Integra Group

Consolidated Financial Statements
as of and for the Year Ended
31 December 2007

PRICEWATERHOUSECOOPERS

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Independent auditor's report

To the Shareholders and Board of Directors of the Integra Group

We have audited the accompanying consolidated financial statements of Integra Group and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated statements of income, of changes in equity and of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

26 May 2008
Moscow, Russian Federation

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

	Note	Year ended 31 December: 2007	2006
Sales	7	1,177,168	546,793
Cost of sales	7,8	(949,801)	(426,004)
Gross profit		**227,367**	**120,789**
Selling, general and administrative expenses	9	(200,718)	(106,263)
Loss from disposal of property, plant and equipment		(4,222)	(2,375)
Gain on disposal of subsidiaries	6	-	225
Operating profit		**22,427**	**12,376**
Interest income		9,679	3,187
Interest expense	19	(59,156)	(46,785)
Exchange gain		2,317	10,570
Share of results of associates	15	1,953	457
Loss before taxation		**(22,780)**	**(20,195)**
Current income tax expense		(32,558)	(25,193)
Deferred income tax benefit	18	4,508	3,266
Total tax expense	18	**(28,050)**	**(21,927)**
Loss for the period		**(50,830)**	**(42,122)**
Loss attributable to:			
- Minority interest		(5,080)	(1,742)
- **Shareholders of Integra Group**		**(45,750)**	**(40,380)**
Loss per share, basic and diluted (in US dollars per share)	22	(8.17)	(12.02)
Weighted average shares outstanding, basic and diluted	22	5,596,984	3,359,052

Approved and authorized for issue 26 May 2008

F.V. Lubashevsky
Chief Executive Officer

A. Polevoy
Chief Financial Officer

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

	Note	31 December: 2007	2006
Assets			
Cash and cash equivalents		101,998	87,553
Trade and other receivables	5,11	405,221	235,777
Inventories	12	176,794	100,184
Restricted cash	10	7,962	268
Total current assets		**691,975**	**423,782**
Goodwill and intangible assets	13	381,245	340,002
Property, plant and equipment	14	561,649	424,643
Investments in associates	15	19,920	15,375
Deferred tax assets	18	2,916	1,925
Loans provided and other assets	16	56,906	34,331
Total non-current assets		**1,022,636**	**816,276**
Total assets		**1,714,611**	**1,240,058**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	17	275,137	254,773
Income taxes payable		20,434	18,425
Other taxes payable	18	29,871	22,689
Current financial liabilities	19	203,011	340,421
Total current liabilities		**528,453**	**636,308**
Non-current financial liabilities	19	210,215	246,089
Deferred tax liability	18	83,599	79,246
Other non-current liabilities		-	1,601
Total non-current liabilities		**293,814**	**326,936**
Total liabilities		**822,267**	**963,244**
Shareholders' equity			
Share capital	20	831,223	215,872
Cumulative translation reserve		66,553	12,434
Accumulated deficit		(75,521)	(29,850)
Total equity attributable to Integra Group shareholders		**822,255**	**198,456**
Minority interest		70,089	78,358
Total equity		**892,344**	**276,814**
Total liabilities and equity		**1,714,611**	**1,240,058**

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

Integra Group
Consolidated Statements of Cash Flows
(expressed in thousands of US dollars)

	Notes	Year ended 31 December: 2007	2006
Cash flows from operating activities			
Loss before taxation		(22,780)	(20,195)
Adjustments for:			
Gain on disposal of subsidiary		-	(225)
Depreciation and amortization	7,8,9	153,599	66,661
Interest income		(9,679)	(3,187)
Interest expense	19	59,156	46,785
Share-based compensation	21	35,281	15,199
Share of results of associates	15	(1,953)	(457)
Other		(5,483)	1,178
Operating cash flows before working capital changes		**208,141**	**105,759**
Change in trade and other receivables		(141,737)	(107,242)
Change in inventories		(61,910)	(37,859)
Change in accounts payable and accrued liabilities		53,830	65,289
Change in other taxes payable		2,237	(14,571)
Operating cash flows before interest and income taxes		**60,561**	**11,376**
Income tax paid		(36,455)	(23,091)
Interest paid		(33,824)	(19,997)
Net cash used in operating activities		**(9,718)**	**(31,712)**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(181,451)	(162,300)
Proceeds from the disposal of property, plant and equipment		5,275	2,576
Settlements for purchases of interests in companies, net of cash acquired		(152,439)	(210,904)
Proceeds from disposal of subsidiary		-	1,800
Loans provided		(15,214)	(6,681)
Proceeds from repayment of loans		6,708	2,066
Interest received		5,983	1,078
Other		(3,210)	(723)
Net cash used in investing activities		**(334,348)**	**(373,088)**
Cash flows from financing activities:			
Proceeds from issuance of shares, net of transaction costs	20	558,518	95,242
Proceeds from exercise of warrants connected with Senior Notes and Facility Agreement	20	17,167	336
Proceeds from borrowings		208,018	507,546
Repayment of borrowings		(440,833)	(126,516)
Proceeds from exercise of Class B common shares and share options	20	4,385	-
Purchases of treasury shares		-	(1,598)
Net cash provided by financing activities		**347,255**	**475,010**
Net increase in cash and cash equivalents		**3,189**	**70,210**
Cash and cash equivalents at the beginning of the year		87,553	21,471
Effect of exchange differences on cash balances		11,256	(4,128)
Cash and cash equivalents at the end of the year		**101,998**	**87,553**

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

Integra Group
Consolidated Statements of Changes in Equity
(expressed in thousands of US dollars, except as indicated)

	Note	Share capital	Cumulative translation reserve	Retained earnings (accumulated deficit)	Equity attributable to Integra Group shareholders	Minority interest	Total equity
Balance at 31 December 2005		**46,713**	**637**	**10,530**	**57,880**	**25,145**	**83,025**
Exercise of warrants	20	316	-	-	316	-	316
Acquisition of Smith Eurasia	20	60,000	-	-	60,000	-	60,000
Acquisition of other subsidiaries		-	-	-	-	54,973	54,973
Disposal of subsidiaries		-	-	-	-	(18)	(18)
Purchase of treasury shares	20	(1,598)	-	-	(1,598)	-	(1,598)
Issuance of shares in private placement	20	95,242	-	-	95,242	-	95,242
Share-based compensation	21	15,199	-	-	15,199	-	15,199
Translation adjustment		-	11,797	-	11,797	-	11,797
Loss for the year		-	-	(40,380)	(40,380)	(1,742)	(42,122)
Balance at 31 December 2006		**215,872**	**12,434**	**(29,850)**	**198,456**	**78,358**	**276,814**
Initial public offering	20	558,518	-	-	558,518	-	558,518
Exercise of warrants connected with Senior Notes	20	1,417	-	-	1,417	-	1,417
Exercise of warrants connected with Facility Agreement	20	15,750	-	-	15,750	-	15,750
Exercise of Class B common shares	20	2,400	-	-	2,400	-	2,400
Exercise of share options	20	1,985	-	-	1,985	-	1,985
Share-based compensation	21	35,281	-	-	35,281	-	35,281
Purchase of minority interest in subsidiaries		-	-	79	79	(3,189)	(3,110)
Translation adjustment		-	54,119	-	54,119	-	54,119
Loss for the year		-	-	(45,750)	(45,750)	(5,080)	(50,830)
Balance at 31 December 2007		**831,223**	**66,553**	**(75,521)**	**822,255**	**70,089**	**892,344**

	Year ended 31 December:	
Supplemental information for minority interests:	**2007**	**2006**
Share of profit attributable to holders of equity instruments with redemption rights classified as a liability	(14)	(185)
Share of loss attributable to holders of instruments classified as equity	5,094	1,927
Loss attributable to minority interest	**5,080**	**1,742**

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

1 General Information

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

Integra was incorporated in the Cayman Islands on 15 March 2004. Since inception, management of the Group have completed numerous acquisitions as part of their strategy to become a leader in the oilfield services and oil and gas equipment manufacturing business in the Russian Federation and the Commonwealth of Independent States ("CIS").

As discussed in notes 2 and 20, the Group completed an Initial Public Offering ("IPO" or "Offering") of its shares in February 2007.

Following are the principal operating subsidiaries of the Group at 31 December 2007 and 2006. Certain subsidiaries that provide only administrative functions are not presented. Acquisitions during the year are discussed in note 6. Segment information is provided in note 7.

		Effective ownership at 31 December:	
	Country of incorporation	2007	2006
Drilling, workover and integrated project management ("IPM")			
SE Management LLC	United States	100.0%	100.0%
DP Smith Ukraine	Ukraine	100.0%	100.0%
Smith Overseas Services LLC	United States	100.0%	100.0%
Smith Siberian Services LLC	United States	100.0%	100.0%
OOO Smith Production Technology	Russian Federation	100.0%	100.0%
OOO Smith Drilling Services	Russian Federation	100.0%	100.0%
Smith Eurasia Limited	Cayman Islands	100.0%	100.0%
OOO Integra-Drilling	Russian Federation	100.0%	-
ZAO First National Drilling Company ("PNBK")	Russian Federation	-	100.0%
OOO Argillit ("Argillit")	Russian Federation	-	100.0%
OOO PBN Group ("PBN")	Russian Federation	99.98%	99.98%
OOO VNIIBT Drilling Instruments ("VNIIBT-BI")	Russian Federation	100.0%	100.0%
OAO Pavlovsky Factory ("PMZ")	Russian Federation	90.8%	90.8%
OAO NPO Drilling Technique ("NPO BT")	Russian Federation	55.9%	55.9%
ZAO NPP Neftegaztechnika ("NGT-M")	Russian Federation	42.5%	42.5%
OOO BK Alliance ("Alliance")	Russian Federation	100.0%	100.0%
OOO Alliance 3 ("Alliance 3")	Russian Federation	100.0%	100.0%
OOO Alliance 5 ("Alliance 5")	Russian Federation	100.0%	100.0%
OOO Paritet ("Paritet")	Russian Federation	100.0%	100.0%
OOO Tarpan ("Tarpan")	Russian Federation	100.0%	100.0%
OOO Burovaya Kompaniya Sever ("BKS")	Russian Federation	-	100.0%
OOO Integra KRS ("Integra KRS")	Russian Federation	-	100.0%
ZAO Obnefteremont ("ONR")	Russian Federation	100.0%	-
OOO Integra-Services ("Integra-Services")	Russian Federation	100.0%	-
Formation Evaluation			
OAO Yamalgeophysika ("YGF")	Russian Federation	52.9%	50.7%
OOO Geophyzservice ("GFS")	Russian Federation	95.3%	95.3%
OAO Russian Geophysical Company ("RGK")	Russian Federation	100.0%	100.0%
OAO Purgeophysics ("PGF")	Russian Federation	100.0%	57.2%
OAO Tyumenneftegeophysika ("TNGF")	Russian Federation	75.1%	75.1%
JSC Azimuth Energy Services ("AES")	Kazakhstan	95.2%	94.1%
OOO Tomsk Geophysical Company ("TGK")	Russian Federation	100.0%	100.0%
JSC Geostan ("Geostan")	Kazakhstan	99.5%	99.5%
OOO Yuganskpromgeophyzika ("YPGF")	Russian Federation	95.3%	95.3%
OOO Geotechsystem ("GTS")	Russian Federation	100.0%	-
Manufacturing			
ZAO Uralmash VNIIBT	Russian Federation	100.0%	100.0%
ZAO Uralmash Drilling Equipment ("URBO")	Russian Federation	100.0%	100.0%
OOO Stromneftemash	Russian Federation	100.0%	100.0%
OAO Concern Stromneftemash	Russian Federation	100.0%	100.0%
OOO Orenburgtechservice ("OTS")	Russian Federation	100.0%	100.0%
Integra Research and Development Inc ("Integra R&D")	United States	100.0%	-
OOO Integra-MashService ("Integra-MashService")	Russian Federation	100.0%	-

