Integra Group

Consolidated Financial Statements as of and for the Year Ended 31 December 2010

Independent Auditor's Report

To the Shareholders and Board of Directors of Integra Group:

1 We have audited the accompanying consolidated financial statements of Integra Group and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

20 April 2011
Moscow, Russian Federation

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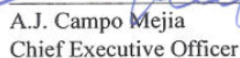
	Note	Year ended 31 December: 2010	2009
Continuing operations			
Sales of services		735,263	657,119
Sales of goods		58,468	42,340
Total sales	7	793,731	699,459
Cost of sales	7,8	(637,402)	(615,770)
Impairment of property, plant and equipment	14	(13,543)	(4,480)
Gross profit		**142,786**	**79,209**
Selling, general and administrative expenses	9	(131,567)	(127,282)
Loss from disposal of property, plant and equipment and intangible assets		(2,734)	(2,029)
Goodwill impairment	15	-	(14,191)
Gain from disposal of subsidiaries	5	-	10,195
Operating profit (loss)		**8,485**	**(54,098)**
Finance income		990	5,106
Finance expense	19	(37,433)	(54,220)
Exchange gain		4,680	14,244
Share of results of associates	16	1,559	(828)
Loss before income tax		**(21,719)**	**(89,796)**
Current income tax expense		(15,321)	(18,449)
Deferred income tax benefit	18	1,151	13,805
Income tax expense	18	(14,170)	(4,644)
Loss for the year from continuing operations		**(35,889)**	**(94,440)**
Discontinued operations			
Loss from discontinued operations	6	(7,220)	(24,438)
Loss for the year		**(43,109)**	**(118,878)**
(Loss) profit from continuing operations attributable to:			
Shareholders of Integra Group		**(33,844)**	**(94,621)**
Non-controlling interest		(2,045)	181
Loss from discontinued operations attributable to:			
Shareholders of Integra Group		**(7,220)**	**(24,438)**
Non-controlling interest		-	-
(Loss) profit attributable to:			
Shareholders of Integra Group		**(41,064)**	**(119,059)**
Non-controlling interest		(2,045)	181
Loss per share attributable to shareholders of Integra Group (in US dollars per share):			
Loss from continuing operations per share, basic and diluted	22	(4.01)	(13.50)
Loss from discontinued operations per share, basic and diluted	22	(0.86)	(3.49)
Weighted average shares outstanding, basic and diluted	22	8,441,619	7,009,029
Loss for the year		(43,109)	(118,878)
Other comprehensive (loss) income			
Effect from foreign exchange hedge	4	(1,815)	1,745
Exchange loss from translation to presentation currency		(4,868)	(31,350)
Total comprehensive loss for the year		**(49,792)**	**(148,483)**
Comprehensive loss attributable to:			
Shareholders of Integra Group		**(46,092)**	**(146,478)**
Non-controlling interest		(3,700)	(2,005)

Approved for issue and signed on behalf of the Board of Directors on 20 April 2011



A.J. Campo Mejia
Chief Executive Officer

Y. Baidoukov
Chief Financial Officer

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

	Note	31 December: 2010	2009
Assets			
Cash and cash equivalents	11	54,841	37,272
Trade and other receivables	12	242,148	260,405
Inventories	13	79,482	98,538
Assets of disposal group classified as held-for-sale	6	44,724	-
Total current assets		**421,195**	**396,215**
Property, plant and equipment	14	288,547	377,215
Goodwill and intangible assets	15	100,306	104,269
Investments in associates	16	16,555	15,116
Deferred income tax assets	18	7,699	6,225
Loans provided and other assets		7,213	6,897
Total non-current assets		**420,320**	**509,722**
Total assets		**841,515**	**905,937**
Liabilities and equity			
Accounts payable and accrued liabilities	17	149,838	224,195
Income tax payable		2,070	1,883
Other taxes payable	18	45,073	34,958
Borrowings	19	35,393	70,227
Liabilities of disposal group classified as held-for-sale	6	4,176	-
Total current liabilities		**236,550**	**331,263**
Borrowings	19	131,107	142,474
Deferred income tax liability	18	14,230	18,885
Other non-current liabilities		1,346	903
Total non-current liabilities		**146,683**	**162,262**
Total liabilities		**383,233**	**493,525**
Share capital and share premium	20	995,673	982,698
Treasury shares	20	(6,190)	-
Cumulative translation reserve		(109,684)	(106,471)
Accumulated deficit		(490,618)	(481,468)
Total equity attributable to shareholders of Integra Group		**389,181**	**394,759**
Non-controlling interest		69,101	17,653
Total equity		**458,282**	**412,412**
Total liabilities and equity		**841,515**	**905,937**

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

	Note	Year ended 31 December: 2010	2009
Cash flows from operating activities			
Loss before taxation from continuing operations		(21,719)	(89,796)
Loss before tax from discontinued operation	6	(12,600)	(23,437)
Adjustments for:			
Goodwill impairment	15	-	18,925
Gain from disposal of subsidiaries		(5,875)	(10,195)
Impairment of property, plant and equipment and loss recognised on the re-measurement of assets of disposal group	6,14	20,906	26,296
Depreciation and amortization		95,883	141,556
Loss from disposal of property, plant and equipment and intangible assets	7	2,374	2,109
Finance expense, net		37,900	50,229
Share-based compensation	20	12,975	8,509
Share of results of associates	16	(1,559)	828
Receivables and inventories impairment and other write-offs		(926)	(972)
Exchange gain		(4,817)	(13,699)
Other		459	(161)
Operating cash flows before working capital changes		**123,001**	**110,192**
Change in trade and other receivables		(7,245)	75,529
Change in inventories		3,114	38,430
Change in accounts payable and accrued liabilities		(28,237)	(48,421)
Change in other taxes payable		10,679	1,896
Operating cash flows before interest and income taxes		**101,312**	**177,626**
Income tax paid		(14,839)	(19,342)
Finance expense paid		(33,575)	(40,767)
Net cash provided by operating activities		**52,898**	**117,517**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(52,561)	(43,529)
Proceeds from the disposal of property, plant and equipment and intangible assets		945	2,903
Proceeds from disposal of URBO, net of pre-tax costs to sell and cash	6	30,373	-
Loans provided		(2,913)	(1,737)
Proceeds from repayment of loans		6	232
Interest received		1,366	4,485
Other		(1,759)	(777)
Net cash used in investing activities		**(24,543)**	**(38,423)**
Cash flows from financing activities:			
Proceeds from disposal of non-controlling interest	5	48,000	-
Cash paid for purchase of non-controlling interest	5	(5,314)	(16,235)
Global Depository Receipts buy-back	20	(6,190)	-
Proceeds from issuance of shares, net of transaction costs	20	-	88,525
Proceeds from borrowings		254,218	255,437
Repayment of borrowings		(302,334)	(440,953)
Net cash provided by financing activities		**(11,620)**	**(113,226)**
Net increase (decrease) in cash and cash equivalents		**16,735**	**(34,132)**
Cash and cash equivalents at the beginning of the year		37,272	62,393
Effect of exchange differences on cash balances		834	9,011
Cash and cash equivalents at the end of the year		**54,841**	**37,272**

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

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

	Note	Share capital and share premium	Treasury shares	Cumulative translation reserve	Accumulated deficit	Total equity attributable to shareholders of Integra Group	Non-controlling interest	Total equity
Balance at 31 December 2008		**885,664**	**-**	**(77,307)**	**(357,003)**	**451,354**	**41,110**	**492,464**
Total comprehensive loss for the period		-	-	(29,164)	(117,314)	(146,478)	(2,005)	(148,483)
Total		**885,664**	**-**	**(106,471)**	**(474,317)**	**304,876**	**39,105**	**343,981**
Issuance of Class A common shares to London Stock Exchange	20	88,525	-	-	-	88,525	-	88,525
Share-based compensation from issuance of Class A common shares to management	20	202	-	-	-	202	-	202
Share-based compensation from stock option and RSU plans	20,21	8,307	-	-	-	8,307	-	8,307
Purchase of non-controlling interest in subsidiaries	5	-	-	-	(7,151)	(7,151)	(21,452)	(28,603)
Balance at 31 December 2009		**982,698**	**-**	**(106,471)**	**(481,468)**	**394,759**	**17,653**	**412,412**
Total comprehensive loss for the period		-	-	(3,213)	(42,879)	(46,092)	(3,700)	(49,792)
Total		**982,698**	**-**	**(109,684)**	**(524,347)**	**348,667**	**13,953**	**362,620**
Share-based compensation from stock option and RSU plans	20,21	12,755	-	-	-	12,755	-	12,755
Share-based compensation from issuance of Class A common shares to management	20	220	-	-	-	220	-	220
Global Depository Receipts buy-back	20	-	(6,190)	-	-	(6,190)	-	(6,190)
Disposal of 25.0 percent interest in IG Seismic Services	5	-	-	-	33,729	33,729	55,148	88,877
Balance at 31 December 2010		**995,673**	**(6,190)**	**(109,684)**	**(490,618)**	**389,181**	**69,101**	**458,282**

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

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

The Group's main operating subsidiaries as of 31 December 2010 and 2009 are described below. Certain subsidiaries providing procurement and administrative functions are not presented. Acquisitions and disposals of interests in its subsidiaries made in 2010 and 2009 are discussed in notes 5 and 6 and the segment information is provided in note 7.

