Integra Group

Consolidated Financial Statements
as of and for the Year Ended 31 December 2012

Ernst & Young

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Independent auditors' report

To the Shareholders and Board of Directors of Integra Group:

We have audited the accompanying consolidated financial statements of Integra Group and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (the "consolidated financial statements").

Management's responsibility for the consolidated financial statements

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.

Auditors' responsibility

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

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 auditors' 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 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.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

18 April 2013

Contents

Consolidated Statement of Comprehensive Income 4
Consolidated Statement of Financial Position 5
Consolidated Statement of Cash Flows 6
Consolidated Statement of Changes in Equity 7

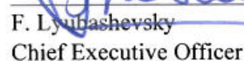
Notes to the Consolidated Financial Statements

1 General Information 8
2 Summary of Significant Accounting Policies 9
3 Critical Estimates and Judgments 17
4 Financial Risk Management 18
5 Adjustments to Purchase Accounting of Siam 22
6 Discontinued Operations, Cessation of Control of IGSS and Dividend in Specie 23
7 Segment Information 25
8 Cost of Sales 29
9 Selling, General and Administrative Expenses 29
10 Engineering and Services Contracts 30
11 Cash and Cash Equivalents 30
12 Trade and Other Receivables 30
13 Inventories 30
14 Property, Plant and Equipment 31
15 Goodwill and Other Intangible Assets 32
16 Investments in Associates 34
17 Accounts Payable and Accrued Liabilities 35
18 Taxes 35
19 Borrowings 39
20 Share Capital 40
21 Share-based Compensation 41
22 (Loss) Earnings per Share 43
23 Related Party Transactions 43
24 Contingencies, Commitments and Operating Risks 44
25 Subsequent Events 45

	Note	Year ended 31 December: 2012	2011*
Continuing operations			
Sales of services		568,626	560,556
Sales of goods		54,366	55,217
Total sales	7	**622,992**	**615,773**
Cost of sales	8	(563,635)	(504,978)
Impairment of property, plant and equipment	14	-	(1,207)
Gross profit		**59,357**	**109,588**
Selling, general and administrative expenses	9	(91,256)	(98,167)
Goodwill impairment	15	(29,096)	-
Loss from disposal of property, plant and equipment and intangible assets		(1,801)	(1,890)
Operating (loss) profit		**(62,796)**	**9,531**
Finance income		1,530	588
Finance expense	19	(23,597)	(21,092)
Exchange gain		1,088	919
Share of results of associates	16	(720)	(891)
Loss before income tax		**(84,495)**	**(10,945)**
Income tax (expense) benefit	18	(137)	18,892
(Loss) profit for the period from continuing operations		**(84,632)**	**7,947**
Discontinued operations			
(Loss) profit from discontinued operations	6	**(108,782)**	**37,611**
(Loss) profit for the period		**(193,414)**	**45,558**
(Loss) profit from continuing operations attributable to:			
Shareholders of Integra Group		**(84,512)**	**8,192**
Non-controlling interest		(120)	(245)
Loss from discontinued operations attributable to:			
Shareholders of Integra Group		**(108,782)**	**42,387**
Non-controlling interest		-	(4,776)
(Loss) profit attributable to:			
Shareholders of Integra Group		**(193,294)**	**50,579**
Non-controlling interest		(120)	(5,021)
(Loss) earnings per share attributable to shareholders of Integra Group (in US dollars per share):			
(Loss) earnings from continuing operations per share, basic	22	(10.09)	0.98
(Loss) earnings from continuing operations per share, diluted	22	(10.09)	0.92
(Loss) earnings from discontinued operations per share, basic	22	(13.0)	5.05
(Loss) earnings from discontinued operations per share, diluted	22	(13.0)	4.74
Weighted average shares outstanding, basic	22	8,375,023	8,396,000
Weighted average shares outstanding, diluted	22	8,375,023	8,941,623
(Loss) profit for the period		(193,414)	45,558
Other comprehensive income (loss)			
Exchange gain (loss) from translation to presentation currency		11,275	(24,744)
Total comprehensive (loss) income for the period		**(182,139)**	**20,814**
Comprehensive (loss) income attributable to:			
Shareholders of Integra Group of continuing operations		**(73,954)**	**(12,741)**
Shareholders of Integra Group of discontinued operations		**(108,782)**	**40,943**
Non-controlling interest of continuing operations		597	(245)
Non-controlling interest of discontinued operations		-	(7,143)

* Re-presented for the impact of discontinued operations (note 4), as required by IFRS 5

Approved for issue and signed on behalf of the Board of Directors on 18 April 2013



F. Lyubashevsky
Chief Executive Officer

E. Kim
Chief Financial Officer

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

	Note	31 December: 2012	2011*
Assets			
Cash and cash equivalents	11	31,503	13,791
Trade and other receivables	12	159,923	181,604
Inventories	13	73,445	70,127
Investment in IG Seismic Services Limited held for distribution to owners	6	-	210,482
Total current assets		**264,871**	**476,004**
Property, plant and equipment	14	152,428	143,584
Goodwill and intangible assets	15	84,880	106,314
Investments in associates	16	12,897	13,659
Deferred income tax assets	18	25,597	23,240
Loans provided and other assets	20	1,857	5,758
Total non-current assets		**277,659**	**292,555**
Total assets		**542,530**	**768,559**
Liabilities and equity			
Accounts payable and accrued liabilities	17	173,028	129,590
Income tax payable		1,404	908
Other taxes payable	18	31,415	23,675
Borrowings	19	-	143
Total current liabilities		**205,847**	**154,316**
Borrowings	19	196,266	195,274
Deferred income tax liability	18	5,176	5,947
Other non-current liabilities		784	680
Total non-current liabilities		**202,226**	**201,901**
Total liabilities		**408,073**	**356,217**
Share capital and share premium	20	977,155	971,201
Cumulative translation reserve		(121,413)	(131,971)
Accumulated deficit		(733,844)	(438,850)
Total equity attributable to shareholders of Integra Group		**121,898**	**400,380**
Non-controlling interest		12,559	11,962
Total equity		**134,457**	**412,342**
Total liabilities and equity		**542,530**	**768,559**

*Re-presented upon accounting for completion of the purchase price allocation, as permitted by IFRS 3 (note 5).

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

	Year ended 31 December:	
	2012	**2011**
Cash flows from operating activities		
Loss before income tax from continuing operations	(84,495)	(10,945)
(Loss) profit before income tax from discontinued operation	(108,782)	41,607
Adjustments for:		
Loss on remeasurement to fair value of the investment in IGSS (note 6)	108,782	-
Gain from disposal of subsidiaries (note 6)	-	(48,056)
Impairment of property, plant and equipment and loss recognised on the re-measurement of assets of disposal group	-	1,499
Depreciation and amortization	64,480	90,046
Goodwill impairment (note 15)	29,096	-
Finance expense, net	22,067	22,424
Share-based compensation	4,163	6,135
Loss from disposal of property, plant and equipment and intangible assets	1,801	2,073
Share of results of associates	720	936
Receivables and inventories impairment and other write-offs	156	6,836
Exchange gain	(1,088)	(919)
Other	939	(212)
Operating cash flows before working capital changes	**37,839**	**111,424**
Change in trade and other receivables	31,774	(52,886)
Change in inventories	1,318	(19,324)
Change in accounts payable and accrued liabilities	21,699	21,183
Change in other taxes payable	8,933	(3,111)
Operating cash flows before interest and income taxes	**101,563**	**57,286**
Income tax paid	(1,836)	(11,187)
Finance expense paid	(23,348)	(21,360)
Net cash generated from operating activities	**76,379**	**24,739**
Cash flows from investing activities:		
Purchase of property, plant and equipment and intangible assets	(57,023)	(83,200)
Proceeds from the disposal of property, plant and equipment and intangible assets	2,069	4,518
Proceeds from disposal of Stromneftemash, net of pre-tax costs to sell and cash	-	14,401
Proceeds from disposal of TSP, net of pre-tax costs to sell and cash	-	25,964
Cash deconsolidated and expenses incurred on the cessation of control in IGSS	-	(6,442)
Cash received from (paid to) the sellers of Siam (note 5)	2,656	(68,101)
Proceeds from disposal of subsidiaries and investments in associates	1,797	-
Proceeds from repayment of loans	562	2,958
Other	368	(2,177)
Net cash used in investing activities	**(49,571)**	**(112,079)**
Cash flows from financing activities:		
Proceeds from disposal of non-controlling interest	-	8,169
Exercise of options for cash	-	1,360
Global Depository Receipts buy-back	-	(19,092)
Proceeds from borrowings	121,787	310,855
Repayment of borrowings	(131,026)	(251,720)
Other	(300)	(37)
Net cash (used in) generated from financial activities	**(9,539)**	**49,535**
Net increase (decrease) in cash and cash equivalents	**17,269**	**(37,805)**
Cash and cash equivalents at the beginning of the period	13,791	54,841
Effect of exchange differences on cash balances	443	(3,245)
Cash and cash equivalents at the end of the period	**31,503**	**13,791**

