progress (net of allowances for obsolete materials of \$2.7 million and \$2.4 million at 31 December 2009 and 2008, respectively)	7,807	8,871
Finished goods (net of allowances for obsolete materials of \$2.8 million and \$1.6 million at 31 December 2009 and 2008, respectively)	12,771	29,094
Total inventories	**98,538**	**146,501**

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

13 Property, Plant and Equipment

	Rigs	Land and Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost						
At 1 January 2008	**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	7,483	10,513	405	20,397
Disposals	(4,671)	(6,065)	(12,547)	(4,201)	(2,301)	(29,785)
Exchange differences	(18,659)	(26,662)	(64,009)	(14,294)	(8,975)	(132,599)
At 31 December 2008	**109,983**	**148,911**	**349,504**	**77,627**	**46,570**	**732,595**
Additions	1,231	1,861	26,784	1,668	1,993	33,537
Disposals	(8,332)	(1,218)	(17,801)	(5,309)	(1,755)	(34,415)
Reclassification	(933)	616	14,194	(1,262)	(12,615)	-
Exchange differences	(3,288)	(7,161)	(15,435)	(3,644)	(1,797)	(31,325)
At 31 December 2009	**98,661**	**143,009**	**357,248**	**69,080**	**32,396**	**700,394**
Accumulated depreciation						
At 1 January 2008	**(29,923)**	**(11,268)**	**(77,244)**	**(17,165)**	**(4,260)**	**(139,860)**
Depreciation	(29,375)	(9,580)	(71,735)	(17,447)	(8,473)	(136,610)
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)**	**(119,309)**	**(28,024)**	**(9,724)**	**(222,529)**
Depreciation	(13,761)	(7,348)	(63,113)	(11,607)	(5,991)	(101,820)
Impairment	(2,194)	(17,034)	(6,802)	(128)	(138)	(26,296)
Disposals	4,113	268	14,121	3,050	1,182	22,734
Reclassification	7,045	1,163	(8,603)	1,682	(1,287)	-
Exchange differences	819	(342)	2,873	1,040	342	4,732
At 31 December 2009	**(52,948)**	**(39,795)**	**(180,833)**	**(33,987)**	**(15,616)**	**(323,179)**
Net book value						
At 31 December 2008	**61,013**	**132,409**	**230,195**	**49,603**	**36,846**	**510,066**
At 31 December 2009	**45,713**	**103,214**	**176,415**	**35,093**	**16,780**	**377,215**

At 31 December 2009 and 2008, certain property, plant and equipment with a net book value of $121.3 million and $8.8 million, respectively, were pledged as collateral for the Group's accounts payable and borrowings (notes 17 and 19).

At 31 December 2009, the Group impaired certain property, plant and equipment in the total amount of $26.3 million which was expensed in the profit or loss component of the consolidated statement of comprehensive income. The total impairment amount includes the impairment of (a) Stromenftemash's property, plant and equipment for a total amount of $21.8 million (note 14), (b) some drilling rigs used by the Group's drilling, workover and IPM segment for a total amount of $2.2 million, and (c) miscellaneous property, plant and equipment used by the Group's formation evaluation segment for a total amount of $2.3 million.

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

14 Goodwill and Intangible Assets

	Goodwill	Long-term customer / supplier relationships	Trademarks	Order backlog	Other	Total
Cost						
At 1 January 2008	**223,390**	**193,740**	**16,413**	**20,496**	**15,943**	**469,982**
Additions	-	-	-	-	2,800	2,800
Acquisitions of subsidiaries	36,220	-	-	-	31	36,251
Disposals	-	-	-	-	(69)	(69)
Impairment	(99,109)	-	-	-	-	(99,109)
Exchange differences	(43,555)	(31,877)	(2,700)	(3,388)	(2,924)	(84,444)
At 31 December 2008	**116,946**	**161,863**	**13,713**	**17,108**	**15,781**	**325,411**
Additions	-	-	-	-	1,453	1,453
Disposals	-	(141,306)	(1,299)	(16,714)	(63)	(159,382)
Impairment	(18,925)	-	-	-	-	(18,925)
Exchange differences	(3,455)	(4,733)	(466)	(394)	(366)	(9,414)
At 31 December 2009	**94,566**	**15,824**	**11,948**	**-**	**16,805**	**139,143**
Accumulated amortization						
At 1 January 2008	**-**	**(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	-	13,818	1,592	3,281	1,374	20,065
At 31 December 2008	**-**	**(125,217)**	**(8,316)**	**(16,961)**	**(7,949)**	**(158,443)**
Amortisation	-	(32,494)	(4,630)	(261)	(2,351)	(39,736)
Disposals	-	141,306	1,299	16,714	52	159,371
Exchange differences	-	3,192	139	508	95	3,934
At 31 December 2009	**-**	**(13,213)**	**(11,508)**	**-**	**(10,153)**	**(34,874)**
Net carrying amount						
At 31 December 2008	**116,946**	**36,646**	**5,397**	**147**	**7,832**	**166,968**
At 31 December 2009	**94,566**	**2,611**	**440**	**-**	**6,652**	**104,269**