Full description	Short description	Country of incorporation	Effective control at 31 December: 2010	2009
Drilling, Workover, Integrated Project Management ("IPM")				
OOO Integra-Drilling	Integra Drilling	Russian Federation	100.0%	100.0%
OOO Smith Production Technology	Smith Production Technology	Russian Federation	100.0%	100.0%
ZAO Obnefteremont	Obnefteremont	Russian Federation	100.0%	100.0%
Technology Services				
OOO VNIIBT Drilling Instruments	Drilling Tools	Russian Federation	100.0%	100.0%
OOO Smith Siberian Services	Smith Siberian Services	Russian Federation	100.0%	100.0%
OOO Integra-Services	Integra-Services	Russian Federation	100.0%	100.0%
OOO Geophyzservice	Geophyzservice	Russian Federation	100.0%	100.0%
Formation Evaluation				
OAO Integra-Geophyzika	Integra Geophysics	Russian Federation	74.1%	98.8%
OOO Geoprime	Geoprime	Russian Federation	75.0%	100.0%
JSC Azimuth Energy Services	Azimuth Energy Services	Kazakhstan	71.4%	95.2%
JSC Geostan	Geostan	Kazakhstan	74.6%	99.5%
Manufacturing				
ZAO URBO	URBO	Russian Federation	-	100.0%
OOO Stromneftemash	Stromneftemash	Russian Federation	100.0%	100.0%

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

At 31 December 2010 and 2009, the Group's main equity associates were engaged in the formation evaluation services and were as follows:

Full description	Short description	Effective ownership at 31 December: 2010	2009
OAO Nizhnevartovskneftegeophysika	Nizhnevartovskneftegeophysika	37.8%	35.7%
OAO Stavropolneftegeophyzika	Stavropolneftegeophyzika	25.4%	25.4%
ZAO Neftegeotechnology	Neftegeotechnology	66.3%	65.2%

At 31 December 2009, the Group's interest in Neftegeotechnology of 65.2 percent was comprised of a 49.0 percent direct investment and a 16.2 percent indirect investment via the Group's non-controlling interest in Nizhnevartovskneftegeophysika. In December 2010, the Group purchased an additional 2.1 percent interest in Nizhnevartovskneftegeophysika for $0.03 million whereby the effective interest in Nizhnevartovskneftegeophysika and Neftegeotechnology increased to 37.8 percent and 66.3 percent, respectively. Neftegeotechnology is accounted for as an equity associate (note 16) as it is a subsidiary of Nizhnevartovskneftegeophysika, an associate.

2 Summary of Significant Accounting Policies

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

The Group's loss decreased significantly from $118.9 million in 2009 to $43.1 million in 2010 primarily due to the worldwide macroeconomic recovery after the recession of 2008 and the Group's internal economic efficiencies achieved from the restructuring processes and cost optimization measures. During 2010, the Group's debt financing was reduced and restructured so that there is substantial unused debt capacity available. This radical improvement in the Group's financial position supports the Group's management confidence that the Group will continue as a going concern.

2.2 Statement of compliance. These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain prior year amounts have been reclassified to conform to the current year presentation. Loss for the year and shareholders' equity were not affected by these reclassifications.

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

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

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

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

In the consolidated financial statements, the assets and liabilities of the Group's subsidiaries whose functional currency is other than the US dollar are translated into US dollars at the rate of exchange ruling at the reporting date. The results and cash flows of non-US dollar functional currency subsidiaries are translated into US dollars using the exchange rates at the respective transaction dates or using a period average exchange rate as an approximation. Exchange adjustments arising when the opening net assets and results for the year realized by non-US dollar functional currency subsidiaries are translated into US dollars are included within cumulative translation reserve in the other comprehensive income or loss component of the consolidated statements of comprehensive income. The US dollar to Russian rouble exchange rate was 30.48 and 30.24 as of 31 December 2010 and 2009, respectively.

2 Summary of Significant Accounting Policies (continued)

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

2.5 Non-controlling interest (continued). Non-controlling interests in other Group subsidiaries are classified within total equity in the consolidated statement of financial positions.

2.6 Business combinations and goodwill. Business combinations are accounted for using the acquisition method. The consideration transferred is measured at fair values of the assets transferred, liabilities incurred and equity interest issued by the Group to the former owners of the acquired entity. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the date of acquisition. The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. In case of a bargain purchase when the transaction results in the excess of the fair value of the identifiable net assets of the acquiree over the consideration transferred and the amount of any non-controlling interest, the resulting gain is recognized in the profit or loss component of the consolidated statement of comprehensive income on the acquisition date. Acquisition-related costs are expensed in the periods in which they are incurred.

Goodwill on acquisitions of subsidiaries is presented as a component of goodwill in the consolidated statement of financial positions, while goodwill on acquisitions of associates is included in the cost of investments in associates. Following initial recognition, goodwill is measured at cost less accumulated impairment loss, if any. Goodwill is allocated to the acquirer’s cash-generating units, or groups of cash-generating units, that are expected to benefit from synergies of the business combination. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate potential impairment. Impairment is determined by assessing the recoverable amount of the cash-generating unit, or groups of cash-generating units, to which the goodwill relates. If the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized in the profit or loss component of the consolidated statement of comprehensive income. If goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. The goodwill disposed in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

2.7 Investments in associates. An associate is an entity over which the Group has significant influence but not control and which is neither a subsidiary nor a joint venture. Investments in associates are accounted for using the equity method of accounting under which the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group’s share of net assets of the associate. Goodwill relating to the associate, net of any accumulated impairment loss, is included in the carrying amount of the investment. The profit or loss component of the consolidated statement of comprehensive income reflects the Group’s share of the results of operations of the associate. If there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any such changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Accounting policies of associates have been changed, where necessary, to ensure consistency with those of the Group.

2 Summary of Significant Accounting Policies (continued)

2.8 Held-for-sale and Discontinued Operations. Disposal groups are classified in the consolidated statement of financial position as held-for-sale if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting period. Assets and the associated liabilities are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Held-for-sale disposal groups' net assets are measured at the lower of their carrying amount and fair value less costs to sell.

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

2.9 Financial assets and financial liabilities. The Group's financial assets include cash, equity instruments of other entities, contractual rights to receive cash or another financial asset from other entities, or to exchange financial assets or financial liabilities with other entities under conditions that are potentially favorable to the Group. The Group's financial liabilities include contractual obligations to deliver cash or other financial assets to other entities, or to exchange financial assets or financial liabilities with other entities under conditions that are potentially unfavorable to the Group. The Group recognises its financial assets and financial liabilities when it becomes a party to contractual provisions of the instrument and derecognises the financial assets when the underlying contractual rights expire or it ceases to retain substantially all the risks and rewards of ownership of the financial assets. The Group derecognises its financial liabilities when the underlying obligations are discharged, cancelled or expired.

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

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

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

2 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

The share-based compensation includes the grant date fair value of services received under a share option plan, a restricted shares plan, share issues and discharge of prepaid services in exchange for modifying original vesting provisions of share option grant.

2.13 Cash and cash equivalents and restricted cash. Cash and cash equivalents include cash on hand and deposits held on call with banks with maturity less than three months.

2.14 Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, if any. A provision for impairment of trade and other receivables is accrued when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Trade receivables accrued from sales under the engineering and service contracts are recognized in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

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

2.18 Property, plant and equipment (continued). Depreciation on plant and equipment is calculated using the straight-line method over the estimated useful lives, as follows:

	Range of average estimated useful lives
Rigs	5-20 years
Buildings	25-90 years
Plant and equipment	3-30 years
Motor vehicles	2-10 years

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

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

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

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

2.24 New IFRS effective in 2010. In 2010, the Group adopted the following new standards which did not have material impact on these consolidated financial statements:

- **IAS 27,** *Consolidated and Separate Financial Statements*, applicable to annual periods beginning on or after 1 July 2010 and applied retrospectively. The standard clarifies the consequential amendments in IAS 27 to certain other standards.
- **IAS 32** (Amendment), *Financial Instruments*: Presentation, effective for annual periods beginning on or after 1 February 2010. The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.
- **IFRS 2** (Amendment), *Share-based Payment*, effective for annual periods beginning on or after 1 January 2010. The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements.
- **IFRS 3,** *Business Combinations*, effective on or after 1 July 2010 and applied retrospectively. The standard provides (a) transition requirements for contingent consideration from a business combination occurred before the effective date of the revised IFRS, (b) measurement of non-controlling interests, (c) un-replaced and voluntarily replaced share-based payment awards.

2.25 New IFRS effective after 31 December 2010 and not early adopted. The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the Group and the Group is assessing the impact of the amended standards on its consolidated financial statements.

- **IAS 1,** *Presentation of Financial Statements*, effective on or after 1 January 2011 and applied retrospectively. The standard clarifies the presentation of other comprehensive income or expense in equity or in notes to the financial statements.
- **IAS 24** (Amendment), *Related Party Disclosures*, effective for annual periods beginning on or after 1 January 2011. IAS 24 was revised by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

2 Summary of Significant Accounting Policies (continued)

- **IAS 34,** *Interim Financial Reporting*, effective on or after 1 January 2011 and applied retrospectively. The standard adds certain disclosure requirements related to valuation and classification of financial instruments.
- **IFRS 7,** *Financial Instruments*, effective on or after 1 January 2011 and applied retrospectively. The standard develops on quantitative and qualitative disclosures of the nature and extent of risks associated with financial instruments.

2.25 New IFRS effective after 31 December 2010 and not early adopted (continued).

- **IFRS 9**, *Financial Instruments, Part 1: Classification and Measurement*, effective for annual periods beginning on or after 1 January 2013. IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets in one of two categories: at fair value or amortized cost.
- **IFRIC 19**, *Extinguishing Financial Liabilities with Equity Instruments*, effective for annual periods beginning on or after 1 July 2010.
- **Improvements to International Financial Reporting Standards,** effective from 1 January 2011. The improvements consist of a mixture of substantive changes and clarifications in various standards and interpretations. The Group does not expect the amendments to have any material effect on its financial statements,

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

- **IFRS 1,** *First time adoption of International Financial Reporting Standards*, effective for annual periods beginning on or after 1 July 2010 following amendments to IFRS 7, *Financial Instruments: Disclosures* issued in March 2009.
- **IFRIC 13,** *Customer Loyalty Programmes*, effective on or after 1 January 2011.
- **IFRIC 14** (Amendment), *Prepayments of a Minimum Funding Requirement*, effective for annual periods beginning on or after 1 January 2011.
- **IFRIC 17*, Distributions of Non-Cash Assets to Owners,*** effective for annual periods beginning on or after 1 July 2009
- **IFRIC 18, *Transfers of Assets from Customers,*** effective for annual periods beginning on or after 1 July 2009

3 Critical Estimates and Judgments

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

3.1 Estimates of recoverable amounts for the goodwill impairment test. The Group tests goodwill for impairment at least annually. The Group estimates the recoverable amount of each cash-generating unit to which goodwill has been allocated by determining value in use of the cash-generating unit. These calculations are highly dependent on estimates of the economic and financial performance of the cash-generating unit and are sensitive to changes in the Russian economic and regulatory environments, including changes in inflation, interest and exchange rates and taxation. The values in use of the Group's cash generating units are highly dependent on operating profit margins so that if these margins were to deteriorate in future, further impairment of goodwill and other assets may be required. The key assumptions and sensitivity of carrying amounts to them are discussed in note 15.