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

	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 2010		**995,673**	**(6,190)**	**(109,616)**	**(489,471)**	**390,396**	**68,299**	**458,695**
(Loss) profit for the period		-	-	-	50,579	50,579	(5,021)	45,558
Other comprehensive (loss) income		-	-	(22,355)	(22)	(22,377)	(2,367)	(24,744)
Total		**995,673**	**(6,190)**	**(131,971)**	**(438,914)**	**418,598**	**60,911**	**479,509**
GDR buy-back program	20	-	(19,092)	-	-	(19,092)	-	(19,092)
Class A common shares cancelled after GDR buy-back completion	20	(25,282)	25,282	-	-	-	-	-
Class A common shares cancelled after disposal of Stromneftemash	20	(2,924)	-	-	-	(2,924)	-	(2,924)
Options received from disposal of Stromneftemash	20	(3,761)	-	-	-	(3,761)	-	(3,761)
Share-based compensation from stock options and RSU plans	21	6,135	-	-	-	6,135	-	6,135
Exercise of options for cash	20,21	1,360	-	-	-	1,360	-	1,360
Cessation of controlling interest in IG Seismic Services Limited	6	-	-	-	-	-	(48,865)	(48,865)
Purchase of non-controlling interest in NPO Burovaya Technika		-	-	-	64	64	(84)	(20)
Balance at 31 December 2011		**971,201**	**-**	**(131,971)**	**(438,850)**	**400,380**	**11,962**	**412,342**
(Loss) profit for the period		-	-	-	(193,294)	(193,294)	(120)	(193,414)
Other comprehensive income		-	-	10,558	-	10,558	717	11,275
Total		**971,201**	**-**	**(121,413)**	**(632,144)**	**217,644**	**12,559**	**230,203**
Dividend in specie	6	-	-	-	(101,700)	(101,700)	-	(101,700)
Share-based compensation from stock options and RSU plans	21	4,163	-	-	-	4,163	-	4,163
Exercise of options for loans provided	20,21	1,791	-	-	-	1,791	-	1,791
Balance at 31 December 2012		**977,155**	**-**	**(121,413)**	**(733,844)**	**121,898**	**12,559**	**134,457**

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

Integra was incorporated in the Cayman Islands in March 2004. Since February 2007, Integra's Class A common shares in the form of global depository receipts have been traded on the London Stock Exchange under the stock ticker INTE.

The Group's main operating subsidiaries as of 31 December 2012 and 2011 are described below. Certain subsidiaries providing procurement and administrative functions are not presented. Change in interests in its subsidiaries made in 2012 and 2011 are discussed in note 6 and the segment information is provided in note 7.

Full description	Short description	Country of incorporation	Effective ownership As of 31 December: 2012	2011
Drilling, Workover, Integrated Project Management ("IPM")				
OOO Integra-Drilling	Integra-Drilling	Russian Federation	100.0%	100.0%
OOO Obnefteremont	Obnefteremont	Russian Federation	100.0%	100.0%
Technology Services				
OOO VNIIBT Drilling Instruments	Drilling Tools	Russian Federation	100.0%	100.0%
OOO Smith Siberian Services	Smith Siberian Services	Russian Federation	100.0%	100.0%
OOO Integra-Services	Integra-Services	Russian Federation	100.0%	100.0%
OOO Geophyzservice	Geophyzservice	Russian Federation	100.0%	100.0%
ZAO Company Siam	Siam	Russian Federation	100.0%	100.0%

As discussed in note 6, in December 2012, the Group distributed its investment in IG Seismic Services Limited ("IGSS") to its respective shareholders and/ or holders of its global depository receipts ("GDRs") following the admission of IGSS's GDRs to the London Stock Exchange under the stock ticker IGSS (note 6). The investment was recognized in December 2011 following the Group having ceased to exercise control over IGSS.

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

As of 31 December 2012 and 2011, the Group's main equity associates were engaged in well logging and well testing services and were as follows:

Full description	Short description	Effective ownership at 31 December: 2012	2011
OAO Nizhnevartovskneftegeophysika	Nizhnevartovskneftegeophysika	37.8%	37.8%
ZAO Neftegeotechnology	Neftegeotechnology	66.3%	66.3%
OOO Research Center Gazinformplast	Gazinformplast	-	25.0%
OOO Siam Nefterservice	Siam Nefterservice	26.0%	26.0%

In October 2012, the Group sold its investment in Gazinformplast which was acquired within the acquisition of Siam in September 2011 (note 5). Additonally, with the acquisition of Siam the Group acquired 26.0 percent interest in Siam Nefteservice. In October 2011, the Group transferred to IGSS its 25.4 percent interest in Stavropolneftegeophyzika.

Despite possessing the effective 66.3 percent interest in Neftegeotechnology, the Group only exercises significant influence as it does not have the majority vote in its board of directors. Thus, the Group consolidates the investment using the equity method.

2 Summary of Significant Accounting Policies

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

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

2.3 Basis of consolidation. The consolidated financial statements comprise the financial statements of Integra 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 on translation of the results and financial position of non-US dollar functional currency subsidiaries 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 30.37 and 32.20 as of 31 December 2012 and 2011, respectively, and the average annual exchange rates were 31.09 and 29.39 for 2012 and 2011, respectively.

2.5 Non-controlling interest. Non-controlling interests represent the portion of profit or loss and net assets of the Group's companies not atributable by Integra 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 fo as equity transaction, whereby, the difference between the fair value of the consideration payable and the amount by which non-controlling interest is adjusted is recognized in the consolidated statement of changes in equity.

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

2 Summary of Significant Accounting Policies (continued)

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

2.7 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.

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

2 Summary of Significant Accounting Policies (continued)

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 contractual rights to the cash flows from the financial asset expire; or it transfers the financial asset and the transfer qualifies for derecognition. 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. 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'. 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.

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 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 on a conservative estimation basis to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

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

2.10.2 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 Summary of Significant Accounting Policies (continued)

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.

2.15 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 Summary of Significant Accounting Policies (continued)

2.16 Intangible assets other than goodwill. 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 other than those acquired in 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
Software	4-6 years
Other	3-17 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.

2.18 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 Summary of Significant Accounting Policies (continued)

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	15-90 years
Plant and equipment	2-30 years
Motor vehicles	2-10 years

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

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

2.19 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.

2.21 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 Summary of Significant Accounting Policies (continued)

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 equity. 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 2012. In 2012, the Group adopted the following new standards which did not have material impact on these consolidated financial statements:

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

2.25 New IFRS effective after 31 December 2012 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.

- **Amendments to IAS 1**, *Presentation of Items of Other Comprehensive Income,* issued in June 2011, effective for annual periods beginning on or after 1 July 2012**,** requires entities separate items that may be reclassified to profit or loss in the future in other comprehensive income.
- **IFRS 9**, *Financial Instruments: Classification and Measurement*, issued in November 2009 and effective for annual periods beginning on or after 1 January 2015. IFRS 9 replaces the parts of IAS 39 relating to classification and measurement of financial assets. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The financial instruments are measured at fair value or amortized cost.
- **IFRS 10**, *Consolidated Financial Statements,* issued in May 2011 and effective for annual periods beginning on or after 1 January 2013*,* replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and separate financial statements* and SIC-12 *Consolidation - special purpose entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control.
- **IFRS 11,** *Joint Arrangements,* issued in May 2011 and effective for annual periods beginning on or after 1 January 2013*,* replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Ventures*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. Among the changes the proportionate consolidation is only allowed in certain circumstances of joint operations and the equity accounting is mandatory for participants in joint ventures.

2 Summary of Significant Accounting Policies (continued)

2.25 New IFRS effective after 31 December 2012 and not early adopted (continued).

- **IFRS 12,** *Disclosure of Interest in Other Entities,* issued in May 2011 and effective for annual periods beginning on or after 1 January 2013. It replaces the disclosure requirements provided by IAS 28 *Investments in associates* and requires disclosures in a number of areas, including (a) judgments and assumptions made in determining control, joint control, or significant influence over entities, (b) share of non-controlling interests in group activities and cash flows, (c) summarized financial information of subsidiaries with material non-controlling interests, and (d) of interests in unconsolidated structured entities.