1 General Information (continued)

In April 2007, the Group merged Argillit, BKS, Integra KRS into Integra-Drilling, an entity created upon the reorganization of PNBK. Additionally, the Group merged Alliance, Alliance 3, Alliance 5, Paritet and Tarpan into Integra-Drilling in January 2008. In January 2008, the Group liquidated NGT-M as part of its business restructuring.

In August 2007, the Group established Integra-Services in order to consolidate the provision of the integrated project management services to its customers. Integra-Services is included in the Group's drilling, workover and IPM segment.

In November 2007, the Group established Integra R&D to engage in research, design and development of new types of equipment to be used by the Group's manufacturing companies. Integra R&D is included within the manufacturing segment of the Group.

In December 2007, the Group established Integra-MashService to engage in the provision of maintenance and related services to its customers for the equipment sold by the Group's manufacturing companies. Integra-MashService is included within the manufacturing segment of the Group.

Principal equity associates of the Group as of 31 December 2007 and 2006 were as follows:

		Effective ownership at 31 December:	
Entity	**Nature of activities**	**2007**	**2006**
OAO Nizhnevartovskgeophysika ("NNGF")	Formation evaluation services	34.6%	29.0%
OAO Stavropolneftegeophysika ("SNGF")	Formation evaluation services	25.4%	25.4%
ZAO Neftegeotechnology ("NGT-G")	Formation evaluation services	62.4%	59.3%

The Group's investment in NGT-G is accounted for as an equity associate, because NGT-G is a subsidiary of NNGF, which is not controlled by the Group. The equity associates are discussed in note 15.

2 Initial Public Offering

In February 2007, the Group completed its Offering of 1,492,537 Class A common shares on the London Stock Exchange ("LSE") in the form of 29,850,740 Global Depository Receipts ("GDRs"), each with a nominal value of 0.0001 per common share and one common share representing twenty GDRs. In addition, the Group issued 299,139 common shares in the form of 5,982,780 GDRs to cover over-allotments in the Offering. The Offering was priced at $335.00 per common share or $16.75 per one GDR. The over-allotment option was utilized in full at the Offering.

The Group raised $600.2 million of cash consideration from both the IPO and over-allotment, gross of $29.6 million of fees charged at the Offering. Additionally, the consolidated shareholders' equity was reduced by $12.1 million of transaction costs directly related to the IPO (note 20).

Using the IPO proceeds, the Group repaid $199.6 million of short-term borrowings and $195.0 million of long-term borrowings outstanding at 31 December 2006 (note 20).

3 Summary of Significant Accounting Policies

3.1 Basis of preparation. The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. The consolidated financial statements are presented in United States dollars ("US dollars" or "$").

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

3 Summary of Significant Accounting Policies (continued)

3.3 Basis of consolidation. The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December each year. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intragroup 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.

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

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

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

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

The US dollar to Russian rouble exchange rate was 24.55 and 26.33 as of 31 December 2007 and 2006, respectively.

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

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

3 Summary of Significant Accounting Policies (Continued)

3.6 Change in the Group balances at 31 December 2006. In 2007, the Group completed the accounting for the acquisition of Azimuth group which includes Azimuth, Geostan and TGK. As a result, the fair values of Azimuth group's net assets acquired by the Group increased by $10.8 million from $19.4 million to $30.2 million with an equivalent decrease in goodwill from $17.1 million to $6.3 million. The opening balances were adjusted to reflect the effects of the changes in the purchase accounting of the Azimuth group (note 6).

As a result of the changes in the fair values of Azimuth group's assets and liabilities, the Group's balance sheet as of 31 December 2006 was revised as follows:

	Integra Group 31 December 2006 As previously reported	Fair value adjustments	Integra Group 31 December 2006 Revised
Assets			
Cash and cash equivalents	87,553	-	87,553
Trade and other receivables	233,526	2,251	235,777
Inventories	100,187	(3)	100,184
Restricted cash	268	-	268
Goodwill and other intangible assets	347,206	(7,204)	340,002
Property, plant and equipment	411,630	13,013	424,643
Investments in associates	15,375	-	15,375
Deferred tax assets	1,925	-	1,925
Loans provided and other assets	36,460	(2,129)	34,331
Total assets	**1,234,130**	**5,928**	**1,240,058**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	254,703	70	254,773
Income taxes payable	18,425	-	18,425
Other taxes payable	22,689	-	22,689
Short-term borrowings and current portion of long-term borrowings	340,421	-	340,421
Long-term financial liabilities	246,089	-	246,089
Deferred tax liability	73,868	5,378	79,246
Other non-current liabilities	1,601	-	1,601
Total equity attributable to Integra Group shareholders	198,456	-	198,456
Minority interest	77,878	480	78,358
Total liabilities and equity	**1,234,130**	**5,928**	**1,240,058**

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

3.14 Inventories. Inventories are stated at lower of cost or net realizable value. 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. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3 Summary of Significant Accounting Policies (continued)

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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

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

Long-term customer/supplier relationships	4-10 years
Trademarks	4-5 years
Patents	10-15 years
Software	2-5 years
Order backlog	1-2 years

3 Summary of Significant Accounting Policies (continued)

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

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

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

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives 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 derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item and is included in the consolidated statements of income.

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

3.20 Value-added tax. Output value added tax 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 recognised in the consolidated balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

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

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

3.23 Warrants. Warrants issued that allow the holder to purchase shares of the Group's shares are recorded at fair value at issuance and recorded as liabilities unless the number of equity instruments to be issued to settle the warrants and the exercise price are fixed at the time of grant, in which case they are recorded in the consolidated statements of changes in shareholders' equity.

3.24 Financial instruments. A financial instrument is any contract that gives rise to Group's financial asset or financial liability. 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 instruments when it becomes a party to contractual provisions of the instrument. The Group derecognises the financial assets when the underlying contractual rights expire or it ceases to retain substantially all the risks and rewards of ownership of the financial assets. The Group derecognises its financial liabilities when the underlying obligations are discharged, cancelled or expired.

The Group initially recognises its financial instruments at fair value, including transaction costs that are directly attributable to the acquisition or issue of them. After initial recognition, the Group measures both its financial assets and financial liabilities at amortised cost using the effective interest method. A gain or loss from the amortisation process and from derecognition or impairment of a financial instrument is recognised in the consolidated statements of income. The amount of impairment loss is measured as a 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 use of the allowance account. The net amount of the change in the allowance account is recognised in the consolidated statements of income. The Group does not maintain any financial assets or liabilities which are measured at fair value nor any financial assets classified as 'held-to-maturity investments' or 'available-for-sale'.

3 Summary of Significant Accounting Policies (continued)

3.25 New IFRS effective in 2007. The following new IFRS, amendments to IFRS and IFRIC interpretations have been adopted by the Group from 1 January 2007.

- **IFRS 7**, *Financial Instruments: Disclosures*, and the complementary amendment to IAS 1, *Presentation of Financial Statements - Capital Disclosures* introduces new disclosures relating to financial instruments and replaced the disclosure requirements previously contained in IAS 32 *Financial Instruments: Presentation and Disclosure*. The Group has made specified disclosures, primarily in note 5, to comply with this standard.
- **IFRIC 7**, *Applying the Restatement Approach under IAS 29*, provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency. This interpretation does not have any impact on the Group's consolidated financial statements.
- **IFRIC 8**, *Scope of IFRS 2*, requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the good received, in particular where equity instruments are issued for consideration which appears to be less than fair value. This interpretation does not have any impact on the Group's consolidated financial statements.
- **IFRIC 9**, *Re-assessment of Embedded Derivatives*, provides guidance on the separation of embedded derivatives from host contracts. This interpretation does not have any impact on the Group's consolidated financial statements.
- **IFRIC 10**, *Interim Financial Reporting and Impairment*, prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the Group's consolidated financial statements.

3.26 New IFRS that are not yet effective 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.

- **IFRS 3** (Amendment), *Business Combinations*, allows entities to choose to measure non-controlling interests using the proportionate share of the acquiree's identifiable net assets or at fair value. The revised standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- **IFRS 8**, *Operating Segments*, replaces IAS 14 and requires a management approach under which segment information is presented on the same basis as the one used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009 and the expected impact is still being assessed in detail by Group management.
- **IAS 1** (Amendment), *Presentation of Financial Statements* requires a statement of comprehensive income which will include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. The revised standard also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group will apply the amended standard from 1 January 2009 and does not expect the standard to have an impact on the recognition or measurement of specific transactions and balances.
- **IFRIC 14**, *IAS 19 - The Limit on a Defined Benefit Asset*, addresses minimum pension funding requirements and their interaction with defined benefit assets. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008 but it is not expected to have any impact on the Group's consolidated financial statements.

3 Summary of Significant Accounting Policies (continued)

- **IAS 23** (Amendment), *Borrowing Costs,* eliminates the option of recognizing the borrowing costs immediately as an expense to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset (that takes a substantial period of time to get ready for use or sale) as part of the cost of the asset. The Group will apply IAS 23 (Amended) from 1 January 2009, but the standard is not currently applicable to the Group as there are no such qualifying assets.
- **IAS 27** (Amendment), *Consolidated and Separate Financial Statements*, requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The Group will apply the amended standard from 1 January 2009 but it is not expected to have any impact on the Group's consolidated financial statements.

3.27 New IFRS that are not relevant for the Group's operations. The following standards and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations.