3.2 Review of amortization periods of intangible assets with finite useful lives. At each financial year-end, the Group reviews amortization periods for its identified intangible assets with finite lives. The remaining useful lives of these intangible assets have been assessed based on the prior experiences and expected changes in the future economic benefits attributable to the intangible assets.

3 Critical Estimates and Judgements (continued)

3.3 Assessment of the percentage of completion on engineering and service contracts. Certain of the Group's revenue are recognized under the percentage of completion method. The estimation of the extent of revenue to be recognized under the percentage of completion method is a matter of management judgment based upon expectations of future costs to be incurred and contract profit margins to be earned to complete the respective contracts. Differences between such estimate and actual results may result in losses in future periods. The sensitivity of the 2010 sales from change of estimated profit margins is discussed in note 10.

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

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

3.6 Estimation of share-based compensation. The Group applies the Black-Scholes option valuation model to determine the fair value of traded options that have no vesting restrictions and are fully transferable. This option valuation model requires the input of highly subjective assumptions including the expected share price volatility. Changes in the subjective input assumptions can affect the calculated fair value. The sensitivity of the option valuation model is discussed in note 21.

3.7 Fair values of acquired assets and liabilities. In 2010, the Group acquired certain businesses of PetroAlliance and WesternGeco from Schlumberger Oilfield Holdings Limited (note 5). IFRS 3 requires that, at the acquisition date, all assets and liabilities, including intangible assets, of an acquired business be recorded at their respective fair values. The estimation of fair values requires significant management judgment. To assess fair values of monetary assets and liabilities, management uses all information available to determine whether an asset is recoverable or whether it is probable that an event will result in outflows of resources from the Group, including assessment of such factors as the current overall economic conditions, specific customer, counterparty or industry conditions and the current overall legal environment. Changes in any of these conditions may result in adjustments to fair values of monetary assets and liabilities recorded by the Group. Management also engages independent experts to advise as to the fair values of acquired property, plant and equipment and intangible assets. Changes in any of the estimates subsequent to the finalization of acquisition accounting may result in losses in future periods.

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

4 Financial Risk Management

At 31 December 2010 and 2009 the Group financial instruments were as follows:

	Notes	31 December: 2010	2009
Financial assets:			
Cash and cash equivalents	11	54,841	37,272
Financial receivables	12	173,676	215,895
Loans provided and other assets		7,213	6,897
Total financial assets		**235,730**	**260,064**
Financial liabilities:			
Financial payables and accrued liabilities	17	85,754	136,937
Current borrowings	19	35,393	70,227
Non-current borrowings	19	131,107	142,474
Total financial liabilities		**252,254**	**349,638**

At 31 December 2010 and 2009 the carrying values of the financial assets and financial liabilities, except for the bonds included in the non-current borrowings (note 19), approximated their fair values.

At 31 December 2010 and 2009 the carrying and fair values of the bonds were as follows:

	31 December: 2010		2009	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Bonds	4,843	5,139	87,256	87,343

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

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

The Group only maintains accounts with reputable banks and financial institutions and therefore believes that it does not have a material credit risk in relation to its cash or cash equivalents. The Group focuses on servicing large independent and Russian state-owned oil and gas exploration and production customer groups which management considers creditworthy. The Group monitors and assesses regularly the likelihood of collection on a customer-by-customer basis in order to mitigate exposure to potential material losses from uncollected accounts. The Group believes that its financial receivables which are neither past due nor impaired represent low exposure to credit risk. The Group believes that its maximum exposure to credit risk is the carrying value of its financial assets recognized in the consolidated statement of financial position at 31 December 2010 and 2009.

4 Financial Risk Management (continued)

At 31 December 2010 and 2009 the ageing of the financial receivables (note 12) was as follows:

	31 December 2010				
				Including:	
	Total before impairment provision	**Impaired**	**Total recognized**	**Neither past due nor impaired**	**Past due but not impaired**
Unbilled amounts due for engineering and service contract work	47,315	-	47,315	47,315	-
Within 90 days	100,268	(109)	100,159	92,597	7,562
91 to 360 days	12,274	(291)	11,983	1,313	10,670
Over 360 days	26,327	(12,108)	14,219	11,215	3,004
Total trade receivables	**186,184**	**(12,508)**	**173,676**	**152,440**	**21,236**

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

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

	31 December:	
	2010	**2009**
Balance at the beginning of the year	(15,706)	(27,101)
Provision for financial receivables	(4,157)	(6,479)
Unused amounts reversed	7,084	16,224
Transfer to discontinued operations	162	-
Exchange differences	109	1,650
Balance at the end of the year	**(12,508)**	**(15,706)**

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

The Group maintains adequate relationships with both Russian and international financial institutions and has been and continues to be able to raise funds in debt markets to meet its debt service requirements (note 19).

4 Financial Risk Management (continued)

At 31 December 2010 and 2009, 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:	
	2010	**2009**
Total amount of credit facilities available for withdrawal	84,452	13,556
Amounts withdrawn	(45,328)	(10,246)
Amount available for withdrawal	**39,124**	**3,310**

At 31 December 2010 and 2009, interest on the unused facilities, if drawn, would have been payable at an average interest rate of 7.2 percent and 18.3 percent per annum, respectively.

Scheduled maturities of current financial liabilities (notes 17 and 19) outstanding at 31 December 2010 and 2009 were as follows:

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

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

4 Financial Risk Management (continued)

4.1.2. Liquidity risk (continued).

Scheduled maturities of long-term borrowings (note 19) outstanding at 31 December 2010 and 2009, were as follows:

	31 December:	
	2010	**2009**
Year ended 31 December:		
2011	12,975	141,504
2012	112,474	10,556
2013	28,244	9,622
Total long-term borrowings	**153,693**	**161,682**

For purposes of this disclosure, the cash flows are presented in undiscounted nominal terms and the interest payable on floating rate borrowing to maturity was calculated using the rates in existence at 31 December 2010 and 2009, respectively.

4.1.3. Interest rate risk. The Group is exposed to cash flow interest rate risk from its variable interest rate borrowings, which was not hedged at 31 December 2010. In April 2010, the Group terminated the interest swap transaction entered into under the EBRD syndicated loan (note 19). The Group assesses interest rate risk by reference to market information about ranges of changes in floating interest rates of both actual movements during the year prior the reporting period and reasonably possible changes in the year thereafter. In the 12 months ended 31 December 2010 and 2009, the Group determined such interest rate sensitivity as one percent and determined that if the floating interest rates increased or decreased by one percent, with all other variables held constant, the Group's loss for 2010 and 2009 and total equity at 31 December 2010 and 2009 would have changed as follows:

	31 December:	
	2010	**2009**
Incremental pre-tax loss from increase in the floating interest rate by one percent	(190)	(162)
Incremental pre-tax profit from decrease in the floating interest rate by one percent	190	162

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

In the 12 months ended 31 December 2010 and 2009, the Group assessed the ranges of reasonably possible exchange rate sensitivity as one Russian rouble to one US dollar exchange rate and determined that if the exchange rates increased or decreased by one Russian rouble, with all other variables held constant, the Group's loss and total equity would have changed from the retranslation of the borrowings denominated in US dollars existing at 31 December 2010 and 2009, respectively, as follows:

	31 December:	
	2010	**2009**
Incremental pre-tax loss from increase of the RR / $ exchange rate by one Russian rouble	(171)	(1,461)
Incremental pre-tax profit from decrease of the RR / $ exchange rate by one Russian rouble	176	1,510

4 Financial Risk Management (continued)

4.1.4. Currency risk (continued). In October 2009, the Group hedged against the variability in the US dollar-denominated repayments of the loan the EBRD syndicated loan (note 19). Following the full prepayment of the EBRD syndicated loan the Group fixed an exchange loss in the amount of $1.1 million from disposal of certain hedge contracts to purchase a total of $41.0 million for RR 1,266.5 million. The remaining forward contracts to purchase a total of $19.5 million for RR 633.9 million are designated as a derivative accounted for at fair value through profit or loss. On 31 December 2010, the fair value of the derivative was minus $1.0 million which was accrued as a payable in the consolidated statements of financial position.

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

The Group considers capital to be a sum of short-term and long-term borrowings and total equity. The Group currently monitors capital risk on the basis of a range of financial ratios relevant to the debt markets including, but not limited to, gearing ratio, referred to as the total borrowings divided by capital. At 31 December 2010 and 2009, the Group's gearing ratio was 26.6 percent and 34.0 percent, respectively.

The current policy of the Group and its subsidiaries is not to pay dividends and its subsidiaries only pay dividends on their preferred shares. Effective from the transaction of the sale of 25.0 percent interest in IG Seismic Services Limited (note 5), the payment of dividends from earnings of IG Seismic Services Limited to Schlumberger Oilfield Holdings Limited and Integra is subject to separate decisions made by the IG Seismic Services Limited' board of directors in each financial year. At 31 December 2010 and 2009, neither the Group nor any of its subsidiaries were subject to externally imposed capital requirements.

