

# **Integra Group**

**Consolidated Financial Statements  
as of and for the Year Ended  
31 December 2006**

## AUDITORS' REPORT

To the Shareholders of Integra Group

We have audited the accompanying consolidated financial statements of Integra Group and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated statements of income, of changes in equity and of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

18 June 2007  
Moscow, Russian Federation

## Contents

Consolidated Balance Sheets.....	4
Consolidated Statements of Income .....	5
Consolidated Statements of Cash Flows .....	6
Consolidated Statements of Changes in Shareholders' Equity .....	7

### Notes to the Financial Statements

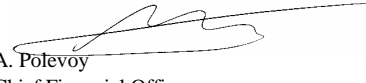
1	General Information .....	8
2	Liquidity and Initial Public Offering.....	9
3	Summary of Significant Accounting Policies .....	9
4	Critical Estimates and Judgments.....	16
5	Business Combinations .....	17
6	Trade and Other Receivables .....	22
7	Inventories.....	23
8	Goodwill and Other Intangible Assets .....	23
9	Property, Plant and Equipment.....	25
10	Investments in Associates .....	26
11	Loans Provided and Other Assets .....	27
12	Accounts Payable and Accrued Liabilities .....	27
13	Taxes .....	28
14	Financial Liabilities.....	31
15	Shareholders' Equity .....	38
16	Share-based Compensation .....	39
17	Earnings per Share .....	41
18	Construction Contracts.....	41
19	Cost of Sales.....	42
20	Selling, General and Administrative Expenses .....	42
21	Segment Information.....	42
22	Related Party Transactions.....	44
23	Contingencies, Commitments and Operating Risks .....	45
24	Financial Risks.....	46
25	Subsequent Events .....	47

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

	Note	31 December:	
		2006	2005
<b>Assets</b>			
Cash and cash equivalents		87,821	21,471
Trade and other receivables	6	233,526	57,941
Inventories	7	100,187	27,221
<b>Total current assets</b>		<b>421,534</b>	<b>106,633</b>
Goodwill and other intangible assets	8	347,206	34,329
Property, plant and equipment	9	411,630	139,419
Investments in associates	10	15,375	13,913
Deferred tax assets	13	1,925	290
Loans provided and other assets	11	36,460	2,162
<b>Total non-current assets</b>		<b>812,596</b>	<b>190,113</b>
<b>Total assets</b>		<b>1,234,130</b>	<b>296,746</b>
<b>Liabilities and shareholders' equity</b>			
Accounts payable and accrued liabilities	12	254,703	50,186
Income taxes payable		18,425	4,159
Other taxes payable	13	22,689	9,737
Short-term borrowings and current portion of long-term borrowings	14	340,421	11,684
<b>Total current liabilities</b>		<b>636,238</b>	<b>75,766</b>
Long-term financial liabilities	14	246,089	115,098
Deferred tax liability	13	73,868	21,067
Other non-current liabilities		1,601	1,790
<b>Total non-current liabilities</b>		<b>321,558</b>	<b>137,955</b>
<b>Total liabilities</b>		<b>957,796</b>	<b>213,721</b>
<b>Shareholders' equity:</b>			
Class A common shares (2,085,844 and 1,125,000 shares issued and outstanding at 31 December 2006 and 2005, respectively; nominal value one ten thousandth of one US Dollar)	15	-	-
Class B common shares (940,000 and 1,000,000 shares issued and outstanding at 31 December 2006 and 2005, respectively; nominal value one ten thousandth of one US Dollar)	15, 16	-	-
Convertible preferred shares (1,755,447 and 1,926,471 shares issued and outstanding at 31 December 2006 and 2005, respectively; nominal value one ten thousandth of one US Dollar)	15	-	-
Treasury shares	15	(1,598)	-
Cumulative translation adjustment		12,434	637
Warrants	14,15	116	136
Share premium	15	217,354	46,577
Retained earnings		(29,850)	10,530
<b>Total equity attributable to Integra Group shareholders</b>		<b>198,456</b>	<b>57,880</b>
Minority interest		77,878	25,145
<b>Total equity</b>		<b>276,334</b>	<b>83,025</b>
<b>Total liabilities and equity</b>		<b>1,234,130</b>	<b>296,746</b>

Approved and authorised for issue 18 June 2007

  
F. V. Dubashevsky  
Chief Executive Officer

  
A. Polevoy  
Chief Financial Officer

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

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

	Note	Year ended 31 December:	
		2006	2005
Sales	21	546,793	97,921
Cost of sales	19	(426,004)	(76,688)
<b>Gross profit</b>		<b>120,789</b>	<b>21,233</b>
Selling, general and administrative expenses	20	(106,263)	(23,829)
Gain on acquisition/disposal of subsidiaries	5	225	16,592
Impairment of goodwill	5	-	(926)
Loss on disposal of property, plant and equipment		(2,375)	(112)
<b>Operating profit</b>		<b>12,376</b>	<b>12,958</b>
Interest income		3,187	452
Interest expense	14	(46,785)	(7,794)
Exchange gain (loss)		10,570	(1,439)
Share of results of associates, net of income tax	10	457	2,056
<b>(Loss) profit before taxation</b>		<b>(20,195)</b>	<b>6,233</b>
Current income tax expense		(25,193)	(4,153)
Deferred income tax benefit	13	3,266	1,269
<b>Total tax expense</b>		<b>(21,927)</b>	<b>(2,884)</b>
<b>(Loss) profit for the period</b>		<b>(42,122)</b>	<b>3,349</b>
Profit (loss) attributable to:			
- Minority interest		(1,742)	(540)
- <b>Shareholders of Integra Group</b>		<b>(40,380)</b>	<b>3,889</b>
(Loss) earnings per share (in US Dollars per share)			
- Basic	17	(12.02)	1.81
- Diluted	17	(12.02)	1.69
Weighted average shares outstanding			
- Basic	17	3,359,052	2,146,493
- Diluted	17	3,359,052	2,297,339

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

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

	Notes	Year ended 31 December:	
		2006	2005
<b>Cash flows from operating activities</b>			
(Loss) profit before taxation		(20,195)	6,233
Adjustments for:			
Gain on acquisition/disposal of subsidiaries	5	(225)	(16,592)
Impairment of goodwill		-	926
Depreciation and amortization		66,661	8,412
Interest income		(3,187)	(452)
Interest expense	14	46,785	7,794
Share-based compensation	20	15,199	3,023
Share of results of associates	10	(457)	(2,056)
Other		1,178	112
<b>Operating cash flows before working capital changes</b>		<b>105,759</b>	<b>7,400</b>
Change in trade and other receivables		(106,974)	(2,015)
Change in inventories		(37,859)	2,840
Change in accounts payable and accrued liabilities		65,289	(10,338)
Change in other taxes payable		(14,571)	200
<b>Operating cash flows before interest and income taxes</b>		<b>11,644</b>	<b>(1,913)</b>
Income tax paid		(23,091)	(1,431)
Interest paid		(19,997)	(3,486)
<b>Net cash used in operating activities</b>		<b>(31,444)</b>	<b>(6,830)</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment		(162,300)	(15,886)
Proceeds from the disposal of property, plant and equipment		2,576	167
Purchase of companies, net of cash acquired		(210,904)	(99,780)
Disposal of subsidiaries		1,800	-
Loans provided		(6,681)	-
Repayment of loans provided		2,066	71
Interest received		1,078	452
Other		(723)	(1,166)
<b>Net cash used in investing activities</b>		<b>(373,088)</b>	<b>(116,142)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of shares, net of certain transaction costs	15	95,242	39,429
Proceeds from exercise of warrants, net of transaction costs	15	336	-
Purchase of treasury shares	15	(1,598)	-
Proceeds from borrowings		507,546	135,922
Repayment of borrowings		(126,516)	(31,362)
<b>Net cash provided by financing activities</b>		<b>475,010</b>	<b>143,989</b>
<b>Net increase in cash and cash equivalents</b>		<b>70,478</b>	<b>21,017</b>
Cash and cash equivalents at the beginning of the period		21,471	730
Effect of exchange differences on cash balances		(4,128)	(276)
<b>Cash and cash equivalents at the end of the period</b>		<b>87,821</b>	<b>21,471</b>

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

**Integra Group**  
**Consolidated Statements of Changes in Shareholders' Equity**  
(expressed in thousands of US Dollars, except as indicated)