- **IAS 32 and IAS 1** (Amendment), *Puttable Financial Instruments and Obligations Arising on Liquidation.*
- **IFRS 4**, *Insurance Contracts*;
- **IFRIC 11,** *IFRS 2 – Group and Treasury Share Transactions;*
- **IFRIC 12,** *Service Concession Arrangements*;
- **IFRIC 13,** *Customer Loyalty Programme.*

4 Critical Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to 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.

4.1 Impact of functional currency determination. In 2005, Integra Group issued warrants with exercise prices denominated in US dollars (notes 19 and 20). The fair value of the warrants at the time of issue was $0.1 million. The Group classified the warrants within equity in its consolidated balance sheet. After the IPO of the Group shares, all outstanding warrants were exercised in February 2007 (notes 2 and 20). If the Group management had concluded that the US dollar was not the functional currency of Integra Group, at 31 December 2007 and 2006, the current liabilities would have been unchanged and higher by $26.5 million, respectively, warrants would have been nil and lower by $0.1 million, respectively. Further, the loss for the years ended 31 December 2007 and 2006 would have been increased by $10.2 million and $26.4 million, respectively.

4.2 Fair values of acquired assets and liabilities. During 2006 and 2007, the Group completed several acquisitions (note 6). IFRS 3 requires that, at the date of acquisition, all assets and liabilities, including intangible assets, of an acquired entity be recorded at their respective fair values. The estimation of fair values requires significant management judgment.

To assess fair values of monetary assets and liabilities management uses all information available to determine whether an asset is recoverable or whether it is probable that an event will result in outflows of resources from the Group, including assessment of such factors as the current overall economic conditions, specific customer, counterparty or industry conditions and the current overall legal environment. Changes in any of these conditions may result in adjustments to fair values of monetary assets and liabilities recorded by the Group. Management also engaged 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.

4 Critical Estimates and Judgments (continued)

The Group determines the fair values of identifiable assets, liabilities and contingent liabilities for acquired companies 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 is complete is presented as if the initial accounting had been completed from the acquisition date.

4.3 Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually (note 13). The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates about the future profitability of cash-generating units to which goodwill has been allocated. The value in use of the cash-generating units, in particular the drilling operations, is highly dependent on improved financial performance. If these improvements are not realized, the related goodwill may be partially or wholly impaired.

4.4 Useful lives of property, plant and equipment. Property, plant and equipment are stated net of accumulated depreciation (note 14). 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.

4.5 Deferred income tax asset recognition. Deferred income tax assets represent income taxes recoverable through future deductions from taxable profits (note 18). Deferred income tax assets are recorded in the Group's consolidated balance sheets to the extent that realisation of the related tax benefits is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimates based on recent years' taxable profits and expectations of future taxable income.

4.6 Assessment of the percentage of completion on engineering and service contracts. Certain of the Group's revenue are recognized under the percentage of completion method (note 12). The estimation of the extent of revenue to be recognized under the percentage of completion method is a matter of management judgment based upon expectations of future costs to be incurred to complete the respective contracts. Differences between such estimate and actual results may result in losses in future periods.

4.7 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 (note 21). 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.

5 Financial Risk Management

At 31 December 2007 and 2006, the Group financial instruments were as follows:

		31 December:	
	Notes	2007	2006
Financial assets:			
Cash and cash equivalents		101,998	87,553
Restricted cash	10	7,962	268
Financial receivables	11	266,925	145,159
Loans provided	16	56,906	34,331
Total financial assets		**433,791**	**267,311**
Financial liabilities:			
Financial payables	17	(143,216)	(131,196)
Interest payable	17	(3,874)	(10,371)
Current financial liabilities – borrowings	19	(203,011)	(340,421)
Non-current financial liabilities – borrowings	19	(210,215)	(246,089)
Total financial liabilities		**(560,316)**	**(728,077)**

5 Financial Risk Management (continued)

At 31 December 2007 and 2006, the carrying values of the financial instruments approximated their fair values.

5.1 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.

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

The Group only trades with recognized, creditworthy customers and third parties and has two distinct categories of trade customers: large Russian state-owned oil and gas exploration and production entities and small to medium-sized oil and gas producers. Customers in both categories are believed to have strong cash flows due to current oil and gas commodity prices. In addition, receivable balances are monitored on a regular basis to assess the likelihood of collection. The Group's depth and breadth of customers across its business segments and in key CIS geographical locations mitigates its exposure to significant concentrations of credit risk. In addition, it is the Group's policy to work closely with its trade customers, including negotiating advance payment terms where excessive concentration of credit risk would otherwise exist.

The Group believes that its financial assets represent low exposure to credit risk. The Group attributes this conclusion to its history of low volume of uncollectible amounts or impaired assets, its knowledge of local market conditions and the Group's ability to maintain strong relationships with its customers and other third party debtors,. The Group believes that its maximum exposure to credit risk at 31 December 2007 and 2006 was the carrying value of its financial assets recognized on the balance sheet.

At 31 December 2007 and 2006, no trade or other receivables were pledged as collateral by third party customers.

At 31 December 2007 and 2006, the ageing of the financial receivables was as follows:

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

	31 December 2006				
				Including:	
	Total before impairment provision	Impaired	Total recognized	Neither past due nor impaired	Past due but not impaired
Within 90 days	126,047	97	125,950	112,360	13,590
91 to 360 days	19,231	290	18,941	10,151	8,790
Over 360 days	2,206	1,938	268	173	95
Total trade receivables	**147,484**	**2,325**	**145,159**	**122,684**	**22,475**

5 Financial Risk Management (continued)

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

	Financial receivables	
	Year ended 31 December:	
	2007	2006
Balance at the beginning of the year	(2,325)	-
	-	-
Provision for financial receivables	-	(2,325)
Unused amounts reversed	638	-
Write-off of financial receivables	665	-
Exchange difference	(114)	-
Balance at the end of the year	**(1,136)**	**(2,325)**

Liquidity risk. Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group's objective is to maintain a balance between continuity of funding and flexibility and it manages this by continually updating its financing plan to monitor closely its forecast funding needs against its medium term funding plans. The Group has been successful in raising funds in the capital and debt markets to support its growth and believes that it has a sufficient number and depth of relationships with both Russian and international financial institutions to ensure that its funding needs can be consistently met. Should volatility in the global financial markets expose the Group to the risk that it may not be able to obtain timely financing from financial institutions, capital markets or other sources, there would be substantial scope to manage the rate of capital expenditure and other growth expenditures to respond to such market dislocation. The Group therefore believes that it maintains adequate liquidity and at the date of these financial statements, it does not have significant exposure as a result of the recent volatility in the global credit and capital markets.

At 31 December 2007 and 2006, 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:	
	2007	2006
Total amount of credit facilities available for withdrawal	50,705	56,264
Amounts withdrawn	(35,340)	(50,223)
Amount available for withdrawal	**15,365**	**6,041**

At 31 December 2007 and 2006, interest on these facilities, if drawn, would be payable at a rate of 11.1 percent and 11.5 percent per annum, respectively.

Scheduled maturities of current financial liabilities (notes 17 and 19) outstanding at 31 December 2007 and 2006 were as follows:

	31 December 2007			
	Financial payables	Interest payable	Current financial liabilities - borrowings	Total current financial liabilities
Within 90 days	123,434	538	94,548	218,520
91 to 180 days	12,917	1	80,715	93,633
181 to 365 days	6,865	3,335	27,748	37,948
Total current financial liabilities	**143,216**	**3,874**	**203,011**	**350,101**

5 Financial Risk Management (continued)

	31 December 2006			
	Financial payables	Interest payable	Current financial liabilities - borrowings	Total current financial liabilities
Within 90 days	118,884	7,287	241,873	368,044
91 to 180 days	8,006	3,084	82,658	93,748
181 to 365 days	4,306	-	15,890	20,196
Total current financial liabilities	**131,196**	**10,371**	**340,421**	**481,988**

Scheduled maturities of the long-term financial liabilities (note 19) outstanding at 31 December 2007 and 2006, including principal of $211.8 million and $248.1 million, inclusive of borrowing costs of $1.6 million and $2.0 million, and interest of $37.5 million and $59.2 million, respectively, were as follows:

	31 December 2007	
	2007	2006
Year ended 31 December:		
2008	-	68,447
2009	106,394	105,898
2010	14,563	13,197
2011	128,335	119,793
Total long-term financial liabilities	**249,292**	**307,335**

For purposes of this disclosure, the interest payable on floating rate borrowing to maturity has been calculated using rates in existence at 31 December 2007 and 2006, respectively.

Interest rate risk. The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. The Group believes that its current exposure to possible changes in interest rates is limited to its floating interest rate borrowings which are all short term. Thus, the Group currently does not enter into additional transactions, such as interest rate swaps, to manage its interest rate exposure.

If the floating interest rates increased or decreased by one percent with all other variables held constant, the Group's net loss and total equity would have changed at 31 December 2007 and 2006 as follows:

	31 December:	
	2007	2006
Incremental loss from increase in the floating interest rate by 1%	(305)	(117)
Incremental profit from decrease in the floating interest rate by 1%	305	117

As the Group has no significant interest-bearing assets, the Group's income and operating cash inflows are substantially independent from changes in market interest rates.

Currency risk. The Group is exposed to currency exchange risk from borrowings denominated in US dollars whereas the functional currency of most of the Group companies is the Russian rouble. If the exchange rates increased or decreased by five percent, with all other variables held constant, the Group's net loss and total equity would have changed from the retranslation of the borrowings denominated in US dollars existing at 31 December 2007 and 2006 as follows:

	31 December:	
	2007	2006
Incremental loss from increase of the $ / RR exchange rate by 5%	(6,817)	(9,173)
Incremental profit from decrease of the $ / RR exchange rate by 5%	7,167	9,643

5 Financial Risk Management (continued)

5.2 Capital risk management. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages its capital risk by matching its strategic business and operational planning, with expected debt and equity market conditions. Thus, the optimal mix of debt and equity may vary depending upon changing market conditions and investment opportunities.

The Group currently monitors capital risk on the basis of a range of ratios relevant to the debt markets including total debt to tangible net worth and total debt to adjusted EBITDA. Tangible net worth refers to the value of net assets less the carrying value of goodwill and intangible assets.

The Group's current policy is not to pay dividends. As at 31 December 2007 and 2006, neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements.

6 Business Combinations

The acquisitions completed during the years ended 31 December 2007 and 2006 are summarized below. As none of the acquired businesses produced financial statements prepared in accordance with IFRS prior to the acquisition, only fair values of acquired assets and liabilities are available.

Acquisitions during 2007. Due to complexities inherent in the determination of fair values, amounts for acquisitions made in 2007 are based upon management's preliminary estimates.