5 Business Combinations and Transactions with Non-controlling Interest

5.1. Acquisition of seismic and data processing businesses of PetroAlliance and WesternGeco in Russia from Schlumberger Oilfield Holdings Limited. In October 2010, the Group completed a transaction under which it: (a) acquired certain businesses from Schlumberger Oilfield Holdings Limited's entities PetroAlliance and WesternGeco, (b) subsequently consolidated its entire interest in all its subsidiaries of the Formation Evaluation segment (note 1) under a newly created holding company called IG Seismic Services Limited ("IGSS"), and (c) sold 25.0 percent interest in IGSS to SOHL.

The Group acquired from Schlumberger Oilfield Holdings Limited ('SOHL") the Russian seismic business of PetroAlliance and Russian data processing business of WesternGeco. Both acquired businesses include sets of production equipment and software licenses and personnel transferred from PetroAlliance to Integra Geophysics and from WesternGeco to Geoprime.

The Group paid to SOHL a total consideration of $34.2 million in cash for the businesses acquired from PetroAlliance and WesternGeco in the amounts of $26.8 million and $7.4 million, respectively, and received the $35.4 million back from SOHL as a part consideration received for the sold 25.0 percent interest in IGSS valued at $88.9 million. The remaining part of the consideration of $53.5 million was received in cash in two installments of $48.0 million and $5.5 million in October 2010 and March 2011, respectively. In the consolidated statements of cash flows for 2010 the Group netted off the circular cash payments of $35.4 million so that the cash payment of $48.0 million is disclosed as cash proceeds from disposal of non-controlling interest.

The Group recognized goodwill from the acquisition of the businesses from PetroAlliance and WesternGeco in the amounts of $1.3 million and nil, respectively, and attributed the goodwill to synergies from combining the businesses into the Group expected to be realized following the acquisition primarily from enhanced production capacity. The goodwill from acquisition of businesses from PetroAlliance and WesternGeco was added to the goodwill of Integra Geophysics and Geoprime, respectively (note 15).

The Group incurred costs to effect the acquisition and restructure the combined businesses in a total amount of $3.7 million (note 9).

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

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

	Business acquired from:		
	PetroAlliance	**WesternGeco**	**Total**
Inventories	5,679	-	5,679
Property, plant and equipment	19,519	283	19,802
Software licenses	-	7,102	7,102
Other assets	322	-	322
Other liabilities	-	(4)	(4)
Net assets acquired	**25,520**	**7,381**	**32,901**
Consideration transferred	(26,791)	(7,381)	(34,172)
Goodwill	**1,271**	**-**	**1,271**

It is impracticable to disclose the amounts of revenues and profit or loss since the acquisition date included in the consolidated statement of comprehensive income and those for 2010 as if the acquisition date occurred as of 1 January 2010 because prior and following the transaction the acquired businesses have always been parts of larger entities and as such have not had separately identifiable revenues and profit or loss. No financial statements on a stand-alone basis had been prepared for the acquired businesses prior the acquisition

5.2. Transactions with non-controlling interest. In 2010 and 2009, the transactions with the non-controlling interest were as follows:

Disposal of 25.0 percent interest in IGSS. As discussed above in 5.1, in October 2010, the Group sold 25.0 percent interest in IGSS to SOHL for a total cash consideration of $87.7 million. On the transaction closure, the Group retained control over IGSS. The disposal resulted in a gain of $33.7 million recognized in the consolidated statement of changes in equity.

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

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

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

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

6 Discontinued Operations and Assets Held for Sale

In August 2010, the Group completed the sale of its 100 percent interest in URBO which was the sole producer of drilling rigs within the Group. In December 2010, the Group decided to dispose of Stromneftemash and Tyumen Shipbuilding Plant ("TSP"), manufacturers of cementing units and other oilfield equipment. All aforementioned entities were part of the Equipment Manufacturing segment. The Group recognized Stromneftemash's and TSP's assets and liabilities as held-for-sale as of 31 December 2010. In April 2011, the Group sold Stromneftemash (note 25).

Stromneftemash represents a discontinued operation of manufacturing cementing units and other oilfield equipment that was a separate business line and cash generating unit. TSP was URBO's supplemental production facility and is considered not to be a separate discontinued operation.

Analysis of the result of the discontinued operations, and results of the recognized on re-measurement of assets were as follows:

For the period until the disposal in 2010:	**URBO**	**Stromneftemash**	**Total**
Sales	28,555	29,404	57,959
Expenses	(36,002)	(33,069)	(69,071)
Loss recognised on the re-measurement of assets of disposal group	-	(7,363)	(7,363)
Loss before tax	**(7,447)**	**(11,028)**	**(18,475)**
Income tax	1,763	1,449	3,212
Loss after tax	**(5,684)**	**(9,579)**	**(15,263)**
Consideration received from the disposal of URBO, all in cash	41,884	-	41,884
Net assets of URBO on disposal	(24,135)	-	(24,135)
Pre-tax costs to sell	(11,874)	-	(11,874)
Income tax benefit	2,168	-	2,168
After-tax costs to sell	(9,706)	-	(9,706)
Profit (loss) from discontinued operations	**2,359**	**(9,579)**	**(7,220)**

For the year ended 31 December 2009:	**URBO**	**Stromneftemash**	**Total**
Sales	119,803	19,054	138,857
Expenses	(104,169)	(58,125)	(162,294)
Profit (loss) before tax	**15,634**	**(39,071)**	**(23,437)**
Income tax (expense) benefit	(4,093)	3,092	(1,001)
Profit (loss) from discontinued operations	**11,541**	**(35,979)**	**(24,438)**

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

For the period until disposal in 2010:	**URBO**	**Stromneftemash**
Net cash used in operating activities	(16,798)	(19,440)
Net cash provided by (used in) investing activities	2,250	(15,044)
Net cash provided by (used in) financing activities	6,659	25,724
Net decrease in cash and cash equivalents	**(7,889)**	**(8,760)**

For the year ended 31 December 2009:	**URBO**	**Stromneftemash**
Net cash provided by operating activities	7,922	57,458
Net cash provided by (used in) investing activities	21,087	(1,184)
Net cash (used in) provided by financing activities	(22,406)	(1,366)
Net increase in cash and cash equivalents	**6,603**	**54,908**

6 Discontinued Operations and Assets Held for Sale (continued)

The assets and liabilities of URBO at the date of disposal were as follows:

	At disposal
Cash and cash equivalents	1,333
Trade and other receivables	14,746
Inventories	11,201
Property, plant and equipment	10,919
Goodwill and intangible assets	7,795
Other non-current assets	275
Total assets	**46,269**
Accounts payable and accrued liabilities	19,105
Income tax payable	133
Other taxes payable	2,185
Deferred tax liability	587
Other non-current liabilities	124
Total liabilities	**22,134**
Net assets	**24,135**

The assets and liabilities of Stromneftemash and TSP at 31 December 2010 were as follows:

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

7 Segment Information

The Group identifies its reporting segments as follows:

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

In 2010, the Group decided to dispose of its Equipment Manufacturing segment and its results are disclosed in the discontinued operations. Certain minor entities previously included in the Equipment Manufacturing segment were reclassified to the Technology Services segment, both for 2010 and 2009. Corporate assets, liabilities and expenses represent activities that are managed on the Group basis and are not allocated to the operating segments. The Group uses earnings before interest, tax, depreciation and amortization ("EBITDA") adjusted to exclude the share-based compensation ("adjusted EBITDA") as a major measure of its performance. The EBITDA is calculated as a profit (loss) from continuing operations before:

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

7 Segment Information (continued)

Segment information related to the Group's financial performance for 2010 and 2009 is set out as follows:

Year ended 31 December 2010:	**Drilling, Workover & IPM**	**Technology Services**	**Formation Evaluation**	**Equipment Manufacturing**	**Other**	**Corporate**	**Intersegment Eliminations**	**Total**
Continuing operations								
Sales external	384,539	183,636	223,066	-	2,490	-	-	793,731
Sales to other operating segments	25	7,290	14	-	3,516	-	(10,845)	-
Total sales	**384,564**	**190,926**	**223,080**	**-**	**6,006**	**-**	**(10,845)**	**793,731**
Cost of sales	(324,018)	(128,854)	(189,907)	-	(5,051)	-	10,428	(637,402)
Impairment of property, plant and equipment	(1,095)	(3,375)	(9,073)	-	-	-	-	(13,543)
Gross profit (loss)	**59,451**	**58,697**	**24,100**	**-**	**955**	**-**	**(417)**	**142,786**
Selling, general and administrative expenses	(28,564)	(16,024)	(29,378)	-	(2,193)	(56,015)	607	(131,567)
Profit (loss) from disposal of property, plant and equipment and Intangible assets	335	(150)	(1,030)	-	1	(1,809)	(81)	(2,734)
Operating profit (loss)	**31,222**	**42,523**	**(6,308)**	**-**	**(1,237)**	**(57,824)**	**109**	**8,485**
Discontinued operations	-	(125)	-	(36,823)	-	30,290	(562)	(7,220)
Reconciliation of operating (loss) profit to the adjusted EBITDA:								
Operating profit (loss)	**31,222**	**42,523**	**(6,308)**	**-**	**(1,237)**	**(57,824)**	**109**	**8,485**
Depreciation of property, plant and equipment	32,722	18,447	32,999	-	8	1,555	-	85,731
Amortization of intangible assets	3,208	490	840	-	-	176	-	4,714
Impairment of property, plant and equipment	1,095	3,375	9,073	-	-	-	-	13,543
Loss (profit) from disposal of property, plant and equipment and intangible assets	(335)	150	1,030	-	(1)	1,809	81	2,734
Loss on restructuring	-	-	3,473	-	-	228	-	3,701
EBITDA before allocation of direct corporate overheads	**67,912**	**64,985**	**41,107**	**-**	**(1,230)**	**(54,056)**	**190**	**118,908**
Corporate overheads directly allocated to segments	(4,187)	(3,209)	(2,028)	-	-	9,424	-	-
Share-based compensation	-	-	-	-	-	12,975	-	12,975
Adjusted EBITDA	**63,725**	**61,776**	**39,079**	**-**	**(1,230)**	**(31,657)**	**190**	**131,883**