	Note	Common shares	Preferred shares – Series A	Preferred shares – Series B	Treasury shares	Warrants	Share premium	Cumulative translation adjustment	Retained earnings	Equity attributable to Integra Group shareholders	Minority interest	Total equity
<b>Balance at 31 December 2004</b>		-	-	-	-	-	4,125	-	6,641	10,766	-	10,766
Share-based compensation	16,20	-	-	-	-	-	3,023	-	-	3,023	-	3,023
Issuance of 1,176,471 Series B preferred shares for cash	15	-	-	-	-	-	39,429	-	-	39,429	-	39,429
Issuance of warrants	14,15	-	-	-	-	136	-	-	-	136	-	136
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	25,685	25,685
<i>Recognized income</i>												
Translation adjustment		-	-	-	-	-	-	637	-	637	-	637
Profit for the year		-	-	-	-	-	-	-	3,889	3,889	(540)	3,349
<b>Total recognized income</b>		-	-	-	-	-	-	637	3,889	4,526	(540)	3,986
<b>Balance at 31 December 2005</b>		-	-	-	-	136	46,577	637	10,530	57,880	25,145	83,025
Exercise of warrants		-	-	-	-	(20)	336	-	-	316	-	316
Acquisition of Smith Eurasia	5	-	-	-	-	-	60,000	-	-	60,000	-	60,000
Acquisition of treasury shares	15	-	-	-	(1,598)	-	-	-	-	(1,598)	-	(1,598)
Issuance of shares in private placement	15	-	-	-	-	-	95,242	-	-	95,242	-	95,242
Acquisition of subsidiaries	5	-	-	-	-	-	-	-	-	-	54,493	54,493
Disposal of subsidiaries	5	-	-	-	-	-	-	-	-	-	(18)	(18)
Share-based compensation	16,20	-	-	-	-	-	15,199	-	-	15,199	-	15,199
<i>Recognized income</i>												
Translation adjustment		-	-	-	-	-	-	11,797	-	11,797	-	11,797
Loss for the year		-	-	-	-	-	-	-	(40,380)	(40,380)	(1,742)	(42,122)
<b>Total recognized income (loss)</b>		-	-	-	-	-	-	11,797	(40,380)	(28,583)	(1,742)	(30,325)
<b>Balance at 31 December 2006</b>		-	-	-	(1,598)	116	217,354	12,434	(29,850)	198,456	77,878	276,334
										<b>Year ended 31 December:</b>		
<b>Supplemental information for minority interests:</b>										<b>2006</b>	<b>2005</b>	
Share of loss attributable to holders of equity instruments with redemption rights classified as a liability										(185)	(335)	
Share of loss attributable to holders of instruments classified as equity										1,927	(205)	
<b>Loss (profit) attributable to minority interest</b>										<b>1,742</b>	<b>(540)</b>	

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

**Integra Group**  
**Notes to the Consolidated Financial Statements**  
(expressed in US Dollars (tabular amounts in thousands, except as indicated))

**1 General Information**

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

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

As discussed in Note 2, in February 2007, the Group completed an initial public offering of its shares.

Following are the principal operating subsidiaries of the Group at 31 December 2006 and 2005. Certain subsidiaries that provide only administrative functions are not presented. Segment information is provided in Note 21. Significant acquisitions are discussed in Note 5.

	<b>Effective ownership at:</b>	
	<b>31 December 2006</b>	<b>31 December 2005</b>
<b><i>Drilling, workover and integrated project management</i></b>		
SE Management LLC	100.0%	-
DP Smith Ukraine	100.0%	-
Smith Overseas Services LLC	100.0%	-
Smith Siberian Services LLC	100.0%	-
Smith Production Technology LLC	100.0%	-
Smith Drilling Services LLC	100.0%	-
Smith Eurasia Limited	100.0%	-
ZAO First National Drilling Company (“PNBK”)	100.0%	-
OOO Argillit	100.0%	-
OAO Prikaspiyburneft (“PBN”)	99.98%	-
OOO VNIIBT Drilling Instruments (“VNIIBT-BI”)	100.0%	100.0%
OAO Pavlovsky Factory (“PMZ”)	90.8%	90.8%
OAO NPO Drilling Technique (“NPO BT”)	55.9%	55.9%
ZAO NPP Neftegaztehnika (“NGT-M”)	42.5%	42.5%
OOO Orenburgtechservice (“OTS”)	100.0%	100.0%
OOO BK Alliance (“Alliance”)	100.0%	100.0%
OOO Alliance 3 (“Alliance 3”)	100.0%	100.0%
OOO Alliance 5 (“Alliance 5”)	100.0%	100.0%
OOO Paritet (“Paritet”)	100.0%	100.0%
OOO Tarpan (“Tarpan”)	100.0%	100.0%
OOO Burovaya Kompaniya Sever (“BKS”)	100.0%	100.0%
OOO Integra KRS (“Integra KRS”)	100.0%	100.0%
<b><i>Formation Evaluation</i></b>		
OAO Yamalgeophysika (“YGF”)	50.7%	-
OOO Geophyszservice (“GFS”)	95.3%	100.0%
OAO Russian Geophysical Company (“RGK”)	100.0%	100.0%
OAO Purgeophysics (“PGF”)	57.2%	57.2%
OAO Tyumenneftegeophysika (“TNGF”)	75.0%	75.0%
JSC Azimuth Energy Services (“Azimuth”)	94.1%	-
OOO Tomsk Geophysical Company (“TGK”)	100.0%	-
JSC Geostan	99.5%	-
OOO Yuganskpromgeophysika (“YPGF”)	95.3%	-
<b><i>Manufacturing</i></b>		
ZAO Uralmash VNIIBT	100.0%	100.0%
ZAO Uralmash Drilling Equipment (“URBO”)	100.0%	100.0%
OAO Concern Stromneftemash	100.0%	-

NGT-M is a 76 percent-owned subsidiary of NPO-BT. The Group exercises control over NGT-M by virtue of its control over NPO-BT.

Principal equity associates of the Group as of 31 December 2006 and 2005 were as follows:



**1 General Information (Continued)**

Entity	Nature of activities	Effective ownership at 31 December:	
		2006	2005
OAo Nizhnevartovskgeophysika ("NNGF")	Formation evaluation services	29.0%	25.4%
OAo Stavropolneftegeophysika ("SNGF")	Formation evaluation services	25.4%	25.4%
ZAO Neftegeotechnology ("NGT-G")	Formation evaluation services	59.3%	62.0%

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Because NGT-G is a subsidiary of NNGF, which is not controlled by the Group, the Group's investment in NGT-G is accounted for as an associate.

**2 Liquidity and Initial Public Offering**

For the years ended 31 December 2006 and 2005, the Group reported a net cash outflow from operating activities. Additionally, as discussed in Note 14, in December 2006, the Group received a notification of default from one of its lenders due to its failure to obtain required consents for additional borrowings. In certain of its agreements with other lenders, the Group was subject to cross-default provisions which allowed the lenders to accelerate their demands for payment in the event of a default in any of the Group's borrowings. As a result of the above, at 31 December 2006, such borrowings were classified within current liabilities and the Group had a significant net working capital deficit. In January 2007, the Group obtained a waiver from the lender after agreeing to certain fees and other modifications to the agreement (Note 14).

In February 2007, the Group completed an initial public offering of its shares, raising net proceeds of \$570.6 million (Note 25). With the proceeds from the initial public offering, the Group repaid \$199.6 million of short-term borrowings and \$195.0 million of long-term borrowings outstanding at 31 December 2006. As a result of this offering, management believes that the Group has sufficient resources to meet its operational, financing and investment needs. Accordingly, management believes that a going concern basis for the preparation of these consolidated financial statements is appropriate.

**3 Summary of Significant Accounting Policies**

**3.1 Basis of preparation.** These consolidated financial statements have been prepared in accordance with, International Financial Reporting Standards ("IFRS"). The policies set out below have been consistently applied to all the consolidated entities.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to fair values of non-current assets, deferred income taxes, revenue recognition and the provision for impairment of receivables. Actual results could differ from these estimates.

### **3 Summary of Significant Accounting Policies (Continued)**

**3.2 Functional and presentation currency.** The United States Dollar (“\$”) is the presentation currency for the Group’s consolidated operations. Management have used the US Dollar to manage most financial risks and exposures, agree terms for acquisitions and to measure performance of the Group. Management has concluded that the functional currency of Integra Group, the parent company, is the US Dollar. The functional currency of most other Group entities is the Russian Rouble. For subsidiaries whose functional currency is other than the US Dollar, balance sheet items have been translated into US Dollars using the exchange rate at the respective balance sheet date. The income statement items were translated into US Dollars using the exchange rates at the respective transaction dates or using a period average exchange rate as an approximation. The exchange differences resulting from the translation of assets, liabilities and the net result for the period from functional currency to US Dollars were included within cumulative translation adjustment in the statement of changes in shareholders’ equity.

The US Dollar to Russian Rouble exchange rate was 26.33 and 28.78 as of 31 December 2006 and 2005, respectively. Through early 2006, the Russian Rouble was not a convertible currency in most countries outside of the former Soviet Union and, further, the Group was required to convert 10 percent of its hard currency proceeds into Russian Roubles. During 2006, substantially all restrictions for hard currency transactions were lifted and the rights of the government of the Russian Federation and those of the Central Bank of the Russian Federation to impose such restrictions were waived.

**3.3 Group accounting of subsidiaries.** Subsidiary undertakings are consolidated when the Group has an interest of more than 50 percent of the voting rights or otherwise has power to exercise control over the financial and operating policies. Subsidiaries are consolidated from the date on which control was achieved by the Group and are no longer consolidated from the date that control ceases. All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill, which is tested for impairment annually, or more frequently if events or changes in circumstances indicate potential impairment. If the cost of acquisition is less than the fair value of the identified net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statements of income.