- **IFRS 13,** *Fair Value Measurement,* issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- **Amendments to IFRS 9 and IFRS 7**, *Mandatory Effective Date and Transition Disclosures*, issued in December 2011 and effective on or after 1 January 2015. The amendments require entities to apply IFRS 9 and IFRS 7 on or after 1 January 2015 instead of 1 January 2013 and modify a relief from restating prior periods.
- **Amendments to IFRS 7***, Disclosures—Offsetting Financial Assets and Financial Liabilities,* issued in December 2011 and effective for annual periods beginning on or after 1 January 2013. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

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

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

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

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

- **Improvements to IAS 1**, *Presentation of Financial Statements*, **IAS 16**, *Property, Plant and Equipment*, **IAS 32**, *Financial Instruments, Presentation,* and **IAS 34**, *Interim Financial Reporting*, issued in May 2012 provide certain clarifications on definitions and disclosure requirements of these standards.

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

3 Critical Estimates and Judgments

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

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

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

3.3 Assessment of the percentage of completion on engineering and service contracts. Certain part of the Group's revenue is recognized under the percentage of completion method. The estimation of the extent of revenue to be recognized under the percentage of completion method is a matter of management judgment based upon expectations of future costs to be incurred and contract profit margins to be earned to complete the respective contracts. Differences between such estimates and actual performance may result in losses in future periods. The sensitivity of the 2011 sales from change of estimated profit margins is discussed in note 10.

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

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

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

3.7 Fair values of acquired assets and liabilities. In 2011, the Group ceased to exercise its control over IGSS but retained a significant influence (note 6). IAS 27 requires measuring the consideration received from the cessation of control and the acquisition of the interest in the associate at fair value. The sensitivities of this fair value estimate are discussed in note 5.

In 2011, the Group acquired 100 percent interest in Siam (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.

3 Critical Estimates and Judgements (continued)

The estimation of fair values requires significant management judgment. To assess fair values of consideration received from cessation of control, monetary assets and liabilities of subsidiaries acquired, management uses all information available, including assessment of such factors as the current overall economic conditions, specific customer, counterparty or industry conditions and the current overall legal environment. Changes in any of these conditions may result in adjustments to fair values recorded by the Group. Management also engages independent experts to advise as to the fair values of acquired property, plant and equipment and intangible assets. Changes in any of the estimates subsequent to the finalization of acquisition accounting may result in losses in future periods.

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

4 Financial Risk Management

As of 31 December 2012 and 2011, the carrying values of the Group’s financial assets and financial liabilities approximated their fair values and were as follows:

		31 December:	
	Notes	2012	2011
Financial assets:			
Cash and cash equivalents	11	31,503	13,791
Financial receivables	12	139,051	140,583
Loans provided and other assets	20	1,857	5,758
Total financial assets		**172,411**	**160,132**
Financial liabilities:			
Financial payables and accrued liabilities	17	143,412	87,936
Current borrowings	19	-	143
Non-current borrowings	19	196,266	195,274
Total financial liabilities		**339,678**	**283,353**

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. The Group has not used any financial risk management instruments in this or prior periods to hedge against this exposure.

The Group only maintains accounts with reputable banks and financial institutions and therefore believes that it does not have a material credit risk in relation to its cash or cash equivalents. The Group focuses on servicing large independent and Russian state-owned oil and gas exploration and production customer groups which management considers creditworthy. The Group monitors and assesses regularly the likelihood of collection on a customer-by-customer basis in order to mitigate exposure to potential material losses from uncollected accounts. The Group believes that its financial receivables which are neither past due nor impaired represent low exposure to credit risk and that its maximum exposure to credit risk is the carrying value of its financial assets recognized in the consolidated statement of financial position as of both 31 December 2012 and 2011.

As of 31 December 2012 and 2011, the ageing of the financial receivables (note 12) was as follows:

4 Financial Risk Management (continued)

	As of 31 December 2012:				
				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	37,134	-	37,134	37,134	-
Within 90 days	97,102	(378)	96,724	85,418	11,306
91 to 360 days	3,748	(170)	3,578	622	2,956
Over 360 days	15,133	(13,518)	1,615	111	1,504
Total trade receivables	**153,117**	**(14,066)**	**139,051**	**123,285**	**15,766**

	As of 31 December 2011:				
				Including:	
	Total before impairment provision	**Impaired**	**Total recognized**	**Neither past due nor impaired**	**Past due but not impaired**
Unbilled amounts due for engineering and service contract work	62,031	-	62,031	62,031	-
Within 90 days	70,582	(56)	70,526	57,539	12,987
91 to 360 days	4,467	(1,001)	3,466	1,461	2,005
Over 360 days	18,339	(13,779)	4,560	3	4,557
Total trade receivables	**155,419**	**(14,836)**	**140,583**	**121,034**	**19,549**

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

	31 December:	
	2012	**2011**
Balance at the beginning of the period	(14,837)	(12,508)
Provision for financial receivables	(1,684)	(4,117)
Unused amounts reversed	3,187	722
Acquisition	-	(237)
Exchange differences and other	(732)	1,304
Balance at the end of the period	**(14,066)**	**(14,836)**

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.

As of 31 December 2012 and 2011, 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:	
	2012	**2011**
Total amount of credit facilities available for withdrawal	232,116	301,888
Amounts withdrawn	(197,546)	(197,134)
Amount available for withdrawal	**34,570**	**104,754**

4 Financial Risk Management (continued)

As of 31 December 2012 and 2011, interest on the unused facilities, if drawn, would have been payable at an average interest rate of 10.9 percent and 6.6 percent per annum, respectively.

Scheduled maturities of current financial liabilities (notes 17 and 19) outstanding as of 31 December 2012 and 2011 were as follows:

		31 December 2012	
	Financial payables and accrued liabilities	**Short-term borrowings**	**Total current financial liabilities**
Within 90 days	104,443	-	104,443
91 to 180 days	23,842	-	23,842
181 to 365 days	15,127	-	15,127
Total current financial liabilities	**143,412**	**-**	**143,412**

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

Scheduled maturities of long-term borrowings (note 17) outstanding as of 31 December 2012 and 2011 and payments of interest arising after the reporting date were as follows:

	31 December 2012
12 months ended 31 December:	
2013	21,092
2014	19,795
2015	51,337
2016	78,435
2017	72,069
2018	37,633
Total long-term borrowings	**280,361**

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

For purposes of this disclosure, the cash flows are presented in undiscounted nominal terms and the interest payable on the borrowings to maturity was calculated using the rates in existence as of 31 December 2012 and 2011, respectively.

4 Financial Risk Management (continued)

4.1.3. Interest rate risk. As of 31 December 2012, the Group was not exposed to any interest rate risk. As of 31 December 2011, the Group was exposed to the cash flow interest rate risk from its unhedged variable interest rate borrowings. 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 2011, the Group determined such interest rate sensitivity as one percentage point and determined that if the floating interest rates increased or decreased by one percentage point, with all other variables held constant, the Group's profit (loss) for the year ended 31 December 2011 would have changed as follows:

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

4.1.4. Currency risk. As of 31 December 2012, the Group was not exposed to any material currency risk. As of 31 December 2011, the Group was exposed to currency exchange risk mainly from borrowings denominated in US dollars whereas the functional currency of most Group companies is the Russian rouble. The Group assesses the currency risk by reference to market information about ranges of changes in exchange rates of the Russian roubles to the US dollar of both actual movements during the reporting period and reasonably possible changes in the year thereafter. In 2011, the Group assessed the ranges of reasonably possible exchange rate sensitivity as two Russian roubles to one US dollar exchange rate and determined that if the exchange rates increased or decreased by two Russian roubles, with all other variables held constant, the Group's profit (loss) would have changed from the retranslation of the assets and liabilities denominated in US dollars existing as of 31 December 2011 using a sensitivity of two Russian roubles to one US dollar as follows:

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

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. The Group considers that the long-term optimal gearing ratio is in the range between 35.0 percent and 40.0 percent.

As of 31 December 2012, the Group's gearing ratio was 60.0 percent that is higher than optimal range as a result of the distribution of the investment in IGSS as a dividend in specie (note 6) and performance in 2012. The Group's business model indicates that in the coming years the Group will sustain its gearing ratio within its optimal levels. As of 31 December 2011, the Group's gearing ratio was 32.2 percent.

The current policy of the Group and its subsidiaries is not to pay dividends and its subsidiaries only pay dividends on their preferred shares. As of 31 December 2012 and 2011, neither the Group nor any of its subsidiaries were subject to externally imposed capital requirements.

