Integra Group

Consolidated Financial Statements
as of and for the Year Ended
31 December 2011

Independent Auditor's Report

To the Shareholders and Board of Directors of Integra Group:

1 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 at 31 December 2011 and the consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3 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 about whether the consolidated financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

6 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

18 April 2012
Moscow, Russian Federation

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(expressed in thousands of US dollars)

	Note	Year ended 31 December: 2011	2010*
Continuing operations			
Sales of services		560,556	512,222
Sales of goods		55,217	58,468
Total sales	7	**615,773**	**570,690**
Cost of sales	7,8	(504,978)	(447,612)
Impairment of property, plant and equipment		(1,207)	(4,438)
Gross profit		**109,588**	**118,640**
Selling, general and administrative expenses	9	(98,167)	(100,312)
Loss from disposal of property, plant and equipment and intangible assets		(1,890)	(1,718)
Operating profit		**9,531**	**16,610**
Finance income		588	884
Finance expense	19	(21,092)	(33,165)
Exchange gain		919	4,107
Share of results of associates	16	(891)	1,512
Loss before income tax		**(10,945)**	**(10,052)**
Income tax benefit (expense)	18	18,892	(15,046)
Profit (loss) for the period from continuing operations		**7,947**	**(25,098)**
Discontinued operations			
Profit (loss) from discontinued operations	6	**37,611**	**(17,595)**
Profit (loss) for the period		**45,558**	**(42,693)**
Profit (loss) from continuing operations attributable to:			
Shareholders of Integra Group		**8,192**	**(25,546)**
Non-controlling interest		(245)	448
Profit (loss) from discontinued operations attributable to:			
Shareholders of Integra Group		**42,387**	**(15,261)**
Non-controlling interest		(4,776)	(2,334)
Profit (loss) attributable to:			
Shareholders of Integra Group		**50,579**	**(40,807)**
Non-controlling interest		(5,021)	(1,886)
Earnings (loss) per share attributable to shareholders of Integra Group (in US dollars per share):			
Earnings (loss) from continuing operations per share, basic	22	0.98	(3.03)
Earnings (loss) from continuing operations per share, diluted	22	0.92	(3.03)
Earnings (loss) from discontinued operations per share, basic	22	5.05	(1.81)
Earnings (loss) from discontinued operations per share, diluted	22	4.74	(1.81)
Weighted average shares outstanding, basic	22	8,396,000	8,441,619
Weighted average shares outstanding, diluted	22	8,941,623	8,441,619

Profit (loss) for the period		45,558	(42,693)
Other comprehensive (loss) income			
Effect from foreign exchange hedge		-	(1,816)
Exchange gain (loss) from translation to presentation currency		(24,744)	(4,816)
Total comprehensive gain (loss) for the period		**20,814**	**(49,325)**
Comprehensive gain (loss) attributable to:			
Shareholders of Integra Group of continuing operations		**(12,741)**	**(31,430)**
Shareholders of Integra Group of discontinued operations		**40,943**	**(14,337)**
Non-controlling interest of continuing operations		(245)	448
Non-controlling interest of discontinued operations		(7,143)	(4,006)

*Restated due to the impact of discontinued operations (note 6), as required by IFRS 5

Approved for issue and signed on behalf of the Board of Directors on 18 April 2012

F. Lyubashevsky
Chief Executive Officer

Y. Baidpukov
Chief Financial Officer

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

(expressed in thousands of US dollars)

	Note	31 December: 2011	2010*
Assets			
Cash and cash equivalents	11	13,791	54,841
Trade and other receivables	12	181,657	242,342
Inventories	13	70,127	79,482
Assets of disposal group classified as held for distribution to owners / sale	6	210,482	44,724
Total current assets		**476,057**	**421,389**
Property, plant and equipment	14	143,584	286,916
Goodwill and intangible assets	15	106,162	101,834
Investments in associates	16	13,369	16,555
Deferred income tax assets	18	23,262	8,197
Loans provided and other assets		5,759	7,214
Total non-current assets		**292,136**	**420,716**
Total assets		**768,193**	**842,105**
Liabilities and equity			
Accounts payable and accrued liabilities	17	129,307	149,838
Income tax payable		908	2,070
Other taxes payable	18	23,636	45,250
Borrowings	19	143	35,393
Liabilities of disposal group classified as held for sale	6	-	4,176
Total current liabilities		**153,994**	**236,727**
Borrowings	19	195,274	131,107
Deferred income tax liability	18	6,006	14,230
Other non-current liabilities		577	1,346
Total non-current liabilities		**201,857**	**146,683**
Total liabilities		**355,851**	**383,410**
Share capital and share premium	20	971,201	995,673
Treasury shares	20	-	(6,190)
Cumulative translation reserve		(131,971)	(109,616)
Accumulated deficit		(438,850)	(489,471)
Total equity attributable to shareholders of Integra Group		**400,380**	**390,396**
Non-controlling interest		11,962	68,299
Total equity		**412,342**	**458,695**
Total liabilities and equity		**768,193**	**842,105**

*Restated upon accounting for certain adjustments to the purchase price allocation, as permitted by IFRS 3 (note 2.6).

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

(expressed in thousands of US dollars)

	Year ended 31 December:	
	2011	**2010**
Cash flows from operating activities		
Loss before income tax from continuing operations	(10,945)	(10,052)
Profit (loss) before income tax from discontinued operation	41,607	(23,749)
Adjustments for:		
Gain from disposal of subsidiaries (note 6)	(48,056)	(5,875)
Impairment of property, plant and equipment and loss recognised on the re-measurement of assets of disposal group	1,499	20,906
Depreciation and amortization	90,046	95,365
Loss from disposal of property, plant and equipment and intangible assets	2,073	2,374
Finance expense, net	22,424	37,900
Share-based compensation	6,135	12,975
Share of results of associates	936	(1,559)
Receivables and inventories impairment and other write-offs	6,836	(926)
Exchange gain	(919)	(4,817)
Other	(212)	459
Operating cash flows before working capital changes	**111,424**	**123,001**
Change in trade and other receivables	(52,886)	(7,440)
Change in inventories	(19,324)	3,114
Change in accounts payable and accrued liabilities	21,183	(28,239)
Change in other taxes payable	(3,111)	10,856
Operating cash flows before interest and income taxes	**57,286**	**101,292**
Income tax paid	(11,187)	(14,839)
Finance expense paid	(21,360)	(33,575)
Net cash generated from operating activities	**24,739**	**52,878**
Cash flows from investing activities:		
Purchase of property, plant and equipment	(83,200)	(52,561)
Proceeds from the disposal of property, plant and equipment and intangible assets	4,518	945
Proceeds from disposal of Stromneftemash, net of pre-tax costs to sell and cash	14,401	-
Proceeds from disposal of TSP, net of pre-tax costs to sell and cash	25,964	-
Proceeds from disposal of URBO, net of pre-tax costs to sell and cash	-	30,373
Expenses related to the cessation of control in IGSS	(6,442)	-
Purchase of Siam	(65,410)	-
Loans provided	-	(2,913)
Proceeds from repayment of loans	2,958	6
Interest received	694	1,366
Other	(5,562)	(1,759)
Net cash used in investing activities	**(112,079)**	**(24,543)**
Cash flows from financing activities:		
Proceeds from disposal of non-controlling interest	8,169	48,000
Exercise of options for cash	1,360	-
Global Depository Receipts buy-back	(19,092)	(6,190)
Proceeds from borrowings	310,855	254,218
Repayment of borrowings	(251,720)	(302,334)
Cash paid for purchase of interest in non-controlling interest	-	(5,314)
Other	(37)	-
Net cash (used in) generated from financial activities	**49,535**	**(11,620)**
Net (decrease) increase in cash and cash equivalents	**(37,805)**	**16,715**
Cash and cash equivalents at the beginning of the period	54,841	37,272
Effect of exchange differences on cash balances	(3,245)	854
Cash and cash equivalents at the end of the period	**13,791**	**54,841**

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

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

	Note	Share capital and share premium	Treasury shares	Cumulative translation reserve	Accumulated deficit	Total equity attributable to shareholders of Integra Group	Non-controlling interest	Total equity
Balance at 31 December 2009		**982,698**	**-**	**(106,471)**	**(481,468)**	**394,759**	**17,653**	**412,412**
Total comprehensive loss for the year		-	-	(3,145)	(42,622)	(45,767)	(3,558)	(49,325)
Total		**982,698**	**-**	**(109,616)**	**(524,090)**	**348,992**	**14,095**	**363,087**
Share-based compensation from stock option and RSU plans	20,21	12,755	-	-	-	12,755	-	12,755
Share-based compensation from issuance of Class A common shares to management	20,21	220	-	-	-	220	-	220
Global Depository Receipts buy-back	20	-	(6,190)	-	-	(6,190)	-	(6,190)
Disposal of 25.0 percent interest in IG Seismic Services	5	-	-	-	34,619	34,619	54,204	88,823
Balance at 31 December 2010		**995,673**	**(6,190)**	**(109,616)**	**(489,471)**	**390,396**	**68,299**	**458,695**
Total comprehensive gain (loss) for the year		-	-	(22,355)	50,557	28,202	(7,388)	20,814
Total		**995,673**	**(6,190)**	**(131,971)**	**(438,914)**	**418,598**	**60,911**	**479,509**
GDR buy-back program	20	-	(19,092)	-	-	(19,092)	-	(19,092)
Class A common shares cancelled after GRD buy-back completion	20	(25,282)	25,282	-	-	-	-	-
Class A common shares cancelled after disposal of Stromneftemash	20	(2,924)	-	-	-	(2,924)	-	(2,924)
Options received from disposal of Stromneftemash	20	(3,761)	-	-	-	(3,761)	-	(3,761)
Share-based compensation from stock options and RSU plans	20,21	6,135	-	-	-	6,135	-	6,135
Exercise of options for cash	20,21	1,360	-	-	-	1,360	-	1,360
Disposal of control interest in IG Seismic Services	6	-	-	-	-	-	(48,865)	(48,865)
Purchase of non-controlling interest in NPO Burovaya Technika	5	-	-	-	64	64	(84)	(20)
Balance at 31 December 2011		**971,201**	**-**	**(131,971)**	**(438,850)**	**400,380**	**11,962**	**412,342**

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"), is engaged in provision of drilling, workover and other oilfield services to the petroleum industry in the Russian Federation, the Commonwealth of Independent States ("CIS") and other countries outside of the CIS. Certain of the Group's holdings are registered in Cyprus, the Netherlands and the Cayman Islands.

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 stock ticker INTE.

The Group's main operating subsidiaries as of 31 December 2011 and 2010 are described below. Certain subsidiaries providing procurement and administrative functions are not presented. Acquisitions and disposals of interests in its subsidiaries made in 2011 and 2010 are discussed in notes 5 and 6 and the segment information is provided in note 7.

			Effective control at 31 December:	
Full description	**Short description**	**Country of incorporation**	**2011**	**2010**
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%
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%
ZAO Company Siam	Siam	Russian Federation	100.0%	-
Formation Evaluation				
OAO Integra-Geophyzika	Integra Geophysics	Russian Federation	-	74.1%
OOO Geoprime	Geoprime	Russian Federation	-	75.0%
JSC Azimuth Energy Services	Azimuth Energy Services	Kazakhstan	-	71.4%
JSC Geostan	Geostan	Kazakhstan	-	74.6%
Manufacturing				
OOO Stromneftemash	Stromneftemash	Russian Federation	-	100.0%

In August 2010, the Group set up IG Seismic Services Limited ("IGSS") under which the Group transferred all its ownership in Integra Geophysics, Geoprime, Azimuth Energy Services and Geostan (the "seismic companies"). In October 2010, the effective interest in the seismic companies was reduced by 25.0 percent after the Group sold a 25.0 percent interest in IGSS to Schlumberger Oilfield Holdings Limited ("SOHL") (note 5).