7 Segment Information (continued)

Year ended 31 December 2009:	**Drilling, Workover & IPM**	**Technology Services**	**Formation Evaluation**	**Equipment Manufacturing**	**Other**	**Corporate**	**Intersegment Eliminations**	**Total**
Continuing operations								
Sales external	339,818	145,958	197,071	-	16,612	-	-	699,459
Sales to other operating segments	165	6,838	5	-	5,574	-	(12,582)	-
Total sales	**339,983**	**152,796**	**197,076**	**-**	**22,186**	**-**	**(12,582)**	**699,459**
Cost of sales	(332,678)	(114,535)	(160,780)	-	(21,043)	-	13,266	(615,770)
Impairment of property, plant and equipment	(2,194)	-	(2,286)	-	-	-	-	(4,480)
Gross profit	**5,111**	**38,261**	**34,010**	**-**	**1,143**	**-**	**684**	**79,209**
Selling, general and administrative expenses	(26,125)	(18,724)	(23,792)	-	(9,826)	(48,440)	(375)	(127,282)
Goodwill impairment	-	-	-	-	(14,191)	-	-	(14,191)
(Loss) gain from disposal of property, plant and equipment and Intangible assets	(2,263)	610	(150)	-	321	(22)	(525)	(2,029)
Gain from disposal of subsidiaries	-	-	-	-	10,195	-	-	10,195
Operating (loss) profit	**(23,277)**	**20,147**	**10,068**	**-**	**(12,358)**	**(48,462)**	**(216)**	**(54,098)**
Discontinued operations	**-**	**-**	**-**	(19,001)	-	(5,044)	(393)	(24,438)
Reconciliation of operating (loss) profit to the adjusted EBITDA								
Operating (loss) profit from continuing operations	**(23,277)**	**20,147**	**10,068**	**-**	**(12,358)**	**(48,462)**	**(216)**	**(54,098)**
Depreciation of property, plant and equipment	39,465	20,381	32,352	-	266	2,547	-	95,011
Amortization of intangible assets	10,213	6,783	11,541	-	4,982	73	-	33,592
Impairment of property, plant and equipment	2,194	-	2,286	-	-	-	-	4,480
Goodwill impairment	-	-	-	-	14,191	-	-	14,191
Loss (profit) from disposal of property, plant and equipment and intangible assets	2,263	(610)	150	-	(321)	22	525	2,029
Gain on disposal of subsidiaries	-	-	-	-	(10,195)	-	-	(10,195)
EBITDA before allocation of direct corporate overheads	**30,858**	**46,701**	**56,397**	**-**	**(3,435)**	**(45,820)**	**309**	**85,010**
Corporate overheads directly allocated to segments	(5,146)	(3,860)	(3,642)	-	(836)	13,484	-	-
Share-based compensation	-	-	-	-	-	8,509	-	8,509
Adjusted EBITDA	**25,712**	**42,841**	**52,755**	**-**	**(4,271)**	**(23,827)**	**309**	**93,519**

7 Segment Information (continued)

Segment information related to the Group's financial position as at 31 December 2010 and 2009:

	Drilling, Workover & IPM	Technology Services	Formation Evaluation	Equipment Manufacturing	Other	Corporate	Intersegment Eliminations	Total
At 31 December 2010:								
Total assets	313,149	355,096	311,158	44,724	7,987	1,117,739	(1,308,338)	841,515
Total liabilities	138,756	126,908	68,235	4,176	8,866	332,515	(296,223)	383,233
Year ended 31 December 2010:								
Additions to non-current assets	15,574	19,146	15,378	-	1	321	-	50,420

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

7 Segment Information (continued)

In 2010 and 2009, the Group earned its external revenues by its geographical segments as follows:

	Year ended 31 December:	
	2010	**2009**
Russia	744,774	621,567
Other countries	48,957	77,892
Total external sales	**793,731**	**699,459**

At 31 December 2010 and 2009, the Group had its goodwill and intangible assets, property, plant and equipment and investments in associates by their geographical segments as follows:

	31 December:	
	2010	**2009**
Russia	364,134	442,145
Other countries	41,274	54,455
Total property, plant and equipment, goodwill and intangible assets, and investments in associates	**405,408**	**496,600**

In 2010, the Group earned transaction revenues from continuing operations each exceeding 10 percent of the Group's consolidated revenues with two major customers in the amounts of $155.0 million and $ 126.9 million reported by the Group's drilling, workover and IPM, technology services, formation evaluation.

In 2009, the Group earned transaction revenues each exceeding 10 percent of the Group's consolidated revenues, with three major customers in the amounts of $173.9 million, 117.3 million and $97.1 million reported by the Group's drilling, workover and IPM, technology services, formation evaluation and equipment manufacturing.

8 Cost of Sales

	Year ended 31 December:	
	2010	**2009**
Services	243,719	211,226
Employee costs (including mandatory social contributions of $31.0 million and $28.5 million for 2010 and 2009, respectively)	212,229	192,612
Materials and supplies	93,152	90,474
Depreciation of property, plant and equipment	82,571	86,590
Amortization of intangible assets	4,070	33,059
Other	1,661	1,809
Total cost of sales	**637,402**	**615,770**

9 Selling, General and Administrative Expenses

	Year ended 31 December:	
	2010	**2009**
Employee costs (including mandatory social contributions of $ 5.7 million and $6.6million for 2010 and 2009, respectively)	64,317	63,001
Services	37,232	32,182
Share-based compensation expense	12,975	8,509
Taxes, other than income tax	6,407	7,601
Business combination transaction and restructuring costs (note 5)	3,701	-
Depreciation of property, plant and equipment	3,160	8,421
Transportation expenses	2,577	3,323
Inventories impairment and obsolete stock write-offs	2,205	1,971
Receivables impairment, bad debt and other write-offs	(1,727)	(4,169)
Amortization of intangible assets	644	533
Other	76	5,910
Total selling, general and administrative expenses	**131,567**	**127,282**

10 Engineering and Services Contracts

The Group sales include revenues from engineering and service contracts of $488.2 million and $443.7 million for the years ended 31 December 2010 and 2009, respectively. The status of engineering and service contracts in progress at 31 December 2010 and 2009:

	31 December:	
	2010	**2009**
Contract costs incurred from inception	579,959	419,703
Contract profits (less recognized losses) incurred from inception	81,331	54,283

The recognition of the revenue from engineering and service contracts uncompleted as of 31 December 2010 is primarily based on an assumption of profit margins expected to be earned from inception to completion of each contract. If such expected profit margins reduced by one percent, the revenue from such contracts would reduce by $3.0 million.

11 Cash and Cash Equivalents

At 31 December 2010 and 2009, the cash and cash equivalents of $54.8 million and $37.3 million, respectively were readily convertible to the full amounts of cash and cash equivalents amounts without any restriction in their use.

12 Trade and Other Receivables

	31 December:	
	2010	**2009**
Financial receivables:		
Trade receivables (net of allowances for doubtful accounts of $3.4 million and $3.1 million at 31 December 2010 and 2009, respectively)	50,237	45,138
Amounts due from customers for engineering and service contract work (net of allowances for doubtful accounts of $9.1 million and $12.6 million at 31 December 2010 and 2009, respectively)	123,439	170,757
Total financial receivables	**173,676**	**215,895**
Non-financial receivables:		
VAT recoverable	9,186	6,732
Advances to suppliers	19,108	10,584
Prepaid expenses and other receivables	40,178	27,194
Total non-financial receivables	**68,472**	**44,510**
Total trade and other receivables	**242,148**	**260,405**

13 Inventories

	31 December:	
	2010	**2009**
Materials and supplies (net of allowances for obsolete materials $4.9 million and $5.3 million at 31 December 2010 and 2009, respectively)	65,329	77,960
Work in progress (net of allowances for obsolete materials of $0.2 million and $2.7 million at 31 December 2010 and 2009, respectively)	3,523	7,807
Finished goods (net of allowances for obsolete materials of $1.6 million and $2.8 million at 31 December 2010 and 2009, respectively)	10,630	12,771
Total inventories	**79,482**	**98,538**

14 Property, Plant and Equipment

	Rigs	Land and Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost						
At 31 December 2008	**109,983**	**148,911**	**349,504**	**77,627**	**46,570**	**732,595**
Additions	1,231	1,861	26,784	1,668	1,993	33,537
Disposals	(8,332)	(1,218)	(17,801)	(5,309)	(1,755)	(34,415)
Reclassification	(933)	616	14,194	(1,262)	(12,615)	-
Exchange differences	(3,288)	(7,161)	(15,433)	(3,644)	(1,797)	(31,323)
At 31 December 2009	**98,661**	**143,009**	**357,248**	**69,080**	**32,396**	**700,394**
Additions	2,938	2,536	35,938	5,300	2,196	48,908
Acquisitions	335	900	13,895	4,242	430	19,802
Disposals	(1,397)	(1,864)	(26,786)	(4,528)	(498)	(35,073)
Transfer to discontinued operations	-	(50,814)	(30,748)	(444)	(1,393)	(83,399)
Exchange differences	(710)	(752)	(2,036)	(471)	(105)	(4,074)
At 31 December 2010	**99,827**	**93,015**	**347,511**	**73,179**	**33,026**	**646,558**
Accumulated depreciation						
At 31 December 2008	**(48,970)**	**(16,502)**	**(119,309)**	**(28,024)**	**(9,724)**	**(222,529)**
Depreciation	(13,761)	(7,348)	(63,113)	(11,607)	(5,991)	(101,820)
Impairment	(2,194)	(17,034)	(6,802)	(128)	(138)	(26,296)
Disposals	4,113	268	14,121	3,050	1,182	22,734
Reclassification	7,045	1,163	(8,603)	1,682	(1,287)	-
Exchange differences	819	(342)	2,873	1,040	342	4,732
At 31 December 2009	**(52,948)**	**(39,795)**	**(180,833)**	**(33,987)**	**(15,616)**	**(323,179)**
Depreciation	(12,194)	(4,602)	(54,498)	(9,354)	(5,083)	(85,731)
Impairment	(430)	(10,106)	(2,840)	(145)	(22)	(13,543)
Disposals	1,363	1,364	21,075	3,091	437	27,330
Transfer to discontinued operations	-	22,141	11,959	293	559	34,952
Exchange differences	420	190	1,242	239	69	2,160
At 31 December 2010	**(63,789)**	**(30,808)**	**(203,895)**	**(39,863)**	**(19,656)**	**(358,011)**
Net book value						
At 31 December 2009	**45,713**	**103,214**	**176,415**	**35,093**	**16,780**	**377,215**
At 31 December 2010	**36,038**	**62,207**	**143,616**	**33,316**	**13,370**	**288,547**

At 31 December 2010 and 2009, certain property, plant and equipment with a net book value of $5.9 million and $121.3 million, respectively, were pledged as collateral for the Group's accounts payable and borrowings (notes 17 and 19).