Acquired entity	Month of acquisition	Group Segment	Percentage acquired	Cost of acquisition	Goodwill	Profits contributed through 31 December 2007
GTS	August 2007	Formation evaluation	100%	9,897	9,444	416
ONR	October 2007	Drilling, workover and IPM	100%	81,990	66,930	1,460

Acquisition of Obnefteremont. In October 2007, the Group purchased a 100 percent interest in ZAO Obnefteremont ("ONR"), a company providing workover services to the petroleum industry in the Khanty Mansiysk Region of the Russian Federation, for $82.0 million, including transaction costs of $1.6 million. ONR is included within the Group's drilling, workover and IPM segment. The Group recognized goodwill of $66.9 million on acquisition of ONR based on the difference between the cost of acquisition and management's assessment of the fair value of ONR's identifiable assets, liabilities and contingent liabilities. Management attributes the goodwill to synergies expected to be realized following the acquisition of the company by the Group.

Acquisition of Geotechsystem. In August 2007, the Group purchased a 100 percent interest in OOO Geotechsystem ("GTS"), a company providing seismic interpretation services to the petroleum industry in the Russian Federation and overseas for a total consideration of $9.9 million, including transaction costs of $1.5 million. GTS is included within the Group's formation evaluation segment. The Group management attributes the goodwill to synergies expected to be realized following the acquisition of the company by the Group.

6 Business Combinations (continued)

Fair values of subsidiaries acquired during 2007. The purchase accounting allocation for the acquisitions made during 2007 is summarized below. Amounts for the acquisitions are based upon management's preliminary estimates of the fair values.

	GTS	ONR	Total
Cash and cash equivalents	400	250	650
Trade and other receivables	492	6,836	7,328
Inventories	-	2,348	2,348
Other current assets	30	166	196
Property, plant and equipment	49	19,190	19,239
Other current liabilities	(474)	(9,385)	(9,859)
Long-term borrowings	-	(2,508)	(2,508)
Deferred tax liability	(44)	(1,837)	(1,881)
Share in net assets (liabilities) acquired	**453**	**15,060**	**15,513**
Purchase consideration	9,897	81,990	91,887
Goodwill	**9,444**	**66,930**	**76,374**

Summary combined financial information. The following table sets forth summary combined financial information for the year ended 31 December 2007 and is presented to provide information to evaluate the financial effects of all 2007 acquisitions, as if they had occurred on 1 January 2007.

	Total revenues	Profit (loss)
Group	1,177,168	(50,830)
Results of subsidiaries acquired in 31 December 2007		
- GTS	2,121	455
- ONR	66,293	10,386
Adjustments and eliminations	(13,807)	(2,547)
Summary combined	**1,231,775**	**(42,536)**

The summary combined financial information should not be construed to represent consolidated financial information. Specifically, no adjustments have been made for financing transactions or any other arrangements associated with the acquisitions. The revenue adjustment of $13.8 million includes elimination of post-acquisition revenues that were included in both the Group and the individual acquirees' totals. The profit adjustment of $2.5 million includes elimination of post-acquisition results, which were included in both the Group and the individual acquirees' totals, and other adjustments.

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

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

6 Business Combinations (continued)

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

Acquisitions during 2006. Certain details of acquisitions of entities during the year ended 31 December 2006 are summarized in the table below.

Acquired entity	Month of acquisition	Group Segment	Percentage acquired	Cost of acquisition	Goodwill	Profits (losses) contributed through 31 December 2006
PNBK	March 2006	Drilling, workover and IPM	100%	22,763	80	(5,929)
Argillit	May 2006	Drilling, workover and IPM	100%	4,874	208	29
STM	July 2006	Manufacturing	100%	16,177	5,328	1,115
PBN	July 2006	Drilling, workover and IPM	99.98%	30,050	10,873	4,269
Smith Eurasia	August 2006	Drilling, workover and IPM	100%	139,520	69,406	2,486
YGF	August 2006	Formation evaluation	50.7%	78,048	23,314	(2,907)
Azimuth	December 2006	Formation evaluation	94.11%	33,011	5,760	-
Geostan	December 2006	Formation evaluation	99.5%	2,355	411	-
TGK	December 2006	Formation evaluation	100%	1,192	207	-

Management attributes the goodwill from all acquisitions made in 2006 to synergies expected to be realized following the acquisition of the company by the Group.

Fair values of subsidiaries acquired during 2006. The Group's opening balances were revised for the effects from the changes in the purchase accounting of the Azimuth group (note 3.6) recorded in 2007 as follows:

	Azimuth group 31 December 2006 As previously reported	Fair value adjustments recorded in 2007	Azimuth group 31 December 2006 Revised
Cash and cash equivalents	2,805	-	2,805
Trade and other receivables	5,539	2,251	7,790
Inventories	2,405	(3)	2,402
Other current assets	2,803	(2,129)	674
Property, plant and equipment	18,246	13,013	31,259
Intangible assets	1,292	3,551	4,843
Short-term borrowings	(761)	-	(761)
Other current liabilities	(7,135)	(70)	(7,205)
Long-term borrowings	(4,555)	-	(4,555)
Deferred tax liability	(114)	(5,378)	(5,492)
Less: minority interest not acquired	(1,100)	(480)	(1,580)
Share in net assets acquired	19,425	10,755	30,180
Purchase consideration	36,558	-	36,558
Goodwill	**17,133**	**(10,755)**	**6,378**

6 Business Combinations (continued)

Below is a summary of the purchase accounting allocation for the acquisitions made in 2006. In 2007, the Group completed the accounting for the acquisitions PNBK, Argillit, STM, PBN, Smith Eurasia, YGF, Azimuth group made in 2006. With the exception of the Azimuth group (note 3.6), purchase accounting adjustments as previously disclosed remain unchanged and are summarized as follows.

	PNBK	Argillit	STM	PBN	Smith Eurasia	YGF	Azimuth group	Total
Cash and cash equivalents	686	315	42	305	20,285	9,381	2,805	33,819
Trade and other receivables	13,895	1,064	4,466	8,421	11,586	16,650	7,790	63,872
Inventories	2,436	1,960	5,218	5,804	6,924	5,846	2,402	30,590
Other current assets	318	-	-	256	554	210	674	2,012
Property, plant and equipment	22,865	6,568	700	31,338	1,085	58,178	31,259	151,993
Intangible assets	12,648	-	21,623	19,996	78,234	67,555	4,843	204,899
Deferred tax assets	-	-	-	5,830	995	-	-	6,825
Investments in associates	-	-	1,499	-	-	607	-	2,106
Short-term borrowings	(2,126)	-	(1,353)	(7,903)	-	(14,504)	(761)	(26,647)
Other current liabilities	(16,271)	(4,436)	(17,074)	(30,270)	(30,225)	(7,862)	(7,205)	(113,343)
Long-term borrowings	(6,520)	-	-	(7,811)	-	(5,928)	(4,555)	(24,814)
Deferred tax liability	(5,248)	(805)	(4,272)	(6,532)	(19,324)	(22,263)	(5,492)	(63,936)
Less: minority interest not acquired	-	-	-	(257)	-	(53,136)	(1,580)	(54,973)
Share in net assets acquired	22,683	4,666	10,849	19,177	70,114	54,734	30,180	212,403
Purchase consideration	22,763	4,874	16,177	30,050	139,520	78,048	36,558	327,990
Goodwill	**80**	**208**	**5,328**	**10,873**	**69,406**	**23,314**	**6,378**	**115,587**

Disposal of Quest. In February 2006, the Group disposed of its 100 percent interest in Quest recognizing a gain of $0.2 million. Quest was originally purchased in March 2005. During the period the Group owned Quest, it recognized net losses of $0.2 million related to Quest's results of operations.

7 Segment Information

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

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

At 31 December 2007 and 2006, the Group operated substantially within one geographical segment which is the CIS.

7 Segment Information (continued)

Segment information related to the Group's financial performance for the years ended 31 December 2007 and 2006:

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

7 Segment Information (continued)

Year ended 31 December 2006:	Drilling, workover and IPM	Formation evaluation	Manufacturing	Overheads	Intrasegment eliminations	Total
Sales	309,615	106,202	131,739	-	(763)	546,793
Cost of sales	(251,760)	(90,166)	(84,841)	-	763	(426,004)
Gross profit (loss)	**57,855**	**16,036**	**46,898**	**-**	**-**	**120,789**
Selling, general and administrative expenses	(33,751)	(12,540)	(17,380)	(42,592)	-	(106,263)
Other operating (expenses) incomes, net	(829)	(1,199)	6	(128)	-	(2,150)
Operating profit (loss)	**23,275**	**2,297**	**29,524**	**(42,720)**	**-**	**12,376**
Interest expense, net	(10,529)	(2,546)	(940)	(29,583)	-	(43,598)
Other income, net	5	950	234	9,838	-	11,027
Profit (Loss) before taxation	**12,751**	**701**	**28,818**	**(62,465)**	**-**	**(20,195)**
Tax expense, net	(10,982)	(2,615)	(7,757)	(573)	-	(21,927)
(Loss) profit for the year	**1,769**	**(1,914)**	**21,061**	**(63,038)**	**-**	**(42,122)**

Segment information related to the Group's financial position as at 31 December 2007 and 2006:

	Drilling, workover and IPM	Formation evaluation	Manufacturing	Corporate	Intrasegment eliminations	Total
At 31 December 2007:						
Total assets	918,536	496,033	246,939	503,379	(450,276)	1,714,611
Total liabilities	(484,951)	(232,926)	(139,658)	(413,430)	448,698	(822,267)
Year ended 31 December 2007:						
Additions to non-current assets	92,058	50,295	26,587	18,999	-	187,939
Depreciation and amortization	(85,241)	(51,048)	(16,553)	(757)	-	(153,599)

	Drilling, workover and IPM	Formation evaluation	Manufacturing	Corporate	Intrasegment eliminations	Total
At 31 December 2006:						
Total assets	637,163	440,638	195,484	273,749	(306,976)	1,240,058
Total liabilities	(353,423)	(196,055)	(144,374)	(576,368)	306,976	(963,244)
Year ended 31 December 2006:						
Additions to non-current assets	88,475	58,273	18,564	-	-	165,312
Depreciation and amortization	(38,936)	(20,211)	(6,835)	(679)	-	(66,661)

8 Cost of Sales

	Year ended 31 December:	
	2007	2006
Materials and supplies	323,131	137,587
Employee costs (including mandatory social contributions of $40.8 million and $18.7 million for 2007 and 2006, respectively)	245,155	109,247
Depreciation and amortization	143,938	64,504
Services	230,221	108,528
Other	7,356	6,138
Total cost of sales	**949,801**	**426,004**

9 Selling, General and Administrative Expenses

	Year ended 31 December:	
	2007	2006
Employee costs (including mandatory social contributions of $10.0 million and $5.5 million for 2007 and 2006, respectively)	86,160	47,249
Services	52,483	25,568
Share-based compensation expense	35,281	15,199
Transportation expenses	8,669	1,854
Taxes, other than income taxes	8,381	6,179
Depreciation and amortization	9,661	2,157
Other	83	8,057
Total selling, general and administrative expenses	**200,718**	**106,263**

10 Restricted Cash

At 31 December 2007 and 2006, the restricted cash of $8.0 million and $0.3 million, respectively, included the cash committed for payments under contracts with the Group's counterparties.