5 Adjustments to Purchase Accounting of Siam

In September 2012, the Group completed the purchase accounting of Siam and revised the purchase price allocation as follows.

	30 September 2011:		
	Previously reported	**Adjustments**	**Revised**
Cash and cash equivalents	329		329
Trade and other receivables, net of bad debt provision of $0.5 million	11,190	(54)	11,136
Inventories, net of obsolete stock provision of $0.4 million	1,831		1,831
Property, plant and equipment	12,768		12,768
Other non-current assets	1,563	325	1,888
Accounts payable	(10,639)	(429)	(11,068)
Borrowings	(1,866)		(1,866)
Other payables including deferred tax liabilities	(860)	51	(809)
Share in net assets acquired	**14,316**	**(107)**	**14,209**
Purchase consideration	65,739		65,739
Goodwill	**51,423**	**107**	**51,530**

During the nine months ended 30 September 2012, the Group closed the purchase accounting of Siam acquired in September 2011 which resulted in the change of the Group's opening balances as follows:

	31 December 2011 previously reported	**Purchase accounting adjustments**	**31 December 2011 revised**
Assets			
Cash and cash equivalents	13,791		13,791
Trade and other receivables	181,657	(53)	181,604
Inventories	70,127		70,127
Assets of disposal group classified as held for sale	210,482		210,482
Property, plant and equipment	143,584		143,584
Goodwill and other intangible assets	106,162	152	106,314
Investments in associates	13,369	290	13,659
Deferred tax assets	23,262	(22)	23,240
Loans provided and other assets	5,759	(1)	5,758
Total assets	**768,193**	**366**	**768,559**

	31 December 2011 previously reported	**Purchase accounting adjustments**	**31 December 2011 revised**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	129,307	283	129,590
Income taxes payable	908		908
Other taxes payable	23,636	39	23,675
Short-term borrowings	143		143
Long-term borrowings	195,274		195,274
Deferred tax liability	6,006	(59)	5,947
Other non-current liabilities	577	103	680
Share capital	971,201		971,201
Cumulative translation reserve	(131,971)		(131,971)
Accumulated deficit	(438,850)		(438,850)
Non-controlling interest	11,962		11,962
Total liabilities and equity	**768,193**	**366**	**768,559**

6 Discontinued Operations, Cessation of Control of IGSS and Dividend in Specie

In December 2011, the Group completed a transaction whereby Integra and Schlumberger Oilfield Holdings Limited jointly and Geotech Oil Services Holding Limited combined their seismic businesses by bringing Geotech Holding under IGSS. As a result the Group ceased to exercise control of IGSS and recognized the remaining 36.0 percent interest as an asset held for distribution to Integra's shareholders at the fair value of $210.5 million. The transaction resulted in a gain of $36.2 million recognized in the Group's statement of comprehensive income.

As part of this transaction, in December 2012, following IGSS's GDRs listing on the London Stock Exchange the Group distributed to Integra's shareholders its investment in IGSS comprising 7,500,024 shares as a dividend in specie. On the transaction date the Group estimated the fair value of one IGSS's share to be $13.56 (US dollars) and the fair value of the distributed shares to be $101.7 million resulting in a revaluation loss of $108.8 million from the carrying value of 210.5 million. The revaluation loss was recognised within discontinued operations.

There were no additional discontinued operations in 2012. Analysis of the result of the discontinued operations, and results of the recognized on re-measurement of assets for the period until disposal in 2011 were as follows:

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

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

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

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

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

6 Discontinued Operations, Cessation of Control in IGSS and Dividend in Specie (continued)

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

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

In 2012, IGSS repaid its liability to the Group in the amount equivalent to $5.2 million that was included in the loans provided and other assets in the consolidated statement of financial position as of 31 December 2011.

7 Segment Information

Prior to 31 December 2011 the Group (a) ceased to exercise control over IGSS constituting the Formation Evaluation segment and (b) disposed of Stromneftemash and TSP constituting the remaining assets of the Equipment Manufacturing segment. In the period until disposal in 2011, the results from their operations were gain of $31.8 million and of $5.9 million related to the Formation Evaluation and Equipment Manufacturing, respectively. The 36 percent interest in IGSS represented a remaining part of the Formation Evaluation segment and was recognized as distributed to Integra's shareholders in these consolidated financial statements.

The Group identifies its reporting segments as follows:

- Drilling and Workover segment providing rig-up work, drilling, well construction, workover and maintenance services on individual and integrated management basis.
- Technology Services segment providing various services supporting the Drilling and Workover segment, including down-hole motors manufacturing and services, coiled tubing, cementing, directional drilling, drill bit services, well logging and perforation, testing of wells and well testing equipment.

Corporate and other assets, liabilities and incomes and expenses represent activities that are not directly attributable to the Group's segments and are managed on the Group basis and are not allocated to operating segments.

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

EBITDA category	Items excluded from the operating profit (loss) in calculation of EBITDA
Finance income (expense)	Finance income (expense), exchange gains (losses) primarily related to foreign currency denominated borrowings and cash
Income tax	Current and deferred income taxes
Depreciation of property, plant and equipment	Depreciation of property, plant and equipment incurred from their continuous use, effects from change in their valuation and de-recognition, including their impairment, write-off and disposal of property, plant and equipment
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 from continuing operations for the year ended 31 December 2012 and 2011 is set out as follows:

Year ended 31 December 2012:	**Drilling & Workover**	**Technology Services**	**Corporate and other**	**Intersegment Eliminations**	**Total**
Sales external	402,022	220,637	333	-	622,992
Sales to other operating segments	180	4,770	4,695	(9,645)	-
Total sales	**402,202**	**225,407**	**5,028**	**(9,645)**	**622,992**
Cost of sales	(393,885)	(175,690)	(4,337)	10,277	(563,635)
Gross (loss) profit	**8,317**	**49,717**	**691**	**632**	**59,357**
Selling, general and administrative expenses	(32,760)	(21,384)	(37,841)	729	(91,256)
Goodwill impairment	(1,916)	(27,180)	-	-	(29,096)
Loss from disposal of property, plant and equipment and Intangible assets	-	(748)	-	(1,053)	(1,801)
Operating (loss) profit	**(26,359)**	**405**	**(37,150)**	**308**	**(62,796)**
Discontinued operations	**-**	**-**	(108,782)	-	(108,782)
Reconciliation of operating (loss) profit to the adjusted EBITDA					
Operating (loss) profit	**(26,359)**	**405**	**(37,150)**	**308**	**(62,796)**
Corporate overheads directly attributed to segments	(4,116)	(5,144)	9,260	-	-
Depreciation of property, plant and equipment	39,934	22,427	986	-	63,347
Amortization of intangible assets	170	751	212	-	1,133
Goodwill impairment	1,916	27,180	-	-	29,096
Loss from disposal of property, plant and equipment and intangible assets	-	748	-	1,053	1,801
Share-based compensation	-	-	4,163	-	4,163
Gain on disposal of shares in subsidiaries	945	-	19	-	964
Adjusted EBITDA	**12,490**	**46,367**	**(22,510)**	**1,361**	**37,708**

7 Segment Information (continued)

Year ended 31 December 2011:

	Drilling & Workover	Technology Services	Formation Evaluation	Equipment Manufacturing	Corporate and other	Intersegment Eliminations	Total
Continuing operations							
Sales external	420,176	194,275	-	-	1,322	-	615,773
Sales to other operating segments	-	3,763	-	-	6,329	(10,092)	-
Total sales	**420,176**	**198,038**	**-**	**-**	**7,651**	**(10,092)**	**615,773**
Cost of sales	(365,250)	(142,664)	-	-	(7,001)	9,937	(504,978)
Impairment of property, plant and equipment	(876)	(331)	-	-	-	-	(1,207)
Gross profit	**54,050**	**55,043**	**-**	**-**	**650**	**(155)**	**109,588**
Selling, general and administrative expenses	(36,491)	(15,651)	-	-	(46,859)	834	(98,167)
Loss (gain) from disposal of property, plant and equipment and Intangible assets	(626)	(1,239)	-	-	160	(185)	(1,890)
Operating profit (loss)	**16,933**	**38,153**	**-**	**-**	**(46,049)**	**494**	**9,531**
Discontinued operations	-	-	31,750	5,861	-	-	37,611
Reconciliation of operating (loss) profit to the adjusted EBITDA							
Operating profit (loss)	**16,933**	**38,153**	**-**	**-**	**(46,049)**	**494**	**9,531**
Corporate overheads directly attributed to segments	(4,258)	(3,128)	-	-	7,386	-	-
Depreciation of property, plant and equipment	37,354	19,495	-	-	1,216	-	58,065
Amortization of intangible assets	85	601	-	-	186	-	872
Impairment of property, plant and equipment	876	331	-	-	-	-	1,207
Loss (gain) from disposal of property, plant and equipment and Intangible assets	626	1,239	-	-	(160)	185	1,890
Siam acquisition transaction costs	-	-	-	-	530	-	530
Share-based compensation	-	-	-	-	6,135	-	6,135
Adjusted EBITDA from continuing operations	**51,616**	**56,691**	**-**	**-**	**(30,756)**	**679**	**78,230**
Adjusted EBITDA from discontinued operations	**-**	**-**	**36,073**	**(2,230)**	**-**	**-**	**33,843**