As discussed in note 6, in December 2011 the Group ceased to exercise control over IGSS but continues to exercise significant influence over IGSS through a 36.0 percent interest in IGSS. As part of the overall transaction, IGSS is to seek admission to a public listing targeted before 31 December 2012, at which time Integra is to distribute its holding in IGSS to its respective shareholders and / or holders of its global depository receipts ("GDRs"). Consequently, the Group has classified this investment as an asset held for distribution to shareholders.

In June 2011, the Group merged Smith Production Technology into Integra Drilling (note 18).

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

1 General Information (continued)

At 31 December 2011 and 2010, the Group's main equity associates were engaged in the formation evaluation and well testing services and were as follows:

		Effective ownership at 31 December:	
Full description	**Short description**	**2011**	**2010**
OAO Nizhnevartovskneftegeophysika	Nizhnevartovskneftegeophysika	37.8%	37.8%
ZAO Neftegeotechnology	Neftegeotechnology	66.3%	66.3%
OAO Stavropolneftegeophyzika	Stavropolneftegeophyzika	-	25.4%
OOO Research Center Gazinformplast	Gazinformplast	25.0%	-
OOO Siam Nefterservice	Siam Nefterservice	26.0%	-

In December 2010, the Group purchased an additional 2.1 percent interest in Nizhnevartovskneftegeophysika for $0.03 million whereby the effective interest in Nizhnevartovskneftegeophysika and Neftegeotechnology increased to 37.8 percent and 66.3 percent, respectively. Neftegeotechnology is accounted for as an equity associate (note 16) as it is a subsidiary of Nizhnevartovskneftegeophysika, an associate. In September 2011, as a result of acquisition of Siam (note 5) the Group acquired a 25.0 percent and 26.0 percent interest in Gazinformplast and Siam Nefteservice. In October 2011, the Group transferred to IGSS its 25.4 percent interest in Stavropolneftegeophyzika.

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.

2.2 Statement of compliance. These consolidated financial statements of the Group 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 of 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.

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 of the other Group entities is the Russian rouble.

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

2 Summary of Significant Accounting Policies (continued)

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 32.20 and 30.48 as of 31 December 2011 and 2010, respectively, and the average annual exchange rates were 29.39 and 30.37 for 2011 and 2010, 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 2010. In 2011, the Group made certain adjustments to the purchase accounting for the Group's acquisition in 2010 of the seismic and data processing businesses of PetroAlliance and WesternGeco in Russia (note 5.3), which resulted in the change of the Group's opening balances as follows:

	31 December 2010 As previously reported	Purchase accounting adjustments for businesses acquired from PetroAlliance and WesternGeco	31 December 2010 Revised
Assets			
Cash and cash equivalents	54,841	-	54,841
Trade and other receivables	242,148	194	242,342
Inventories	79,482	-	79,482
Assets of disposal group classified as held for sale	44,724	-	44,724
Property, plant and equipment	288,547	(1,631)	286,916
Goodwill and other intangible assets	100,306	1,528	101,834
Investments in associates	16,555	-	16,555
Deferred tax assets	7,699	498	8,197
Loans provided and other assets	7,213	1	7,214
Total assets	**841,515**	**590**	**842,105**

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

2 Summary of Significant Accounting Policies (continued)

	31 December 2010 As previously reported	Purchase accounting adjustments for businesses acquired from PetroAlliance and WesternGeco	31 December 2010 Revised
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	149,838	-	149,838
Income taxes payable	2,070	-	2,070
Other taxes payable	45,073	177	45,250
Short-term borrowings	35,393	-	35,393
Liabilities of disposal group classified as held for sale	4,176	-	4,176
Long-term borrowings	131,107	-	131,107
Deferred tax liability	14,230	-	14,230
Other non-current liabilities	1,346	-	1,346
Share capital	995,673	-	995,673
Treasury shares	(6,190)	-	(6,190)
Cumulative translation reserve	(109,684)	68	(109,616)
Accumulated deficit	(490,618)	1,147	(489,471)
Non-controlling interest	69,101	(802)	68,299
Total liabilities and equity	**841,515**	**590**	**842,105**

The Group completed the purchase accounting of the acquisition of PetroAlliance and WesternGeco in Russia as of 31 December 2011.

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 and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. In case of a bargain purchase when the transaction results in the excess of the fair value of the identifiable net assets of the acquiree over the consideration transferred and the amount of any non-controlling interest, the resulting gain is recognized in the profit or loss component of the consolidated statement of comprehensive income on the acquisition date. Acquisition-related costs are expensed in the periods in which they are incurred.

Goodwill on acquisitions of subsidiaries is presented as a component of goodwill in the consolidated statement of financial position, 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 Summary of Significant Accounting Policies (continued)

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.

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 Non-current assets and disposal groups held for sale or distribution to owners and discontinued operations. Non-current assets and disposal groups are classified in the consolidated statement of financial position as held for sale or distribution to owners if their carrying amount will be recovered principally through a transaction of sale or distribution to owners within twelve months after the reporting period. Assets and associated liabilities are classified as held for sale when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Assets and associated liabilities are classified as held for distribution to owners when (a) they are available for immediate distribution in their present condition, (b) the Group's management initiated the distribution, and (c) it is highly probable to be completed within one year. Such non-current assets or disposal groups' net assets are measured at the lower of their carrying amount and fair value less costs to sell or distribute. Upon classification as for sale or distribution the Group ceases to accrue the depreciation of related non-current depreciable assets.

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

2.10 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.

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 Summary of Significant Accounting Policies (continued)

2.11 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.

2.11.1 Engineering and service contracts. The Group applies the percentage of completion method for revenue recognition of certain contracts to provide drilling, well construction, 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".

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

2.12 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.

2.13 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.

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.

2 Summary of Significant Accounting Policies (continued)

2.13 Share-based compensation (continued). 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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:

	Range of average estimated useful lives
Trademarks	6-18 years
Software	4-10 years
Other	3-10 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.

2.18 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.

2 Summary of Significant Accounting Policies (continued)

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

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

2.19 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:

	Range of average estimated useful lives
Rigs	5-20 years
Buildings	15-90 years
Plant and equipment	2-30 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.

2.20 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.

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 Summary of Significant Accounting Policies (continued)

2.21 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.

2.22 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.

2.23 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.

2.24 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.

2.25 New IFRS effective in 2011. In 2011, the Group adopted the following new standards which did not have material impact on these consolidated financial statements:

- **IAS 24 (Revised),** *Related Party Disclosures*, issued in November 2009 and 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.
- **Amendments to IAS 1,** *Presentation of Financial Statements*, issued in May 2010 and effective on or after 1 January 2011 and applied retrospectively. The standard clarifies the presentation of other comprehensive income or expense in equity or in notes to the financial statements.
- **Amendment to IFRS 3**, *Business Combinations*, issued in May 2010 and effective on or after 1 January 2011. The standard develops on measurement of non-controlling interest, acquiree’s share-based payment arrangements and contingent consideration.
- **Amendments to IAS 34,** *Interim Financial Reporting*, issued in May 2010 and effective on or after 1 January 2011 and applied retrospectively. The standard adds certain disclosure requirements related to valuation and classification of financial instruments.

2 Summary of Significant Accounting Policies (continued)

2.25 New IFRS effective in 2011 (continued).

- **Amendments to IAS 27,** *Consolidated and Separate Financial Statements,* issued in May 2010 and effective on or after 1 January 2011 and applied retrospectively. The standard was amended clarifying the transition rules for amendments to IAS 21, 28 and 3.
- **Amendments to IFRS 7,** *Disclosures—Transfers of Financial Assets*, effective on or after 1 January 2011 and 1 July 2011 and applied retrospectively. The standard develops on (a) quantitative and qualitative disclosures of the nature and extent of risks associated with financial instruments and certain disclosure clarifications and (b) additional disclosures in respect of risk exposures arising from transferred financial assets.
- **Improvements to International Financial Reporting Standards and other revised standards and interpretations,** effective from 1 January 2011. The improvements, revised standards and interpretations consist of a mixture of substantive changes and clarifications in various standards and interpretations.

2.26 New IFRS effective after 31 December 2011 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 9**, *Financial Instruments: Classification and Measurement*, issued in November 2009 and effective for annual periods beginning on or after 1 January 2015. IFRS 9 replaces the parts of IAS 39 relating to classification and measurement of financial assets. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The financial instruments are measured at fair value or amortized cost.
- **IFRS 10**, *Consolidated Financial Statements,* issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and separate financial statements* and SIC-12 *Consolidation - special purpose entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control.
- **IFRS 11,** *Joint Arrangements,* issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Ventures*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. Among the changes the proportionate consolidation is only allowed in certain circumstances of joint operations and the equity accounting is mandatory for participants in joint ventures.
- **IFRS 12,** *Disclosure of Interest in Other Entities,* issued in May 2011 and effective for annual periods beginning on or after 1 January 2013. It replaces the disclosure requirements provided by IAS 28 *Investments in associates* and requires disclosures in a number of areas, including (a) judgments and assumptions made in determining control, joint control, or significant influence over entities, (b) share of non-controlling interests in group activities and cash flows, (c) summarized financial information of subsidiaries with material non-controlling interests, and (d) of interests in unconsolidated structured entities.
- **IFRS 13,** *Fair value measurement,* issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- **Amendments to IFRS 9 and IFRS 7**, *Mandatory Effective Date and Transition Disclosures,* issued in December 2011 and effective on or after 1 January 2015. The amendments require entities to apply IFRS 9 and IFRS 7 on or after 1 January 2015 instead of 1 January 2013 and modify a relief from restating prior periods.
- **Amendments to IFRS 7**, *Disclosures—Offsetting Financial Assets and Financial Liabilities,* issued in December 2011 and effective for annual periods beginning on or after 1 January 2013. The amendment requires disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

2 Summary of Significant Accounting Policies (continued)

2.26 New IFRS effective after 31 December 2011 and not early adopted (continued).

- **IAS 19 (Revised),** *Employee Benefits, issued in June 2011*, effective for periods beginning on or after 1 January 2013, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

- **IAS 27 (Revised),** *Separate Financial Statements*, issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, was changed to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

- **IAS 28 (Revised),** *Investments in Associates and Joint Ventures*, issued in May 2011 and effective for annual periods beginning on or after 1 January 2013. The amendment incorporates the accounting for joint ventures using the equity method.

- **Amendments to IAS 12**, *Deferred Tax – Recovery of Underlying Assets,* issued in December 2010 and effective for annual periods beginning on or after 1 January 2012, introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale.

- **Amendments to IAS 1**, *Presentation of Items of Other Comprehensive Income,* issued in June 2011, effective for annual periods beginning on or after 1 July 2012**,** requires entities separate items that may be reclassified to profit or loss in the future in other comprehensive income. The Group expects no impact on measurement of transactions and balances.

- **Amendments to IAS 32**, *Offsetting Financial Assets and Financial Liabilities*, issued in December 2011 and effective for annual periods beginning on or after 1 January 2014. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria.

The Group has reviewed and found amendments to IFRS 1, *First time adoption of International Financial Reporting Standards* not to be relevant to the Group's consolidated financial statements.