11 Trade and Other Receivables

	31 December:	
	2007	2006
Financial receivables:		
Trade receivables (net of allowances for doubtful accounts of $0.5 million and $0.3 million at 31 December 2007 and 2006, respectively)	91,574	46,239
Amounts due from customers for engineering and service contract work (net of allowances for doubtful accounts of $0.6 million and $2.0 million at 31 December 2007 and 2006, respectively)	175,351	98,920
Total financial receivables	**266,925**	**145,159**
Non-financial receivables:		
VAT recoverable	37,771	16,932
Advances to suppliers	47,923	31,424
Prepaid expenses and other receivables	52,602	42,262
Total non-financial receivables	**138,296**	**90,618**
Total trade and other receivables	**405,221**	**235,777**

12 Inventories

	31 December:	
	2007	**2006**
Materials and supplies (net of allowances for obsolete materials of $3.5 million and $2.8 million at 31 December 2007 and 2006, respectively)	133,047	74,150
Work in progress	16,526	14,493
Finished goods	27,221	11,541
Total inventories	**176,794**	**100,184**

At 31 December 2007 and 2006, inventories with carrying values of $11.3 million and $3.4 million, respectively, were pledged as collateral for the Group's borrowings (notes 17 and 19).

Engineering and service contracts. The Group sales (note 7) include revenues from engineering and service contracts of $889.4 million and $332.8 million for the years ended 31 December 2007 and 2006, respectively.

The status of engineering and service contracts in progress at 31 December 2007 and 2006 were as follows:

	31 December:	
	2007	**2006**
Contract costs incurred from inception	631,952	115,752
Contract profits (less recognized losses) incurred from inception	136,290	36,559

13 Goodwill and Intangible Assets

	Goodwill	Long-term customer / supplier relationships	Trademarks	Order backlog	Other	Total
Cost						
At 1 January 2006	**18,799**	**-**	**9,133**	**-**	**7,044**	**34,976**
Additions	-	-	2	-	1,422	1,424
Acquisitions of subsidiaries	115,587	177,016	5,202	18,768	3,913	320,486
Disposals	-	-	-	-	(1,192)	(1,192)
Exchange differences	2,135	3,593	955	381	735	7,799
At 31 December 2006	**136,521**	**180,609**	**15,292**	**19,149**	**11,922**	**363,493**
Additions	-	-	-	-	3,527	3,527
Acquisitions of subsidiaries	76,374	-	-	-	-	76,374
Disposals	-	-	-	-	(616)	(616)
Exchange differences	11,493	13,131	1,121	1,347	1,110	28,202
At 31 December 2007	**224,388**	**193,740**	**16,413**	**20,496**	**15,943**	**470,980**
Accumulated amortization						
At 1 January 2006	-	-	(516)	-	(131)	(647)
Amortisation	-	(10,742)	(2,311)	(5,190)	(3,973)	(22,216)
Disposals	-	-	-	-	66	66
Exchange differences	-	(351)	(123)	(169)	(51)	(694)
At 31 December 2006	**-**	**(11,093)**	**(2,950)**	**(5,359)**	**(4,089)**	**(23,491)**
Amortisation	-	(48,072)	(2,653)	(9,337)	(2,234)	(62,296)
Disposals	-	-	-	-	327	327
Exchange differences	-	(2,823)	(334)	(776)	(342)	(4,275)
At 31 December 2007	**-**	**(61.988)**	**(5,937)**	**(15,472)**	**(6,338)**	**(89,735)**
Net carrying amount						
At 31 December 2006	**136,521**	**169,516**	**12,342**	**13,790**	**7,833**	**340,002**
At 31 December 2007	**224,388**	**131,752**	**10,476**	**5,024**	**9,605**	**381,245**

As described in notes 3.6 and 6, during 2007 the Group completed the purchase accounting for its acquisition of the Azimuth group of companies made in December 2006. This resulted in the Group revising its fair value estimates of certain items included in the opening balance sheet, including goodwill and intangible assets.

13 Goodwill and Intangible Assets (continued)

Goodwill. Goodwill is attributed to each cash-generating unit ("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 cash-generating unit (including goodwill) is compared with the recoverable amount of the cash-generating unit. The recoverable amount of each cash-generating unit was determined based on value-in-use calculations. The Group estimates value-in-use using a discounted cash flow model. The future cash flows are discounted using pre-tax discount rates ranging from 19 to 23 percent, depending upon risks specific to the asset.

The discount rate is derived from the Group's post-tax weighted average cost of capital, which in turn was calculated using appropriate market information for Russian and international companies operating in similar industries.

The five year business segment plans, which are annually approved by the Group's senior management, are 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 discount rates, profit margins, maintenance capital expenditures and the terminal value.

The Group management determined that as at 31 December 2007, the estimated value-in-use or recoverable amounts of the CGU's associated with entities acquired up to and during 2007, exceeded the assets' carrying amounts. Accordingly, no provision for impairment of the goodwill is recorded for the year ended 31 December 2007. Refer to related discussion in note 4.

Intangible assets. On an annual basis, the Group reviews the nature of its relationships with its customers/suppliers and compares them to those in existence upon initial acquisition. To the extent that the Group believes that the relationship with a customer, or a group of customers, has changed, or it anticipates that the initial customer relationships will no longer be preserved for the foreseeable future, the Group charges additional amortization to the consolidated statements of income equal to the net carrying value of a particular customer relationship. Otherwise, the Group continues to amortize the remaining carrying value of the customer relationships over the estimated useful lives established upon initial acquisition. The Group charged an additional $18.6 million and nil in amortization related to actual, or expected, changes to its long-term customer relationships during 2007 and 2006, respectively.

14 Property, Plant and Equipment

	Rigs	Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost						
At 31 December 2005	**13,271**	**43,014**	**80,807**	**4,211**	**4,988**	**146,291**
Additions	12,785	16,081	107,606	21,882	5,534	163,888
Acquisitions of subsidiaries	41,338	38,697	46,453	18,884	6,621	151,993
Disposals	(36)	(1,126)	(6,486)	(812)	(664)	(9,124)
Disposal of Quest (note 6)	-	-	(1,078)	-	(43)	(1,121)
Exchange differences	2,631	5,242	11,813	1,515	587	21,788
At 31 December 2006	**69,989**	**101,908**	**239,115**	**45,680**	**17,023**	**473,715**
Additions	41,761	12,441	93,916	19,569	16,725	184,412
Acquisitions of subsidiaries	-	5,686	4,806	8,660	87	19,239
Disposals	(3,610)	(2,357)	(8,586)	(526)	(2,765)	(17,844)
Exchange differences	6,915	7,720	21,400	4,142	1,810	41,987
At 31 December 2007	**115,055**	**125,398**	**350,651**	**77,525**	**32,880**	**701,509**
Accumulated depreciation						
At 31 December 2005	**(1,932)**	**(1,011)**	**(3,631)**	**(181)**	**(117)**	**(6,872)**
Depreciation	(9,315)	(4,007)	(24,985)	(4,333)	(1,805)	(44,445)
Disposals	18	1,036	2,567	204	85	3,910
Disposal of Quest (note 6)	-	-	291	-	-	291
Exchange differences	(483)	(192)	(693)	(522)	(66)	(1,956)
At 31 December 2006	**(11,712)**	**(4,174)**	**(26,451)**	**(4,832)**	**(1,903)**	**(49,072)**
Depreciation	(17,831)	(6,672)	(50,467)	(11,755)	(4,578)	(91,303)
Disposals	1,393	239	3,960	291	2,457	8,340
Exchange differences	(1,773)	(661)	(4,286)	(869)	(236)	(7,825)
At 31 December 2007	**(29,923)**	**(11,268)**	**(77,244)**	**(17,165)**	**(4,260)**	**(139,860)**
Net book value						
At 31 December 2006	**58,277**	**97,734**	**212,664**	**40,848**	**15,120**	**424,643**
At 31 December 2007	**85,132**	**114,130**	**273,407**	**60,360**	**28,620**	**561,649**

At 31 December 2007 and 2006, certain property, plant and equipment with a net book value of $52.7 million and $108.7 million, respectively, were pledged as collateral for the Group's borrowings (notes 17 and 19).

15 Investments in Associates

	31 December:	
	2007	**2006**
NNGF	13,468	9,701
NGT-G	2,460	2,381
SNGF	3,211	2,644
Yamal Fund	781	649
Total investments in associates	**19,920**	**15,375**

In 2007, the Group acquired an additional 5.47 percent interest in NNGF, increasing its effective interest in NNGF to 34.6 percent and in NGT-G to 62.4 percent.

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

	Year ended 31 December:	
	2007	**2006**
Carrying amount at the beginning of the year	15,375	13,913
Acquisitions	-	607
Share of results of associates	1,953	457
Acquisition of minority interests	1,670	-
Dividends received	(316)	(1,122)
Exchange differences	1,238	1,520
Carrying amount at the end of the year	**19,920**	**15,375**

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

	31 December:	
	2007	**2006**
Total assets	67,291	55,850
Total liabilities	17,583	14,430

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

	Year ended 31 December:	
	2007	**2006**
Total revenues	56,792	52,062
Total operating expenses	(48,840)	(47,510)
Operating profit (loss)	**7,952**	**4,552**
Interest income (expense), net	192	(1,669)
Income tax expense	(2,172)	(960)
Minority share	(3)	9
Profit for the year	**5,969**	**1,932**

16 Loans Provided and Other Assets

	31 December:	
	2007	**2006**
Financial loans provided and other assets:		
Advances to purchase additional interest in the Group's subsidiaries	41,644	26,094
Loans receivable and other assets (net of allowance for doubtful accounts of nil and $0.9 million at 31 December 2007 and 2006, respectively)	15,262	8,237
Total loans provided and other assets	**56,906**	**34,331**

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

	31 December:	
	2007	**2006**
YGF	33,018	23,843
Other	8,626	2,251
Total advances to third parties	**41,644**	**26,094**

Advances to purchase YGF's minority interest. The Group provided the advances to third parties to assist in the identification and purchase of minority interests share in YGF not already owned by the Group. Some of the advances were provided in the form of short-term loans bearing interest at a rate of 14 percent per annum and an initial maturity date of 31 December 2007 which has been extended to 31 December 2008. In February 2007, advances amounting to $1.8 million were offset by the third parties in exchange for shares representing the interest in YGF of 2.15 percent. During 2007, the Group advanced a further $3.8 million to these third parties. The outstanding advances include accumulated interest of $5.0 million and $1.3 million as of 31 December 2007 and 2006, respectively. These advances will be settled in shares received from the third parties and cash received for balances in excess of the agreed value of the shares.