7 Segment Information (continued)

Segment information related to the Group's financial position as of 31 December 2012 and 2011:

	Drilling & Workover	Technology Services	Formation Evaluation	Corporate and other	Intersegment Eliminations	Total
As of 31 December 2012:						
Total assets	331,534	266,967	-	876,924	(932,895)	**542,530**
Total liabilities	(159,285)	(300,326)	-	(124,339)	175,877	**(408,073)**
Year ended 31 December 2012:						
Additions to non-current assets	48,831	22,355	-	1,499	-	**72,685**

	Drilling & Workover	Technology Services	Formation Evaluation	Corporate and other	Intersegment Eliminations	Total
As of 31 December 2011:						
Total assets	315,055	249,255	210,478	869,277	(875,506)	**768,559**
Total liabilities	(126,315)	(252,977)	-	(87,968)	111,043	**(356,217)**
Year ended 31 December 2011:						
Additions to non-current assets	32,627	28,145	-	2,063	-	**62,835**

7 Segment Information (continued)

In 2012 and 2011, the Group earned its external revenues from continuing operations and had its goodwill and intangible assets, property, plant and equipment and investments in associates in the Russian Federation.

In 2012, the Group earned transaction revenues from continuing operations each exceeding 10 percent of the Group's consolidated revenues with three major customers in the amounts of $126.6 million, $94.8 million and $90.0 million.

In 2011, the Group earned revenues from continuing operations each exceeding 10 percent of the Group's consolidated revenues, with three major customers in the amounts of $128.9 million, $72.0 million and $68.0 million.

8 Cost of Sales

	Year ended 31 December:	
	2012	**2011**
Services	262,765	223,682
Employee costs	170,797	149,457
Materials and supplies	67,347	74,765
Depreciation of property, plant and equipment and amortization of intangible assets	61,839	56,204
Other	887	870
Total cost of sales	**563,635**	**504,978**

The employee costs include mandatory social contributions of $30,9 million and $27,4 million for the year ended 31 December 2012 and 2011, respectively.

9 Selling, General and Administrative Expenses

	Year ended 31 December:	
	2012	**2011**
Employee costs	46,615	46,958
Services	24,591	27,230
Share-based compensation expense	4,163	6,135
Taxes, other than income tax	3,655	4,189
Depreciation of property, plant and equipment and amortization of intangible assets	2,641	2,733
Transportation expenses	1,890	1,749
Receivables impairment, bad debt expense and other write-offs	668	4,320
Other	7,033	4,853
Total selling, general and administrative expenses	**91,256**	**98,167**

The employee costs include mandatory social contributions of $6.7 million and $5.1million for the year ended 31 December 2012 and 2011, respectively.

10 Engineering and Services Contracts

The Group sales include revenues from engineering and service contracts of $304.5 million and $349.7 million for the year ended 31 December 2012 and 2011, respectively. The status of engineering and service contracts in progress as 31 December 2012 and 2011:

	31 December:	
	2012	**2011**
Contract costs incurred from inception	356,364	553,133
Contract profits (less recognized losses) incurred from inception	69,391	112,397

The recognition of the revenue from engineering and service contracts uncompleted as of 31 December 2012 was primarily based on an assumption of profit margins expected to be earned from inception to completion of each contract. If such expected profit margins reduced by one percent, the revenue from such contracts would reduce by $1.8 million.

11 Cash and Cash Equivalents

As of 31 December 2012 and 2011, the cash and cash equivalents of $31.5 million and $13.8 million, respectively, included cash readily available without any restriction in their use in the amounts of $16.4 million and $12.0 million, respectively, and short-term bank deposits in the amounts of $15.1 million and $1.8 million, respectively.

12 Trade and Other Receivables

	31 December:	
	2012	**2011**
Financial receivables:		
Trade receivables (net of allowances for doubtful accounts of $2.7 million and $2.6 million as of 31 December 2012 and 2011, respectively)	56,700	52,732
Amounts due from customers for engineering and service contract work (net of allowances for doubtful accounts of $11.4 million and $12.2 million as of 31 December 2012 and 2011, respectively)	82,351	87,851
Total financial receivables	**139,051**	**140,583**
Non-financial receivables:		
VAT recoverable	6,370	7,575
Advances to suppliers	6,963	7,440
Prepaid expenses and other receivables	7,539	26,006
Total non-financial receivables	**20,872**	**41,021**
Total trade and other receivables	**159,923**	**181,604**

13 Inventories

	31 December:	
	2012	**2011**
Materials and supplies (net of allowances for obsolete materials $6.7 million and $5.5 million as of 31 December 2012 and 2011, respectively)	60,883	53,614
Work in progress (net of allowances for obsolete materials $0.1 million and $0.1 million as of 31 December 2012 and 2011, respectively)	3,367	4,446
Finished goods (net of allowances for obsolete materials $0.6 million and $0.7 million as of 31 December 2012 and 2011, respectively)	9,195	12,067
Total inventories	**73,445**	**70,127**

14 Property, Plant and Equipment

	Rigs	Land and Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost						
As of 31 December 2010	**100,563**	**94,525**	**344,900**	**72,166**	**32,153**	**644,307**
Additions	6,616	2,729	47,663	2,230	1,005	60,243
Acquisitions	-	5,803	2,825	3,892	248	12,768
Disposals	(3,469)	(7,083)	(14,527)	(1,751)	(243)	(27,073)
Transfer to discontinued operations	(7,832)	(42,984)	(166,268)	(29,933)	(13,963)	(260,980)
Reclassification	1,412	(12,208)	26,003	(12,873)	(2,334)	-
Exchange differences	(5,644)	(4,726)	(21,291)	(3,937)	(1,788)	(37,386)
As of 31 December 2011	**91,646**	**36,056**	**219,305**	**29,794**	**15,078**	**391,879**
Additions	1,347	807	64,323	2,178	1,156	69,811
Disposals	(653)	(1,244)	(16,886)	(5,245)	(555)	(24,583)
Exchange differences	5,518	2,154	14,249	1,708	910	24,539
As of 31 December 2012	**97,858**	**37,773**	**280,991**	**28,435**	**16,589**	**461,646**
Accumulated depreciation and impairment						
As of 31 December 2010	**(63,795)**	**(30,748)**	**(203,637)**	**(39,742)**	**(19,469)**	**(357,391)**
Depreciation	(10,748)	(2,660)	(36,095)	(6,401)	(2,161)	(58,065)
Impairment	(114)	(459)	(595)	(30)	(9)	(1,207)
Disposals	3,073	306	12,228	1,474	193	17,274
Transfer to discontinued operations	5,230	14,596	82,890	17,703	8,078	128,497
Reclassification	(1,412)	5,891	(11,318)	5,559	1,280	-
Exchange differences	4,076	1,847	12,907	2,552	1,215	22,597
As of 31 December 2011	**(63,690)**	**(11,227)**	**(143,620)**	**(18,885)**	**(10,873)**	**(248,295)**
Depreciation	(9,393)	(1,703)	(45,199)	(5,079)	(1,973)	(63,347)
Disposals	622	649	14,398	2,330	299	18,298
Exchange differences	(4,032)	(699)	(9,350)	(1,187)	(606)	(15,874)
As of 31 December 2012	**(76,493)**	**(12,980)**	**(183,771)**	**(22,821)**	**(13,153)**	**(309,218)**
Net book value						
As of 31 December 2011	**27,956**	**24,829**	**75,685**	**10,909**	**4,205**	**143,584**
As of 31 December 2012	**21,365**	**24,793**	**97,220**	**5,614**	**3,436**	**152,428**

As of 31 December 2012 and 2011, certain property, plant and equipment with a net book value of $10.2 million and $5.2 million, respectively, were pledged as collateral for the Group’s borrowings (note 19).