At 31 December 2010, the Group impaired certain property, plant and equipment in the total amount of $13.5 million of which $9.1 million, $3.3 million and $1.1 million related to certain property, plant and equipment of Integra Geophysics, Technology services and Integra Drilling, respectively. At 31 December 2009, the Group impaired a total of $26.3 million related to: (a) Stromenftemash's property, plant and equipment for a total amount of $21.8 million, (b) some drilling rigs used by the Group's drilling, workover and IPM segment for a total amount of $2.2 million, and (c) miscellaneous property, plant and equipment used by the Group's formation evaluation segment for a total amount of $2.3 million. At 31 December 2010 and 2009, the impairment of the property, plant and equipment was expensed in the profit or loss component of the consolidated statement of comprehensive income.

15 Goodwill and Intangible Assets

	Goodwill	Long-term customer / supplier relationships	Trademarks	Order backlog	Software	Other	Total
Cost							
At 31 December 2008	**116,946**	**161,863**	**13,713**	**17,108**	**7,818**	**7,963**	**325,411**
Additions	-	-	-	-	1,430	23	1,453
Disposals	-	(141,306)	(1,299)	(16,714)	(16)	(47)	(159,382)
Impairment	(18,925)	-	-	-		-	(18,925)
Exchange differences	(3,455)	(4,733)	(466)	(394)	(149)	(217)	(9,414)
At 31 December 2009	**94,566**	**15,824**	**11,948**	**-**	**9,083**	**7,722**	**139,143**
Additions		-	7	-	843	544	1,394
Acquisitions	1,271	-	-	-	7,102	-	8,373
Transfer to discontinued operations	(7,218)	-	(11,102)	-	(1,425)	(1,892)	(21,637)
Disposals	-	(15,779)	(4)	-	(1,763)	(421)	(17,967)
Exchange differences	(618)	(45)	27	-	(78)	(60)	(774)
At 31 December 2010	**88,001**	**-**	**876**	**-**	**13,762**	**5,893**	**108,532**
Accumulated amortization							
At 31 December 2008	**-**	**(125,217)**	**(8,316)**	**(16,961)**	**(3,593)**	**(4,356)**	**(158,443)**
Amortisation	-	(32,494)	(4,630)	(261)	(2,052)	(299)	(39,736)
Disposals	-	141,306	1,299	16,714	13	39	159,371
Exchange differences	-	3,192	139	508	10	85	3,934
At 31 December 2009	**-**	**(13,213)**	**(11,508)**	**-**	**(5,622)**	**(4,531)**	**(34,874)**
Amortisation	-	(2,755)	(149)	-	(1,334)	(476)	(4,714)
Transfer to discontinued operations	-	2	10,945	-	620	1,872	13,439
Disposals	-	15,779	2	-	1,751	155	17,687
Exchange differences	-	187	(27)	-	40	36	236
At 31 December 2010	**-**	**-**	**(737)**	**-**	**(4,545)**	**(2,944)**	**(8,226)**
Net carrying amount							
At 31 December 2009	**94,566**	**2,611**	**440**	**-**	**3,461**	**3,191**	**104,269**
At 31 December 2010	**88,001**	**-**	**139**	**-**	**9,217**	**2,949**	**100,306**

15 Goodwill and Intangible Assets (continued)

Goodwill. At 31 December 2010 and 2009, the carrying value of goodwill was attributed to the Group's cash-generating units ("CGU") as follows:

	31 December:	
Cash generating unit	**2010**	**2009**
Workover	24,716	24,907
Integra Geophysics	21,764	20,673
Smith Siberian Services	20,265	20,420
Drilling Tools	8,929	8,998
GeoPrime	7,343	7,381
URBO	-	7,165
Azimuth Energy Services	4,984	5,022
Total	**88,001**	**94,566**

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

The future cash flows were discounted using pre-tax discount rates ranging between 15.4 and 17.2 percent among each CGU. The discount rate was derived from the Group's post-tax weighted average cost of capital, which in turn was calculated using appropriate market information for Russian and international companies operating in similar industries. The five-year business plans for each CGU, which are annually approved by the Group's senior management, were the source of information for determination of the various values-in-use. The cash flow forecasts beyond the five-year period were extrapolated using a growth rate linked to expected general inflation in the Russian Federation.

The key assumptions to which the calculation of value-in-use is most sensitive are the adjusted EBITDA margins, discount rate, capital expenditures made to sustain the production capacity and the terminal value. The Group used the adjusted EBITDA margins consistent with the actual performance achieved in the past and adjusted for expected improvements in production efficiency of the existing capacity where appropriate. The discount rates were determined based on the external sources of information reflecting the market assessments of (a) time value of money, and (b) the risks specific to the Group for which the future cash flows were not adjusted at 31 December 2010. The Group assessed capital expenditures sufficient to maintain its production capacity existing at 31 December 2010 to termination date which is assumed as infinity to be consistent with the currently expected life of the petroleum industry. In order to assess the cash flows to infinity the Group used a perpetuity formula.

The Group determined that the estimated value-in-use of the other CGUs exceeded their assets' carrying amounts and no provision for goodwill impairment is recorded for such CGU's. Refer to the related disclosure in note 3. The value-in-use for the CGUs exceeded the carrying value of their net assets by at least 51.6 percent in aggregate. If the estimated adjusted EBITDA margins reduced by one percent the excess of the value-in-use over the carrying amount would reduce by at least 4.7 percent and the Group expects that value-in-use of each CGU's net assets should stay higher than their carrying amounts within a reasonable range of any of the key assumptions of the value-in-use calculations.

Goodwill relating to URBO was derecognized on disposal of the company. The other change in goodwill balances related to the change in the foreign exchange rates from 30.24 to 30.48 at 31 December 2009 and 2010, respectively.

Intangible assets. The Group had completely amortized its long-term customer / supplier relationships intangible asset by 31 December 2010. In 2009, the Group charged additional amortization of $26.9 million to reduce the carrying value of its long-term customer / supplier relationships to nil. In 2010, the Group accelerated the amortization of one of its trademarks with the carrying value of $2.6 million as of 31 December 2009 to a carrying value of nil as of 31 December 2010. In 2010 and 2009, the amounts of disposals include writing-off the fully amortized balances of the long-term customer and supplier relationships of $15.8 and $141.3 million, respectively, and the order backlog intangible assets of nil and $16.7 million, respectively.

16 Investments in Associates

	31 December:	
	2010	**2009**
Nizhnevartovskneftegeophyzika	12,012	10,604
Neftegeotechnology	2,469	2,437
Stavropolneftegeophyzika	2,074	2,075
Total investments in associates	**16,555**	**15,116**

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

	Year ended 31 December:	
	2010	**2009**
Carrying amount at the beginning of the year	15,116	16,446
Share of results of associates	1,559	(828)
Exchange differences	(120)	(502)
Carrying amount at the end of the year	**16,555**	**15,116**

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

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

	31 December:	
	2010	**2009**
Total assets	58,066	55,171
Total liabilities	17,006	14,491

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

	Year ended 31 December:	
	2010	**2009**
Total revenues	70,169	52,506
Total operating expenses	(68,218)	(53,860)
Operating profit (loss)	**1,951**	**(1,354)**
Interest expense, net	(672)	(189)
Income tax expense	(481)	(4)
Minority share	(16)	49
Profit (loss) for the year	**782**	**(1,498)**

17 Accounts Payable and Accrued Liabilities

	31 December:	
	2010	**2009**
Financial payables and accrued liabilities:		
Trade payables	32,243	38,889
Payables under contracts with customers for engineering and service contract work	52,554	94,890
Interest payable	957	3,158
Total financial payables and accrued liabilities	**85,754**	**136,937**
Non-financial payables and accrued liabilities:		
Accrued liabilities and other creditors	30,780	63,863
Advances from customers for engineering and service contract work	1,544	2,995
Advances from other customers	31,760	20,400
Total non-financial payables and accrued liabilities	**64,084**	**87,258**
Total accounts payable and accrued liabilities	**149,838**	**224,195**

At 31 December 2010 and 2009, the Group pledged certain property, plant and equipment against some of its accounts payable in the total amount of nil and $9.5 million (note 14).

18 Taxes

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

	Year ended 31 December:	
	2010	**2009**
Loss before income tax	(21,719)	(89,796)
Theoretical tax benefit at Russian statutory income tax rate of 20 percent	4,344	17,959
Effect of income taxed at rates lower than 20 percent	1,667	13,315
Effect of loss taxed at rates higher than 20 percent	-	(233)
Tax losses not expected to be utilized against future profits from overseas activities	(9,026)	(21,095)
Tax losses not expected to be utilized against future profits from domestic activities	(1,289)	(2,771)
Disposal of subsidiaries	-	2,117
Share-based compensation	(2,595)	(1,702)
Goodwill impairment	-	(2,838)
Non-tax deductible expenses and other	(7,271)	(9,396)
Total income tax expense	**(14,170)**	**(4,644)**

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.