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 Estimates of recoverable amounts for the goodwill impairment test. 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. 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. The key assumptions and sensitivity of carrying amounts to them are discussed in note 15.

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 these intangible assets.

3.3 Assessment of the percentage of completion on engineering and service contracts. Certain part of the Group's revenue is 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 estimates and actual performance may result in losses in future periods. The sensitivity of the 2011 sales from change of estimated profit margins is discussed in note 10.

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. The sensitivity of the option valuation model is discussed in note 21.

3.7 Fair values of acquired assets and liabilities. In 2011, the Group ceased to exercise its control over IGSS but retained a significant influence (note 6). IAS 27 requires measuring the consideration received from the cessation of control and the acquisition of the interest in the associate at fair value. The sensitivities of this fair value estimate are discussed in note 6.

In 2010, the Group acquired certain businesses of PetroAlliance and WesternGeco, subsidiaries of Schlumberger Oilfield Holdings Limited (note 5). IFRS 3 requires that, at the acquisition date, all assets and liabilities, including intangible assets, of an acquired business be recorded at their respective fair values.

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

3 Critical Estimates and Judgements (continued)

The estimation of fair values requires significant management judgment. To assess fair values of consideration received from the cessation of control, monetary assets and liabilities of subsidiaries acquired, 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 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 final accounting had been completed from the acquisition date.

4 Financial Risk Management

As of 31 December 2011 and 2010, the Group's financial instruments were as follows:

		31 December:	
	Notes	**2011**	**2010**
Financial assets:			
Cash and cash equivalents	11	13,791	54,841
Financial receivables	12	140,636	173,676
Loans provided and other assets		5,759	7,214
Total financial assets		**160,186**	**235,731**
Financial liabilities:			
Financial payables and accrued liabilities	17	87,936	85,754
Current borrowings	19	143	35,393
Non-current borrowings	19	195,274	131,107
Total financial liabilities		**283,353**	**252,254**

As of 31 December 2011 and 2010, the carrying values of the financial assets and financial liabilities, except for the bonds, approximated their fair values. In November 2011, the Group repaid in full the remainder of its second rouble bonds issue. As of 31 December 2010, the carrying and fair values of the bonds were $4.8 million and $5.1 million, respectively (note 19).

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 therefore believes that it does not have a material credit risk in relation to its cash or cash equivalents. The Group focuses on servicing large independent and Russian state-owned oil and gas exploration and production customer groups which management considers creditworthy. The Group monitors and assesses regularly the likelihood of collection on a customer-by-customer basis in order to mitigate 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 and that its maximum exposure to credit risk is the carrying value of its financial assets recognized in the consolidated statement of financial position as of both 31 December 2011 and 2010.

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

4 Financial Risk Management (continued)

As of 31 December 2011 and 2010, the ageing of the financial receivables (note 12) was as follows:

	As of 31 December 2011:			**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	63,028	-	63,028	63,028	-
Within 90 days	69,621	(56)	69,565	56,578	12,987
91 to 360 days	4,456	(986)	3,470	1,465	2,005
Over 360 days	18,368	(13,795)	4,573	-	4,573
Total trade receivables	**155,473**	**(14,837)**	**140,636**	**121,071**	**19,565**

	As of 31 December 2010:			**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	63,039	-	63,039	63,039	-
Within 90 days	84,544	(109)	84,435	76,873	7,562
91 to 360 days	12,274	(291)	11,983	1,313	10,670
Over 360 days	26,327	(12,108)	14,219	11,215	3,004
Total trade receivables	**186,184**	**(12,508)**	**173,676**	**152,440**	**21,236**

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

	31 December: 2011	**2010**
Balance at the beginning of the period	(12,508)	(15,706)
Provision for financial receivables	(4,117)	(4,157)
Unused amounts reversed	722	7,084
Acquisitions	(237)	-
Transfer to discontinued operations	350	162
Exchange differences	953	109
Balance at the end of the period	**(14,837)**	**(12,508)**

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.

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

4 Financial Risk Management (continued)

4.1.2. Liquidity risk (continued). In December 2011, the Group obtained a waiver from VTB Bank (Deutschland) AG in relation to potential breach of certain debt covenants arising under the long-term loan (note 19). The Group expects to maintain the debt covenants after the waiver expires and continues to recognize the loan as long-term as of 31 December 2011.

As of 31 December 2011 and 2010, 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:	
	2011	**2010**
Total amount of credit facilities available for withdrawal	301,888	84,452
Amounts withdrawn	(197,134)	(45,328)
Amount available for withdrawal	**104,754**	**39,124**

As of 31 December 2011 and 2010, interest on the unused facilities, if drawn, would have been payable at an average interest rate of 6.6 percent and 7.2 percent per annum, respectively.

Scheduled maturities of current financial liabilities (notes 17 and 19) outstanding as of 31 December 2011 and 2010, excluding any interest payments, were as follows:

	31 December 2011		
	Financial payables and accrued liabilities	**Short-term borrowings**	**Total current financial liabilities**
Within 90 days	86,587	143	86,730
91 to 180 days	328	-	328
181 to 365 days	1,021	-	1,021
Total current financial liabilities	**87,936**	**143**	**88,079**

	31 December 2010		
	Financial payables and accrued liabilities	**Short-term borrowings**	**Total current financial liabilities**
Within 90 days	68,747	574	69,321
91 to 180 days	8,863	4	8,867
181 to 365 days	8,144	34,815	42,959
Total current financial liabilities	**85,754**	**35,393**	**121,147**

Scheduled maturities of long-term borrowings (note 19) outstanding as of 31 December 2011 and 2010 and payments of interest arising after the reporting date were as follows:

	31 December 2011
12 months ended 31 December:	
2012	19 720
2013	19 619
2014	19 609
2015	47 216
2016	95 222
2017	62 485
2018	30 959
Total long-term borrowings	**294 830**

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

4 Financial Risk Management (continued)

4.1.2. Liquidity risk (continued).

	31 December 2010
12 months ended 31 December:	
2011	12,975
2012	112,474
2013	28,244
Total long-term borrowings	**153,693**

For purposes of this disclosure, the cash flows are presented in undiscounted nominal terms and the interest payable on floating rate borrowing to maturity was calculated using the rates in existence as of 31 December 2011 and 2010, respectively.

4.1.3. Interest rate risk. The Group is exposed to cash flow interest rate risk from its variable interest rate borrowings, which was not hedged as of 31 December 2011. The Group assesses interest rate risk by reference to market information about ranges of changes in floating interest rates of both actual movements during the year prior the reporting period and reasonably possible changes in the year thereafter.

In each of 2011 and 2010, the Group determined such interest rate sensitivity as one percentage point and determined that if the floating interest rates increased or decreased by one percentage point, with all other variables held constant, the Group's profit (loss) for the years ended 31 December 2011 and 2010 and total equity at 31 December 2011 and would have changed as follows:

	31 December:	
	2011	**2010**
Incremental pre-tax loss from increase in the floating interest rate by one percentage point	(260)	(190)
Incremental pre-tax profit from decrease in the floating interest rate by one percentage point	260	190

4.1.4. Currency risk. The Group is exposed to currency exchange risk mainly from borrowings denominated in US dollars whereas the functional currency of most Group companies is the Russian rouble. The Group assesses the currency risk by reference to market information about ranges of changes in exchange rates of the Russian roubles to the US dollar of both actual movements during the reporting period and reasonably possible changes in the year thereafter.

In the year ended 31 December 2011, the Group assessed the ranges of reasonably possible exchange rate sensitivity as two Russian roubles to one US dollar exchange rate and determined that if the exchange rates increased or decreased by two Russian roubles, with all other variables held constant, the Group's profit (loss) and total equity would have changed from the retranslation of the assets and liabilities denominated in US dollars existing as of 31 December 2011 and as of 31 December 2010 using a sensitivity of one Russian roubles to one US dollar as follows:

	31 December:	
	2011	**2010**
Incremental pre-tax loss from increase of the RR / $ exchange rate by two Russian rouble for 2011 and one Russian rouble for 2010	(1,292)	(171)
Incremental pre-tax profit from decrease of the RR / $ exchange rate by two Russian rouble for 2011 and one Russian rouble for 2010	1,375	176

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

4 Financial Risk Management (continued)

4.2 Capital risk management. The Group's objective of its capital management is to safeguard the Group's ability to continue as a going concern and to maintain an optimal mix of debt and equity to reduce the cost of capital.

The Group considers capital to be a sum of 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 borrowings divided by capital. As of 31 December 2011 and 2010, the Group's gearing ratio was 32.2 percent and 26.6 percent, respectively. The Group considers that the long-term optimal gearing ratio is in the range between 35.0 percent and 40.0 percent.

The current policy of the Group and its subsidiaries is not to pay dividends and its subsidiaries only pay dividends on their preferred shares. Effective from the disposal of 25.0 percent interest in IGSS and up to 30 December 2011, the dividend payments from earnings of IGSS to SOHL and Integra were subject to separate decisions made by IGSS's board of directors in each financial year. As of 31 December 2011 and 2010, neither the Group nor any of its subsidiaries were subject to externally imposed capital requirements.

5 Business Combinations and Transactions with Non-controlling Interest

5.1. Acquisition of Siam. In September 2011, the Group completed the acquisition of a 100 percent interest in Siam for a consideration of RR 2.1 billion, equivalent to $65.7 million as of the completion date of 30 September 2011. The consideration was fully paid in cash in September 2011. The Group incurred transaction costs of $0.5 million which were charged to the consolidated statement of comprehensive income. Siam and its subsidiaries perform hydrodynamic testing of wells, including equipment manufacturing and are included in the Group's Technology Services segment.

On acquisition of Siam, the Group recognized goodwill of $51.4 million based on the difference between the consideration paid and management's preliminary assessment of the fair value of Siam's identifiable assets, liabilities and contingent liabilities. The Group purchased Siam with and attributed the goodwill to its expectations of future incomes to be realized following the acquisition. For the period from the acquisition to 31 December 2011, the Group recognized $18.1 million and $3.6 million in revenue and profit from the activities of Siam subsequent to the acquisition.

The preliminary purchase accounting allocation for the acquisition of Siam is summarized below. Amounts for the acquisitions are based upon management's preliminary estimates of the fair values.

	Total
Cash and cash equivalents	329
Trade and other receivables, net of bad debt provision of $0.5 million	11,190
Inventories, net of obsolete stock provision of $0.4 million	1,831
Property, plant and equipment	12,768
Other non-current assets	1,563
Accounts payable	(10,639)
Borrowings	(1,866)
Other payables including deferred tax liabilities	(860)
Share in net assets acquired	**14,316**
Purchase consideration	65,739
Goodwill	**51,423**

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

5 Business Combinations and Transactions with Non-controlling Interest (continued)

The following table sets forth summary combined financial information for the year ended 31 December 2011 and is presented to provide information to evaluate the financial effects of the acquisition of Siam, as if it had occurred on 1 January 2011.

	Total revenues	**Profit**
Group	615,773	45,558
Siam	57,003	9,280
Adjustments and eliminations	(18,096)	(3,589)
Summary combined	**654,680**	**51,249**

The summary combined financial information should not be construed to represent consolidated financial information. Specifically, no adjustments have been made for financing transactions or any other arrangements associated with the acquisition. The revenue adjustment of $18.0 million includes elimination of post-acquisition revenues that were included in both the Group and the individual Siam's totals. The profit adjustment of $3.6 million includes elimination of post-acquisition results, which were included in both the Group and the individual Siam's totals, and other adjustments.