Goodwill. At 31 December 2009 and 2008, the carrying value of goodwill was attributed to the Group's cash-generating units ("CGU") as follows:

	31 December:	
Cash generating unit	**2009**	**2008**
Workover	24,907	25,757
Integra Geophysics	20,673	21,281
Smith Siberian Services	20,420	21,021
Drilling Tools	8,998	9,262
GeoPrime	7,381	7,606
URBO	7,165	7,376
Azimuth Energy Services	5,022	5,162
Trade house	-	14,608
Stromneftemash	-	4,873
Total	**94,566**	**116,946**

In December 2009, the Group disaggregated its (a) Formation Evaluation CGU into Integra Geophysics CGU and Azimuth Energy Services CGU and (b) Manufacturing CGU into URBO CGU and Stromneftemash CGU following the change in the Group's focus on the management of the CGUs from concentration of the production efforts during the pick of the financial crisis in 2008 to segregation of them during the stabilization and recovery in 2009.

14 Goodwill and Intangible Assets (continued)

Goodwill (continued). 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 17.0 and 22.0 percent among 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 plans for each CGU, 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 adjusted EBITDA margins, discount rate, capital expenditures made to sustain the production capacity and the terminal value. The Group used the adjusted EBITDA margins consistent with the actual performance achieved in the past and adjusted for expected improvements in production efficiency of the existing capacity where appropriate. 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 2009. The Group assessed capital expenditures sufficient to maintain its production capacity existing at 31 December 2009 to termination date which is assumed as infinity to be consistent with the currently expected life of the petroleum industry. In order to assess the cash flows to infinity the Group used a perpetuity formula.

At 31 December 2009, due to the prolonged economic downturn the Group determined that the carrying values of net assets of the Group's Stromneftemash CGU discounted at 19.0 percent, exceeded its estimated value in use resulting in its net assets impairment of $26.5 million, including impairment of goodwill and property, plant and equipment of $4.7 million and of $21.8 million (note 13), respectively, both of which were expensed in the profit or loss component of the consolidated statements of comprehensive income. Additionally, as a result of the termination of its third party supply and procurement business through Trade House CGU the Group impaired the goodwill related to this CGU in the amount of $14.2 million.

However in 2009, Russian financial market displayed certain degree of stabilization and showed signs of recovery in demand for oil field services. As a result, the Group estimated certain improved levels in sales volumes and the adjusted EBITDA margins; however the discount rates used in the future cash flows, still incorporate high levels of risks.

The Group determined that the estimated value-in-use of the other CGUs exceeded their assets' carrying amounts and no provision for goodwill impairment is recorded for such CGU's. Refer to the related disclosure in note 3. At 31 December 2009, based on the management's estimate, the value-in-use of the Integra Geophysics CGU exceeded the carrying value of its net assets by 7.6 percent. The value-in-use of the Integra Geophysics CGU's net assets would be equal to their carrying value if the average adjusted EBITDA margin declined from 22.7 percent to 21.2 percent. The value-in-use for other CGUs exceeded the carrying value of their net assets by at least 17.9 percent.

Intangible assets. At 31 December 2009 and 2008, the Group determined that it did not expect to receive benefits from relationship with certain customers in the foreseeable future, and charged additional amortization to eliminate the related intangible asset in the amounts of $26.9 million and $53.7 million in 2009 and 2008, respectively. The net carrying amount balance of $2.6 million relates to relationships with one of its customers with which the benefits of relationships are expected to terminate in 2010. At 31 December 2009, the Group accelerated amortization of one of its trademarks with the carrying value of $2.6 million and expensed the whole carrying amount in the profit or loss component of the consolidated statement of comprehensive income.

In 2009, the amounts of disposals include writing-off the fully amortized balances of the long-term customer and supplier relationships and the order backlog intangible assets in the total amounts of $141.3 million and $16.7 million, respectively.