17 Accounts Payable and Accrued Liabilities

	31 December:	
	2007	**2006**
Financial payables and accrued liabilities:		
Trade payables	44,600	83,641
Amounts due to customers for engineering and service contract work	98,616	47,555
Interest payable	3,874	10,371
Total financial payables and accrued liabilities	**147,090**	**141,567**
Non-financial payables and accrued liabilities:		
Accrued liabilities and other creditors	61,882	72,830
Advances from customers	66,165	40,376
Total non-financial payables and accrued liabilities	**128,047**	**113,206**
Total accounts payable and accrued liabilities	**275,137**	**254,773**

17 Accounts Payable and Accrued Liabilities (continued)

At 31 December 2007 and 2006, the Group had pledged some of its inventories and property, plant and equipment as follows:

	31 December:	
	2007	**2006**
Inventories	11,324	-
Property, plant and equipment	12,059	10,448
Total	**23,383**	**10,448**

18 Taxes

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

	Year ended 31 December:	
	2007	**2006**
Loss before taxation	(22,780)	(20,195)
Theoretical tax benefit at Russian statutory income tax rate of 24 percent	5,467	4,847
Effect of income taxed at rates lower than 24 percent	11,011	1,299
Effect of (loss) taxed at rates higher than 24 percent	(517)	(2,188)
Tax losses not expected to be utilized against future profits from overseas activities	(14,929)	(5,538)
Tax losses not expected to be utilized against future profits from domestic activities	(13,626)	(8,628)
Tax losses recognized as deferred tax benefit	3,647	-
Share-based compensation	(8,467)	(3,648)
Non-tax deductible expenses and other	(10,636)	(8,071)
Total income tax expense	**(28,050)**	**(21,927)**

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

18 Taxes (continued)

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

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

	31 December 2006	Income statement effect	Acquisitions	Exchange difference effect	31 December 2007
Assets					
Accounts receivable	6,935	2	(401)	514	7,050
Tax losses carried forward	182	6,158	-	123	6,463
Other	670	3,558	-	59	4,287
Deferred income tax assets	**7,787**	**9,718**	**(401)**	**696**	**17,800**
Liabilities					
Property, plant and equipment	(34,241)	562	(1,746)	(2,238)	(37,663)
Intangible assets	(48,105)	14,574	-	(2,884)	(36,415)
Engineering and service contracts	(3,684)	(15,102)	(45)	(905)	(19,736)
Inventories	2,407	(3,317)	3	(6)	(913)
Other	(1,485)	(1,927)	(135)	(209)	(3,756)
Deferred income tax liabilities	**(85,108)**	**(5,210)**	**(1,923)**	**(6,242)**	**(98,483)**
Net deferred income tax liability	**(77,321)**	**4,508**	**(2,324)**	**(5,546)**	**(80,683)**

Movements in deferred income tax assets and liabilities during the year ended 31 December 2006 were as follows:

	31 December 2005	Income statement effect	Acquisitions	Disposals	Exchange difference effect	31 December 2006
Assets						
Accounts receivable	484	(1,462)	7,666	-	247	6,935
Inventories	556	(151)	1,890	-	112	2,407
Tax losses carried forward	501	(542)	181	-	42	182
Other	1,066	(2,138)	1,081	343	318	670
Deferred income tax assets	**2,607**	**(4,293)**	**10,818**	**343**	**719**	**10,194**
Liabilities						
Property, plant and equipment	(17,747)	3,456	(18,110)	-	(1,840)	(34,241)
Intangible assets	(2,911)	5,084	(48,626)	-	(1,652)	(48,105)
Engineering and service contracts	(266)	(3,458)	171	-	(131)	(3,684)
Other	(2,460)	2,477	(1,364)	-	(138)	(1,485)
Deferred income tax liabilities	**(23,384)**	**7,559**	**(67,929)**	**-**	**(3,761)**	**(87,515)**
Net deferred income tax liability	**(20,777)**	**3,266**	**(57,111)**	**343**	**(3,042)**	**(77,321)**

18 Taxes (continued)

The deferred tax on the temporary differences associated with undistributed earnings of its subsidiaries amounted to $81.7 million and $42.4 million as of 31 December 2007 and 2006, respectively. As the Group is able to control the timing and reversal of the temporary differences, and it is highly likely that the temporary differences will not reverse in the foreseeable future, no deferred tax liability was recognised for the temporary differences associated with the undistributed earnings of the Group.

Deferred income tax assets associated with tax losses available for carry-forward are recognized when management believes it is probable that the Group will be able to apply the losses to offset future tax profits. At 31 December 2007 and 2006, the Group had accumulated tax losses available for carry forward in the amount of $6.5 million and $0.2 million, respectively. Such losses expire between 2012 and 2018. Management does not believe that the application of such tax losses will result in a reduction of taxable income in the foreseeable future. Accordingly, no related deferred tax asset was recognized in these consolidated financial statements. Additionally, for the years 2007 and 2006, unrecognised deferred income tax assets on tax loss carry-forwards that do not have expiration date totalled $28.6 million and $14.2 million, respectively.

The movements in deferred income tax assets and liabilities for the years 2007 and 2006, described above, reflect the net deferred income tax assets and net deferred income tax liabilities of separate companies of the Group. On the balance sheet, the consolidated net deferred income tax assets are disaggregated from the consolidated net deferred income tax liabilities as follows:

	31 December:	
	2007	**2006**
Total deferred tax assets of separate Group companies	2,916	1,925
Total deferred tax liabilities of separate Group companies	(83,599)	(79,246)
Net deferred income tax liability	**(80,683)**	**(77,321)**

Other taxes payable. Current taxes payable at 31 December 2007 and 2006 are detailed below, as follows:

	31 December:	
	2007	**2006**
Unified social tax	4,047	3,041
Personal income tax	2,327	2,407
Value-added tax	19,678	13,867
Property tax	1,997	803
Other taxes	1,822	2,571
Total other taxes payable	**29,871**	**22,689**

19 Financial Liabilities

	31 December 2007			31 December 2006		
	Amounts due within one year	Amounts due after more than one year	Total	Amounts due within one year	Amounts due after more than one year	Total
Senior Notes	-	-	-	17,463	-	17,463
Facility Agreement	-	-	-	101,918	-	101,918
Bonds	-	202,114	202,114	-	187,894	187,894
Bank loans	196,527	3,775	200,302	205,236	49,434	254,670
Other	6,484	4,326	10,810	15,804	8,761	24,565
Total financial liabilities	**203,011**	**210,215**	**413,226**	**340,421**	**246,089**	**586,510**

The following table shows, by major currency, the Group's finance debt at 31 December 2007 and 2006 and the weighted average interest rates achieved at those dates:

	31 December 2007					
	Fixed rate		Floating rate		Total	
	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	Amount
US dollar-denominated	-	-	8.5%	155,000	8.5%	155,000
Russian rouble-denominated	10.9%	255,418	-	-	10.9%	255,418
Other	12.3%	2,808	-	-	12.3%	2,808
Total financial liabilities	**10.9%**	**258,226**	**8.5%**	**155,000**	**10.0%**	**413,226**

	31 December 2006					
	Fixed rate		Floating rate		Total	
	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	Amount
US dollar-denominated	18.1%	130,480	10.2%	76,334	15.2%	206,814
Russian rouble-denominated	10.7%	369,383	-	-	10.7%	369,383
Other	-	-	8.8%	10,313	8.8%	10,313
Total financial liabilities	**12.6%**	**499,863**	**10.0%**	**86,647**	**12.3%**	**586,510**

19 Financial Liabilities (continued)

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

	31 December:	
	2007	**2006**
ABN AMRO & ING	75,000	-
Amsterdam Trade Bank	80,000	-
Renaissance	-	75,000
Alfa-Bank	9,204	75,959
Sberbank	16,773	17,546
Alba-Alliance	-	16,052
Other	1,089	9,865
Current portion of long-term borrowings	20,945	145,999
Total short-term borrowings and current portion of long-term borrowings	**203,011**	**340,421**

ABN AMRO & ING. In November 2007, the Group obtained a short-term loan from ABN AMRO Bank N.V ("ABN AMRO") in the amount of $75.0 million. This loan bore a floating annual interest rate of LIBOR plus 1.5 percent (6.73 percent at 31 December 2007) payable monthly. In January 2008, the Group entered into a syndicated $150.0 million loan facility with ABN AMRO and ING Bank N.V. ("ING") and repaid its total debt under the loan from ABN AMRO including the interest of $0.4 million. The loan facility bears a floating interest rate of LIBOR plus 2.35 percent for the first six months (7.6 percent at 31 December 2007) payable quarterly and LIBOR plus 2.75 percent thereafter (8.0 percent at 31 December 2007) payable quarterly. The loan facility matures in January 2009. The Group pledged as collateral 26 percent of shares in its wholly owned subsidiary IG Holdings Limited.

Amsterdam Trade Bank. In November 2007, the Group obtained a loan from Amsterdam Trade Bank, a subsidiary of Alfa-Bank, in the amount of $80.0 million. This loan bears a floating annual interest rate of LIBOR plus 4.8 percent (10.0 percent at 31 December 2007) payable monthly and matures in November 2008. The loan is secured by certain of the Group's sales contracts.

Renaissance Securities Trading Limited ("Renaissance"). In August 2006, the Group obtained a short-term loan in the amount of $75.0 million from Renaissance. This loan initially bore fixed interest of 10.2 percent per annum due on the loan repayment date. In January 2007, the Group restructured the loan under the terms of a waiver agreement for violation of certain covenants. As a result of the restructuring, the fixed interest rate increased to 12.5 percent per annum and the Group paid Renaissance a total of $12.6 million fee that is recognized in the consolidated statements of income for the year ended 31 December 2007. In February 2007, the Group repaid the remaining amount of this loan in full upon completion of its initial public offering.