5.2. Acquisition of non-controlling interest in NPO Burovaya Technika. In December 2011, the Group acquired an additional 0.35 percent interest in NPO Burovaya Technika for $0.02 million thereby increasing its total holding to 56.25 percent. The effect from the transaction was recognized in the Group's statement of consolidated changes in equity. NPO Burovaya Technika is a subsidiary of Drilling Tools company and is consolidated into it.

5.3. Acquisition of seismic and data processing businesses of PetroAlliance and WesternGeco, subsidiaries of SOHL in Russia. In October 2010, the Group completed a transaction under which it: (a) acquired certain businesses from PetroAlliance and WesternGeco of SOHL, (b) contemporaneously consolidated its entire interest in all its subsidiaries of the Formation Evaluation segment (note 1) under a newly created holding company called IGSS, and (c) sold 25.0 percent interest in IGSS to SOHL.

In October 2010, the Group paid to SOHL a total consideration of $34.2 million in cash for the acquired businesses and received $35.4 million from SOHL as a part consideration received for the sold 25.0 percent interest in IGSS valued at $88.9 million. The remaining part of the consideration of $53.5 million was received in cash in two installments of $48.0 million and $5.5 million in October 2010 and March 2011, respectively. In the consolidated statements of cash flows for 2010 the Group netted off the circular cash payments and the cash payment of $48.0 million was disclosed as cash proceeds from disposal of non-controlling interest. On the transaction closure, the Group retained control over IGSS and the disposal of the 25.0 percent interest in IGSS resulted in a gain of $34.6 million recognized in the consolidated statement of changes in equity. During 2011, the Group completed the valuation of the consideration transferred to be in amount of $31.7 million and received back from SOHL overpaid cash in the amount of $2.7 million.

In October 2011, the Group completed the purchase accounting for the acquisition of the businesses from PetroAlliance and WesternGeco, both purchased in October 2010, added to the goodwill of Integra Geophysics and Geoprime, respectively, and revised the opening balances at the acquisition date as follows:

	Business acquired from:		
	PetroAlliance	**WesternGeco**	**Total**
Inventories	4,052	1	4,053
Property, plant and equipment	15,522	303	15,825
Software licenses	-	6,223	6,223
Prepaid expenses and other receivaibles	-	1,154	1,154
Other assets	925	-	925
Other liabilities	-	(151)	(151)
Net assets acquired	**20,499**	**7,530**	**28,029**
Consideration transferred	24,184	7,530	31,714
Goodwill	**3,685**	**-**	**3,685**

6 Discontinued Operations and Assets Held for Distribution to Shareholders

Cessation of control in IGSS. In December 2011, the Group completed a transaction whereby Integra and SOHL jointly and Geotech Oil Services Holdings Limited ("GOSH") combined their seismic businesses by bringing Geotech Holding under IGSS (the "combined seismic entity"). GOSH acquired a 52.0 percent interest in the combined seismic entity and contributed its seismic business into IGSS Holding by transferring Geotech Holding and its subsidiaries, and Integra and SOHL retained 36.0 percent and 12.0 percent interest in the combined seismic entity, respectively. The board of directors of the combined seismic entity consists of nine directors, of whom three, two and one directors are appointed by GOSH, the Group and SOHL, respectively, and the three remaining directors are independent of Integra, SOHL and GOSH. Effective from the transaction completion date the Group ceased to exercise control in IGSS, a transaction gain of $36.2 million was recognized in the Group's statement of comprehensive income, exercises significant influence in the combined seismic entity and has recognized the remaining 36.0 percent interest as an asset held for distribution to Integra's shareholders.

The Group classified this investment as held for distribution to owners as the transaction has been structured so that the combined seismic entity would seek admission of its GDRs to an official listing and trading on the regulated market of the London Stock Exchange within less than one year after the transaction completion date. At the time of the proposed admission the Group's shares in the combined seismic entity are to be distributed to Integra's shareholders as a dividend in specie. From the transaction completion until the distribution to owners the investment is held within the Formation Evaluation segment (note 7).

In February 2012, Integra's board of directors approved a treatment for the dividend in specie related to Class B common shares (note 20) upon the admission of IGSS's GDRs to an official listing (the "share dividend"). The share dividend shall be kept in share form and pledged to Integra and released to the Class B common shareholder in direct proportion to payment of the Class B common share exercise price. In addition, the pledge may be released for the purposes of (i) selling the share dividend the proceeds from which to be used to exercise the appropriate amount of the Class B common shares or (ii) converting the share dividend into GDRs subject to such GDRs being pledged to Integra upon conversion.

The fair value of the acquired investment was assumed as 36 percent in the combined seismic entity's fair value determined based on market multiple of adjusted EBITDA from IGSS and Geotech, plus the synergies expected to be realized from the combination. The fair value of 36.0 percent interest and was assessed to equal $210.5 million. The main inputs into the fair valuation models of the separate consolidated entities were: adjusted EBITDA of 36.1 million (note 7) and $82.0 million earned in 2011 by IGSS and Geotech, respectively; the valuation of expected synergies, net of their implementation costs, calculated to equal $108.7 million; the relevant industry multiple of 7.0 and the target net debt of the combined seismic company of $350.0 million. By the time of issuance of these consolidated financial statements Geotech's EBITDA earned in 2011 was used on preliminary basis and was subject to change. The table below summarizes the sensitivity of the fair value of the investment in IGSS to changes to the key variable valuation assumptions:

(in millions of US dollars, where applicable)

		Increase by 10 percent		Decrease by 10 percent	
Assumption	**Value used in the fair valuation**	**Increase in variable assumption**	**Increase in the fair value**	**Decrease in variable assumption**	**Decrease in the fair value**
Geotech's EBITDA earned in 2011	82.0	8.2	20.7	(8.2)	(20.7)
Valuation of synergies, net of implementation costs	108.7	10.9	3.9	(10.9)	(3.9)
Multiple	7.00	0.7	29.7	(0.7)	(29.7)
Valuation of Geotech's EBITDA earned in 2011, synergies and multiple, cumulative effect			56.4		(52.2)

Other disposals. In August 2010 the Group sold its 100 percent interest in URBO. In December 2010, the Group decided to dispose of Stromneftemash and Tyumen Shipbuilding Plant ("TSP"), manufacturers of cementing units and other oilfield equipment. All aforementioned entities were part of the Equipment Manufacturing segment. The Group recognized Stromneftemash's and TSP's assets and liabilities as held-for-sale as of 31 December 2010. Stromneftemash and TSP represented a discontinued operation of the cementing units and other oilfield equipment that was a separate business line and cash generating unit. The Group sold Stromneftemash in April 2011 and TSP in August 2011 for $21.8 million and $26.8 million, respectively.

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

6 Discontinued Operations and Assets Held for Sale (continued)

Profit (loss) from discontinued operations.

For the period until the disposal in 2011:	Stromneftemash	TSP	IGSS	Total
Sales	5,863	24	263,085	268,972
Expenses	(7,538)	(729)	(267,154)	(275,421)
Loss before income tax	**(1,675)**	**(705)**	**(4,069)**	**(6,449)**
Income tax	(4,013)	134	(390)	(4,269)
Loss after income tax	**(5,688)**	**(571)**	**(4,459)**	**(10,718)**
Consideration received from the disposal of Stromneftemash and TSP in cash	15,107	26,787	-	41,894
Consideration received from the disposal of Stromneftemash in GDRs and stock options (note 20)	6,685	-	-	6,685
Consideration received: fair value of 36% holding in the combined seismic entity	-	-	210,482	210,482
Net assets on disposal	(21,084)	(15,489)	(213,676)	(250,249)
Investment in Stavropolneftegeophyzika, net of deferred tax (note 16)	-	-	(1,749)	(1,749)
Non-controlling interest in IGSS	-	-	48,865	48,865
Pre-tax cost to sell	(122)	-	(7,750)	(7,872)
Income tax benefit	236	-	37	273
After-tax cost to sell	114	-	(7,713)	(7,599)
Gain (loss) from discontinued operations	**(4,866)**	**10,727**	**31,750**	**37,611**

For the period until the disposal in 2010:	URBO	Stromneftemash & TSP	IGSS	Total
Sales	28,555	29,404	223,041	281,000
Expenses	(36,002)	(33,069)	(234,188)	(303,259)
Loss recognised on the re-measurement of assets of disposal group	-	(7,363)	-	(7,363)
Loss before income tax	**(7,447)**	**(11,028)**	**(11,147)**	**(29,622)**
Income tax	1,763	1,449	772	3,984
Loss after income tax	**(5,684)**	**(9,579)**	**(10,375)**	**(25,638)**
Consideration received from the disposal of URBO, all in cash	41,884	-	-	41,884
Net assets of URBO on disposal	(24,135)	-	-	(24,135)
Pre-tax costs to sell	(11,874)	-	-	(11,874)
Income tax benefit	2,168	-	-	2,168
After-tax costs to sell	(9,706)	-	-	(9,706)
Profit (loss) from discontinued operations	**2,359**	**(9,579)**	**(10,375)**	**(17,595)**

The gain (loss) from discontinued operations reconcile to the gain from disposal of subsidiaries in the consolidated statement of cash flows as follows:

	Year ended 31 December or period prior to disposal, if earlier: 2011	2010
Gain (loss) from discontinued operations	37,611	(17,595)
Add: loss after income tax	10,718	25,638
Less: Income tax benefit	(273)	(2,168)
Gain from disposal of subsidiaries	**48,056**	**5,875**

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

6 Discontinued Operations and Assets Held for Sale (continued)

The net cash flows of the discontinued operations were as follows:

For the period until disposal in 2011:	**Stromneftemash & TSP**	**IGSS**
Net cash generated from operating activities	6,250	4,273
Net cash generated from (used in) investing activities	12,431	(26,007)
Net cash used in financing activities	(19,430)	12,672
Net decrease in cash and cash equivalents	**(749)**	**(9,062)**

For the year ended 31 December 2010:	**URBO**	**Stromneftemash & TSP**	**IGSS**
Net cash used in operating activities	(16,798)	(19,440)	(5,463)
Net cash generated from (used in) investing activities	2,250	(15,044)	2,084
Net cash generated from (used in) financing activities	6,659	25,724	12,223
Net decrease in cash and cash equivalents	**(7,889)**	**(8,760)**	**(8,844)**

The assets and liabilities of Stromneftemash, TSP and IGSS as of their disposal dates were as follows:

	Stromneftemash	**TSP**	**IGSS**	**Total**
Cash and cash equivalents	584	823	5,010	6,417
Trade and other receivables	10,393	22	98,904	109,319
Inventories	10,037	602	23,250	33,889
Property, plant and equipment	11,803	13,851	129,118	154,772
Intangible assets	107	15	7,877	7,999
Goodwill	-	-	34,546	34,546
Other non-current assets	3	189	2,162	2,354
Total assets	**32,927**	**15,502**	**300,867**	**349,296**
Accounts payable and accrued liabilities	8,910	13	38,473	47,396
Taxes payable	2,925	-	15,357	18,282
Borrowings	-	-	31,366	31,366
Deferred tax liability	8	-	1,995	2,003
Total liabilities	**11,843**	**13**	**87,191**	**99,047**
Net assets	**21,084**	**15,489**	**213,676**	**250,249**

As of 31 December 2010, TSP was part of Stromneftemash legal entity and did not have separate accounting for its assets and liabilities. As of 31 December 2010, the Stromneftemash's and TSP's combined assets and liabilities were as follows:

31 December 2010	**Stromneftemash & TSP**
Cash and cash equivalents	689
Trade and other receivables	7,829
Inventories	8,323
Property, plant and equipment	25,764
Intangible assets	113
Other non-current assets	2,006
Total assets	**44,724**
Accounts payable and accrued liabilities	1,745
Other taxes payable	1,213
Other non-current liabilities	1,218
Total liabilities	**4,176**

7 Segment Information

The Group identifies its reporting segments as follows:

- Drilling, Workover and IPM segment providing rig-up work, drilling, well construction, workover and maintenance services on individual and integrated management basis.
- Technology Services segment providing various services supporting the Drilling, Workover and IPM segment, including down-hole motors manufacturing and services, coiled tubing, cementing, directional drilling, drill bit services, well logging and perforation, testing of wells and well testing equipment.
- Formation Evaluation segment providing field geophysical services including 2-D and 3-D land seismic data acquisition, processing and interpretation.
- Manufacturing segment producing a range of oilfield equipment including drilling rigs, cementing units and other equipment.
- Other segment comprises results from certain Group's insignificant trading and other activities.