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

15 Investments in Associates

	31 December	
	2009	**2008**
Nizhnevartovskneftegeophyzika	10,604	11,534
Neftegeotechnology	2,437	2,527
Stavropolneftegeophyzika	2,075	2,385
Total investments in associates	**15,116**	**16,446**

In 2009, the Group did not have any transactions related to the investments in associates. In April 2008, the Group disposed of 32.5 percent interest in Yamal Fund in exchange for certain quoted equity instruments with fair value of $0.8 million at the date of exchange. As a result of increasing the Group's interest in OOO Yuganskpromgeophyzika to 100 percent in May 2008 (note 5), the Group's effective ownership in Nizhnevartovskneftegeophyzika and Neftegeotechnology increased to 35.7 percent and 65.2 percent, respectively.

The change in the carrying value of the Group's investments in associates is summarized in the table below:

	Year ended 31 December:	
	2009	**2008**
Carrying amount at the beginning of the year	16,446	19,920
Share of results of associates	(828)	(856)
Acquisition of additional interest in Nizhnevartovskneftegeophyzika and Neftegeotechnology	-	804
Dividends received		(166)
Exchange differences	(502)	(3,256)
Carrying amount at the end of the year	**15,116**	**16,446**

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

	31 December:	
	2009	**2008**
Total assets	55,171	66,198
Total liabilities	14,491	22,489

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

	Year ended 31 December:	
	2009	**2008**
Total revenues	52,506	87,012
Total operating expenses	(53,860)	(78,789)
Operating (loss) profit	**(1,354)**	**8,223**
Interest income (expense), net	(189)	(564)
Income tax expense	(4)	(2,004)
Minority share	49	1,201
(Loss) profit for the year	**(1,498)**	**6,856**

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

16 Loans Provided and Other Assets

	31 December	
	2009	**2008**
Financial loans provided and other assets:		
Advances to purchase additional interest in the Group's subsidiaries	-	8,243
Loans receivable and other assets (net of allowance for doubtful accounts of nil at both 31 December 2009 and 2008)	6,897	5,906
Total loans provided and other assets	**6,897**	**14,149**

Advances to purchase additional interests in the Group's subsidiaries. In 2009, the Group discharged its loans provided to purchase additional interest in certain of the Group's subsidiaries in the amounts of $5.7 million and $2.3 million as payments for the additional shares in YGF and TNGF, respectively, (note 5).

17 Accounts Payable and Accrued Liabilities

	31 December	
	2009	**2008**
Financial payables and accrued liabilities:		
Trade payables	38,889	35,883
Payables under contracts with customers for engineering and service contract work	94,890	96,633
Interest payable	3,158	2,860
Total financial payables and accrued liabilities	**136,937**	**135,376**
Non-financial payables and accrued liabilities:		
Accrued liabilities and other creditors	63,863	73,222
Advances from customers	23,395	70,507
Total non-financial payables and accrued liabilities	**87,258**	**143,729**
Total accounts payable and accrued liabilities	**224,195**	**279,105**

At 31 December 2009 and 2008, the Group pledged certain property, plant and equipment against some of its accounts payable in the total amount of $9.5 million and nil (note 13).

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

18 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 non-controlling interest.

	Year ended 31 December:	
	2009	**2008**
Loss before taxation	(113,233)	(258,821)
Theoretical tax benefit at Russian statutory income tax rate of 20 percent	22,647	62,117
Effect from change in income tax rate	-	9,097
Effect of income taxed at rates lower than 20 percent	13,315	16,396
Effect of (loss) taxed at rates higher than 20 percent	(328)	(1,502)
Tax losses not expected to be utilized against future profits from overseas activities	(21,095)	(26,920)
Tax losses not expected to be utilized against future profits from domestic activities	(4,021)	(22,509)
Disposal of subsidiaries	2,117	-
Share-based compensation	(1,702)	(7,315)
Goodwill impairment	(3,785)	(23,786)
Non-tax deductible expenses and other	(12,793)	(18,674)
Total income tax expense	**(5,645)**	**(13,096)**

In 2008, 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.

In 2008, the tax losses not expected to be utilized against future profits from domestic activities primarily relate 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.