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

15 Goodwill and Other Intangible Assets

	Goodwill	Trademarks	Software	Other	Total
Cost					
As of 31 December 2010	**90,405**	**876**	**12,886**	**5,893**	**110,060**
Additions	-	-	2,512	80	2,592
Acquisitions	51,530	3	197	-	51,730
Transfer to discontinued operations	(34,546)	(56)	(10,552)	(480)	(45,634)
Disposals	-	(842)	(79)	(635)	(1,556)
Exchange differences	(5,341)	27	(784)	(221)	(6,319)
As of 31 December 2011	**102,048**	**8**	**4,180**	**4,637**	**110,873**
Additions	-	-	2,413	461	2,874
Disposals	-	-	(57)	(654)	(711)
Impairment	(29,096)	-	-	-	(29,096)
Exchange differences	6,117		256	246	6,619
As of 31 December 2012	**79,069**	**8**	**6,792**	**4,690**	**90,559**
Accumulated amortization					
As of 31 December 2010	**-**	**(737)**	**(4,545)**	**(2,944)**	**(8,226)**
Amortisation		(51)	(532)	(289)	(872)
Transfer to discontinued operations	-	12	3,045	99	3,156
Disposals	-	842	79	239	1,160
Exchange differences	-	(66)	81	208	223
As of 31 December 2011	**-**	**-**	**(1,872)**	**(2,687)**	**(4,559)**
Amortisation	-	-	(907)	(226)	(1,133)
Disposals	-	-	-	243	243
Exchange differences	-	-	(91)	(139)	(230)
As of 31 December 2012	**-**	**-**	**(2,870)**	**(2,809)**	**(5,679)**
Net carrying amount					
As of 31 December 2011	**102,048**	**8**	**2,308**	**1,950**	**106,314**
As of 31 December 2012	**79,069**	**8**	**3,922**	**1,881**	**84,880**

15 Goodwill and Other Intangible Assets (continued)

Goodwill. As of 31 December 2012 and 2011, the carrying value of goodwill was attributed to the Group's cash-generating units ("CGU") as follows:

	31 December:	
Cash generating unit	**2012**	**2011**
Workover	22,885	23,396
Smith Siberian Services	20,335	19,183
Drilling Tools	8,959	8,452
Siam	26,890	51,017
Total	**79,069**	**102,048**

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 rate of 15.5 percent for 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 rate was calculated based on the external sources of information reflecting the market assessments of time value of money, and risks specific to the Group for which the future cash flows were not adjusted at 31 December 2012. The Group assessed capital expenditures sufficient to maintain its production capacity existing at 31 December 2012 to termination date, which is assumed to be in perpetuity. In order to assess the cash flows to termination the Group used a perpetuity formula.

As of 31 December 2012, due to changed operating conditions the Group determined that the carrying value of net assets of the Group's Siam and Workover CGUs, exceeded their estimated value in use resulting in its goodwill impairment in the amount of $27.2 million and $1.9 million, respectively, which was expensed in the profit or loss component of the consolidated statements of comprehensive income.

From the key assumptions discussed above the value in use estimate is most sensitive to the estimated adjusted EBITDA margins. The Group determined that the estimated value in use of the other CGUs exceeded the carrying amounts of their assets and no provision for goodwill impairment was recorded for such CGU's. The value in use for the other CGUs exceeded the carrying value of their net assets by at least 9.3 percent in aggregate. If the estimated adjusted EBITDA margins of the other CGUs reduce by one percentage point the excess of the value in use over the carrying amount will reduce by at least 8.3 percent and the Group expects that value in use of each CGU's net assets should remain higher than their carrying amounts within a reasonable range of any of the key assumptions of the value in use calculations.

The change in the goodwill includes the goodwill impairment of 29.1 million in 2012 and write-offs in connection with the cessation of control over IGSS in 2011 (note 6). The other change in goodwill balances related to the change in the foreign exchange rates from 32.20 to 30.37 at 31 December 2011 and 2012, respectively.

16 Investments in Associates

	31 December:	
	2012	**2011**
Nizhnevartovskneftegeophyzika	10,249	10,093
Neftegeotechnology	2,277	2,302
Gazinformplast	-	846
Siam Nefteservice	371	418
Total investments in associates	**12,897**	**13,659**

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

	Year ended 31 December:	
	2012	**2011**
Carrying amount at the beginning of the year	13,659	16,555
Acquisitions	-	908
Disposed and transfer to investment group	(804)	(1,954)
Share of results of associates	(720)	(891)
Dividends received from associates	(23)	(145)
Exchange differences	785	(814)
Carrying amount at the end of the year	**12,897**	**13,659**

In October 2012, the Group discposed of its investment in Gazinformplast for $0.8 million and the transaction resulted in no gain no loss. In December 2011, the Group transferred its investment in Stavropolneftegeophyzika to IGSS as part of cessation of control over IGSS and the Group's plan to distribute its interest in IGSS to Integra's shareholders.

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

	31 December:	
	2012	**2011**
Total assets	38,795	43,310
Total liabilities	7,140	11,968

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

	Year ended 31 December:	
	2012	**2011**
Total revenues	44,535	64,298
Total operating expenses	(46,529)	(65,885)
Operating loss	**(1,994)**	**(1,587)**
Interest expense, net	(176)	(285)
Income tax expense	200	(50)
Non-controlling share	118	20
Loss for the year	**(1,852)**	**(1,902)**

17 Accounts Payable and Accrued Liabilities

	31 December:	
	2012	**2011**
Financial payables and accrued liabilities:		
Trade payables	66,892	36,418
Payables under contracts with customers for engineering and service contract work	76,120	50,672
Interest payable	400	846
Total financial payables and accrued liabilities	**143,412**	**87,936**
Non-financial payables and accrued liabilities:		
Accrued liabilities and other creditors	20,731	23,142
Advances from customers for engineering and service contract work	8,069	867
Advances from other customers	816	17,645
Total non-financial payables and accrued liabilities	**29,616**	**41,654**
Total accounts payable and accrued liabilities	**173,028**	**129,590**

18 Taxes

	Year ended 31 December:	
	2012	**2011**
Current tax	(2,623)	(7,670)
Deferred tax	2,486	26,562
Total income tax (expense) benefit	**(137)**	**18,892**

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

	Year ended 30 June:	
	2012	**2011**
Loss before income tax	(84,496)	(10,945)
Theoretical tax benefit at Russian statutory income tax rate of 20 percent	16,899	2,189
Effect of income taxed at rates lower than 20 percent	151	(629)
Effect of loss taxed at rates higher than 20 percent		106
Goodwill impairment	(5,819)	-
Recognition of deferred tax assets accumulated by Integra-Drilling	230	26,819
Derecognition of deferred tax assets accumulated by Obnefteremont	(3,721)	-
Tax losses not expected to be utilized against future profits from overseas activities	(2,461)	(6,642)
Tax losses not expected to be utilized against future profits from domestic activities	(806)	(1,068)
Share-based compensation	(833)	(1,227)
Non-tax deductible expenses and other	(3,777)	(656)
Total income tax benefit (expense)	**(137)**	**18,892**

18 Taxes (continued)

Movements in deferred income tax assets and liabilities during the year ended 31 December 2012 were as follows:

	31 December 2011	Disposals of subsidiaries	Continuing operations of profit and loss	Effect of exchange differences	31 December 2012
Deferred tax assets					
Inventories	1,337	(387)	524	71	1,545
Tax losses carried forward	21,925	(320)	(4,217)	1,190	18,578
Other	1,693	(59)	366	106	2,106
Total deferred income tax assets	**24,955**	**(766)**	**(3,327)**	**1,367**	**22,229**
Deferred tax liabilities					
Accounts receivable	3,929	(33)	(1,731)	194	2,359
Engineering and service contracts	(6,109)	-	2,870	(299)	(3,538)
Property, plant and equipment	(3,561)	327	1,528	(151)	(1,857)
Intangible assets	(42)	(7)	(145)	(7)	(201)
Other	(1,879)	(33)	3,292	49	1,429
Total deferred income tax liabilities	**(7,662)**	**254**	**5,814**	**(214)**	**(1,808)**
Net deferred income tax asset (liability)	**17,293**	**(512)**	**2,487**	**1,153**	**20,421**