**3.4 Equity accounting of associates.** Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group’s investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. The Group’s share of its associates’ post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on the partial disposal is determined by comparing the disposal proceeds with the carrying amount of the Group’s interest disposed and the exchange gains and losses included in equity that relate to such disposed interest. The gain on partial disposal is presented in the income statement. Dilution gains and losses in associates are recognised in the income statement.

### 3 Summary of Significant Accounting Policies (Continued)

**3.5 Property, plant and equipment.** Additions to property, plant and equipment (other than through acquisitions) are recorded at historical cost. Historical cost includes expenditures directly attributable to the acquisition of the items. Major replacements of property, plant and equipment are capitalized. All other repair and maintenance costs are charged to the statement of income during the financial period in which they are incurred. After recognition as assets, all items of property, plant and equipment are carried at their cost less any accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment acquired through acquisitions is initially recorded at fair value as determined by an independent appraisal.

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

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

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The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing sales proceeds with the disposed asset's carrying amount. Such gain or loss is included in the consolidated statements of income.

**3.6 Impairment of assets.** Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**3.7 Inventories.** Inventories are stated at lower of cost or net realizable value. Cost of materials is determined using the weighted average method. The materials and finished goods 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 inventories excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs.

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

**3.9 Cash and cash equivalents.** Cash and cash equivalents include cash in hand and deposits held at call with banks.

**3.10 Value-added tax.** The tax authorities permit the settlement of sales and purchases value added tax ("VAT") on a net basis. VAT payable represents VAT related to sales payable to tax authorities which have been settled at the balance sheet date. In addition, VAT related to sales which have not been settled at the balance sheet date (deferred VAT) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

VAT recoverable relates to purchases which have not been settled at the balance sheet date and property, plant and equipment not yet put into operation. VAT recoverable is reclaimable against VAT payable upon payment for the purchases and putting property, plant and equipment into operation.

### **3 Summary of Significant Accounting Policies (Continued)**

In July 2005, new amendments to the Tax Code of the Russian Federation were adopted changing the tax rules with respect to VAT. Effective 1 January 2006, VAT balances become payable or eligible for recovery on an accrual basis subject to certain transitional provisions. Additionally, the requirement to defer the recovery of VAT recoverable on capital expenditures was withdrawn.

**3.11 Borrowings.** Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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 recognised in the consolidated statements of income.

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

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

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

**3.13 Provisions.** Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount 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.

**3.14 Share capital.** Ordinary shares and convertible preferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are recognized as a deduction, net of tax, from the proceeds. The difference between the nominal value of shares and the issue price is recorded as share premium.

**3.15 Minority interest and net assets attributable to minority interest.** Certain of the Group's Russian subsidiaries are limited liability companies ("OOO"). Minority equity participants in such companies have a right to request redemption of their interests in the respective company in cash. The company's obligation to redeem comprises a financial liability equal to the present value of the redemption amount even though the obligation is conditional on the shareholder exercising the right. However, such redemption amount is variable and depends on the respective company's statutory net assets. The Group has measured this liability as the higher of IFRS or Russian GAAP net carrying values of minority interests in the OOOs' net assets at each balance sheet date. The resulting liability is recorded as net assets attributable to minority interest in the consolidated balance sheets. Minority equity interests in other Group subsidiaries are classified within total equity in the consolidated balance sheets.

### **3 Summary of Significant Accounting Policies (Continued)**

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

**3.17 Employee benefits.** The Group incurs employee costs related to the provision of benefits such as health insurance. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to the consolidated statements of income.

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.

**3.18 Revenue recognition.** The Group applies the percentage-of-completion method for revenue recognition for a) sales of contracts to manufacture drilling rigs and b) sales of contracts to provide drilling, workover and formation evaluation services. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Contract costs are recognised when incurred. When the Company encounters significant unexpected delays or costs during the execution of a contract, incremental revenue for such costs is only recognized when there is an agreement with the customer on the revenue amount that will be recovered. When the outcome of a manufacturing contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the full amount of the expected loss is recognised as an expense immediately. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

The revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenues for other sales are recognized when the significant risks and rewards of ownership have passed to the buyer, when it is probable that economic benefits will flow to the Group and when those economic benefits can be reliably measured.

Sales are shown net of VAT.

**3.19 Share-based compensation.** The Group accounts for share-based compensation in accordance with IFRS 2, *Share-based Payment* ("IFRS 2"). The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense over the vesting period. The total amount to be expensed is determined by reference to the fair value of the instruments granted, measured at grant date. Expense is recognized only 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 (nominal value) and share premium when the options are exercised.

### **3 Summary of Significant Accounting Policies (Continued)**

**3.20 Earnings per share.** Basic earnings per share is based upon the weighted average number of common and preferred shares outstanding during the period. Diluted earnings per share reflects the per share effect of dilutive common share equivalents, including common shares to be issued upon the conversion of preferred shares and the exercise of stock options and warrants. Conversions of preferred shares and exercise of stock options and warrants are not considered in the calculation of diluted earnings per share if conversion or exercise would be anti-dilutive to earnings per share.

**3.21 Goodwill.** Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented as a component of goodwill in the consolidated balance sheets, while goodwill on acquisitions of associates is included in the cost of investments in associates. Goodwill is carried at cost less accumulated impairment loss, if any.

The accounting for goodwill and other intangible assets is maintained in Russian Roubles and its amount is reflected in the consolidated balance sheets at the exchange rate at the respective balance sheet dates. Changes in the carrying value resulting from changes in exchange rates are recorded within cumulative translation adjustment within the consolidated statement of changes in shareholders' equity.

The Group tests goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate potential impairment. Impairments of goodwill are not subject to reversal if conditions improve. 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.

Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash-generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

**3.22 Other intangible assets.** Other intangible assets include assets that arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. The probability of inflow of economic benefits recognition criterion is deemed to be always met for intangibles that are acquired separately or in a business combination.

Other intangible assets primarily include capitalised trademarks, patents, licenses and computer software. Acquired computer software licenses, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use. Amortization of intangible assets is included within cost of sales and is based upon definite useful lives using the straight-line method as follows:

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Trademarks	4-5 years
Patents	10-15 years
Software	2-5 years
Order backlog	1-2.4 years
Long-term customer/supplier relationships	4-10 years

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**3.23 Business combinations.** The Group accounts for business combinations in accordance with IFRS 3, *Business Combinations* ("IFRS 3"), applying the purchase method by separately recognizing, at the acquisition date, the acquiree's contingent liabilities if their fair values can be measured reliably; and the identifiable assets, liabilities, all measured at their fair values irrespective of the extent of any minority interest. Any resulting goodwill is tested for impairment annually, or when there are indications of impairment. The excess of the Group's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost ("negative goodwill") is recognized immediately in the consolidated statements of income.

### 3 Summary of Significant Accounting Policies (Continued)

**3.24 New accounting developments.** Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the Group has not early adopted.

Amendment to IAS 23 *Borrowing costs*, which is effective for annual periods beginning on or after 1 January 2009. The Standard will eliminate the option of recognizing the borrowing costs immediately as an expense to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. Management is currently evaluating the effect of the adoption of the amendment to the Group's financial statements.

IFRS 7 *Financial Instruments*: Disclosures and a complementary Amendment to IAS 1 *Presentation of Financial Statements - Capital Disclosures* (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

IFRIC 11 *IFRS 2—Group and Treasury Share Transactions* ("IFRIC 11"). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. The Interpretation also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. The application of IFRIC 11 is not expected to affect the Group's financial statements.

The following other new standards and interpretations are not expected to significantly affect the Company's financial statements when adopted: IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for annual periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006); and IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006); IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006); IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

IFRIC 4, *Determining whether an Arrangement contains a Lease* ("IFRIC 4"). IFRIC 4 provides guidance on how to determine whether an arrangement contains a lease as defined in IAS 17, *Leases*, on when the assessment or reassessment of an arrangement should be made and on how lease payments should be separated from any other elements in the arrangement.

IAS 39 (Amendment), *The Fair Value Option*; IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*; IAS 39 (Amendment), *Financial Guarantee Contracts*. The amendments to IAS 39 clarified the use of the fair value through profit or loss category of financial instruments and clarified the accounting for financial guarantees as either insurance contracts or financial instruments.

IAS 19 (Amendment), *Employee Benefits*. The amendment to IAS 19 introduces an additional recognition option for actuarial gains and losses in post-employment defined benefit plans.

IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IFRS 6 (Amendment), *Exploration for and Evaluation of Mineral Resources*. The amendments to IFRS 1 and IFRS 6 provided limited relief to first-time adopters of IFRS with respect to the provisions of IFRS 6.

IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* ("IFRIC 5"). IFRIC 5 provides guidance on the accounting for interests in decommissioning funds.

### **3 Summary of Significant Accounting Policies (Continued)**

IFRIC 6, *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (“IFRIC 6”). IFRIC 6 addresses the accounting for liabilities under an EU Directive on waste management for sales of household equipment.

### **4 Critical Estimates and Judgments**

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes judgements, apart from those involving estimates, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities are outlined below.