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

18 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 2009 were as follows:

	31 December 2008	Income statement effect	Disposals of subsidiaries	Effect of exchange differences	31 December 2009
Assets					
Inventories	3,119	(642)	8	(121)	2,364
Total current deferred income tax assets	**3,119**	**(642)**	**8**	**(121)**	**2,364**
Tax losses carried forward	8,052	4,343	(12)	(17)	12,366
Other	5,952	169	13	188	6,322
Total non-current deferred income tax assets	**14,004**	**4,512**	**1**	**171**	**18,688**
Liabilities					
Accounts receivable	1,688	(3,497)	(244)	(207)	(2,260)
Engineering and service contracts	(19,072)	5,220	40	798	(13,014)
Total current deferred income tax liabilities	**(17,384)**	**1,723**	**(204)**	**591**	**(15,274)**
Property, plant and equipment	(24,021)	7,747	9	1,070	(15,195)
Intangible assets	(8,772)	7,267	1	606	(898)
Other	(2,679)	258	(15)	91	(2,345)
Total non-current deferred income tax liabilities	**(35,472)**	**15,272**	**(5)**	**1,767**	**(18,438)**
Net deferred income tax liability	**(35,733)**	**20,865**	**(200)**	**2,408**	**(12,660)**

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					
Inventories	(913)	4,576	5	(549)	3,119
Total current deferred income tax assets	**(913)**	**4,576**	**5**	**(549)**	**3,119**
Tax losses carried forward	6,463	2,942	205	(1,558)	8,052
Other	4,438	2,467	683	(1,636)	5,952
Total non-current deferred income tax assets	**10,901**	**5,409**	**888**	**(3,194)**	**14,004**
Liabilities					
Accounts receivable	7,050	(5,062)	102	(402)	1,688
Engineering and service contracts	(19,736)	(3,050)	-	3,714	(19,072)
Total current deferred income tax liabilities	**(12,6 86)**	**(8,112)**	**102**	**3,312**	**(17,384)**
Property, plant and equipment	(37,663)	10,869	(2,136)	4,909	(24,021)
Intangible assets	(36,415)	25,596	(1)	2,048	(8,772)
Other	(3,756)	541	-	536	(2,679)
Total non-current deferred income tax liabilities	**(77,834)**	**37,006**	**(2,137)**	**7,493**	**(35,472)**
Net deferred income tax liability	**(80,532)**	**38,879**	**(1,142)**	**7,062**	**(35,733)**

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

18 Taxes (continued)

The deferred tax on the temporary differences associated with undistributed earnings of its subsidiaries amounted to $109.8 million and $84.8 million as of 31 December 2009 and 2008, 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 2009 and 2008, the Group had accumulated tax losses available for carry forward in the amount of $12.4 million and $8.1 million, respectively, which expire between 2013 and 2020. Additionally, for the years 2009 and 2008, the Group did not recognise deferred income tax assets on tax loss carry-forwards totalled $25.1 million and $49.4 million, respectively, of which $21.1 million and $26.9 million, respectively, relate to the tax losses that do not have expiration dates and $4.0 million and $22.5 million, respectively, relate to the tax losses expiring after 2019. 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 change in deferred income tax assets and liabilities for the years 2009 and 2008, described above, reflect the net deferred income tax assets and net deferred income tax liabilities of separate companies of the Group. On the consolidated statement of financial position, the consolidated net deferred income tax assets are disaggregated from the consolidated net deferred income tax liabilities as follows:

	31 December:	
	2009	**2008**
Total deferred tax assets of separate Group companies	6,225	1,920
Total deferred tax liabilities of separate Group companies	(18,885)	(37,653)
Net deferred income tax liability	**(12,660)**	**(35,733)**

Other taxes payable. Current taxes payable at 31 December 2009 and 2008 are as follows:

	31 December	
	2009	**2009**
Value-added tax	26,774	39,056
Unified social tax	3,563	3,584
Personal income tax	1,810	2,895
Property tax	1,698	2,024
Other taxes	1,113	1,211
Total other taxes payable	**34,958**	**48,770**

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

19 Borrowings

	31 December 2009			31 December 2008		
	Amounts due within one year	**Amounts due after more than one year**	**Total**	**Amounts due within one year**	**Amounts due after more than one year**	**Total**
Bonds	-	87,256	87,256	169,305	-	169,305
Bank loans	69,787	55,067	124,854	220,106	2,464	222,570
Other	440	151	591	5,091	589	5,680
Total borrowings	**70,227**	**142,474**	**212,701**	**394,502**	**3,053**	**397,555**

As discussed below, $71.3 million, net of the borrowing costs of $3.3 million, of the EBRD syndicated loan is included within the fixed rate borrowings because the Group effectively fixed most of the interest payable under the loan with the interest swap transaction. Additionally, $53.1 million, net of borrowing costs of $2.9 million, of the EBRD syndicated loan is recognized in Russian rouble-denominated borrowings as the fixed the loan repayments for that amount in Russian roubles with the foreign exchange forward transactions. The following tables summarize the Group’s current and non-current borrowings by major currency and weighted average fixed and floating interest rates at 31 December 2009 and 2008 as follows:

	31 December 2009					
	Fixed rate		**Floating rate**		**Total**	
	Average interest rate	**Amount**	**Average interest rate**	**Amount**	**Average interest rate**	**Amount**
US dollar-denominated	16.0%	4,500	-	-	16.0%	4,500
Russian rouble-denominated	12.8%	65,727	-	-	12.8%	65,727
Other	-	-	-	-	-	-
Total amounts due within one year	**13.0%**	**70,227**	**-**	**-**	**13.0%**	**70,227**
US dollar-denominated	9.5%	18,197	9.5%	18,066	9.4%	36,263
Russian rouble-denominated	15.6%	106,211	-	-	15.6%	106,211
Total amounts due after more than one year	**14.7%**	**124,408**	**9.5%**	**18,066**	**14.0%**	**142,474**
Total borrowings	**14.1%**	**194,635**	**9.5%**	**18,066**	**13.5%**	**212,701**

	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 due after more than one year	12.9%	3,053	-	-	12.9%	3,053
Total borrowings	**12.5%**	**258,830**	**4.4%**	**138,725**	**9.7%**	**397,555**

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

19 Borrowings (continued)

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

	31 December	
	2009	**2008**
Sberbank	26,778	21,103
ABN AMRO & ING	-	135,000
Amsterdam Trade Bank	-	30,000
Uralsib	-	20,422
Alfa-Bank		3,404
Other	6,731	6,789
Total short-term borrowings	**33,509**	**216,718**
Add: current portion of long-term borrowings	36,718	177,784
Total current borrowings	**70,227**	**394,502**

Sberbank. 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 of RR 20.0 million bore a fixed annual interest rate of 15.2 percent and was repaid in full in May 2009. The loan of RR 600.0 million was partially repaid and the balance of RR 500.0 million ($16.5 million at 31 December 2009) bear fixed annual interest rate of 16.0 percent payable monthly and matures in October 2010.

In June 2009, the Group entered into a loan facility agreement with Sberbank for a total amount of RR 360.0 million ($11.9 million at 31 December 2009) out which RR 309.9 million ($10.2 million at 31 December 2009) had been withdrawn by 31 December 2009. The loan facility bears a fixed annual interest rate of 18.5 percent payable monthly and matures in June 2010. The loan facility was fully repaid in April 2010.

ABN AMRO & ING. In January 2008, the Group entered into a syndicated loan facility, which bore interest rates of LIBOR plus 2.35 percent for the first six months and LIBOR plus 2.75 percent thereafter, payable quarterly. The Group fully repaid the loan in February 2009.

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. The loan bore a floating annual interest rate of LIBOR plus 4.8 percent plus a facility fee of 0.5 percent per annum till October 2008, 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 loan was repaid in full in January 2009.

Uralsib. In September 2008, the Group entered into a Russian rouble-denominated loan facility agreement with Uralsib 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.

Alfa-Bank. 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 March 2009.

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

19 Borrowings (continued)

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

	31 December 2009	31 December 2008
EBRD syndicated loan	89,392	-
Bonds	87,256	169,305
Sberbank	2,393	3,916
Commerzbank Eurasia	-	3,726
Other	151	3,890
Total long-term borrowings	**179,192**	**180,837**
Less: current portion of long-term borrowings	(36,718)	(177,784)
Total non-current borrowings	**142,474**	**3,053**

EBRD syndicated 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. Between February 2009 and May 2009, the Group received $250.0 million of the loan in several tranches that are repayable in certain instalments from March 2010 to December 2013. In September 2009 and December 2009, the Group prepaid $66.5 million and $90.2 million, respectively, and the remaining loan balance of $93.3 million is repayable in instalments from March 2010 to December 2013.

The loan tranches bear floating interest rates of LIBOR plus respective margin described in the table below. In April 2009, the Group entered into an interest rate swap transaction agreement with BNP Paribas maturing in December 2011 and under the agreement the Group effectively converted the floating interest rates under the EBRD loan into fixed rates for the loan amount of $71.3 million, net of the borrowing costs of $3.3 million (note 4). In October 2009 and December 2009, following the loan prepayments, the terms of the swap were modified and at 31 December 2009, the fixed rates were as follows:

Description	**Final installment maturity**	**Tranche amount**	**Interest margin**	**From December 2009 to June 2010**	**From June 2010 to December 2010**	**From December 2010 to December 2011**
Loan A, Tranche 1	December 2013	18,662	8.00%	9.75%	10.15%	10.62%
Loan A, Tranche 2	December 2013	9,331	12.00%	13.75%	14.15%	14.62%
Loan B	December 2011	65,316	7.00%	8.75%	9.15%	9.62%
Total		**93,309**	**7.70%**	**9.45%**	**9.85%**	**10.32%**

In October 2009, the Group hedged against the variability in the US dollar-denominated repayments of the loan principal and payments of the interest for the total amount of $60.5 million, made from March 2010 to June 2011 (note 4) and fixed those amounts at the total of RR 1.9 billion.