18 Taxes (continued)

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

	31 December 2009	Acquisitions	Disposals of subsidiaries	Continuing operations of profit and loss	Discontinued operations of profit and loss	Transfer to discontinued operations	Effect of exchange differences	31 December 2010
Assets								
Inventories	2,364	-	375	(548)	(230)	153	(17)	2,097
Total current deferred income tax assets	**2,364**	**-**	**375**	**(548)**	**(230)**	**153**	**(17)**	**2,097**
Tax losses carried forward	12,366	**-**	**-**	(132)	3,174	(1,638)	(105)	13,665
Other	6,322	**-**	(1,634)	(592)	725	(30)	(43)	4,748
Total non-current deferred income tax assets	**18,688**	**-**	**(1,634)**	**(724)**	**3,899**	**(1,668)**	**(148)**	**18,413**
Liabilities								
Accounts receivable	(2,260)	-	389	1,185	(203)	(43)	12	(920)
Engineering and service contracts	(13,014)	-	1,755	(1,195)	2663	313	88	(9,390)
Total current deferred income tax liabilities	**(15,274)**	**-**	**2,144**	**(10)**	**2,460**	**270**	**100**	**(10,310)**
Property, plant and equipment	(15,195)	318	(403)	1,682	108	(806)	110	(14,186)
Intangible assets	(898)	-	(100)	617	(13)	(26)	5	(415)
Other	(2,345)	-	-	134	(21)	84	18	(2,130)
Total non-current deferred income tax liabilities	**(18,438)**	**318**	(503)	**2,433**	**74**	**(748)**	**133**	**(16,731)**
Net deferred income tax liability	**(12,660)**	**318**	**382**	**1,151**	**6,203**	**(1,993)**	**68**	**(6,531)**

18 Taxes (continued)

Movements in deferred income tax assets and liabilities during the year ended 31 December 2009 were as follows:

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

18 Taxes (continued)

The deferred tax on the temporary differences associated with undistributed earnings of its subsidiaries amounted to $90.7 million and $109.8 million as of 31 December 2010 and 2009, 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 2010 and 2009, the Group recognized deferred tax assets in the amounts of $13.7 million and $12.4 million, respectively, from accumulated tax losses available for carry forward and expiring after 2020. Additionally, for the years 2010 and 2009, the Group did not recognise deferred income tax assets on tax loss carry-forwards totalled $10.3 million and $23.9 million from continuing operations, respectively, of which $9.0 million and $21.1 million, respectively, relate to the tax losses that do not have expiration dates and $1.3 million and $2.8 million, respectively, relate to the tax losses expiring after 2020. Management does not believe that such tax losses can be used to reduce taxes on income in the foreseeable future. Accordingly, no related deferred tax asset was recognized in these consolidated financial statements

The change in deferred income tax assets and liabilities for the years 2010 and 2009, described above, reflect the net deferred income tax assets and net deferred income tax liabilities of separate companies of the Group. On the consolidated statement of financial position, the consolidated net deferred income tax assets are disaggregated from the consolidated net deferred income tax liabilities as follows:

	31 December:	
	2010	**2009**
Total deferred tax assets of separate Group companies	7,699	6,225
Total deferred tax liabilities of separate Group companies	(14,230)	(18,885)
Net deferred income tax liability	**(6,531)**	**(12,660)**

Other taxes payable. Other taxes payable at 31 December 2010 and 2009 were as follows:

	31 December:	
	2010	**2009**
Value-added tax	38,030	26,774
Mandatory social contributions	3,511	3,563
Personal income tax	1,995	1,810
Property tax	1,112	1,698
Other taxes	425	1,113
Total other taxes payable	**45,073**	**34,958**

19 Borrowings

	31 December 2010			31 December 2009		
	Amounts due within one year	**Amounts due after more than one year**	**Total**	**Amounts due within one year**	**Amounts due after more than one year**	**Total**
Bonds	4,843	-	4,843	-	87,256	87,256
Bank loans	30,550	130,956	161,506	69,787	55,067	124,854
Other	-	151	151	440	151	591
Total borrowings	**35,393**	**131,107**	**166,500**	**70,227**	**142,474**	**212,701**

The following tables summarize the Group's current and non-current borrowings by major currency and weighted average fixed and floating interest rates at 31 December 2010 and 2009.

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

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

19 Borrowings (continued)

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

	31 December:	
	2010	**2009**
Sberbank	-	26,778
Other	-	6,731
Total short-term borrowings	**-**	**33,509**
Add: current portion of long-term borrowings	35,393	36,718
Total current borrowings	**35,393**	**70,227**

Sberbank. In 2008, the Group entered into a Russian rouble-denominated loan facility agreements with Sberbank under which the outstanding balance was RR 500.0 million ($16.5 million as of 31 December 2009). The loan bore a fixed annual interest at a rate of 16.0 percent and was fully repaid in July 2010.

In June 2009, the Group entered into a loan facility agreement with Sberbank under which the loan balance was RR 309.9 million at 31 December 2009. The loan facility bore a fixed annual interest at a rate of 18.5 percent payable monthly and was fully repaid in April 2010.

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

	31 December:	
	2010	**2009**
VTB Bank	25,633	-
Alfa bank	72,530	-
Sberbank	63,343	2,393
EBRD syndicated loan	-	89,392
Bonds	4,843	87,256
Other	151	151
Total long-term borrowings	**166,500**	**179,192**
Less: current portion of long-term borrowings	(35,393)	(36,718)
Total non-current borrowings	**131,107**	**142,474**

VTB Bank. In April 2010, the Group entered into a renewable US dollar-denominated loan facility with VTB Bank (Germany). The facility bore a floating interest payable quarterly at a rate consisting of 7.0 percent fixed margin and variable LIBOR rate, a total interest of 7.3 percent was at 31 December 2010. From January 2011 the margin was reduced to 5.75 percent. At 31 December 2010, the loan balance was $25.6 million, net of the borrowing costs of $0.4 million, and the maximum amount of the credit line was $50.0 million maturing in November 2012.

Alfa bank. In July 2010, the Group entered into a Russian rouble-denominated loan facility with Alfa bank under which the outstanding amount at 31 December 2010 was RR 2.2 billion ($72.5 million at 31 December 2010). The loan bore a fixed annual interest at a rate of 11.8 percent from inception to January 2011 and bears 11.5 percent thereafter, payable monthly. The loan is repayable in installments from November 2011 to March 2012.

Sberbank. In October 2010, the Group entered into a Russian rouble-denominated renewable loan facility with Sberbank for a maximum amount of RR 600.0 million ($19.7 million at 31 December 2010) of which RR 589.1 million ($19.3 million at 31 December 2010) was outstanding at 31 December 2010. The loan bears a fixed annual interest at a rate of 9.5 percent payable monthly and matures in October 2013.

19 Borrowings (continued)

Sberbank (continued). In April 2010, the Group entered into a Russian rouble-denominated loan facility with Sberbank under which at 31 December 2010 the remaining balance of the loan was RR 1.32 billion ($43.2 million at 31 December 2010) net of borrowing costs RR 22.7 million ($0.8 million at 31 December 2010). The loan facility bore a fixed annual interest at a rate of 12.5 percent until November 2010 and bears a fixed annual interest at a rate of 10.25 percent thereafter payable monthly. The loan is repayable in certain instalments from March 2012 to April 2013. At 31 December 2010 and 2009, the Group had certain of its property, plant and equipment with carrying value equivalent to $3.8 million and nil, respectively, pledged as collateral to the loan (note 14).

In December 2007, the Group entered into a Russian rouble-denominated loan facility with Sberbank in the total amount of RR 115.5 million ($3.8 million at 31 December 2010) repayable in instalments till April 2011 and the outstanding balance at 31 December 2010 was RR 24.1 million ($0.8 million at 31 December 2010). The loan bears an annual interest at a rate of up to 16.0 percent payable monthly. At 31 December 2010 and 2009, the Group had certain of its property, plant and equipment with carrying value equivalent to $2.1 million and $2.4 million, respectively, pledged as collateral to the loan (note 14).

EBRD syndicated loan. In December 2008, the Group entered into a loan agreement with the European Bank for Reconstruction and Development ("EBRD"), which acted as a lender of a record on behalf of a consortium of certain banks. In 2009, the Group received $250.0 million and prepaid the loan in the total amount of $156.7 million. At 31 December 2009, the loan balance of $89.4 million was disclosed net of unamortized borrowing costs of $3.9 million. The remaining loan balance of $93.3 million was fully prepaid in April 2010.

In April 2009, the Group entered into an interest rate swap transaction agreement with BNP Paribas under which the Group effectively converted the floating interest rates under the EBRD loan into fixed rates. Immediately following the completion of the full loan prepayment in April 2010 the Group terminated the swap transaction.

Bonds. In December 2006, the Group issued Russian rouble-denominated bonds with a total nominal value of RR 3.0 billion. In 2009, the Group repurchased some of the bonds with the total nominal value of RR 361.0 million and for the remaining bonds in the total nominal amount of RR 2.6 billion it increased the fixed interest rate from 10.7 percent to 16.75 percent per annum payable semi-annually. In July 2010, the Group repurchased bonds with the total nominal value of RR 2.5 billion at 110.1 percent of the nominal value. At 31 December 2010, the bonds in the total nominal amount of RR 147.6 million ($4.8 million at 31 December 2010) remained outstanding. The bonds mature in November 2011.