**4.1 Impact of functional currency determination.** In May 2005, Integra Group issued warrants with exercise prices denominated in US Dollars (Note 14). The fair value of the warrants at the time of issue was \$0.1 million. The Group has classified the warrants within equity in its consolidated balance sheet. IFRS requires liability classification for warrants with exercise prices denominated in a currency other than the functional currency of the issuer. If the warrants were classified as liabilities, such liabilities would be adjusted to fair value each reporting period, with changes in the fair value of the warrants recorded in the consolidated statement of income. If management had concluded that the US Dollar was not the functional currency of Integra Group, at 31 December 2006 and 2005, current liabilities would have been higher by \$26.5 million and \$1.8 million, respectively, warrants would have been lower by \$0.1 million and \$0.1 million, respectively, and loss would have been increased and profit would have been reduced for the years ended 31 December 2006 and 2005 by \$26.4 million and \$1.7 million, respectively.

As a result of the initial public offering of the Group shares all outstanding warrants were exercised in February 2007 (Note 2).

**4.2 Fair values of acquired assets and liabilities.** During 2005 and 2006, the Group has completed numerous significant acquisitions (Note 5). IFRS 3 requires that, at the date of acquisition, all assets and liabilities, including intangible assets, of an acquired entity be recorded at their respective fair values. The estimation of fair values requires significant management judgment.

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

Management also engages independent experts to value fair values of acquired property, plant and equipment and intangible assets due to complexity and potentially subjective nature of the estimates underlying such valuations. These estimates include, but are not limited to, remaining useful life of assets, discount rates, profit margins and duration of long-term customer relationships. 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 companies provisionally and recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date. Upon the completion of the initial accounting the comparative information presented for the periods before the initial accounting for the business combination is complete will be presented as if the initial accounting had been completed from the acquisition date.

**4.3 Estimated impairment of goodwill.** The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates about the future profitability of cash-generating units to which goodwill have been allocated.



#### 4 Critical Estimates and Judgments (Continued)

**4.4 Useful lives of property, plant and equipment.** Items of 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, estimated technical obsolescence, residual value, physical wear and tear and the environment in which the asset is operated. Differences between such estimate and actual results may result in losses in future periods and changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

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

**4.6 Assessment of the percentage of completion on services and construction contracts.** Certain 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 to complete the respective contracts. Differences between such estimate and actual results may result in losses in future periods.

**4.7 Fair values of financial instruments.** Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies where no market information is available. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

**4.8 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 stock price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

#### 5 Business Combinations

From its inception in March 2004, the Group has completed a number of acquisitions. Summarized below are the acquisitions completed during the years ended 31 December 2006 and 2005. As none of the acquired businesses produced financial statements prepared in accordance with IFRS prior to the acquisition, only fair values of acquired assets and liabilities are available.

**Acquisitions during 2006.** Due to complexities inherent in a determination of fair values and significant volume of acquisitions completed during 2006, amounts for acquisitions occurring after 30 June 2006 are based upon management's preliminary estimates.

Acquired entity	Month of acquisition	Percentage acquired	Cost of acquisition	Goodwill (if applicable)	Profits (losses) contributed through 31 December 2006
PNBK	March 2006	100%	22,763	80	(5,929)
Argillit	May 2006	100%	4,874	208	29
STM	July 2006	100%	16,177	5,328	1,115
PBN	July 2006	99.98%	30,050	10,873	4,269
Smith Eurasia	August 2006	100%	139,520	69,406	2,486
YGF	August 2006	50.7%	78,048	23,314	(2,907)
Azimuth	December 2006	94.11%	33,011	15,471	-
Geostan	December 2006	99.5%	2,355	1,104	-
Tomsk Geophysical Company	December 2006	100%	1,192	558	-

## **5 Business Combinations (Continued)**

**Acquisition of First National Drilling Company.** In March 2006, the Group acquired a 100 percent interest in First National Drilling Company (“PNBK”), a company providing drilling services to the petroleum industry in the Udmurt Region of the Russian Federation, for \$22,763,000. PNBK is included within the Group’s drilling, workover and integrated project management segment. Intangible assets recognised by the Group based upon preliminary estimate of their fair values include long-term customer relationships and order backlog. The Group recognized goodwill of \$80,000 on its acquisition of PNBK based upon the difference between its cost of acquisition and management’s assessment of the fair value of PNBK’s identifiable assets, liabilities and contingent liabilities. Management attributes this goodwill to synergies expected to be realised following the acquisition of the company by the Group.

**Acquisition of Argillit.** In May 2006, the Group acquired a 100 percent interest in Argillit, a company providing drilling services to the petroleum industry in the Khanty Mansiysk Region of the Russian Federation, for \$4,874,000. Argillit is included within the Group’s drilling, workover and integrated project management segment. The Group recognized goodwill of \$208,000 on its acquisition of Argillit based upon the difference between its cost of acquisition and management’s assessment of the fair value of Argillit’s identifiable assets, liabilities and contingent liabilities. Management attributes this goodwill to synergies expected to be realised following the acquisition of the company by the Group.

**Acquisition of Strommashina.** In July 2006, the Group acquired a 100 percent interest in OAO Concern Stromneftemash for \$16,177,000, including transaction costs of \$345,000. OAO Concern Stromneftemash holds a 92.69 percent interest in OAO Strommashina (collectively “STM”). The companies manufacture cementing complexes, pumping units and crushers. At the time of acquisition, OAO Strommashina was under bankruptcy. OAO Strommashina exited the bankruptcy process in July 2006. Intangible assets recognised by the Group based upon preliminary estimate of their fair values include trade mark, long-term customer relationships and rent agreement for production assets. The Group recognized goodwill of \$5,328,000 on its acquisition of STM, based upon the difference between its cost of acquisition and on management’s preliminary estimate of the fair value of STM’s identifiable assets, liabilities and contingent liabilities. Management attributes this goodwill to synergies expected to be realized following the acquisition of the company by the Group.

**Acquisition of Prikaspiyburneft.** In July 2006, the Group acquired a 99.98 percent interest in OOO PBN Group (“PBN”), a company providing drilling services to the petroleum industry in Eastern Siberia in the Russian Federation, for total consideration of \$30,050,000 including transaction costs of \$1,177,000. PBN is included within the Group’s drilling, workover and integrated project management segment. The Group recognized goodwill of \$10,873,000 on its acquisition of PBN, based upon the difference between its cost of acquisition and the preliminary estimate of the fair value of PBN’s identifiable assets, liabilities and contingent liabilities.

**Acquisition of Smith Eurasia.** In August 2006, the Group acquired a 100 percent interest in Smith Eurasia, a group of companies providing procurement and comprehensive drilling services to oil and gas companies in the Russian Federation, the Ukraine and Kazakhstan, for \$139,520,000, including transaction costs of \$405,000. Of the purchase price, \$79,520,000 was payable in cash. The remaining \$60,000,000 was settled by issuing 266,666 Class A common shares valued at \$225.0 per share, the value received by the Group in a private placement in August 2006 (Note 15). Smith Eurasia is included within the Group’s drilling, workover and integrated project management segment. Intangible assets recognised by the Group based upon preliminary estimate of their fair values include long-term customer and supplier relationships and order backlog. As part of the acquisition, based upon its preliminary estimate of fair values of Smith Eurasia’s assets, liabilities and contingent liabilities, the Group recognized goodwill of \$69,406,000 attributable to synergies expected to be realized from combining it with the rest of the Group.

**5 Business Combinations (Continued)**

**Acquisition of Yamalgeophysika.** In August 2006, through series of transactions the Group effectively acquired 50.74 percent interest in Yamalgeophysika (“YGF”), a company providing seismic services to the petroleum industry in the Yamal-Nenets region of the Russian Federation. The Group initially acquired 29.74 percent of YGF and, as described in Note 11, advanced funds for the purchase of additional shares. Such advances are collateralized by 21 percent of the outstanding shares of YGF. The Group has, since the initial acquisition, sold 15.17 percent of shares in YGF but retains the unilateral right to cancel the transaction and vote the shares so, in effect, has retained control. The total cost of the acquisition was \$78,048,000 including transaction costs of \$3,023,000. Intangible assets recognised by the Group based upon preliminary estimate of their fair values include long-term customer relationships and order backlog. The Group recognized goodwill of \$23,314,000 on its acquisition of YGF, based upon the difference between its cost of acquisition and management’s preliminary estimate of the fair value of YGF’s identifiable assets, liabilities and contingent liabilities, as disclosed in the table below. Management attributes this goodwill to synergies expected to be realized from combining it with the rest of the Group. YGF is included within the Group’s formation evaluation segment.

**Acquisition of Azimuth Group.** In December 2006, the Group acquired 94.11 percent interest in Azimuth Energy Services, 99.5 percent interest in Geostan and 100 percent in Tomsk Geophysical Company (all three companies collectively referred to as “Azimuth Group Companies”) for a total consideration of \$36,558,000, including transaction costs of \$179,000. Of the total purchase price \$16,278,000 was paid in cash in December 2006 and the remaining \$20,280,000 was paid in February 2007. The Azimuth Group Companies are included within the Group’s formation evaluation segment. As part of the acquisition, based upon its preliminary estimate of fair values of Azimuth Group Companies’s assets, liabilities and contingent liabilities, the Group recognized goodwill of \$15,471,000, \$1,104,000 and \$558,000 at Azimuth Energy Services, Geostan and Tomsk Geophysical Company attributable to synergies expected to be realized from combining it with the rest of the Group.