18 Taxes (continued)

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

	31 December 2010	Business combinations	Disposals of subsidiaries	Continuing operations of profit and loss	Discontinued operations of profit and loss	Effect of exchange differences	31 December 2011
Deferred tax assets							
Inventories	2,097	63	(12)	168	(930)	(49)	1,337
Tax losses carried forward	13,665	-	(11,061)	19,962	2,244	(2,885)	21,925
Other	4,745	456	(1,414)	1,591	(3,657)	(28)	1,693
Total deferred income tax assets	**20,507**	**519**	**(12,487)**	**21,721**	**(2,343)**	**(2,962)**	**24,955**
Deferred tax liabilities							
Accounts receivable	(920)	83	173	4,987	31	(425)	3,929
Engineering and service contracts	(9,390)	-	7,534	(4,511)	(652)	910	(6,109)
Property, plant and equipment	(13,685)	(1,414)	7,585	4,165	(450)	238	(3,561)
Intangible assets	(415)	(2)	27	401	(44)	(9)	(42)
Other	(2,130)	50	1,227	(201)	(896)	71	(1,879)
Total deferred income tax liabilities	**(26,540)**	**(1,283)**	**16,546**	**4,841**	**(2,011)**	**785**	**(7,662)**
Net deferred income tax asset (liability)	**(6,033)**	**(764)**	**4,059**	**26,562**	**(4,354)**	**(2,177)**	**17,293**

18 Taxes (continued)

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

Deferred tax on the temporary differences associated with undistributed earnings. The deferred tax on the temporary differences associated with undistributed earnings of its subsidiaries amounted to $110.9 million and $104.1 million as of 31 December 2012 and 2011, respectively. As the Group is able to control the timing and reversal of the temporary differences, and it is highly likely that the temporary differences will not reverse in the foreseeable future, no deferred tax liability was recognised for the temporary differences associated with the undistributed earnings of the Group.

Deferred income tax assets from tax losses available for carry-forward. Deferred income tax assets associated with tax losses available for carry-forward are recognized when management believes it is probable that the Group will be able to apply the losses to offset future tax profits. As of 31 December 2012 and 2011, the Group recognized deferred tax assets in the amounts of $18.6 million and $21.9 million, respectively, from accumulated tax losses available for carry forward and expiring until 2022 and 2021, respectively. As of 31 December 2012, the Group impaired the deferred tax asset accumulated by OOO Obnefteremont in the amount of $3.7 million due to uncertain recoverability of the asset. Additionally, for the years 2012 and 2011, the Group did not recognise deferred income tax assets on tax loss carry-forwards from continuing operations in the amount of $3.3 million and $7.7 million, respectively, of which $2.5 million and $6.6 million, respectively, relate to the tax losses that do not have expiration dates and $0.8 million and $1.1 million, respectively, relate to the tax losses expiring until 2022 and 2021, respectively. Management does not believe that such tax losses can be used to reduce taxes on income in the foreseeable future. Accordingly, no related deferred tax asset was recognized in these consolidated financial statements.

Reconciliation of net deferred income tax asset (liability) to the consolidated statement of financial position. The change in deferred income tax assets and liabilities for the years 2012 and 2011, described above, reflects the net deferred income tax assets and net deferred income tax liabilities of separate companies of the Group. On the face of the consolidated statement of financial position the consolidated net deferred income tax assets are disaggregated from the consolidated net deferred income tax liabilities as follows:

	31 December:	
	2012	**2011**
Total deferred tax assets of separate Group companies	25,597	23,240
Total deferred tax liabilities of separate Group companies	(5,176)	(5,947)
Net deferred income tax asset	**20,421**	**17,293**

Other taxes payable. Other taxes payable as of 31 December 2012 and 2011 were as follows:

	31 December:	
	2012	**2011**
Value-added tax	23,419	18,625
Mandatory social contributions	5,472	2,724
Personal income tax	1,546	1,394
Property tax	851	768
Other taxes	127	164
Total other taxes payable	**31,415**	**23,675**

19 Borrowings

The following table summarizes the Group's current and non-current borrowings by major currency and weighted average fixed and floating interest rates as of 31 December 2012 and 2011.

	31 December 2012					
	Fixed rate		Floating rate		Total	
	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	Amount
Amounts due after more than one year. Russian rouble-denominated	**11.0%**	**196,266**	**-**	**-**	**11.0%**	**196,266**

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

Short-term borrowings. In August 2011, the Group entered into a renewable credit line facility with Unicreditbank, which was limited to RR 500.0 million as of 31 December 2011 ($15.5 million equivalent as of 31 December 2011). As of 31 December 2011, the loan balance was $0.1 million bearing a monthly payable floating interest rate equivalent to 9.0 percent. The credit facility was terminated in July 2012 and the Group entered into a similar credit facility limited to RR 750.0 million (equivalent to $24.7 million as of 31 December 2012) bearing a monthly payable floating interest rate of MosPrime plus 4.0 percent fixed margin. In February 2012, the Group entered into additional a credit line facility with Unicreditbank limited to RR 300.0 million (a $9.9 million equivalent as of 31 December 2012) bearing a monthly payable floating interest rate of MosPrime plus 4.1 percent fixed margin. The Group did not have any outstanding loan balance as of 31 December 2012 under both of these loans.

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

	31 December:	
	2012	2011
Sberbank	196,266	169,500
VTB Bank	-	25,774
Total non-current borrowings	**196,266**	**195,274**

Sberbank. In August 2011, the Group entered into a Russian rouble-denominated non-renewable loan facility with Sberbank for a maximum amount of RR 6.0 billion (a $197.5 million equivalent as of 31 December 2012). As of 31 December 2012 and 2011, the loan balances were equivalent to $196.3 million and $169.5 million, net of borrowing costs of $1.2 million and $1.5 million.

As of 31 December 2011 the loan bore a fixed annual interest at a rate of 9.95 percent payable quarterly. In August 2012, the parties signed an addendum whereby from September 2012 to April 2014 the interest rate varies between 9.95 percent and 11.95 percent depending on the net debt / adjusted EBITDA ratio. Interest rate was equivalent to 11.0 percent as of 31 December 2012.

19 Borrowings (continued)

The principal of the loan becomes repayable in quarterly installments from September 2015 to August 2018. As of 31 December 2012 and 2011, the Group had certain of its property, plant and equipment with carrying value equivalent to $10.2 million and $5.2 million, respectively, pledged as collateral to the loan (note 14).

VTB Bank. The Group voluntarily repaid the loan in full in August 2012. In 2012 prior to the loan repayment, the loan had born a floating interest rate consisting of 5.0 percent fixed margin and variable LIBOR rate, and the total rate was 5.5 percent. As of 31 December 2011, the loan balance was $25.8 million.

Finance expense. Finance expense for the years ended 31 December 2012 and 2011 comprised the following:

	Year ended 31 December:	
	2012	2011
Finance expense on short-term borrowings	**1,336**	**1,094**
Bonds		765
Sberbank	19,716	10,260
VTB bank	2,357	2,552
Alfabank	-	5,292
Other	188	1,129
Finance expense on long-term borrowings	**22,261**	**19,998**
Finance expense	**23,597**	**21,092**

20 Share Capital

The following table summarizes the change in share capital for the years ended 31 December 2012 and 2011 as follows:

		Number of common shares:		Share capital and share premium
	Note	Class A	Class B	
Balance at 31 December 2010		**8,560,470**	**740,000**	**995,673**
Cancellation of Class A common shares after the GDR buy-back		(363,002)	-	(25,282)
Class A common shares cancelled after the disposal of Stromneftemash		(42,500)	-	(2,924)
Stock options received from disposal of Stromneftemash		-	-	(3,761)
Exercise of stock options for cash		40,000	-	1,360
Exercise of stock options, cashless		9,454	-	-
Vested restricted share units		112,908	-	-
Share-based compensation from stock option and RSU plan		-	-	6,135
Balance at 31 December 2011		**8,317,330**	**740,000**	**971,201**
Exercise of stock options for loans provided	21	133,578	-	1,791
Exercise of stock options, for cashless	21	525	-	-
Vested restricted share units	21	119,086	-	-
Share-based compensation from stock option and RSU plan		-	-	4,163
Balance at 31 December 2012		**8,570,519**	**740,000**	**977,155**

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.

20 Share Capital (continued)

Class B common shares. The holder of 740,000 Class B common shares, the beneficiary of whom is the Group's Chief Executive Officer, 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).

Exercise of stock options for loans provided. In October 2012, certain vested stock option holders entered into loan agreements with the Group for the total nominal value of $1.8 million. Under these loan agreements the holders exercised certain their stock options for the full strike price and assumed their liabilities to repay the loans at respective maturity dates July 2014 and September 2015. The loans are interest free and the Group recognized loss on remeasurement to fair value of $0.2 million in its finance expense. The loans are secured by pledge of the issued Integra's Class A common shares and IGSS's common shares the holders received after the Group having distributed the dividend in specie (note 6). As of 31 December 2012 the carrying amount of the loans balance totaled $1.6 million.