Finance expense. Finance expense for 2010 and 2009 comprised the following:

	Year ended 31 December:	
	2010	**2009**
Short-term borrowings		
Alfa-Bank	4,020	93
Sberbank	1,501	4,136
ABN AMRO & ING	-	900
Amsterdam Trading Bank	-	265
BNP-Paribas	1,063	-
Other	3,452	4,034
Total finance expense on short-term borrowings	**10,036**	**9,428**
Long-term borrowings		
EBRD	8,614	30,684
Bonds	8,838	13,475
Sberbank	8,342	-
VTB bank	1,556	-
Other	47	633
Total finance expense on long-term borrowings	**27,397**	**44,792**
Total finance expense	**37,433**	**54,220**

20 Share Capital

The following table summarizes the change in share capital for the year ended 31 December 2010 and 2009 as follows:

	Number of common shares:		Share capital and share premium
	Class A	**Class B**	
Balance at 31 December 2008	**6,416,125**	**740,000**	**885,664**
Sale of Class A common shares for cash	1,900,000	-	88,525
Share-based compensation from issuance of Class A common shares to management	5,000	-	202
Share-based compensation from stock option and RSU plan (note 21)	-	-	8,307
Exercise of restricted share units (note 21)	112,756	-	-
Cancellation of shares	(3,000)	-	-
Balance at 31 December 2009	**8,430,881**	**740,000**	**982,698**
Share-based compensation from stock option and RSU plan (note 21)	-	-	12,755
Share-based compensation from issuance of Class A common shares to management	5,000		220
Exercise of restricted share units (note 21)	124,589	-	-
Balance at 31 December 2010	**8,560,470**	**740,000**	**995,673**

Class A common shares. Each Class A common share has a nominal value of $0.0001 (one ten-thousandth of one US dollar). The holders of Class A common shares have a residual interest in the assets of the Group after deducting all of its liabilities and have voting rights equal to the number of shares held.

In October 2010, the Group adopted a buy-back program to repurchase the Global Depository Receipts ("GDR") of Integra Group traded on the London Stock Exchange for a total amount of up to $25.0 million. Upon completion of the program the GDR are to be converted into the Class A common shares and simultaneously cancelled. The Group had purchased 1,966,443 GDR for $6.2 million and 6,404,071 GDR for $22.1 million cumulatively by 31 December 2010 and the date of issuance of these consolidated financial statements, respectively.

Class B common shares. The holder of 740,000 Class B common shares, the beneficiary of whom is a director of the Group, is entitled to cast a vote on each share equal to that of one Class A common share on all matters submitted to a vote of Class A common shareholders. Class B common shares are convertible into Class A common shares upon exercise (note 21).

Issuance of Class A common shares to management. In each of 2010 and 2009, the Group issued 5,000 Class A common shares to certain management as compensation for services performed with the total grant date fair value of $0.2 million at each date.

Issuance of Class A common shares from exercise of restricted share units. At 31 December 2010 and 2009, a total of 124,589 and 112,756 restricted share units vested for their exercise one-for-one into the Class A common shares (note 21).

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

21 Share-based Compensation

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

	Number of RSU
Granted on inception	364,500
Vested	(112,756)
31 December 2009	**251,744**
Granted	94,500
Vested	(124,589)
Unvested forfeited	(28,333)
31 December 2010	**193,328**

The total fair value of the RSU granted in 2010 was $5.8 million to be accrued within three years. In December 2009, the Group cancelled 215,250 stock options of its certain employees and granted 364,500 RSU in exchange and the incremental total fair value of the RSU amounted $16.3 million to be accrued over the RSU vesting periods of up to three years in addition to the unrecognized amount of $4.9 million of the cancelled options to be accrued over the remainder of their original vesting periods of up to four years.

In 2010 and 2009, the Group recognized the RSU expense of $8.9 million and $5.0 million as share-based compensation expense within the selling, general and administrative expenses.

2005 Stock Option Plan and Class B common shares. In 2010 and 2009, the Group's Board of Directors did not authorize any issuance of options to purchase the Group's Class A common shares. At 31 December 2010 and 2009, a total of 621,467 and 598,167 options, respectively, remained available to grant. The options granted in 2010 vest over periods of up to three years and are exercisable for ten years from the grant date. Vesting provisions differ by award.

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

	Weighted average exercise price in US dollars per share	**Number of Options**
Options outstanding at 31 December 2008	**$104.25**	**1,656,150**
Granted	62.40	8,000
Unvested forfeited	230.41	(180,237)
Vested expired unexercised	258.09	(268,097)
Options outstanding at 31 December 2009	**$51.35**	**1,215,816**
Granted	58.20	11,000
Unvested forfeited	278.00	(667)
Vested expired unexercised	150.36	(33,633)
Options outstanding at 31 December 2010	**$48.50**	**1,192,516**

21 Share-based Compensation (Continued)

In 2010 and 2009, the total grant date fair value of stock options granted were $0.2 million and $0.4 million, respectively.

	Options outstanding			Options exercisable	
Range of exercise prices (in US dollars per share)	**Number of options outstanding**	**Weighted-average remaining contractual life (years)**	**Weighted average exercise price ($)**	**Options exercisable at period end**	**Weighted average exercise price ($)**
$4.00 - $34.00	353,016	4.6	$25.25	353,016	$25.25
$34.39 (Class B common shares)	740,000	5.0	34.39	740,000	34.39
$46.20 - $382.00	99,500	7.0	235.90	88,167	257.81
	1,192,516		**$48.50**	**1,181,183**	**$48.33**

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 2010 and 2009 was $21.09 and $46.50 per option, respectively. The significant inputs into the option valuation model were as follows.

	Awards granted during the Year ended 31 December:	
	2010	**2009**
Share price	$44.0 - $69.0	$62.40
Dividend yield	-	-
Expected volatility	60%	90% - 106%
Risk-free interest rate	1.6% - 2.5%	2.9% - 3.2%
Expected life	1 – 3 years	5 – 8 years

The Black-Scholes option valuation model is primarily sensitive to the expected volatility of the underlying share price. If the volatility increased by 10 percent, the weighted average fair value of the employee stock options granted in 2010 would increase from $21.09 to $24.41.

22 Loss per Share

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

Year ended 31 December 2010:	**Continuing operations**	**Discontinued operations**	**Total**
Numerator:			
Loss attributable to shareholders of Integra Group for basic and diluted loss per share	(33,844)	(7,220)	(41,064)
Denominator:			
Weighted average number of common shares outstanding during the period, basic and diluted	8,441,619	8,441,619	8,441,619
Basic and diluted loss per share (in US dollars per share)	(4.01)	(0.86)	(4.87)

22 Loss per Share (Continued)

Year ended 31 December 2009:	**Continuing operations**	**Discontinued operations**	**Total**
Numerator:			
Loss attributable to shareholders of Integra Group for basic and diluted loss per share	(94,621)	(24,438)	(119,059)
Denominator:			
Weighted average number of common shares outstanding during the period, basic and diluted	7,009,029	7,009,029	7,009,029
Basic and diluted loss per share (in US dollars per share)	(13.50)	(3.49)	(16.99)

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

23 Related Party Transactions

The related parties with whom the Group had significant transactions during the year ended 31 December 2010 and 2009, or had significant balances outstanding at 31 December 2010 and 2009 include, the Group's associates, certain third parties related through a common directorship and certain affiliates of the Chairman of the Group's Board of Directors and of a director of the Group.

	Year ended 31 December:	
	2010	**2009**
Sales of production services by the Group to related parties	25	2,823
Purchase of administrative services by the Group from related parties	(300)	(300)
Purchase of materials by the Group	-	(160)
Other expense	-	(192)

	31 December	
	2010	**2009**
Trade receivables, net	35	176
Trade payables, current	305	-
Loan provided to a director	2,900	-

Third parties related through common directorship. In 2010 and 2009, the Group had the following transactions with certain third parties: (a) the sale of oilfield services for a total amount of nil and $2.8 million, respectively, and (b) the purchase of materials and property, plant and equipment and services used by the Group in its operating activities for a total amount of nil and $0.2 million, respectively.

Management compensation. In 2010 and 2009, the Group's senior management team comprised twelve and eleven individuals, respectively, whose compensation totalled $16.9 million and $13.6 million, respectively, including salary, bonuses and other benefits of $8.6 million and $6.3 million, respectively, and share-based compensation of $8.3 million and $7.3 million, respectively.

Administrative services contract. In each of 2010 and 2009, the Group incurred expenses of $0.3 million under an administrative services contract with an affiliate of the Chairman of the Board of Directors.

Loan to a director of the Group. In October 2010, the Group provided a loan to a company, effectively fully owned by a director of the Group, amounting $2.9 million. The loan bore a floating annual interest consisting of fixed margin of 15.0 percent and variable one year LIBOR rate (a total of 15.8 percent at 31 December 2010) payable on the loan maturity and was pledged by the 740,000 Class B common shares (note 20) and personally guaranteed by the director. The loan and the interest were repaid in full in February 2011.

24 Contingencies, Commitments and Operating Risks

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

Russian Federation. The Russian Federation continues to display certain characteristics of an emerging market, including relatively high inflation and high interest rates. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

Contractual commitments and guarantees. In the normal course of business, the Group entered into contracts for the purchase of property, plant and equipment and other assets. At 31 December 2010 and 2009, the Group had unpaid contractual commitments of $10.8 million and $14.8 million, respectively.

Employee benefits. A number of the Group operating entities have existing contractual commitments under collective agreements requiring them to provide certain social and other benefits to their employees. The terms and conditions of each collective agreement are specific to each particular operating entity and actual annual outlays can vary from entity to entity. At 31 December 2010 and 2009, the Group recorded a liability in the amount of $1.3 million and $0.9 million, respectively, of its obligation for one-time retirement grants provided for in the collective agreements in these consolidated financial statements.

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

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

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

Legal proceedings. At 31 December 2010, the Group was involved in a number of court proceedings, both as a plaintiff and a defendant, arising in the ordinary course of business. The Group management believes that there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations or financial position of the Group and which have not otherwise been accrued or disclosed in these consolidated financial statements.

25 Subsequent Events

Disposal of Stromneftemash. In April 2011, the Group sold its subsidiary Stromneftemash for a consideration in the form of GDR and share options to acquire Integra Group's Class A common shares with the total fair value of $6.6 million.

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