In 2010, the Group decided to dispose of its Equipment Manufacturing segment and its results are disclosed as discontinued operations. Certain minor entities previously included in the Equipment Manufacturing segment were reclassified to the Technology Services segment, both for the year ended 31 December 2011 and 2010. Corporate assets, liabilities and expenses represent activities that are managed on the Group basis and are not allocated to operating segments.

The Group uses earnings before interest, tax, depreciation and amortization ("EBITDA") adjusted to exclude the share-based compensation ("adjusted EBITDA") as a major measure of its performance. EBITDA is calculated as profit (loss) from continuing operations before any extraordinary items and the following:

EBITDA category	Items excluded from the operating profit (loss) in calculation of EBITDA
Finance income (expense)	Finance income (expense), exchange gains (losses) primarily related to foreign currency denominated borrowings and cash
Income tax	Current and deferred income taxes
Depreciation of property, plant and equipment	Depreciation of property, plant and equipment incurred from their continuous use, effects from change in their valuation and de-recognition, including their impairment, write-off and disposal
Amortization of intangible assets	Amortization of intangible assets incurred from their continuous use, effects from change in their valuation and de-recognition, including their impairment, write-off and disposal
Effects from business combinations and discontinued operations as unrelated to continuing operations	Such effects include gains (losses) on acquisition and disposal of any interest in the Group's subsidiaries or associates, impairment of goodwill, share of results in associates and profit (loss) attributable to non-controlling interest

From January 2011, the Group introduced earnings before interest and tax ("EBIT") as an additional measure of performance of its subsidiaries. As distinct from the adjusted EBITDA, the EBIT includes the effects arising from transactions related to the continuing operations, of investing activity nature including depreciation of property, plant and equipment, amortization of intangible assets, acquisition and disposal of interest in subsidiaries and associates etc.

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

7 Segment Information (continued)

Segment information related to the Group's financial performance for the year ended 31 December 2011 and 2010 is set out as follows:

Year ended 31 December 2011:	**Drilling, Workover & IPM**	**Technology Services**	**Formation Evaluation**	**Equipment Manufacturing**	**Other**	**Corporate**	**Intersegment Eliminations**	**Total**
Continuing operations								
Sales external	409,524	204,927	-	-	1,322	-	-	615,773
Sales to other operating segments	-	8,601	-	-	6,539	-	(15,140)	-
Total sales	**409,524**	**213,528**	**-**	**-**	**7,861**	**-**	**(15,140)**	**615,773**
Cost of sales	(356,192)	(156,436)	-	-	(7,001)	-	14,651	(504,978)
Impairment of property, plant and equipment	(876)	(331)	-	-	-	-	-	(1,207)
Gross profit (loss)	**52,456**	**56,761**	**-**	**-**	**860**	**-**	**(489)**	**109,588**
Selling, general and administrative expenses	(35,183)	(16,947)	-	-	(849)	(46,010)	822	(98,167)
Loss (gain) from disposal of property, plant and equipment and Intangible assets	(626)	(1,239)	-	-	-	160	(185)	(1,890)
Operating profit (loss)	**16,647**	**38,575**	**-**	**-**	**11**	**(45,850)**	**148**	**9,531**
Discontinued operations	-	-	31,750	5,861		-	-	37,611
Reconciliation of operating (loss) profit to the EBIT and adjusted EBITDA:								
Operating profit (loss)	**16,647**	**38,575**	**-**	**-**	**11**	**(45,850)**	**148**	**9,531**
Corporate overheads directly attributed to segments	**(3,976)**	**(3,410)**	-	-	**-**	**7,386**	-	**-**
Share of results of associates	-	(891)	-	-	-	-	-	(891)
EBIT	**12,671**	**34,274**	**-**	**-**	**11**	**(38,464)**	**148**	**8,640**
Depreciation of property, plant and equipment	37,195	19,654	-	-	8	1,208	-	58,065
Amortization of intangible assets	85	601	-	-	-	186	-	872
Impairment of property, plant and equipment	876	331	-	-	-	-	-	1,207
Loss from disposal of property, plant and equipment and intangible assets	626	1,239	-	-	-	(160)	185	1,890
Siam acquisition transaction costs	-	-	-	-	-	530	-	530
Share-based compensation	-	-	-	-	-	6,135	-	6,135
Share of results of associates	-	891	-	-	-	-	-	891
Adjusted EBITDA from continuing operations	**51,453**	**56,990**	**-**	**-**	**19**	**(30,565)**	**333**	**78,230**
Adjusted EBITDA from discontinued operations			**36,073**	**(2,230)**	**-**			**33,843**

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

7 Segment Information (continued)

Year ended 31 December 2010:	**Drilling, Workover & IPM**	**Technology Services**	**Formation Evaluation**	**Equipment Manufacturing**	**Other**	**Corporate**	**Intersegment Eliminations**	**Total**
Continuing operations								
Sales external	384,539	183,636	-	-	2,515	-	-	570,690
Sales to other operating segments	26	7,290	-	-	3,304	-	(10,620)	-
Total sales	**384,565**	**190,926**		**-**	**5,819**	**-**	**(10,620)**	**570,690**
Cost of sales	(324,018)	(128,854)	-	-	(4,943)	-	10,203	(447,612)
Impairment of property, plant and equipment	(1,095)	(3,375)	-	-	32	-	-	(4,438)
Gross profit (loss)	**59,452**	**58,697**	**-**	**-**	**908**	**-**	**(417)**	**118,640**
Selling, general and administrative expenses	(28,566)	(16,024)	-	-	(2,322)	(54,007)	607	(100,312)
(Loss) gain from disposal of property, plant and equipment and Intangible assets	336	(150)	-	-	(14)	(1,809)	(81)	(1,718)
Operating profit (loss)	**31,222**	**42,523**	**-**	**-**	**(1,428)**	**(55,816)**	**109**	**16,610**
Discontinued operations	-	-	(10,375)	(7,220)	-	-	-	(17,595)
Reconciliation of operating (loss) profit to the EBIT and adjusted EBITDA:								
Operating profit (loss)	**31,222**	**42,523**	**-**	**-**	**(1,428)**	**(55,816)**	**109**	**16,610**
Corporate overheads directly attributed to segments	(4,186)	(3,209)	-	-	-	7,395	-	-
Share of results of associates	-	1,512	-	-	-	-	-	1,512
EBIT	**27,036**	**40,826**	**-**	**-**	**(1,428)**	**(48,421)**	**109**	**18,122**
Depreciation of property, plant and equipment	32,722	18,447	-	-	8	1,555	-	52,732
Amortization of intangible assets	3,208	490	-	-	-	176	-	3,874
Impairment of property, plant and equipment	1,095	3,375	-	-	(32)	-	-	4,438
(Loss) gain from disposal of property, plant and equipment and intangible assets	(336)	150	-	-	14	1,809	81	1,718
Loss on restructuring	-	-	-	-	-	228	-	228
Share-based compensation	-	-	-	-	-	12,975	-	12,975
Share of results of associates	-	(1,512)	-	-	-	-	-	(1,512)
Adjusted EBITDA from continuing operations	**63,725**	**61,776**	**-**	**-**	**(1,438)**	**(31,678)**	**190**	**92,575**
Adjusted EBITDA from discontinued operations	**-**	**-**	**39,079**	**1,211**	**-**	**-**	**-**	**40,290**

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

7 Segment Information (continued)

Segment information related to the Group's financial position as of 31 December 2011 and 2010:

	Drilling, Workover & IPM	Technology Services	Formation Evaluation	Equipment Manufacturing	Other	Corporate	Intersegment Eliminations	Total
As of 31 December 2011:								
Total assets	309,454	254,204	210,482	-	5,066	864,210	(875,223)	768,193
Total liabilities	(120,347)	(258,209)	-	-	(7,647)	(80,320)	110,672	(355,851)
Year ended 31 December 2011:								
Additions to non-current assets	32,369	28,403	-	-	198	1,865	-	62,835

	Drilling, Workover & IPM	Technology Services	Formation Evaluation	Equipment Manufacturing	Other	Corporate	Intersegment Eliminations	Total
At 31 December 2010:								
Total assets	313,150	355,096	311,747	44,724	7,987	1,117,739	(1,308,338)	842,105
Total liabilities	(138,756)	(126,908)	(68,411)	(4 ,176)	(8,866)	(332,516)	296,223	(383,410)
Year ended 31 December 2010:								
Additions to non-current assets	15,574	19,146	17,046	-	1	321	-	52,088

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

7 Segment Information (continued)

In 2011 and 2010, the Group earned its external revenues from continuing operations and had its goodwill and intangible assets, property, plant and equipment and investments in associates in the Russian Federation.

In 2011, the Group earned transaction revenues from continuing operations each exceeding 10 percent of the Group's consolidated revenues with three major customers in the amounts of $128.9 million, $72.0 million and $68.0 million reported by the Group's Drilling, Workover and IPM and Technology Services segments.

In 2010, the Group earned revenues from continuing operations each exceeding 10 percent of the Group's consolidated revenues, with two major customers in the amounts of $128.2 million and $99.5 million reported by the Group's Drilling, Workover and IPM and Technology Services segments.

8 Cost of Sales

	Year ended 31 December:	
	2011	**2010**
Services	223,682	189,988
Employee costs (including mandatory social contributions of $27.4 million and $19.6 million for the twelve months ended 31 December 2011 and 2010, respectively)	149,457	131,719
Materials and supplies	74,765	71,615
Depreciation of property, plant and equipment	55,736	50,286
Amortization of intangible assets	468	3,376
Other	870	628
Total cost of sales	**504,978**	**447,612**

9 Selling, General and Administrative Expenses

	Year ended 31 December:	
	2011	**2010**
Employee costs (including mandatory social contributions of $5.1 million and $4.0 million for the twelve months ended 31 December 2011 and 2010, respectively)	46,958	46,690
Services	27,230	32,156
Share-based compensation expense	6,135	12,975
Taxes, other than income tax	4,189	3,504
Receivables impairment, bad debt expense and other write-offs	4,320	(1,081)
Depreciation of property, plant and equipment	2,329	2,446
Transportation expenses	1,749	2,132
Amortization of intangible assets	404	498
Inventories impairment and obsolete stock write-offs and income from inventory disposals	(370)	456
Other	5,223	536
Total selling, general and administrative expenses	**98,167**	**100,312**

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

10 Engineering and Services Contracts

The Group sales include revenues from engineering and service contracts of $349.7 million and $488.2 million for the twelve months ended 31 December 2011 and 2010, respectively. The status of engineering and service contracts in progress as of 31 December 2011 and 2010:

	Year ended 31 December:	
	2011	**2010**
Contract costs incurred from inception	553,133	579,959
Contract profits (less recognized losses) incurred from inception	112,397	81,331

The recognition of the revenue from engineering and service contracts uncompleted as of 31 December 2011 was primarily based on an assumption of profit margins expected to be earned from inception to completion of each contract. If such expected profit margins reduced by one percent, the revenue from such contracts would reduce by $2.4 million.