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 for a total amount of $109.4 million at 31 December 2009 and an assignment of monetary claims under certain services contracts. On 18 December 2009, EBRD waived from the Group the requirements to comply with a certain financial covenant at 31 December 2009.

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

19 Borrowings (continued)

Bonds. In March 2006, the Group issued Russian rouble-denominated bonds with a total nominal value of RR 2.0 billion ($59.0 million). The bonds bore fixed interest of 10.5 percent per annum, payable semi-annually and were repaid in full in March 2009.

In December 2006, the Group issued Russian rouble-denominated bonds with a total nominal value of RR 3.0 billion ($99.2 million). Initially the bonds bore a fixed interest of 10.7 percent per annum, payable semi-annually. In December 2009, in the bonds restructuring process the Group repurchased 361.0 thousand of the bonds for the total amount of RR 361.0 million ($11.9 million) and for the rest of the bonds in the total amount of RR 2.6 billion ($87.3 million) it increased the fixed interest rate to 16.75 percent per annum payable semi-annually and extended their maturity till November 2011. Following the significant modification of the terms of the bonds the Group recognized in the interest expense both the unamortized amount of initial borrowing costs and the transaction costs incurred in the bonds restructuring in the total amount of $1.0 million. In January 2009, the Group repurchased 20,000 bonds maturing in November 2011 for RR 16.3 million ($0.5 million).

At 31 December 2009 and 2008, the outstanding bonds balances of $87.3 million and $169.3 million were recognized net of the unamortized amounts of the borrowing costs of nil and $0.9 million, respectively.

Sberbank. In December 2007, the Group entered into a Russian rouble-denominated loan facility with Sberbank in the total amount of RR 115.5 million ($3.8 million at 31 December 2009). 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 April 2011. At 31 December 2009 and 2008, the Group had certain of its property, plant and equipment with carrying value equivalent to $2.4 million and $2.8 million, respectively, pledged as collateral to the loan.

Commerzbank Eurasia. In March 2008, the Group entered into a euro-denominated loan facility with Commerzbank Eurasia which was outstanding in the amount of 2.6 million euros ($3.7 million) at 31 December 2008. The loan facility bore 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.

Interest expense. Interest expense for 2009 and 2008 comprised the following:

	Year ended 31 December:	
	2009	**2008**
Short-term borrowings		
ABN AMRO & ING	900	10,761
Amsterdam Trading Bank	265	6,821
Alfa-Bank	93	3,958
Sberbank	4,136	3,159
Other	4,034	2,156
Total interest expense on short-term borrowings	**9,428**	**26,855**
Long-term borrowings		
EBRD	30,684	-
Bonds	13,475	21,533
Other	1,901	1,047
Total interest expense on long-term borrowings	**46,060**	**22,580**
Total interest expense	**55,488**	**49,435**

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

20 Share Capital

The following table summarizes the change in share capital for the years ended 31 December 2009 and 2008:

	Number of common shares: Class A	Number of common shares: Class B	Share Premium	Treasury shares	Total share capital
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
Reimbursement 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**
Sale of Class A common shares for cash	1,900,000	-	88,525	-	88,525
Share-based compensation from issuance of Class A common shares to management	5,000	-	202	-	202
Share-based compensation from stock option and RSU plan (note 21)	-	-	8,307	-	8,307
Exercise of restricted share units (note 21)	112,756	-	-	-	-
Cancellation of shares	(3,000)	-	-	-	-
Balance at 31 December 2009	**8,430,881**	**740,000**	**984,296**	**(1,598)**	**982,698**

Class A 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.

Class B common shares. The holder of the remaining 740,000 Class B common shares, the beneficiary of whom is a director 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 December 2008, the Group agreed with the holder of the Class B common shares to reinstate the vesting period, which had expired, and to increase the exchange price for conversion of them into Class A common shares from $12.00 to $34.39 per share in exchange for discharge of a loan advanced to the holder and the expense was recognized as share-based compensation in 2008.

Sale of Class A common shares for cash. In September 2009, the Group issued 1.9 million Class A common shares in the form of 38.0 million global depository receipts to be traded on the London Stock Exchange for $50.00 per share. From the offering the Group raised $95.0 million which are recognized in the in the share capital in the amount of $88.5 million net of the professional services costs incurred in preparing for the offering of $6.5 million.