Vesting of the restricted share units. At 31 December 2012 and 2011, a total of 119,086 and 112,908 restricted share units vested for their exercise one-for-one into the Class A common shares (note 21).

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

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

21 Share-based Compensation

21.1. The 2009 Restricted Share Units Plan. The table below summarizes the change in the RSUs in the years ended 2012 and 2011.

	Number of RSUs
31 December 2010	**193,322**
Granted, net of unvested forfeiture during 2011	69,500
Vested	(112,908)
Unvested forfeited	(19,664)
31 December 2011	**130,250**
Granted	146,250
Vested	(119,086)
Unvested forfeited	(48,500)
31 December 2012	**108,914**

The total fair value of the RSUs granted in the years ended 2012 and 2011 were $4.3 million and $4.2 million, respectively, and the share-based compensation expense related to the RSU grant in each period is to be accrued within three to four years. In the years ended 31 December 2012 and 2011, the Group recognized the RSU expense of $4.1 million and $6.1 million, respectively, as share-based compensation expense within the selling, general and administrative expenses.

21.2. The 2005 Stock Option Plan and Class B common shares. In the years ended 31 December 2012 and 2011, the Group's Board of Directors did not authorize any issuance of stock options to purchase the Group's Class A common shares. As of 31 December 2012 and 2011, a total of 763,767 and 752,967 stock options, respectively, remained available to grant.

21 Share-based Compensation (continued)

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

	Weighted average exercise price in US dollars per share	Number of stock options
Stock options outstanding as of 31 December 2010	**$48.50**	**1,192,516**
Granted	$40.00	4,000
Exercised	$29.14	(51,345)
Vested expired unexercised	$78.94	(135,500)
Stock options outstanding as of 31 December 2011	**$45.36**	**1,009,671**
Exercised	$13.38	(134,505)
Vested expired unexercised	$262.55	(10,800)
Stock options outstanding as of 31 December 2012	**$47.63**	**864,366**

The exercise of 134,505 options resulted in (a) the issuance of 133,578 class A common shares in exchange for the loans provided to the options holders and (b) the issuance of 525 shares for the cash less exercise of 927 options.

There was no options granted in 2012. In 2011, the exercised stock options include 11,345 stock options exercised for 9,454 Class A common shares (note 18) on a cashless basis under which 1,891 options were cancelled in lieu of payment for the shares.

	Stock options outstanding			Stock options exercisable	
Range of exercise prices (in US dollars per share)	Number of stock options outstanding	Weighted-average remaining contractual life (years)	Weighted average exercise price ($)	Stock options exercisable as of period end	Weighted average exercise price ($)
$4.00 - $34.00	59,666	3.0	$32.88	59,666	$32.88
$34.39 (Class B common shares)	740,000	3.0	$34.39	740,000	$34.39
$40.00 - $382.00	64,700	5.3	$212.61	54,034	$243.49
	864,366		**$47.63**	**853,700**	**$47.52**

The Black-Scholes option valuation model is used for estimating the fair value of traded stock options that have no vesting restrictions and are fully transferable. Based on the assumptions below, the weighted average fair value of employee stock options granted in 2011 was $17.08 per option, respectively. The significant inputs into the stock option valuation model were as follows.

	Awards granted in year ended 31 December:
	2011
Share price	$35.6
Dividend yield	-
Expected volatility	56% - 74%
Risk-free interest rate	1.0% - 1.2%
Expected life	6 - 7 years

In the years ended 31 December 2012 and 2011, the Group recognized the stock option expense of $0.1 million and nil, respectively, as share-based compensation expense within the selling, general and administrative expenses.

22 (Loss) Earnings per Share

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

Year ended 31 December 2012:	**Continuing operations**	**Discontinued operations**	**Total**
Numerator:			
Loss attributable to shareholders of Integra Group for basic and diluted loss per share	(84,512)	(108,782)	(193,294)
Denominator:			
Weighted average number of common shares outstanding during the period, basic and diluted	8,375,023	8,375,023	8,375,023
Basic and diluted loss per share (in US dollars per share)	(10.09)	(13.0)	(23.09)

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

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

23 Related Party Transactions

The related parties with whom the Group had transactions in 2012 and 2011, or had balances outstanding as of 31 December 2012 and 2011, include the Group's associates, including IGSS, and certain companies related to the Chairman of the Group's Board of Directors (the "Chairman") and the Group's Chief Executive Officer (the "CEO").

	Year ended 31 December:	
	2012	**2011**
Income (expense) from settlements with associates, excluding IGSS, net	(527)	(154)
Income (expense) from settlements with IGSS, net	181	-
Income (expense) from settlements with the company related to the CEO, net	(176)	(18)
Administrative services from the companies related to the Chairman	(300)	(300)
Loans provided to key management personnel (note 20)	(1,445)	-

23 Related Party Transactions (continued)

	As of 31 December:	
	2012	**2011**
Payable to associates, net	(83)	813
Receivable from the company related to CEO, net	60	-
Settlements with IGSS	-	10,886
Payable for the administrative services from the companies related to the Chairman	(75)	(75)
Loans provided to key management personnel and others	1,450	-

Compensation of the key management personnel. In 2012 and 2011, the Group's senior management team comprised seven and ten members of the management board, respectively, and four and six non-executive directors, respectively, whose compensation totalled $10.8 million and $18.0 million, respectively, including salary, bonuses and other benefits of $6.6 million and $12.8 million, respectively, and share-based compensation of $4.2 million and $5.2 million, respectively.

Administrative services contract. In each of the year ended 31 December 2012 and 2011, the Group incurred expenses of $0.3 million under an administrative services contract with an affiliate of the Chairman of the Board of Directors.

24 Contingencies, Commitments and Operating Risks

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

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

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

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation applied in the Group's activities may be challenged by the relevant regional and federal state authorities. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result the transactions and activities that have not been challenged in the past may be challenged which may result in additional charges of taxes, penalties and interest.

The fiscal periods of the taxes remain open to the field tax audits for three calendar years preceding the year of review and under certain circumstances the tax reviews may cover longer periods. The desk tax audits does not close that year, or any tax return applicable to that year, from the field tax audit during the three-year period. For taxes with uncertain timing or amounts, the Group has accrued the tax liabilities based on management's best estimate of the probable amouts payable in settlement of these liabilities.

24 Contingencies, Commitments and Operating Risks (continued)

The new Russian transfer pricing legislation effected on 1 January 2012 allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if transaction price differs from market price. The list of the controlled transactions includes the transactions with related parties and foreign related parties in the “black list” countries established by Russian Ministry of Finance. In 2012 the transfer pricing rules only apply for foreign and domestic transactions if the total amounts of all transaction with a related party exceed RR 100 million and RR 3.0 billion, respectively. These transfer pricing rules have considerably increased a taxpayer’s compliance burden compared to the transfer pricing rules in effect prior to 2012 due to, inter alia, shifting the burden of proof, including the transaction price justification under the controlled transactions, from the Russian tax authorities to the taxpayers. We believe that for income or expense from settlements with related parties recognized in 2012 these rules are applicable for all transactions, even including those incurred since the contract inception, including prior to 2012, but excluding loan providing. If a party accrues for an additional tax charge from the domestic transaction resulting from the special transfer pricing tax audit and the tax authorities did not apply comparable profitability or profit sharing method of determining market price, the counterparty can adjust its profit tax liability correspondingly.

In 2012, the Group did not incur such controlled transactions. Nevertheless focusing on minimising potential tax risks the Group exercised procedures to ensure consistency between the prices used in transactions with related parties with the level of market prices and believes that it complied with all regulations, and accrued for and paid all applicable taxes.

Contractual commitments and guarantees. In the normal course of business, the Group entered into contracts for the purchase of property, plant and equipment and other assets. As of 31 December 2012 and 2011, the Group had contractual commitments of $13.1 million and $17.2 million, respectively.

Employee benefits. A number of the Group operating entities have existing contractual commitments under collective agreements requiring them to provide certain social and other benefits to their employees. The terms and conditions of each collective agreement are specific to each particular operating entity and actual annual outlays can vary from entity to entity. As of 31 December 2012 and 2011, the Group recorded in these consolidated financial statements a liability in the amount of $0.8 million and $0.7 million, respectively, of its obligation for one-time retirement grants provided for in the collective agreements in these consolidated financial statements.

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

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

Legal proceedings. As of 31 December 2012 and 2011, 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

In March 2013, the Group entered into an agreement for the sale of its drilling rigs and other production assets located in Irkutsk region for RR 2.1 billion (a $69.1 million equivalent as of 31 December 2012). In accordance with the agreement the purchaser shall pay in a number of installments by the end of 2013.

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