Alfa-Bank. In 2006, the Group entered into a series of Russian rouble-denominated loan facility agreements with Alfa-Bank totalling RR 2.0 billion ($76.0 million equivalent at 31 December 2006). The loans bore fixed interest rates ranging from 9.5 percent to 10.5 percent per annum, payable monthly. At 31 December 2007, the outstanding balance was RR 225.9 million ($9.2 million equivalent) which bore fixed interest at a rate of 10.5 percent per annum, payable monthly. The loan was repaid in full in February 2008. At 31 December 2007 and 2006, the outstanding loan balance was collateralized by certain of the Group's inventories and property, plant and equipment with carrying values as follows:

	31 December:	
	2007	**2006**
Inventories	-	1,792
Property, plant and equipment	3,555	7,071
Total	**3,555**	**8,863**

19 Financial Liabilities (continued)

Sberbank. During 2006, the Group entered into, and assumed through an acquisition, Russian rouble-denominated loans with Sberbank totalling RR 462.0 million ($17.5 million equivalent at 31 December 2006). The loans bore fixed interest ranging between 9.0 and 10.5 percent per annum, payable monthly. At 31 December 2006, the loans were collateralized by certain of the Group's property, plant and equipment with carrying value equivalent to $4.7 million. The loans were repaid in full prior to 30 June 2007.

In November 2007, the Group entered into a Russian rouble-denominated loan facility with Sberbank. At 31 December 2007, the outstanding loan amount was RR 411.7 ($16.8 million equivalent). The loan facility bears a fixed annual interest rate of 10.3 percent payable monthly. The loan facility matures in November 2008.

Alba-Alliance loan. In December 2006, the Group entered into a Russian rouble-denominated loan agreement with Alba-Alliance Bank totalling RR 423.0 million ($16.1 million equivalent at 31 December 2006). The loan bore fixed interest at a rate of 13.0 percent per annum, payable monthly. In March 2007, the loan was repaid in full.

Other. At 31 December 2007 and 2006, other short-term borrowings of $7.6 million and $9.9 million, respectively, were collateralized by certain of the Group's property, plant and equipment with carrying value equivalent to $2.4 million and $2.8 million, respectively.

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

	31 December:	
	2007	**2006**
Senior Notes and Restructured Senior Notes	-	17,463
Facility Agreement	-	96,748
Bonds	202,114	187,893
Alfa-Bank	14,939	40,796
Sberbank	3,775	14,345
IMB	-	11,644
NOMOS-bank	-	7,000
Other	10,332	11,029
Subtotal	231,160	386,918
Less: current portion of long-term borrowings	(20,945)	(145,999)
Total long-term borrowings	**210,215**	**240,919**
Warrants	-	5,170
Total long-term financial liabilities	**210,215**	**246,089**

Senior Notes and Restructured Senior Notes. In May 2005, the Group issued unsecured Senior Notes totaling $14.5 million, with an initial maturity date of May 2008, semi-annual interest payments at a rate of 18.0 percent per annum, and 14,500 warrants entitling the note holders to purchase 120,833 of the Group's Class A common shares at $20.00 per share (note 20).

In April 2006, the Group refinanced a portion of the Senior Notes with a par value of $12.5 million ("Restructured Senior Notes"). Interest on the Restructured Senior Notes was reduced from 18.0 percent to 11.0 percent per annum due semi-annually on 30 April and 31 October. As a result of the restructuring, the Group recorded a gain upon extinguishment of the initial liability in the amount of $0.7 million in the consolidated statements of income in 2006.

In March 2007, the Group repaid in full its debt on both the Senior Notes and the Restructured Senior Notes. The total distribution of $2.3 million to the Senior Note holders included a principal repayment of $2.0 million and a total of accrued interest and early repayment fee of $0.3 million. The total distribution of $17.3 million to the Restructured Senior Note holders included principal repayment of $15.9 million and a total of accrued interest and early repayment fee of $1.4 million.

19 Financial Liabilities (continued)

Facility Agreement. In September 2005, the Group entered into a $90.0 million Facility Agreement with several investment funds and financial institutions (collectively the "Lenders"). The Facility Agreement bore interest at a rate of 14.0 percent per annum payable semi-annually on 31 March and 30 September. The Facility Agreement also included the issuance of 90,000 warrants to the Lenders which were exercised into 62,686 Group's common shares in February 2007 (note 20). At 31 December 2006 the outstanding balance of the Facility Agreement were recognized net of the unamortized borrowing costs of $0.7 million.

In March 2007, the Group repaid the loan in full. The total distribution of $108.0 million included repayment of the principal amount of $98.6 million, accrued interest of $6.4 million and a prepayment fee of $3.0 million.

Bonds. In March 2006, the Group issued Russian rouble-denominated bonds with a total nominal value of RR 2.0 billion ($81.5 million at 31 December 2007). The bonds bear fixed interest of 10.5 percent per annum, payable semi-annually, and mature in March 2009.

In December 2006, the Group issued Russian rouble-denominated bonds with a total nominal value of RR 3.0 billion ($122.2 million at 31 December 2007). The bonds bear a fixed interest of 10.7 percent per annum, payable semi-annually, and mature in November 2011.

At 31 December 2007 and 2006, the outstanding balances of $202.1 million and $187.9 million were recognized net of the unamortized amounts of the borrowing costs of $1.6 million and $2.0 million, respectively. At 31 December 2007 and 2006, the fair value of the bonds did not significantly differ from their carrying value.

Alfa-Bank. In 2006, the Group entered into a series of Russian rouble-denominated loan agreements with Alfa-Bank totalling RR 1,074.0 million ($40.8 million equivalent at 31 December 2006). The loan facilities bore interest rates ranging from 10.5 to 10.9 percent per annum. At 31 December 2007, two loans were outstanding with the total amount of RR 366.7 million ($14.9 million equivalent). Both loans bear an average fixed interest rate of 12.3 percent per annum payable monthly and mature prior to June 2008. At 31 December 2007 and 2006, the loans were collateralized by certain of the Group's property, plant and equipment with carrying value equivalent to $34.7 million and $70.2 million, respectively.

Sberbank. In 2006, through an acquisition, the Group assumed two Russian rouble-denominated loan agreements with Sberbank. The loans bore fixed interest of 10.5 percent per annum payable monthly. At 31 December 2006, under the loan agreements RR 377.0 million ($14.3 million equivalent) was outstanding which was collateralized by certain of the Group's property, plant and equipment and inventory with carrying value equivalent to $9.6 million and $1.6 million, respectively. During 2007, all outstanding loans were repaid in full.

In December 2007, the Group entered into a loan facility with Sberbank. At 31 December 2007, the loan amount of 92.7 million ($3.8 million equivalent) was outstanding. The loan bears a fixed interest rate of 11.0 percent payable monthly and matures in February 2011.

IMB. In December 2005, the Group entered into a euro-denominated loan facility with International Moscow Bank ("IMB") totaling 7.8 million euros ($10.3 million equivalent at 31 December 2006). The loan bore a floating interest rate of EURIBOR plus 5.5 percent per annum payable monthly (9.5 percent at 31 December 2006). In March 2006, through acquisition the Group assumed a US dollar-denominated loan agreement with IMB for a maximum amount of $4.0 million. The loan bore a floating interest rate of LIBOR plus 6.5 percent per annum (10.5 percent at 31 December 2006), payable monthly and was scheduled to mature in September 2007. At 31 December 2006, the loan was collateralized by certain of the Group's property, plant, equipment with carrying values of $3.8 million. In March 2007, the Group fully repaid the loans.

NOMOS-Bank. In March 2006, the Group entered into a US dollar-denominated loan agreement with NOMOS-Bank for $7.0 million. The loan bore a fixed interest rate of 12.0 percent per annum payable monthly, maturing in March 2009. In March 2007, the Group fully repaid the loan.

19 Financial Liabilities (continued)

Interest expense. Interest expense for the years ended 31 December 2007 and 2006 comprised the following:

	Year ended 31 December:	
	2007	**2006**
Short-term borrowings		
Renaissance	15,424	3,278
Alfa-Bank	3,308	4,901
Other	9,873	1,994
Total interest expense on short-term borrowings	**28,605**	**10,173**
Long-term borrowings		
Senior Notes and Restructured Senior Notes	2,064	3,008
Facility Agreement	3,746	17,892
Bonds	20,757	7,774
Other	3,984	7,938
Total interest expense on long-term borrowings	**30,551**	**36,612**
Total interest expense	**59,156**	**46,785**

The interest expense incurred in 2007 is segregated between the interest incurred on borrowings repaid from the IPO proceeds and interest on borrowings remaining after the IPO as follows:

	Year ended 31 December:	
	2007	**2006**
Interest on short-term borrowings repaid from the IPO proceeds	15,424	-
Interest on short-term borrowings remaining after the IPO	13,181	10,173
Total interest expense on short-term borrowings	**28,605**	**10,173**
Interest on long-term borrowings repaid from the IPO proceeds	5,810	20,900
Interest on long-term borrowings remaining after the IPO	24,741	15,712
Total interest expense on long-term borrowings	**30,551**	**36,612**
Total interest expense	**59,156**	**46,785**

20 Share Capital

The following table summarizes the change in share capital for the year ended 31 December 2007

	Number of common shares:		Number of preferred shares:					
	Class A	Class B	Series A	Series B	Share Premium	Treasury shares	Warrants	Total share capital
Balance at 31 December 2005	**1,125,000**	**1,000,000**	**750,000**	**1,176,471**	**46,577**	**-**	**136**	**46,713**
Share-based compensation (note 21)	-	-	-	-	15,199	-	-	15,199
Issuance of shares for purchase of Smith Eurasia	266,666	-	-	-	60,000	-	-	60,000
Issuance of shares in private equity placement	444,445	-	-	-	95,242	-	-	95,242
Conversion of preference shares into common shares	171,024	-	(151,138)	(19,886)	-	-	-	-
Conversion of Class B common shares into Class A common shares – cashless	55,209	(60,000)	-	-	-	-	-	-
Exercise of warrants	17,500	-	-	-	336	-	(20)	316
Exercise of stock options	13,100	-	-	-	-	-	-	-
Purchase of treasury shares	(7,100)	-	-	-	-	(1,598)	-	(1,598)
Balance at 31 December 2006	**2,085,844**	**940,000**	**598,862**	**1,156,585**	**217,354**	**(1,598)**	**116**	**215,872**
Initial Public Offering	1,791,676	-	-	-	558,518	-	-	558,518
Issuance of Class A common shares from exercise of warrants connected with Senior Notes	101,393	-	-	-	1,533	-	(116)	1,417
Issuance of Class A common shares from exercise of warrants connected with Facility Agreement	62,686	-	-	-	15,750	-	-	15,750
Conversion of Series A and Series B preferred shares into Class A common shares	1,755,447		(598,862)	(1,156,585)	-	-	-	-
Exercise of Class B common shares	200,000	(200,000)			2,400			2,400
Exercise of stock options	147,661	-	-	-	1,985	-	-	1,985
Share-based compensation (note 21)	-	-	-	-	35,281	-	-	35,281
Balance at 31 December 2007	**6,144,707**	**740,000**	**-**	**-**	**832,821**	**(1,598)**	**-**	**831,223**

Initial public offering. In February 2007, the Group completed its Initial Public Offering ("IPO") of 1,492,537 Class A common shares on the London Stock Exchange ("LSE") in the form of 29,850,740 Global Depository Receipts ("GDRs"), each with a nominal value of 0.0001 per GDR and 20 GDRs representing an interest in one common share. In addition, the Group issued 299,139 shares in the form of 5,982,780 GDRs to cover over allotments in offering. The offering was at a price of $335.00 per share or $16.75 per GDR. The over-allotment option was utilized in full at the offering.