**Fair values of subsidiaries acquired during 2006.** Below is a summary of the purchase accounting allocation for the acquisitions made during 2006. Amounts for acquisitions occurring after 30 June 2006 are based upon management’s preliminary estimates of the fair values.

	<b>PNBK</b>	<b>Argillit</b>	<b>STM</b>	<b>PBN</b>	<b>Smith Eurasia</b>	<b>YGF</b>	<b>Azimuth Group Companies</b>	<b>Total</b>
Cash and cash equivalents	686	315	42	305	20,285	9,381	2,805	33,819
Trade and other receivables	13,895	1,064	4,466	8,421	11,586	16,650	5,539	61,621
Inventories	2,436	1,960	5,218	5,804	6,924	5,846	2,405	30,593
Other current assets	318	-	-	256	554	210	2,803	4,141
Property, plant and equipment	22,865	6,568	700	31,338	1,085	58,178	18,246	138,980
Intangible assets	12,648	-	21,623	19,996	78,234	67,555	1,292	201,348
Deferred tax assets	-	-	-	5,830	995	-	-	6,825
Investments in associates	-	-	1,499	-	-	607	-	2,106
Short-term borrowings	(2,126)	-	(1,353)	(7,903)	-	(14,504)	(761)	(26,647)
Other current liabilities	(16,271)	(4,436)	(17,074)	(30,270)	(30,225)	(7,862)	(7,135)	(113,273)
Long-term borrowings	(6,520)	-	-	(7,811)	-	(5,928)	(4,555)	(24,814)
Deferred tax liability	(5,248)	(805)	(4,272)	(6,532)	(19,324)	(22,263)	(114)	(58,558)
Less: minority interest not acquired	-	-	-	(257)	-	(53,136)	(1,100)	(54,493)
Share in net assets (liabilities) acquired	22,683	4,666	10,849	19,177	70,114	54,734	19,425	201,648
Purchase consideration	22,763	4,874	16,177	30,050	139,520	78,048	36,558	327,990
<b>Goodwill</b>	<b>80</b>	<b>208</b>	<b>5,328</b>	<b>10,873</b>	<b>69,406</b>	<b>23,314</b>	<b>17,133</b>	<b>126,342</b>

**5 Business Combinations (Continued)**

**Summary combined financial information (unaudited).** The following table sets forth summary combined financial information for the year ended 31 December 2006 and is presented to provide information to evaluate the financial effects of all 2006 acquisitions, as if they had occurred on 1 January 2006. Adjustments have been made to eliminate post-acquisition results for acquisitions that are included both in the Group's and in the acquirees' results, inter-company transactions, and to adjust depreciation and amortization expense to reflect adjusted carrying values of property, plant and equipment and intangible assets following fair value adjustments and the associated income tax effects.

	<b>Total revenues</b>	<b>Profit (loss)</b>
Group	546,793	(40,380)
<b>Subsidiaries acquired prior to 31 December 2006</b>		
- PNBK	42,759	(6,038)
- Argillit	16,627	(483)
- STM	20,845	4,447
- PBN	58,896	(5,030)
- Smith Eurasia	78,589	9,944
- YGF	78,103	4,004
- Azimuth	48,547	4,433
<b>Subsidiaries acquired subsequent to 31 December 2006</b>		
- NLK	189	78
Adjustments and eliminations	(163,568)	(27,439)
<b>Summary combined</b>	<b>727,780</b>	<b>(56,464)</b>

The summary combined financial information should not be construed to represent consolidated financial information. Specifically, no adjustments have been made for financing transactions or any other arrangements associated with the acquisitions. The decrease of profit by \$27,439,000 represents elimination of post-acquisition results of \$937,000 that were included in both the Group total and the individual acquirees' totals, increase in depreciation of property, plant and equipment net of associated income tax effect of \$11,233,000 and additional amortization expense, net of associated income tax effect of \$17,143,000. The adjustment decreasing revenues by \$163,568,000 represents elimination of post-acquisition revenues that were included in both the Group total and the individual acquirees' totals.

**Disposal of Quest.** In February 2006, the Group disposed its 100 percent interest in Quest back to its original seller, recognizing a gain of \$225,000. Quest was originally purchased in March 2005. During the period the Group owned Quest, it recognized net losses of \$245,000 relating to Quest's results of operations. Until the disposal such losses had been reflected in the Group's consolidated income statement and had served to reduce the carrying value of its investment in Quest.

**Acquisitions during 2005.** Certain details of acquisitions of entities during the year ended 31 December 2005 are summarized in the table below.

**2005 Activity**

<b>Acquired entity</b>	<b>Month of acquisition</b>	<b>Percentage acquired</b>	<b>Cost of acquisition</b>	<b>Goodwill (if applicable)</b>	<b>Excess of fair value of net assets acquired over purchase price (if applicable)</b>	<b>Profits/(losses) contributed through 31 December 2005</b>
TNGF	December 2005	75.00%	29,780	-	(7,554)	-
URBO	September 2005	100.00%	28,759	7,604	-	4,191
BI	September 2005	100.00%	42,169	9,546	-	1,831
RGK & GFS	May 2005	100.00%	4,919	-	(9,038)	547
SRIPNO	April 2005	100.00%	300	926	-	(684)
Quest	March 2005	100.00%	3,030	1,441	-	(245)

## **5 Business Combinations (Continued)**

**TNGF.** In December 2005, the Group acquired a 75 percent stake in TNGF for \$29,780,000, including transaction costs of \$359,000. TNGF provides geophysical services to the petroleum industry in the Tyumen region of the Russian Federation. The Group recognized a gain of \$7,554,000 on its acquisition of TNGF based upon the difference between its cost of acquisition and the fair value of TNGF's identifiable assets, liabilities and contingent liabilities. Management believes this difference is the result of the seller's underestimation of the value of the acquiree's operations and the seller's desire to exit a non-core business.

**URBO and BI.** In September 2005, the Group acquired URBO and BI for a total cost of \$70,928,000, including transaction costs of \$928,000. URBO and BI manufacture heavy oil and gas drilling rigs and drilling tools for Russian oil and gas companies. The acquisition included a five year, non-compete agreement granting URBO exclusive rights to manufacture and sell certain drilling rigs and tools. As a result of the agreement, the Group is required to pay the seller \$212,000 net of VAT per quarter through the third quarter of 2010. Of the resulting discounted liability of \$2,096,000 at 31 December 2005, \$1,790,000 is recorded within other long-term liabilities and \$306,000 is recorded within accounts payable and accrued liabilities in the consolidated balance sheet.

The excess of purchase consideration over the estimated fair value of URBO and BI's identifiable assets, liabilities and contingent liabilities amounted to \$7,604,000 and \$9,546,000, respectively. These amounts were recorded as goodwill and are attributed to synergies expected to be realised following the acquisitions of these companies by the Group.

**RGK, GFS and SNGF.** In May 2005, the Group acquired a 25.57 percent stake in SNGF and 100 percent stakes in both RGK and GFS for total consideration of \$5,517,000, including transaction costs of \$17,000. RGK is a holding company with a 33.8 percent interest in NNGF, an 8.29 percent interest in SNGF (bringing the Group's total interest in SNGF to 33.86 percent) and a 57.17 percent interest in PGF. The three companies provide geophysical services to the petroleum industry in the Khanty-Mansiysk Autonomous Region, the Stavropol Region and the Yamalo-Nenetsky Autonomous Region of the Russian Federation. GFS provides geophysical services to the petroleum industry in the Khanty-Mansiysk Autonomous Region of the Russian Federation. The Group recognized a gain of \$9,038,000 and \$1,245,000 on the acquisition of RGK, GFS and SNGF, respectively, based upon the difference between the acquisition price and the fair value of RGK's, GFS's and SNGF's identifiable net assets. Management believes this difference is the result of the seller's underestimation of the value of the acquiree's operations.

**SRIPNO.** In April 2005, the Group purchased a 100 percent stake in SRIPNO for \$300,000 in cash. SRIPNO provides workover services to petroleum industry in the Khanty-Mansiysk Region of the Russian Federation.

As SRIPNO's economic performance during 2005 was below management's expectations set at the time of acquisition, the Group subsequently impaired the entire amount of goodwill of \$926,000.

**Quest.** In March 2005, the Group purchased a 100 percent stake in Quest, a group of companies providing workover services to the petroleum industry in the Komi Republic of the Russian Federation. The total cost of the acquisition was \$3,030,000 including direct costs of \$30,000. As discussed above, in February 2006, the Group sold Quest back to the seller, recognising a gain on the sale of \$225,000.

**5 Business Combinations (Continued)**

*Fair values of subsidiaries acquired in 2005.* Below is a summary of the purchase accounting allocation for the 2005 acquisitions discussed above.