11 Cash and Cash Equivalents

As of 31 December 2011 and 2010, the cash and cash equivalents of $13.8 million and $54.8 million, respectively were readily convertible to the full amounts of cash and cash equivalents amounts without any restriction in their use.

12 Trade and Other Receivables

	31 December:	
	2011	**2010**
Financial receivables:		
Trade receivables (net of allowances for doubtful accounts of $2.6 million and $3.4 million at 31 December 2011 and 2010, respectively)	46,429	50,237
Amounts due from customers for engineering and service contract work (net of allowances for doubtful accounts of $12.2 million and $9.1 million at 31 December 2011 and 2010, respectively)	94,207	123,439
Total financial receivables	**140,636**	**173,676**
Non-financial receivables:		
VAT recoverable	7,575	9,186
Advances to suppliers	7,440	19,302
Prepaid expenses and other receivables	26,006	40,178
Total non-financial receivables	**41,021**	**68,666**
Total trade and other receivables	**181,657**	**242,342**

13 Inventories

	31 December:	
	2011	**2010**
Materials and supplies (net of allowances for obsolete materials $5.5 million and $4.9 million as of 31 December 2011 and 2010, respectively)	53,614	65,329
Work in progress (net of allowances for obsolete work in progress $0.1 million and $0.2 million as of 31 December 2011 and 2010, respectively)	4,446	3,523
Finished goods (net of allowances for obsolete finished goods $0.7 million and $1.6 million as of 31 December 2011 and 2010, respectively)	12,067	10,630
Total inventories	**70,127**	**79,482**

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

14 Property, Plant and Equipment

	Rigs	Land and Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost						
As of 31 December 2009	**98,661**	**143,009**	**357,248**	**69,080**	**32,396**	**700,394**
Additions	2,938	2,536	37,724	5,300	2,196	50,694
Acquisitions	1,072	2,414	9,563	3,222	(446)	15,825
Disposals	(1,397)	(1,864)	(26,786)	(4,528)	(498)	(35,073)
Transfer to discontinued operations	-	(50,814)	(30,748)	(444)	(1,393)	(83,399)
Exchange differences	(711)	(756)	(2,101)	(464)	(102)	(4,134)
As of 31 December 2010	**100,563**	**94,525**	**344,900**	**72,166**	**32,153**	**644,307**
Additions	6,616	2,729	47,663	2,230	1,005	60,243
Acquisitions	-	5,803	2,825	3,892	248	12,768
Disposals	(3,469)	(7,083)	(14,527)	(1,751)	(243)	(27,073)
Transfer to discontinued operations	(7,832)	(42,984)	(166,268)	(29,933)	(13,963)	(260,980)
Reclassification	1,412	(12,208)	26,003	(12,873)	(2,334)	0
Exchange differences	(5,644)	(4,726)	(21,291)	(3,937)	(1,788)	(37,386)
As of 31 December 2011	**91,646**	**36,056**	**219,305**	**29,794**	**15,078**	**391,879**
Accumulated depreciation						
As of 31 December 2009	**(52,948)**	**(39,795)**	**(180,833)**	**(33,987)**	**(15,616)**	**(323,179)**
Depreciation	(12,199)	(4,614)	(54,270)	(9,233)	(4,896)	(85,212)
Impairment	(430)	(10,106)	(2,840)	(145)	(22)	(13,543)
Disposals	1,363	1,364	21,075	3,091	437	27,330
Transfer to discontinued operations	-	22,141	11,959	293	559	34,952
Exchange differences	419	262	1,272	239	69	2,261
As of 31 December 2010	**(63,795)**	**(30,748)**	**(203,637)**	**(39,742)**	**(19,469)**	**(357,391)**
Depreciation	(10,748)	(2,660)	(36,095)	(6,401)	(2,161)	(58,065)
Impairment	(114)	(459)	(595)	(30)	(9)	(1,207)
Disposals	3,073	306	12,228	1,474	193	17,274
Transfer to discontinued operations	5,230	14,596	82,890	17,703	8,078	128,497
Reclassification	(1,412)	5,891	(11,318)	5,559	1,280	0
Exchange differences	4,076	1,847	12,907	2,552	1,215	22,597
As of 31 December 2011	**(63,690)**	**(11,227)**	**(143,620)**	**(18,885)**	**(10,873)**	**(248,295)**
Net book value						
As of 31 December 2010	**36,768**	**63,777**	**141,263**	**32,424**	**12,684**	**286,916**
As of 31 December 2011	**27,956**	**24,829**	**75,685**	**10,909**	**4,205**	**143,584**

In 2011, the property, plant and equipment transferred to discontinued operations related to IGSS the control over which was ceased by the end of 2011 (note 6).

As of 31 December 2011 and 2010, certain property, plant and equipment with a net book value of $5.2 million and $5.9 million, respectively, were pledged as collateral for the Group’s accounts payable and borrowings (note 19).

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

15 Goodwill and Intangible Assets

	Goodwill	Long-term customer / supplier relationships	Trademarks	Software	Other	Total
Cost						
As of 31 December 2009	**94,566**	**15,824**	**11,948**	**9,083**	**7,722**	**139,143**
Additions	-	-	7	843	544	1,394
Acquisitions	3,685	-	-	6,223	-	9,908
Transfer to discontinued operations	(7,218)	-	(11,102)	(1,425)	(1,892)	(21,637)
Disposals	-	(15,779)	(4)	(1,763)	(421)	(17,967)
Exchange differences	(628)	(45)	27	(75)	(60)	(781)
As of 31 December 2010	**90,405**	**-**	**876**	**12,886**	**5,893**	**110,060**
Additions	-	-	-	2,512	80	2,592
Acquisitions	51,423	-	3	151	-	51,577
Transfer to discontinued operations	(34,546)	-	(56)	(10,552)	(480)	(45,634)
Disposals	-	-	(842)	(79)	(635)	(1,556)
Exchange differences	(5,340)	-	27	(784)	(221)	(6,318)
As of 31 December 2011	**101,942**	**-**	**8**	**4,134**	**4,637**	**110,721**
Accumulated amortization						
As of 31 December 2009	**-**	**(13,213)**	**(11,508)**	**(5,622)**	**(4,531)**	**(34,874)**
Amortisation	-	(2,755)	(149)	(1,334)	(476)	(4,714)
Transfer to discontinued operations	-	2	10,945	620	1,872	13,439
Disposals	-	15,779	2	1,751	155	17,687
Exchange differences	-	187	(27)	40	36	236
As of 31 December 2010	**-**	**-**	**(737)**	**(4,545)**	**(2,944)**	**(8,226)**
Amortisation			(51)	(532)	(289)	(872)
Transfer to discontinued operations	-	-	12	3,045	99	3,156
Disposals	-	-	842	79	239	1,160
Exchange differences	-	-	(66)	81	208	223
As of 31 December 2011	**-**	**-**	**0**	**(1,872)**	**(2,687)**	**(4,559)**
Net carrying amount						
As of 31 December 2010	**90,405**	**-**	**139**	**8,341**	**2,949**	**101,834**
As of 31 December 2011	**101,942**	**-**	**8**	**2,262**	**1,950**	**106,162**

The goodwill of $51.4 million from the acquisition of Siam has been estimated on preliminary basis and is subject to completion accounting within one year from the acquisition date (note 5).

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

15 Goodwill and Intangible Assets (continued)

Goodwill. As of 31 December 2011 and 2010, the carrying value of goodwill was attributed to the Group's cash-generating units ("CGU") as follows:

	31 December:	
Cash generating unit	**2011**	**2010**
Workover	23,396	24,716
Integra Geophysics	-	24,168
Smith Siberian Services	19,183	20,265
Drilling Tools	8,452	8,929
GeoPrime	-	7,343
Azimuth Energy Services	-	4,984
Siam	50,911	-
Total	**101,942**	**90,405**

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 using a discounted cash flow model.

The future cash flows were discounted using pre-tax discount rates ranging between 14.4 percent and 16.5 percent among each CGU. The discount rate was 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 2011. The Group assessed capital expenditures sufficient to maintain its production capacity existing at 31 December 2011 to termination date, which is assumed to be in perpetuity. In order to assess the cash flows to infinity the Group used a perpetuity formula.

From the key assumptions discussed above the value in use estimate is most sensitive to the estimated adjusted EBITDA margins. 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. As of 31 December 2011, based on the management's estimate, the value in use of Workover exceeded the carrying value of its net assets by 65.1 percent, and if the adjusted EBITDA margin reduces by 2.8 percentage points the fair value of the net assets will equal their carrying values. The value in use for the other CGUs exceeded the carrying value of their net assets by at least 163.2 percent in aggregate. If the estimated adjusted EBITDA margins of the other CGUs reduce by one percentage point the excess of the value in use over the carrying amount will reduce by at least 7.7 percent and the Group expects that value in use of each CGU's net assets should stay higher than their carrying amounts within a reasonable range of any of the key assumptions of the value in use calculations.

The change in the goodwill includes write-offs in connection with the disposals of IGSS and URBO in 2011 and 2010, respectively (note 6). The other change in goodwill balances related to the change in the foreign exchange rates from 30.48 to 32.20 at 31 December 2010 and 2011, respectively.

Intangible assets. In 2010, 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 of $15.8 million and nil, respectively.

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

16 Investments in Associates

	31 December: 2011	2010
Nizhnevartovskneftegeophyzika	10,093	12,012
Neftegeotechnology	2,302	2,469
Stavropolneftegeophyzika	-	2,074
Gazinformplast	419	-
Siam Nefteservice	555	-
Total investments in associates	**13,369**	**16,555**

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

	Year ended 31 December: 2011	2010
Carrying amount at the beginning of the year	16,555	15,116
Acquisitions	616	-
Transfer to the discontinued operations	(1,954)	47
Share of results of associates	(891)	1,512
Dividends received from associates	(145)	-
Exchange differences	(812)	(120)
Carrying amount at the end of the year	**13,369**	**16,555**

In December 2011, the Group transferred its investment in Stavropolneftegeophyzika to IGSS as part of cessation of control over IGSS and the Group's plan to distribute its interest in IGSS to Integra's shareholders.

In 2010, the share of results of associates of $1.5 million includes the Group's share of the results of operations of the associates of $0.8 million and negative goodwill on acquisition of 2.1 percent additional interest in Nizhnevartovskneftegeophyzika and Neftegeotechnology in amount of $0.7 million.