The Group raised $600.2 million in cash from both the initial and over-allotment offerings, inclusive of $29.6 million of associated transaction fees. The Group classified a further $12.1 million of costs directly related to the preparation of the Group for the IPO. As a result, the Group's proceeds from the IPO, net of directly attributable costs, were $558.5 million (note 2).

20 Share Capital (continued)

Issuance of Class A common shares from exercise of warrants connected with Senior Notes. In May 2005, the Group issued 14,500 warrants to the holders of Senior Notes (note 19) to purchase 120,833 of the Group's Class A common shares for $20.00 per share. In April 2006, warrants in the amount of 2,100 were exercised in exchange for 17,500 Class A common shares.

In February 2007, remaining warrants in the amount of 12,400 were exercised in exchange for 101,393 Class A common shares as follows:

- 8,500 warrants exercised in exchange for 70,833 Class A common shares for cash proceeds of $1.4 million;
- 3,900 warrants exercised in exchange for 30,560 Class A common shares on a cash-less basis, under which 1,940 class A common shares were cancelled.

The total par value of the newly issued Class A common shares of $1.5 million is comprised of the initial fair value of $0.1 million assigned upon issuance of the warrants and the cash proceeds of $1.4 million received upon exercise of the warrants into common shares.

Issuance of Class A common shares from exercise of warrants connected with Facility Agreement. In September 2005, the Group issued 90,000 warrants to the lenders of the Facility Agreement (note 19) to exchange common shares at the conversion rate of 233.33 divided by the IPO listing share price of $335.0. In February 2007, the warrant holders exercised 90,000 warrants in exchange for 62,686 Class A common shares at an exercise price of $251.25 per common share. The Group received proceeds of $15.8 million from the exercise of these warrants.

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

Exercise of Class B common shares and stock options. In 2007, the Group exercised 200,000 Class B common shares into 200,000 Class A common shares at exercise price of $12.0 per share for total cash proceeds of $2.4 million. In 2006, the Group converted 60,000 Class B common shares into 55,209 Class A common shares in a cashless exercise under which 4,791 Class B common shares were cancelled in lieu of payment of the exercise price of the shares.

Exercise of stock options. In 2007, the Group exercised 65,834 stock options into 65,834 Class A common shares for total cash proceeds of $2.0 million and 84,641 stock options were exercised into 81,827 Class A common shares through cash-less transaction under which 2,814 common shares were cancelled in lieu of payment of the exercise price of the options. In 2006, the Group exercised 13,763 stock options into 13,100 Class A common shares under which 663 stock options were cancelled in lieu of payment of the exercise price of the options.

Issuance of Class A common shares in private equity placement. In August 2006, the Group raised $95.2 million cash consideration, net of direct costs of $4.6 million, in a private placement of 444,445 of its Class A common shares.

Treasury shares. In August 2006, the Group purchased 7,100 shares from a former employee at $225.0 per share for a total amount of $1.6 million.

21 Share-based Compensation

2005 Stock Option Plan. In 2006 and 2007, the Group's Board of Directors authorized the issuance of 400,000 and 92,784 options, respectively, to purchase the Group's Class A common shares. At 31 December 2007 and 2006, a total of nil and 41,150 options, respectively, remained available to grant.

21 Share-based Compensation (Continued)

Options granted vest over periods of up to four years and are exercisable for ten years from the grant date. Vesting provisions differ by award.

Options outstanding. The following summarizes information about stock options movements:

	Weighted average exercise price in $ per share	Options
Options outstanding at 31 December 2005	**$15.81**	**1,630,400**
Granted	176.74	530,950
Exercised	11.42	(73,763)
Forfeited	79.43	(52,500)
Options outstanding at 31 December 2006	**$56.24**	**2,035,087**
Granted	335.83	160,600
Exercised	15.36	(350,475)
Forfeited	16.00	(26,666)
Options outstanding at 31 December 2007	**$89.40**	**1,818,546**

In 2007 and 2006, the total grant date fair value of stock options granted were $24.7 million and $50.3 million, respectively.

	Options outstanding			Options exercisable	
Range of exercise prices (in US dollars per share)	**Number of options outstanding**	**Weighted-average remaining contractual life (years)**	**Weighted average exercise price ($)**	**Options exercisable at year end**	**Weighted average exercise price ($)**
$4.00 - $12.00	867,830	7.8	$11.53	835,765	$11.51
$15.00 - $34.00	409,166	7.9	$31.24	267,501	$31.28
$130.00 - $275.00	380,950	8.7	$225.39	135,619	$227.72
$301.00 - $382.00	160,600	9.4	$335.83	38,535	$348.81
	1,818,546		**$89.40**	**1,277,420**	**$48.78**

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

	Awards granted during the Year ended 31 December:	
	2007	**2006**
Share price	$301.0 – 382.0	$122.5 – 225.0
Dividend yield	-	-
Expected volatility	40.0%	40.0%
Risk-free interest rate	3.5 – 5.0%	4.5 – 5.1%
Expected life	1 – 3 years	1 – 3 years

22 Loss per Share

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

	Year ended 31 December:	
	2007	2006
Numerator		
Loss attributable to shareholders of Integra Group for basic earnings per share	(45,750)	(40,380)
Loss attributable to shareholders of Integra Group for diluted earnings per share	(45,750)	(40,380)
Denominator		
Weighted average number of common shares outstanding during the year – basic and diluted	5,596,984	3,359,052
Basic and diluted loss per share (in US dollars per share)	(8.17)	(12.02)

At 31 December 2007 and 2006, the conversion of exercisable stock options are anti-dilutive because they result in a reduction in diluted loss per share from $8.17 to $6.43 and from $12.02 to $8.61, respectively, and are ignored for purpose of the calculation of diluted loss per share.

23 Related Party Transactions

The related parties with whom the Group had significant transactions with, or had significant balances outstanding as of and for the years ended 31 December 2007 and 2006, are Brookline Partners LLC, a shareholder of Integra and the Group's associates (note 15).

Details of transactions between the Group and related parties are disclosed as follows:

	Year ended 31 December:	
	2007	2006
Sales of production evaluation services to related parties	6,524	2,940
Sales of management services by Integra Group to related parties	685	592
Purchase of management services by Integra Group from related parties	(300)	(648)
Purchase of materials by Integra Group	(3,872)	(29)
Purchase of transportation services by Integra Group	(410)	(1,269)
Purchase of formation evaluation services by Integra Group	(4,004)	(6,757)
Other income	365	37

	As at 31 December:	
	2007	2006
Trade receivables, net	3,653	695
Trade payables, current	(5,719)	(2,050)
Loans issued to employees	1,432	1,020
Long-term borrowings	-	444

Management compensation. During 2007 and 2006, the Group's senior management team comprised eight and six individuals whose compensation totalled $22.4 million and $14.7 million, respectively, including salary, bonuses and other benefits of $5.5 million and $3.6 million, respectively, and share-based compensation of $17.0 million and $11.1 million, respectively.

23 Related Party Transactions (Continued)

Management and administrative services contracts. Prior to January 2007, the Group maintained a management services contract with Brookline Partners LLC, a significant shareholder and an affiliate of the Chairman of the Board of Directors. In 2006, the Group incurred expenses of $0.6 million under this contract. In January 2007, the management services contract was terminated and replaced with an administrative services contract with another affiliate of the Chairman. In 2007, the Group incurred expenses of $0.3 million under this new contract.

Loans provided to employees. Between July 2006 and April 2007, the Group issued a number of Russian rouble-denominated loans to its employees in the amount equivalent to $1.4 million. The loans bear interest rates ranging from nil to 10.0 percent per annum, payable upon repayment of the loans at their maturity. Initially the loans were repayable in June 2007. During the year ended 31 December 2007 the maturity of the loans was extended till 31 December 2008. At 31 December 2007 and 2006, the fair value of the outstanding loans was $1.4 million and $1.0 million, respectively, and accrued interest was $0.2 million and $0.04 million, respectively.

24 Contingencies, Commitments and Operating Risks

Contractual commitments and guarantees. In the normal course of business, the Group entered into contracts for the purchase of property, plant and equipment. At 31 December 2007 and 2006, the Group had unpaid contractual commitments of $42.4 million and $37.3 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 its employees. The terms and conditions of each collective agreement are specific to each particular operating entity and actual annual outlays can vary from entity to entity. The Group management believes that its obligations under these collective agreements, individually or in aggregate, would not have a material impact on these consolidated financial statements.

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

Taxation. Tax, currency and customs legislation of various jurisdictions in which the Group has its operations is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

As of 31 December 2007, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

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 policy in respect of its public liability. The Group management believes it has sufficient insurance coverage to correspond with the risks associated with its operations.

24 Contingencies, Commitments and Operating Risks (continued)

Legal proceedings. At 31 December 2007, 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.

Operating environment of the Group. The Russian Federation continues to display some characteristics of an emerging market economy. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in economic trends, the future economic direction of the Russian Federation is largely dependant on the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory and political developments.

25 Subsequent Events

Joint venture in Integra Smith Limited. In March 2008, the Group entered into a joint venture agreement with Smith International, Inc. to establish Integra Smith Limited ("ISL") providing downhole oilfield and engineering services to the petroleum industry in the Russian Federation, Kazakhstan and Azerbaijan. According to the agreement each party will acquire a 50 percent ownership in ISL upon conditions precedent in the third quarter of 2008.

Acquisition of NKRS and STS. In May 2008, the Group entered into an agreement to acquire a 100 percent ownership in Nizhnevartovsk KRS ("NKRS") and Sibirtransservice ("STS"), both companies providing workover and transportation services to the petroleum industry in the Khanty Mansiysk Region of the Russian Federation. The Group expects to complete the acquisitions in the second quarter of 2008.

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