Issuance of Class A common shares to management. In each of 2009 and 2008, the Group issued 5,000 Class A common shares to certain management as compensation for services performed with the total grant date fair value of $0.2 million and $0.8 million, respectively.

Issuance of Class A common shares from exercise of restricted share units. In December 2009, a total of 112,756 restricted share units were exercised one-for-one into the Class A common shares (note 21).

Issuance of shares on acquisition of Nizhnevartovsk Kapitalny Remont Skvazhin and Sibirtransservice. 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 the total consideration paid for the acquisition of Nizhnevartovsk Kapitalny Remont Skvazhin and Sibirtransservice (note 5).

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

20 Share Capital (Continued)

Exercise of stock options. In 2009, no stock options were exercised. In 2008, the 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.

Reimbursement of IPO related costs. In 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.

Cancellation of shares. In 2009, the Group cancelled 3,000 Class A common shares issued in 2008.

21 Share-based Compensation

2009 Restricted Share Units Plan. In December 2009, the Group implemented the 2009 Restricted Share Units Plan that provides for issuance of rights to receive Integra's Class A common shares to directors, employees and other participants who are in a position of to make a significant contribution to the success of the company.

In December 2009, the Group cancelled 215,250 stock options of certain of its employees and as a replacement granted to them 364,500 restricted share units ("RSU"). The fair value of $60.0 per one RSU approximated the underlying Class A common share price at the RSU grant date. The incremental fair value of the RSU in the amount of $16.3 million will be recognized over the RSU vesting periods of up to three years in addition to the unrecognized amount of $4.9 million of the cancelled options, which will be recognized over the remainder of their original vesting periods of up to four years. On issuance, 112,756 units vested and were exercised one-for-one into Class A common shares and the remaining 251,744 units vest over periods of up to three years.

2005 Stock Option Plan and Class B common shares. In 2009 and 2008, the Group's Board of Directors authorized the grant of an additional nil and 158,751 options, respectively, to purchase the Group's Class A common shares. At 31 December 2009 and 2008, a total of 598,167 and 157,833 options, respectively, remained available to grant. The options granted in 2009 vest over periods of up to three years and are exercisable for ten years from the grant date. Vesting provisions differ by award.

The table below summarizes the stock options changes, including Class B common shares convertible into Class A common shares upon exercise which are not part of the 2005 Stock Option Plan.

	Weighted average exercise price in US dollars per share	Number of Options
Options outstanding at 31 December 2007	**$89.40**	**1,818,546**
Granted (including Class B shares which terms were changed, note 20)	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**
Granted	62.40	8,000
Unvested forfeited	230.41	(180,237)
Vested expired unexercised	258.09	(268,097)
Options outstanding at 31 December 2009	**$51.35**	**1,215,816**

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

21 Share-based Compensation (Continued)

The unvested forfeited and vested expired unexercised options include those cancelled in lieu of grant of the RSU as follows:

	Weighted average exercise price in US dollars per share	Number of Options
Unvested forfeited	$196.13	81,413
Vested expired unexercised	281.28	133,837
Total	**$249.07**	**215,250**

In 2009 and 2008, the total grant date fair value of stock options granted were $0.4 million and $27.5 million, respectively.

	Options outstanding			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 ($)	Options exercisable at period end	Weighted average exercise price ($)
$4.00 - $34.00	353,016	5.6	$25.25	353,016	$25.25
$34.01 - $35.00	740,000	7.0	34.39	370,000	34.39
$35.01 - $274.00	54,200	7.4	126.55	41,200	143.33
$275.01 - $382.00	68,600	7.4	309.26	64,102	310.85
	1,215,816		**$51.35**	**828,318**	**$68.07**

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 2009 and 2008 was $46.50 and $119.20 per option, respectively. The significant inputs into the option valuation model were as follows.

	Awards granted during the Year ended 31 December:	
	2009	2008
Share price	$62.40	$91.00 - $278.00
Dividend yield	-	-
Expected volatility	90% - 106%	45.0% - 155.0%
Risk-free interest rate	2.9% - 3.2%	2.4% - 4.0%
Expected life	5 – 8 years	5 - 8 years

22 Loss per Share

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

	Year ended 31 December:	
	2009	2008
Numerator		
Loss attributable to shareholders of Integra Group for basic and diluted loss per share	(119,059)	(263,439)
Denominator		
Weighted average number of common shares outstanding during the period – basic and diluted	7,009,029	6,307,159
Basic and diluted loss per share (in US dollars per share)	(17.0)	(41.8)

At 31 December 2009 and 2008, the conversion of exercisable stock options would be accretive because they result in a reduction in diluted loss per share from $17.0 to $15.5 and from $41.8 to $36.0, respectively, and are ignored for purpose of the calculation of diluted loss per share.