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

	31 December: 2011	2010
Total assets	43,310	58,066
Total liabilities	11,968	17,006

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

	Year ended 31 December: 2011	2010
Total revenues	64,298	70,169
Total operating expenses	(65,885)	(68,218)
Operating profit (loss)	**(1,587)**	**1,951**
Interest expense, net	(285)	(672)
Income tax expense	(50)	(481)
Minority share	20	(16)
Profit (loss) for the year	**(1,902)**	**782**

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

17 Accounts Payable and Accrued Liabilities

	31 December:	
	2011	**2010**
Financial payables and accrued liabilities:	34,703	32,243
Trade payables		
Payables under contracts with customers for engineering and service contract work	52,387	52,554
Interest payable	846	957
Total financial payables and accrued liabilities	**87,936**	**85,754**
Non-financial payables and accrued liabilities:		
Accrued liabilities and other creditors	22,859	30,780
Advances from customers for engineering and service contract work	867	1,544
Advances from other customers	17,645	31,760
Total non-financial payables and accrued liabilities	**41,371**	**64,084**
Total accounts payable and accrued liabilities	**129,307**	**149,838**

18 Taxes

	Year ended 31 December:	
	2011	**2010**
Current tax	(7,670)	(14,299)
Deferred tax	26,562	(747)
Total income tax benefit (expense)	**18,892**	**(15,046)**

Reconciliation of income tax expense. The table below reconciles actual income tax expense and theoretical income tax related to the continuing operations, determined by applying the Russian statutory income tax rate to income before income tax and non-controlling interest.

	Year ended 31 December:	
	2011	**2010**
Loss before income tax	(10,945)	(10,052)
Theoretical tax benefit at Russian statutory income tax rate of 20 percent	2,189	2,010
Effect of income taxed at rates lower than 20 percent	(629)	1,134
Effect of loss taxed at rates higher than 20 percent	106	-
Recognition of deferred tax assets accumulated by OOO Integra Drilling	26,819	-
Tax losses not expected to be utilized against future profits from overseas activities	(6,642)	(8,307)
Tax losses not expected to be utilized against future profits from domestic activities	(1,068)	(1,289)
Share-based compensation	(1,227)	(2,595)
Non-tax deductible expenses and other	(656)	(5,999)
Total income tax benefit (expense)	**18,892**	**(15,046)**

Recognition of deferred tax assets accumulated by OOO Integra Drilling. In 2011, following the merger of OOO Smith Production Technology into OOO Integra Drilling (note 1), it became probable that the combined company would generate sufficient future taxable profits to utilize deferred tax assets in the total amount of $26.8 million from (a) tax losses in the total amount of $100.4 million that OOO Integra Drilling had accumulated prior to the merger, and (b) previously unrecognized temporary differences arising on property, plant and equipment and other items in the total amount of $33.7 million.

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

18 Taxes (continued)

Movements in deferred income tax assets and liabilities during the year ended 31 December 2011 were as follows:

	31 December 2010	Business combinations	Disposals of subsidiaries	Continuing operations of profit and loss	Discontinued operations of profit and loss	Effect of exchange differences	31 December 2011
Assets							
Inventories	2,097	70	(12)	168	(930)	(49)	1,344
Total current deferred income tax assets	**2,097**	**70**	**(12)**	**168**	**(930)**	**(49)**	**1,344**
Tax losses carried forward	13,665	-	(11,061)	19,962	2,244	(2,885)	21,925
Other	4,745	345	(1,414)	1,591	(3,657)	(28)	1,582
Total non-current deferred income tax assets	**18,410**	**345**	**(12,475)**	**21,553**	**(1,413)**	**(2,913)**	**23,507**
Liabilities							
Accounts receivable	(920)	81	173	4,987	31	(425)	3,927
Engineering and service contracts	(9,390)	-	7,534	(4,511)	(652)	910	(6,109)
Total current deferred income tax liabilities	**(10,310)**	**81**	**7,707**	**476**	**(621)**	**485**	**(2,182)**
Property, plant and equipment	(13,685)	(1,497)	7,585	4,165	(450)	238	(3,644)
Intangible assets	(415)	(2)	27	401	(44)	(9)	(42)
Other	(2,130)	202	1,227	(201)	(896)	71	(1,727)
Total non-current deferred income tax liabilities	**(16,230)**	**(1,297)**	**8,839**	**4,365**	**(1,390)**	**300**	**(5,413)**
Net deferred income tax asset (liability)	**(6,033)**	**(801)**	**4,059**	**26,562**	**(4,354)**	**(2,177)**	**17,256**

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

18 Taxes (continued)

Movements in deferred income tax assets and liabilities during the year ended 31 December 2010 were as follows:

	31 December 2009	Acquisitions	Disposals of subsidiaries	Continuing operations of profit and loss	Discontinued operations of profit and loss	Transfer to discontinued operations	Effect of exchange differences	31 December 2010
Assets								
Inventories	2,364	-	375	213	(991)	153	(17)	2,097
Total current deferred income tax assets	**2,364**	-	**375**	**213**	**(991)**	**153**	**(17)**	**2,097**
Tax losses carried forward	12,366	-	-	(907)	3,949	(1,638)	(105)	13,665
Other	6,322	-	(1,634)	(1,458)	1,652	(30)	(107)	4,745
Total non-current deferred income tax assets	**18,688**	-	**(1,634)**	**(2,365)**	**5,601**	**(1,668)**	**(212)**	**18,410**
Liabilities								
Accounts receivable	(2,260)	-	389	550	432	(43)	12	(920)
Engineering and service contracts	(13,014)	-	1,755	(684)	2,152	313	88	(9,390)
Total current deferred income tax liabilities	**(15,274)**	-	**2,144**	**(134)**	**2,584**	**270**	**100**	**(10,310)**
Property, plant and equipment	(15,195)	925	(403)	750	936	(806)	108	(13,685)
Intangible assets	(898)	-	(100)	671	(67)	(26)	5	(415)
Other	(2,345)	-	-	118	(5)	84	18	(2,130)
Total non-current deferred income tax liabilities	**(18,438)**	**925**	**(503)**	**1,539**	**864**	**(748)**	**131**	**(16,230)**
Net deferred income tax liability	**(12,660)**	**925**	**382**	**(747)**	**8,058**	**(1,993)**	**2**	**(6,033)**

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

18 Taxes (continued)

Deferred tax liability from cessation of control interest in IGSS and acquisition of 36 percent interest in the combined seismic entity. The 36% interest in IGSS is held by Integra and no tax will arise when the interest is distributed to Integra's shareholders, consequently no deferred tax has been recognised. The gain on the cessation of control in IGSS was not subject to income tax.

Deferred tax on the temporary differences associated with undistributed earnings. The deferred tax on the temporary differences associated with undistributed earnings of its subsidiaries amounted to $104.1 million and $90.7 million as of 31 December 2011 and 2010, 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 from tax losses available for carry-forward. 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. As of 31 December 2011 and 2010, the Group recognized deferred tax assets in the amounts of $21.9 million and $13.7 million, respectively, from accumulated tax losses available for carry forward and expiring until 2021. Additionally, for the years 2011 and 2010, the Group did not recognise deferred income tax assets on tax loss carry-forwards from continuing operations in the amount of $7.7 million and $9.6 million, respectively, of which $6.6 million and $8.3 million, respectively, relate to the tax losses that do not have expiration dates and $1.1 million and $1.3 million, respectively, relate to the tax losses expiring after 2021. 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

Reconciliation of net deferred income tax asset (liability) to the consolidated statement of financial position. The change in deferred income tax assets and liabilities for the years 2011 and 2010, described above, reflects the net deferred income tax assets and net deferred income tax liabilities of separate companies of the Group. On the face of 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:	
	2011	**2010**
Total deferred tax assets of separate Group companies	23,262	8,197
Total deferred tax liabilities of separate Group companies	(6,006)	(14,230)
Net deferred income tax asset (liability)	**17,256**	**(6,033)**

Other taxes payable. Other taxes payable at 31 December 2011 and 2010 were as follows:

	31 December:	
	2011	**2010**
Value-added tax	18,625	38,030
Mandatory social contributions	2,696	3,511
Personal income tax	1,383	1,995
Property tax	768	1,112
Other taxes	164	602
Total other taxes payable	**23,636**	**45,250**

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

19 Borrowings

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 2011 and 2010.

	31 December 2011					
	Fixed rate		Floating rate		Total	
	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	Amount
Amounts due within one year. Russian rouble-denominated	**-**	**-**	**9.0%**	**143**	**9.0%**	**143**
US dollar-denominated	-	-	5.4%	25,774	5.4%	25,774
Russian rouble-denominated	9.95%	169,500	-	-	9.95%	169,500
Total amounts due after more than one year	**9.95%**	**169,500**	**5.4%**	**25,774**	**9.3%**	**195,274**
Total borrowings	**9.95%**	**169,500**	**5.4%**	**25,917**	**9.3%**	**195,417**

	31 December 2010					
	Fixed rate		Floating rate		Total	
	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	Amount
Amounts due within one year. Russian rouble-denominated	**12.4%**	**35,393**	**-**	**-**	**12.4%**	**35,393**
US dollar-denominated	-	-	7.3%	25,633	7.3%	25,633
Russian rouble-denominated	10.7%	105,474	-	-	10.7%	105,474
Total amounts due after more than one year	**10.7%**	**105,474**	**7.3%**	**25,633**	**10.1%**	**131,107**
Total borrowings	**11.1%**	**140,867**	**7.3%**	**25,633**	**10.6%**	**166,500**

Short-term borrowings. In August 2011, the Group entered into a renewable credit line facility with Unicreditbank, which was limited to RR 500.0 million as of 31 December 2011 ($15.5 million equivalent at 31 December 2011). As of 31 December 2011 and 2010, the outstanding balances were $0.1 million and nil, respectively. As of 31 December 2011, the loan bore a monthly payable floating interest equivalent to 9.0 percent.

The short-term borrowings include the current portion of long-term borrowings with total amounts of nil and $35.4 million as of 31 December 2011 and 2010, respectively.

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

	31 December:	
	2011	2010
Sberbank	169,500	63,343
VTB Bank	25,774	25,633
Alfa bank	-	72,530
Bonds	-	4,843
Other	-	151
Total long-term borrowings	**195,274**	**166,500**
Less: current portion of long-term borrowings	-	(35,393)
Total non-current borrowings	**195,274**	**131,107**

19 Borrowings (continued)

Alfa bank. In July 2010, the Group entered into a Russian rouble-denominated loan facility with Alfa bank under which the outstanding amount as of 31 December 2010 was RR 2.2 billion ($72.5 million at 31 December 2010). From January 2011, the loan bore fixed interest of 11.5 percent payable monthly. The loan was fully prepaid in August 2011.

Sberbank. In October 2010, the Group entered into a Russian rouble-denominated renewable loan facility with Sberbank for a maximum amount of RR 600.0 million ($19.7 million as of 31 December 2010) of which RR 589.1 million ($19.3 million equivalent as of 31 December 2010) was outstanding as of 31 December 2010. The loan bore a fixed annual interest at a rate of 9.5 percent payable monthly. The loan pertained to IGSS and was derecognized within the net assets on the cessation of control in IGSS (note 6).

In April 2010, the Group entered into a Russian rouble-denominated loan facility with Sberbank under which as of 31 December 2010 the remaining nominal repayable balance of the loan was RR 1.32 billion ($43.2 million equivalent as of 31 December 2010) and non-amortized borrowing costs were RR 22.7 million ($0.8 million equivalent as of 31 December 2010). The loan facility bore a fixed annual interest at a rate of 12.5 percent until November 2010 and 10.25 percent payable monthly thereafter. As of 31 December 2010, the Group had certain of its property, plant and equipment with carrying value equivalent to $3.8 million pledged as collateral to the loan (note 14). The loan was fully prepaid in August 2011.