	TNGF	URBO	BI	RGK & GFS	SRIPNO	Quest	Total
Trade and other receivables	8,952	13,359	16,579	2,350	929	1,953	44,122
Inventories	2,464	10,483	13,382	621	114	1,187	28,251
Other current assets	2,831	4,133	1,878	57	85	80	9,064
Property, plant and equipment	62,798	8,764	29,255	6,210	799	1,140	108,966
Other non-current assets (including intangible assets)	1,687	8,371	6,473	11,264	-	1,079	28,874
Accounts payable and accrued liabilities	(10,380)	(19,916)	(13,091)	(3,276)	(1,422)	(1,838)	(49,923)
Other current liabilities	(7,830)	(402)	(3,110)	(764)	(908)	(841)	(13,855)
Deferred tax liability	(8,666)	(3,637)	(5,934)	(1,674)	-	-	(19,911)
Other non-current liabilities	(2,025)	-	-	(668)	(223)	(855)	(3,771)
Minority interest in subsidiaries	-	-	(12,809)	(163)	-	(316)	(13,288)
Minority interest not acquired	(12,497)	-	-	-	-	-	(12,497)
Share in net assets (liabilities) acquired	37,334	21,155	32,623	13,957	(626)	1,589	106,032
Purchase consideration	29,780	28,759	42,169	4,919	300	3,030	108,957
<b>Goodwill (Excess of the Group's share in net assets over purchase consideration)</b>	<b>(7,554)</b>	<b>7,604</b>	<b>9,546</b>	<b>(9,038)</b>	<b>926</b>	<b>1,441</b>	<b>2,925</b>

**6 Trade and Other Receivables**

	<b>31 December:</b>	
	<b>2006</b>	<b>2005</b>
Trade receivables (net of allowances for doubtful accounts of \$0.9 million and \$nil at 31 December 2006 and 2005, respectively)	120,882	27,715
Amounts due from customers for contract work	25,089	4,847
VAT recoverable	16,940	5,788
Advances to suppliers	31,424	13,812
Prepaid expenses and other receivables	39,191	5,779
<b>Total trade and other receivables</b>	<b>233,526</b>	<b>57,941</b>

**Integra Group**  
**Notes to the Consolidated Financial Statements**  
(expressed in US Dollars (tabular amounts in thousands, except as indicated))

**7 Inventories**

	<b>31 December:</b>	
	<b>2006</b>	<b>2005</b>
Materials and supplies (net of allowances for obsolete materials of \$2.7 million and \$nil at 31 December 2006 and 2005, respectively)	65,981	21,903
Work in progress	14,493	3,017
Finished goods	19,713	2,301
<b>Total inventories</b>	<b>100,187</b>	<b>27,221</b>

At 31 December 2006 and 2005, inventories with carrying values of \$3,358,000 and \$747,000, respectively, were pledged as collateral for the Group's borrowings.

**8 Goodwill and Other Intangible Assets**

At 31 December 2006 and 2005, the net book value of goodwill and other intangible assets was as follows:

	<b>31 December:</b>	
	<b>2006</b>	<b>2005</b>
Goodwill from acquisition of subsidiaries, including:		
- PNBK	84	-
- Argillit	213	-
- STM	5,437	-
- PBN	11,092	-
- Smith Eurasia	70,541	-
- YGF	23,745	-
- Azimuth	17,133	-
- URBO	8,230	7,529
- BI	10,335	9,452
- Other	466	1,818
<b>Total goodwill</b>	<b>147,276</b>	<b>18,799</b>
Other intangible assets, including:		
- Long-term customer/supplier relationships	166,986	-
- Trademarks	12,279	8,617
- Patents	3,865	4,556
- Software	1,799	1,741
- Order backlog	12,899	-
- Other	2,102	616
<b>Total goodwill and other intangible assets</b>	<b>347,206</b>	<b>34,329</b>

**Goodwill.** Goodwill is attributed to the cash-generating units expected to benefit from the acquisition as required by IAS 36. For purposes of assessing impairment, the recoverable amount of each cash-generating unit was determined based on value-in-use calculations. These calculations use cash flow projections were based on financial projections prepared by the management covering five to thirteen-year period for each of our acquisitions depending on remaining useful lives of their assets. Cashflow forecasts assumed annual growth rates of up to 10 percent, in earlier years, attributable to the synergistic benefits of these acquisitions and were discounted using a pre-tax discount rate of 19.2 percent, which was determined by the management by reference to the market information available for the Russian and international companies operating in the similar industries. The key sensitivities are assumptions around the discount rates and the growth rates.

The recoverable amounts of the assets associated with entities acquired including acquisitions occurring after 30 June 2006, exceed the assets' carrying amounts and no provision for impairment of the goodwill is required.

**8 Goodwill and Other Intangible Assets (Continued)**

*Other intangible assets.* All other intangible assets are assessed as having finite useful lives. Detail on other intangible assets for the years ended 31 December 2006 and 2005 are as follows:

	<b>Customer - supplier rela- tionships</b>	<b>Trade- marks</b>	<b>Patents</b>	<b>Software</b>	<b>Order backlog</b>	<b>Other</b>	<b>Total</b>
<i>Cost</i>							
<b>Balance at 31 December 2004</b>	-	-	-	-	-	-	-
Additions	-	-	-	62	-	606	668
Acquisitions of subsidiaries	-	9,300	4,770	1,711	-	25	15,806
Exchange differences	-	(167)	(86)	(32)	-	(12)	(297)
<b>Balance at 31 December 2005</b>	-	<b>9,133</b>	<b>4,684</b>	<b>1,741</b>	-	<b>619</b>	<b>16,177</b>
Additions	-	2	-	354	-	1,068	1,424
Acquisitions of subsidiaries	174,486	5,139	-	413	17,877	3,433	201,348
Disposals	-	-	(682)	(446)	-	(64)	(1,192)
Exchange differences	3,593	955	415	166	381	154	5,664
<b>Balance at 31 December 2006</b>	<b>178,079</b>	<b>15,229</b>	<b>4,417</b>	<b>2,228</b>	<b>18,258</b>	<b>5,210</b>	<b>223,421</b>
<i>Accumulated amortization</i>							
<b>Balance at 31 December 2004</b>	-	-	-	-	-	-	-
Amortization	-	(525)	(131)	-	-	(3)	(659)
Exchange differences	-	9	3	-	-	-	12
<b>Balance at 31 December 2005</b>	-	<b>(516)</b>	<b>(128)</b>	-	-	<b>(3)</b>	<b>(647)</b>
Amortization	(10,742)	(2,311)	(464)	(407)	(5,190)	(3,102)	(22,216)
Disposals	-	-	66	-	-	-	66
Exchange differences	(351)	(123)	(26)	(22)	(169)	(3)	(694)
<b>Balance at 31 December 2006</b>	<b>(11,093)</b>	<b>(2,950)</b>	<b>(552)</b>	<b>(429)</b>	<b>(5,359)</b>	<b>(3,108)</b>	<b>(23,491)</b>
<i>Net book value</i>							
Balance at 31 December 2004	-	-	-	-	-	-	-
Balance at 31 December 2005	-	8,617	4,556	1,741	-	616	15,530
Balance at 31 December 2006	166,986	12,279	3,865	1,799	12,899	2,102	199,930

The intangible assets associated with long-term customer/supplier relationships are attributable to the Group's acquisitions of PNBK, Smith Eurasia, STM and YGF and are being amortized over the period which the Group expects the assets will generate economical benefits as follows:

<b>Entity</b>	<b>Long-term customer/supplier relationship</b>	<b>Amortization period, years</b>
PBN	14,854	5
PNBK	9,736	6
STM	14,300	4
Smith Eurasia	67,161	6
YGF	60,935	10
<b>Total long-term customer/supplier relationship</b>	<b>166,986</b>	



**Integra Group**  
**Notes to the Consolidated Financial Statements**  
(expressed in US Dollars (tabular amounts in thousands, except as indicated))

**9 Property, Plant and Equipment**

	<b>Rigs</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Motor vehicles</b>	<b>Other</b>	<b>Total</b>
<i>Cost</i>						
<b>Balance at 31 December 2004</b>	<b>14,013</b>	<b>3,289</b>	<b>4,717</b>	<b>2,301</b>	<b>783</b>	<b>25,103</b>
Additions	33	626	12,077	452	3,263	16,451
Acquisitions of subsidiaries	-	40,019	65,751	1,855	1,341	108,966
Disposals	(276)	-	(219)	(279)	(261)	(1,035)
Exchange differences	(499)	(920)	(1,519)	(118)	(138)	(3,194)
<b>Balance at 31 December 2005</b>	<b>13,271</b>	<b>43,014</b>	<b>80,807</b>	<b>4,211</b>	<b>4,988</b>	<b>146,291</b>
Additions	12,785	16,081	107,606	21,882	5,534	163,888
Acquisitions of subsidiaries	41,373	31,603	43,568	18,374	4,062	138,980
Disposals	(36)	(1,126)	(6,486)	(812)	(664)	(9,124)
Disposal of Quest	-	-	(1,078)	-	(43)	(1,121)
Exchange differences	2,631	5,242	11,813	1,515	587	21,788
<b>Balance at 31 December 2006</b>	<b>70,024</b>	<b>94,814</b>	<b>236,230</b>	<b>45,170</b>	<b>14,464</b>	<b>460,702</b>
<i>Accumulated depreciation</i>						
<b>Balance at 31 December 2004</b>	-	-	-	-	(5)	(5)
Depreciation	(2,200)	(1,047)	(3,865)	(369)	(272)	(7,753)
Disposals	233	-	180	185	158	756
Exchange differences	35	36	54	3	2	130
<b>Balance at 31 December 2005</b>	<b>(1,932)</b>	<b>(1,011)</b>	<b>(3,631)</b>	<b>(181)</b>	<b>(117)</b>	<b>(6,872)</b>
Depreciation	(9,315)	(4,007)	(24,985)	(4,333)	(1,805)	(44,445)
Disposals	18	1,036	2,567	204	85	3,910
Disposal of Quest	-	-	291	-	-	291
Exchange differences	(483)	(192)	(693)	(522)	(66)	(1,956)
<b>Balance at 31 December 2006</b>	<b>(11,712)</b>	<b>(4,174)</b>	<b>(26,451)</b>	<b>(4,832)</b>	<b>(1,903)</b>	<b>(49,072)</b>
<i>Net book value</i>						
Balance at 31 December 2004	14,013	3,289	4,717	2,301	778	25,098
Balance at 31 December 2005	11,339	42,003	77,176	4,030	4,871	139,419
Balance at 31 December 2006	58,312	90,640	209,779	40,338	12,561	411,630

At 31 December 2006 and 2005, certain property, plant and equipment with a net book value of \$108,718,000 and \$24,824,000, respectively, were pledged as collateral for the Group's borrowings.