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

23 Related Party Transactions

The related parties with whom the Group had significant transactions during the years ended 31 December 2009 and 2008, or had significant balances outstanding at 31 December 2009 and 2008 include, the Group's associates (note 15), certain third parties related through a common directorship and an affiliate of the Chairman of the Group's Board of Directors.

	Year ended 31 December:	
	2009	**2008**
Sales of production services by Integra to related parties	2,823	3,146
Purchase of administrative services by Integra Group from related parties	(300)	(300)
Purchase of materials by Integra Group	(160)	(10,010)
Purchase of formation evaluation services by Integra Group	(53)	-
Purchase of property, plant and equipment by Integra Group from related parties	(58)	(695)
Other income	(81)	622

	31 December	
	2009	**2008**
Trade receivables, net	176	565
Advances received	-	(576)
Trade payables, current	-	(3,026)
Loans issued to employees	-	337

Third parties related through common directorship. In 2009 and 2008, the Group had the following transactions with certain third parties: (a) the sale of oilfield services for a total amount of $2.8 million and $2.9 million, respectively, and (b) the purchase of materials and property, plant and equipment and services used by the Group in its operating activities for a total amount of $0.2 million and $10.5 million, respectively.

Management compensation. In 2009 and 2008, the Group's senior management team comprised eleven and thirteen individuals, respectively, whose compensation totalled $13.6 million and $24.1 million, respectively, including salary, bonuses and other benefits of $6.3 million and $7.2 million, respectively, and share-based compensation of $7.3 million and $16.9 million, respectively.

Administrative services contract. In each of 2009 and 2008, the Group incurred expenses of $0.3 million under an administrative services contract with an affiliate of the Chairman of the Board of Directors.

24 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 and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

(i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.

(ii) The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.

(iii) The depreciation of the Russian rouble against hard currencies (compared to RR 25.37 for one US dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.

(iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

24 Contingencies, Commitments and Operating Risks (continued)

Russian Federation (continued). Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The volume of financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may 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.

Reduced revenue budgets and more challenging situation in the markets for entity's products and services have led management to perform an impairment test of the Group's assets including property, plant and equipment and goodwill. The Group recognized the resulting impairment loss of goodwill and property, plant and equipment in the amounts of $18.9 million and $26.3 million, respectively, (notes 13 and 14).

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

Legal claims against URBO. The Group is currently involved in a civil action and monitoring certain matters related to its drilling rig manufacturing business, URBO. First, a licensor of the trademark "Uralmash" filed a law suit against the Group in the Sverdlovsk region requesting the court to prevent the Group from further using the trademark "Uralmash" in the corporate name of its subsidiaries. While the Group does not believe that there is any merit in this matter, and won the law suit in the court of first instance, it voluntarily suspended the use of the trademark "Uralmash" in the corporate name of its subsidiaries in December 2009 in order to avoid potential confusion with the products of other manufacturers of drilling rigs.

Second, as reported in the press, we are aware of certain other investigations related to historical transactions one of the subjects of which may be certain assets currently owned by URBO. As we are not a party to any such investigation we cannot assess the legitimacy of the underlying claims of such investigations. The Group will continue to monitor the development of such investigations.

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 2009 and 2008, the Group had unpaid contractual commitments of $14.8 million and $12.6 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 $0.9 million of its obligation for one-time retirement grants provided for in the collective agreements in these consolidated financial statements.

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. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

24 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 2009, 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.

25 Subsequent Events

Loan facility with Sberbank and subsequent repayment of the EBRD syndicated loan. In April 2010, the Group entered into a Russian rouble-denominated loan facility with Sberbank for a total amount of RR 2.5 billion ($84.9 million). The loan facility bears a fixed interest of 12.5 percent per annum payable monthly. The loan is repayable in certain instalments from March 2011 to April 2013. The Group used the proceeds of the loan facility with Sberbank to repay the remaining balance of the EBRD syndicated loan.

Loan facility with VTB Bank. In April 2010, the Group entered into a US dollar-denominated loan facility with VTB Bank for a total amount of $40.0 million. The facility bears a floating interest consisting of fixed margin of 7 percent and variable LIBOR rate (a total of 7.3 percent on loan entering date) payable quarterly and matures in April 2012.

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