In August 2011, the Group entered into a Russian rouble-denominated non-renewable loan facility with Sberbank for a maximum amount of RR 6.0 billion ($186.4 million equivalent as of 31 December 2011). The loan bears a fixed annual interest at a rate of 9.95 percent payable quarterly with the principal payable in quarterly installments from September 2015 to August 2018. The loan proceeds were partially used to fully prepay the aforementioned loan balances of RR 2.2 billion and RR 1.34 billion received from Alfa bank and Sberbank, respectively, and RR 1.95 billion was used for acquisition of Siam (note 5). As of 31 December 2011, the loan balance was $169.5 million, net of borrowing costs of $1.5 million. As of 31 December 2011, the Group had certain of its property, plant and equipment with carrying value equivalent to $5.2 million, respectively, pledged as collateral to the loan (note 14).

VTB Bank. In April 2010, the Group entered into a renewable US dollar-denominated loan facility with VTB Bank (Germany). In April 2011, the Group increased the maximum amount of the credit line from $50.0 million to $100.0 million and extended the facility maturity from November 2012 to April 2016. On inception the loan bore a floating interest payable quarterly at a rate consisting of 7.0 percent fixed margin and variable LIBOR rate; in January 2011, the fixed margin was reduced to 5.75 percent and in April 2011 it was further reduced to 5.0 percent. The Group determined these modifications to the initial loan terms insignificant and continued to amortize the unamortized borrowing costs incurred at inception through the remaining new life of the loan. At 31 December 2011 and 2010, the loan balances were $25.8 million and $25.6 million, respectively, net of the borrowing costs of $0.2 million and $0.4 million, respectively. The loan was fully repaid in April 2012.

Bonds. As of 31 December 2010, the outstanding amount of the bonds was RR 147.6 million ($4.8 million at 31 December 2010). The bonds bore a fixed interest at a rate of 16.75 percent payable semi-annually. On maturity in November 2011, the Group repaid in full the remainder of 147,605 bonds with a total nominal value of RR 147.6 million.

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

19 Borrowings (continued)

Finance expense. Finance expense for the year ended 31 December 2011 and 2010 comprised the following:

	Year ended 31 December:	
	2011	**2010**
Alfabank	-	4,020
Other	1,094	2,755
Total finance expense on short-term borrowings	**1,094**	**6,775**
Bonds	765	8,838
Sberbank	10,260	7,343
VTB bank	2,552	1,556
Alfabank	5,292	-
EBRD syndicated loan	-	8,614
Other	1,129	39
Total finance expense on long-term borrowings	**19,998**	**26,390**
Total finance expense	**21,092**	**33,165**

20 Share Capital

The following table summarizes the change in share capital for the year ended 31 December 2011 and 2010 as follows:

		Number of common shares:		Share capital and share premium
	Note	**Class A**	**Class B**	
Balance at 31 December 2009		**8,430,881**	**740,000**	**982,698**
Share-based compensation from stock option and RSU plan	21	-	-	12,755
Share-based compensation from issuance of Class A common shares to management		5,000	-	220
Exercise of restricted share units	21	124,589	-	-
Balance at 31 December 2010		**8,560,470**	**740,000**	**995,673**
Cancellation of Class A common shares after the GDR buy-back		(363,002)	-	(25,282)
Class A common shares cancelled after the disposal of Stromneftemash	6	(42,500)	-	(2,924)
Stock options received from disposal of Stromneftemash	6	-	-	(3,761)
Exercise of stock options for cash	21	40,000	-	1,360
Exercise of stock options, cashless	21	9,454	-	-
Vested restricted share units	21	112,908	-	-
Share-based compensation from stock option and RSU plan	21	-	-	6,135
Balance at 31 December 2011		**8,317,330**	**740,000**	**971,201**

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 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. Class B common shares are convertible into Class A common shares upon exercise (note 21).

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

20 Share Capital (continued)

GDR buy-back program completion. In May 2011, the Group completed its global depository receipts ("GDR") buy-back program under which it had repurchased 7,260,040 GDRs for the total amount of $25.3 million including the transaction costs of $0.3 million. The repurchased GDRs were held in treasury until July 2011 when they were converted into 363,002 Integra's Class A common shares which were simultaneously cancelled. As of 31 December 2010, the cost of the repurchased GDRs was $6.2 million classified as treasury shares.

Shares and stock options related to the disposal of Stromneftemash. In April 2011, as part of the sales consideration for Stromneftemash (note 6) the Group received 850,000 GDRs and 107,500 stock options with fair value of $2.9 million and $3.8 million, respectively. The 850,000 GDR were converted into 42,500 Integra's Class A common shares which were cancelled and the 107,500 stock options expired unexercised (note 21).

Vesting of the restricted share units. At 31 December 2011 and 2010, a total of 112,908 and 124,589 restricted share units vested for their exercise one-for-one into the Class A common shares (note 21).

Issuance of Class A common shares to management. In 2010, 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 at each date.

21 Share-based Compensation

2009 Restricted Share Units Plan. In December 2009, the Group implemented the 2009 Restricted Share Units Plan for issuance of rights to receive Integra's Class A common shares and the Board of Directors authorized 654,500 restricted share units ("RSUs") for issuance. The table below summarizes the change in the RSUs in 2011 and 2010.

	Number of RSUs
31 December 2009	**251,744**
Granted	94,500
Vested	(124,589)
Unvested forfeited	(28,333)
31 December 2010	**193,322**
Granted, net of unvested forfeiture during 2011	69,500
Vested	(112,908)
Unvested forfeited	(19,664)
31 December 2011	**130,250**

The total fair value of the RSUs granted, net of unvested forfeiture during 2011, in the years ended 31 December 2011 and 2010 was $4.2 million and $5.8 million, respectively, and the share-based compensation expense related to the RSU grant in each year ended 31 December 2011 and 2010 is to be accrued within four years. In the years ended 31 December 2011 and 2010, the Group recognized the RSU expense of $6.1 million and $8.9 million, respectively, as share-based compensation expense within the selling, general and administrative expenses.

2005 Stock Option Plan and Class B common shares. In 2011 and 2010, the Group's Board of Directors did not authorize any issuance of stock options to purchase the Group's Class A common shares. As of 31 December 2011 and 2010, a total of 752,967 and 621,467 stock options, respectively, remained available to grant.

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

21 Share-based Compensation (continued)

The table below summarizes the stock options changes, including 740,000 of the Class B common shares convertible into Integra's Class A common shares (note 20) upon exercise, which are not part of the 2005 Stock Option Plan.

	Weighted average exercise price in US dollars per share	Number of stock options
Stock options outstanding as of 31 December 2009	**$51.35**	**1,215,816**
Granted	58.20	11,000
Unvested forfeited	278.00	(667)
Vested expired unexercised	150.36	(33,633)
Stock options outstanding as of 31 December 2010	**$48.50**	**1,192,516**
Granted	40.00	4,000
Exercised	29.14	(51,345)
Vested expired unexercised	78.94	(135,500)
Stock options outstanding as of 31 December 2011	**$45.36**	**1,009,671**

The exercised stock options include 11,345 ones exercised for 9,454 Class A common shares (note 20) on a cashless basis under which 1,891 options were cancelled in lieu of payment for the shares.

	Stock options outstanding			Stock options exercisable	
Range of exercise prices (in US dollars per share)	**Number of stock options outstanding**	**Weighted-average remaining contractual life (years)**	**Weighted average exercise price ($)**	**Stock options exercisable as of period end**	**Weighted average exercise price ($)**
$4.00 - $34.00	194,171	3.3	$19.38	194,171	$19.38
$34.39 (Class B common shares)	740,000	4.0	34.39	740,000	34.39
$40.00	4,000	3.0	40.00	-	40.00
$46.20 - $382.00	71,500	6.1	229.81	64,834	246.66
	1,009,671		**$45.36**	**999,005**	**$45.25**

The Black-Scholes option valuation model is used for estimating the fair value of traded stock 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 2011 and 2010 was $17.08 and $21.09 per option, respectively. The significant inputs into the stock option valuation model were as follows.

	Awards granted in year ended 31 December:	
	2011	**2010**
Share price	$35.6	$44.0 - $69.0
Dividend yield	-	-
Expected volatility	56% - 74%	60%
Risk-free interest rate	1.0% - 1.2%	1.6% - 2.5%
Expected life	6 - 7 years	5 – 7 years

The Black-Scholes option valuation model is primarily sensitive to the expected volatility of the underlying share price. If the volatility increased by ten percentage points, the weighted average fair value of the employee stock options granted in 2011 would have increased from $17.08 to $19.80 per option.

In the years ended 31 December 2011 and 2010, the Group recognized the stock option expense of nil and $3.8 million, respectively, as share-based compensation expense within the selling, general and administrative expenses.

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

22 Earnings (Loss) per Share

The following tables set forth the computation of basic and diluted earnings (loss) per share:

Year ended 31 December 2011:	**Continuing operations**	**Discontinued operations**	**Total**
Numerator:			
Profit attributable to shareholders of Integra Group for basic and diluted loss per share	8,192	42,387	50,579
Denominator:			
Weighted average number of common shares outstanding during the period, basic	8,396,000	8,396,000	8,396,000
Weighted average number of common shares outstanding during the period, diluted	8,941,623	8,941,623	8,941,623
Basic earnings per share (in US dollars per share)	0.98	5.05	6.03
Diluted earnings per share (in US dollars per share)	0.92	4.74	5.66

Year ended 31 December 2010:	**Continuing operations**	**Discontinued operations**	**Total**
Numerator:			
Loss attributable to shareholders of Integra Group for basic and diluted loss per share	(25,546)	(15,261)	(40,807)
Denominator:			
Weighted average number of common shares outstanding during the period, basic and diluted	8,441,619	8,441,619	8,441,619
Basic and diluted loss per share (in US dollars per share)	(3.03)	(1.81)	(4.84)

In those periods in which the conversion of exercisable stock options would be accretive because they result in reduction in the basic loss per share, these options are ignored for the purpose of the calculation of diluted earnings (loss) per share.

23 Related Party Transactions

The related parties with whom the Group had transactions during the year ended 31 December 2011 and 2010, or had balances outstanding as of 31 December 2011 and 2010 include the Group's associates and certain third parties related through certain affiliates of the Chairman of the Group's Board of Directors.

	Year ended 31 December:	
	2011	**2010**
Sales of production services by the Group to its associates	263	25
Purchase of administrative services by the Group	(300)	(300)
Purchase of services by the Group from its associates	(18)	-
The Group's other expense from settlements with its associates	(417)	-

		31 December:
	2011	**2010**
Trade receivables from IGSS	8	-
Trade payables to IGSS	1	-
Loans provided to IGSS	4,993	-
Receivable from IGSS for the interest in Stavropolneftegeophyzika (notes 1,6)	1,514	-
Other receivable from IGSS	4,380	-
Trade receivables from other related parties, net	815	35
Trade payables to other related parties, current	2	305
Loan provided to a director	-	2,900

23 Related Party Transactions (continued)

Management compensation. In 2011 and 2010, the Group's senior management team comprised ten and nine members of the management board, respectively, and six and five non-executive directors, respectively, whose compensation totalled $18.0 million and $16.9 million, respectively, including salary, bonuses and other benefits of $12.8 million and $8.6 million, respectively, and share-based compensation of $5.2 million and $8.3 million, respectively.

Administrative services contract. In each of the year ended 31 December 2011 and 2010, 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 Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

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. As of 31 December 2011 and 2010, the Group had unpaid contractual commitments of $17.2 million and $10.8 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. As of 31 December 2011 and 2010, the Group recorded in these consolidated financial statements a liability in the amount of $0.6 million and $1.3 million, respectively, 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 related to environmental matters.

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. As of 31 December 2011 and 2010, 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.

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