The accounting for property, plant and equipment assets is maintained in Russian Roubles and their amounts are reflected in the consolidated balance sheets at the exchange rate at the respective balance sheet dates. Changes in the carrying value resulting from changes in exchange rates are recorded within cumulative translation adjustment within the consolidated statement of changes in shareholders' equity.

**Integra Group**  
**Notes to the Consolidated Financial Statements**  
(expressed in US Dollars (tabular amounts in thousands, except as indicated))

**10 Investments in Associates**

	<b>31 December:</b>	
	<b>2006</b>	<b>2005</b>
NNGF	9,701	8,352
SNGF	2,644	2,530
NGT-G	2,381	3,031
Yamal Fund	649	-
<b>Total investments in associates</b>	<b>15,375</b>	<b>13,913</b>

*NNGF.* The Group acquired its 25.4 percent interest in NNGF as part of its acquisition of RGK in May 2005.

*SNGF.* The Group acquired its 6.22 percent interest in SNGF as part of its acquisition of RGK in May 2005. In May 2005, the Group purchased additional 19.18 percent interest for \$598,000, bringing its total stake to 25.4 percent.

*NGT-G.* In May 2005 the Group acquired its 12.95 percent of effective interest in NGT-G through its ownership of NNGF and its 49.0 percent of effective interest in NGT-G through its acquisition of GFS. In February 2006 the Group reduced its effective interest in NGT-G to 44.8 percent through its holding of GFS by transferring its 100 percent interest in GFS to YPGF in exchange for 91.4 percent interest in YPGF. The Group recognized a loss of \$271,000 from the transaction within share of results of associates.

*Yamal Fund.* The Group assumed its 32.5 percent interest in Yamal Fund on its acquisition of YGF in August 2006.

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

	<b>31 December:</b>	
	<b>2006</b>	<b>2005</b>
Carrying amount at the beginning of the period	13,913	-
Acquisitions	607	11,857
Share of results of associates, net of income tax (including gain of \$1,245,000 net of tax on acquisition of SNGF in 2005)	457	2,056
Distributions received	(1,122)	-
Exchange differences	1,520	-
<b>Carrying amount at the end of the period</b>	<b>15,375</b>	<b>13,913</b>

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

	<b>31 December:</b>	
	<b>2006</b>	<b>2005</b>
Total assets	53,853	43,576
Total liabilities	14,430	(8,397)

**10 Investments in Associates (Continued)**

Summarized income statement information of the Group's associates is provided in the table below:

	<b>Year ended 31 December:</b>	
	<b>2006</b>	<b>2005</b>
Total revenues	52,062	38,677
Total operating expenses	(47,510)	(32,149)
Operating profit	4,552	6,528
Gain on acquisition of subsidiaries	-	2,212
Interest expense, net	(1,669)	(707)
Income tax expense	(960)	(946)
Minority share	9	-
<b>Profit for the period</b>	<b>1,932</b>	<b>7,087</b>

**11 Loans Provided and Other Assets**

	<b>31 December:</b>	
	<b>2006</b>	<b>2005</b>
Advances to third parties	26,094	-
Loans receivable (net of allowance for doubtful accounts of \$0.9 million and nil at 31 December 2006 and 2005, respectively)	4,854	1,308
Other assets	5,512	854
<b>Total loans provided and other assets</b>	<b>36,460</b>	<b>2,162</b>

**Advances to third parties.** During 2006, the Group advanced \$33,775,000 to third parties assisting in the identification and purchase of minority interests in YGF (Note 5). \$7,915,000 of this advance was returned to the Group in October 2006. The advance is in the form of short-term loans bearing interest of 14 percent per annum and maturing in December 2007. Management expects to purchase any shares acquired by the third parties by reducing the loan and accrued interest due to it. However, the Group is under no legal obligation to take delivery of the shares from the third parties. Similarly, the third parties are not legally obliged to deliver the shares to the Group if they choose to repay the balance forwarded. At 31 December 2006, the third parties reported to the Group that they had purchased 49.2 percent of the remaining outstanding shares of YGF for \$25,860,000.

**Loans receivable.** Included within loans receivables are loans to employees of \$1,020,000 and nil at 31 December 2006 and 2005, respectively.

Other loans have weighted average rates ranging from 11.0 to 14.5 percent per annum.

**12 Accounts Payable and Accrued Liabilities**

	<b>31 December:</b>	
	<b>2006</b>	<b>2005</b>
Trade payables	117,731	15,846
Amounts due to customers for contract work	13,463	9,503
Accrued liabilities and other creditors	83,201	8,852
Advances from customers	40,308	15,985
<b>Total accounts payable and accrued liabilities</b>	<b>254,703</b>	<b>50,186</b>

**13 Taxes**

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

	<b>Year ended 31 December:</b>	
	<b>2006</b>	<b>2005</b>
(Loss) profit before taxation	(20,195)	6,233
Less share of results of associates, net of income tax	(457)	(2,056)
(Loss) profit before taxation and results of associates	(20,652)	4,177
Theoretical tax benefit (charge) at Russian statutory income tax rate of 24 percent	4,956	(1,002)
Gain on disposal/acquisition of subsidiaries	54	3,982
Effect of income (loss) taxed at rates lower than 24 percent	1,299	(1,846)
Effect of income (loss) taxed at rates higher than 24 percent	(2,188)	-
Tax losses not expected to be utilized against future profits - Cyprus and Cayman	(5,538)	(676)
Tax losses not expected to be utilized against future profits – other jurisdictions	(8,628)	(1,794)
Share-based compensation	(3,648)	(725)
Other non-tax deductible expenses	(8,280)	(1,041)
Other	46	218
<b>Total income tax expense</b>	<b>(21,927)</b>	<b>(2,884)</b>

Taxes losses not expected to be utilized against future profits relate primarily to interest expense and other administrative expenses recorded in the Group's different holding entities where management does not anticipate sufficient taxable profits through which it may realize tax benefits for its expenses. The Group neither pays tax on income nor receives tax benefits for expenses incurred in its Cayman subsidiaries. For expenses incurred in the Group's Cypriot entities, management does not anticipate sufficient taxable profits through which it may realize tax benefits for its expenses.

**Other taxes payable.** Current taxes payable at 31 December 2006 and 2005 are detailed below.

	<b>31 December:</b>	
	<b>2006</b>	<b>2005</b>
Unified social tax	3,041	907
Personal income tax	2,407	1,275
Value-added tax	13,867	6,905
Property tax	803	272
Other taxes	2,571	378
<b>Total other taxes payable</b>	<b>22,689</b>	<b>9,737</b>

Included within VAT payable \$4,422,000 and \$4,622,000 at 31 December 2006 and 2005, respectively, of VAT that is only payable to the tax authorities when the underlying receivable is recovered or written off.

**13 Taxes (Continued)**

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

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

	31 December 2005	Income statement effect	Acquisitions	Disposals	Exchange difference effect	31 December 2006
<i>Assets</i>						
Accounts receivable	484	(1,462)	7,654	-	247	6,923
Inventories	556	(151)	1,887	-	112	2,404
Tax losses carried forward	501	(542)	-	-	42	1
Other	1,066	(2,138)	920	343	318	509
<b>Deferred income tax assets</b>	<b>2,607</b>	<b>(4,293)</b>	<b>10,461</b>	<b>343</b>	<b>719</b>	<b>9,837</b>
<i>Liabilities</i>						
Property, plant and equipment	(17,747)	3,456	(13,598)	-	(1,840)	(29,729)
Intangible assets	(2,911)	5,084	(47,367)	-	(1,652)	(46,846)
Construction contracts	(266)	(3,458)	112	-	(131)	(3,743)
Financial liabilities	(126)	(12)	8	-	(12)	(142)
Undistributed earnings from associates	(1,071)	(37)	-	-	(101)	(1,209)
Other	(1,263)	2,526	(1,349)	-	(25)	(111)
<b>Deferred income tax liabilities</b>	<b>(23,384)</b>	<b>7,559</b>	<b>(62,194)</b>	<b>-</b>	<b>(3,761)</b>	<b>(81,780)</b>
<b>Net deferred income tax liability</b>	<b>(20,777)</b>	<b>3,266</b>	<b>(51,733)</b>	<b>343</b>	<b>(3,042)</b>	<b>(71,943)</b>

All deferred tax assets are deemed to be recoverable in future and the deferred tax assets are netted off against the deferred tax liabilities of individual Group companies. The deferred income tax assets and liabilities in the Group consolidated financial statements summarise the net deferred tax assets and liabilities of individual Group companies.

**Integra Group**  
**Notes to the Consolidated Financial Statements**  
(expressed in US Dollars (tabular amounts in thousands, except as indicated))

**13 Taxes (Continued)**

Movements in deferred income tax assets and liabilities during the year ended 31 December 2005 were as follows:

	31 December 2004	Income statement effect	Acquisitions	Exchange difference effect	31 December 2005
<i>Assets</i>					
Investments	78	(76)	-	(2)	-
Accounts receivable	43	146	247	48	484
Inventories	734	(525)	295	52	556
Tax losses carried forward	463	68	-	(30)	501
Other	1	102	875	88	1,066
<b>Deferred income tax assets</b>	<b>1,319</b>	<b>(285)</b>	<b>1,417</b>	<b>156</b>	<b>2,607</b>
<i>Liabilities</i>					
Property, plant and equipment	(3,885)	1,342	(15,610)	406	(17,747)
Intangible assets	-	126	(3,090)	53	(2,911)
Construction contracts	-	453	(724)	5	(266)
Financial liabilities	(43)	(97)	11	3	(126)
Undistributed earnings from associates	-	(148)	(923)	-	(1,071)
Other	(29)	(122)	(1,136)	24	(1,263)
<b>Deferred income tax liabilities</b>	<b>(3,957)</b>	<b>1,554</b>	<b>(21,472)</b>	<b>491</b>	<b>(23,384)</b>
<b>Net deferred income tax liability</b>	<b>(2,638)</b>	<b>1,269</b>	<b>(20,055)</b>	<b>647</b>	<b>(20,777)</b>

Temporary differences associated with undistributed earnings of subsidiaries amounted to \$42,430,000 and \$14,306,000 as of 31 December 2006 and 2005, respectively. As the Group is able to control the timing and reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future, no deferred tax liability was recognised for the temporary differences associated with the investments in its subsidiaries.

Deferred tax assets for tax losses carried forward are recognized when management believes it is probable that the Group will be able to utilize the losses to offset future tax profits. At 31 December 2006 and 2005, deferred tax assets related to such tax losses totalled nil and \$501,000, respectively. Such losses expire between 2012 and 2016. Additionally, at December 31, 2006, deferred tax assets, that do not have an expiration date, totalling \$14,166,000 were not recognized. Such deferred tax assets were not recognised as management does not believe that the recoverability of such assets is probable based upon current forecasts of profitability for the appropriate entities.

The movements in deferred income tax liabilities for the years 2006 and 2005, described above, aggregate the net deferred income tax assets and net deferred income tax liabilities of separate companies of the Group. On the balance sheet the consolidated net deferred income tax assets are disaggregated from the consolidated net deferred income tax liabilities as follows:

	<b>Balance at 31 December:</b>	
	<b>2006</b>	<b>2005</b>
Total deferred tax assets of separate Group companies	1,925	290
Total deferred tax liabilities of separate Group companies	(73,868)	(21,067)
<b>Net deferred income tax liability</b>	<b>(71,943)</b>	<b>(20,777)</b>

**14 Financial Liabilities**

**Event of default.** Under its agreement with Renaissance Securities Trading Limited (“Renaissance”) discussed below, the Group was subject to multiple covenants, including restrictions on pledges of its assets, certain notification requirements and the obligation to obtain advance consent for additional borrowings. From October 2006 through December 2006, the Group entered into several borrowing arrangements without obtaining the required consent from Renaissance. As a result of that and other related violations, in December 2006, the Group received a notification of default from Renaissance.

However, certain other of the Group’s borrowing arrangements contained cross-default provisions under which, in the event of a default in any of the Group’s borrowings, the respective lenders might have demanded immediate payment of all outstanding borrowings. Borrowing arrangements with such cross-default provisions included the Facility Agreement, the Senior Notes, and the Restructured Senior Notes. As the waiver was not received prior to 31 December 2006, all borrowings containing cross-default provisions have been classified as current liabilities in the Group’s consolidated balance sheet at 31 December 2006.

**Short-term borrowings.** Below are tables detailing short-term borrowings and the current portion of long-term borrowings at 31 December 2006 and 2005. Subsequent to 31 December 2006, the Group repaid its short-term borrowings from Renaissance Securities Trading Limited and Alba-Alliance.

	Weighted average effective interest rate at 31 December:		Balance at 31 December:	
	2006	2005	2006	2005
US Dollar-denominated borrowings	10.2% - 13%	12% -18%	79,100	4,600
Russian Rouble-denominated borrowings	9.25% - 15.4%	12.5%-16%	115,129	2,769
Other	13%	12% -24%	193	555
Current portion of long-term borrowings			145,999	3,760
<b>Total short-term borrowings and current portion of long-term borrowings</b>			<b>340,421</b>	<b>11,684</b>

	Balance at 31 December:	
	2006	2005
Renaissance Securities Trading Limited (“Renaissance”)	75,000	-
Alfa-Bank	75,959	-
Sberbank	17,546	-
Alba- Alliance	16,052	-
S.L.Capital Services Ltd	-	4,600
Other	9,865	3,324
Current portion of long-term borrowings	145,999	3,760
<b>Total short-term borrowings and current portion of long-term borrowings</b>	<b>340,421</b>	<b>11,684</b>

#### **14 Financial Liabilities (Continued)**

**Renaissance Securities Trading Limited (“Renaissance”).** In August 2006, the Group obtained a loan in the amount of \$75,000,000 from Renaissance as a bridge loan becoming immediately payable upon an initial public offering of the Group’s shares. The bridge loan initially bore fixed interest of 10.2 percent per annum payable on the loan repayment date.

From October 2006 through December 2006, the Group entered into several borrowing arrangements without obtaining the required consent from Renaissance. As a result of that and other violations, in December 2006, the Group received a notification of default from Renaissance, see discussion above.

In January 2007, the Group obtained a waiver from Renaissance for the covenant violations. Under the terms of the waiver, the Group paid a fee of \$2,000,000 to Renaissance and the interest rate on the original borrowings was increased to 12.0 percent per annum, with retrospective effect to 1 October 2006. Additionally, the Group agreed to pay to Renaissance an additional fee equal to 12.5 percent of the total of all outstanding principal and interest in the event of an initial public offering of its shares. Accordingly, in February 2007, the Group paid the borrowings in full, along with an additional fee of \$10,596,000 as a result of its initial public offering.

This restructuring comprises a significant modification of terms as defined in IAS 39. Accordingly, management estimated the fair value of the loan from Renaissance as \$91,079,000, calculated applying as an effective interest rate of its external borrowing rate for similar instruments of 10.2 percent. The Group recognized a loss of \$12,420,000 on the restructuring of its arrangement with Renaissance, which is recorded in the 2007 consolidated statement of income.

**Alfa-Bank.** Between February and July 2006 the Group entered into a series of Russian Rouble-denominated loan facility agreements with Alfa-Bank totalling RR 2,000 million (\$75.96 million at 31 December 2006). The loans bore fixed interest rates ranging from 9.5 percent to 10.5 percent per annum payable monthly. The loan facilities mature between February 2007 and December 2007 and are collateralized by certain of the Group’s inventories and property, plant and equipment with carrying value of \$1,792,000 and \$7,071,000, respectively, at 31 December 2006.

**Sberbank.** During 2006, the Group entered into and assumed through acquisition Russian Rouble-denominated loan agreements with Sberbank totalling RR 462 million (\$17.5 million) at 31 December 2006. The loans bear interest ranging between 9.0 and 10.5 percent per annum (weighted average 9.6 percent per annum), payable monthly and maturing in November 2007. The loans were collateralized by certain of the Group’s property, plant and equipment with carrying value equivalent to \$4,708,000 at 31 December 2006.

**Alba-Alliance loan.** In December 2006, the Group entered into a Russian Rouble-denominated loan agreement with Alba Alliance bank totalling RR 423 million (\$16.1 million) at 31 December 2006. The loan bore a fixed interest rate of 13.0 percent per annum. The loan was repaid in full in March 2007.

**Other.** At 31 December 2006, other short-term borrowings of \$9.9 million included US dollar-denominated borrowings of \$0.2 million and Russian Rouble-denominated borrowings of RR 254 million (\$9.7 million). The borrowings bear fixed interest at rates ranging from 13.0 percent to 14.5 percent per annum and mature between January 2007 and May 2007. The loans are collateralized by certain of the Group’s property, plant and equipment with carrying value equivalent to \$2,833,000 at 31 December 2006.



**14 Financial Liabilities (Continued)**

*Long-term borrowings.* The Group's long-term borrowings at 31 December 2006 and 2005 are outlined below.

The fair values of the Group's long-term borrowings were estimated based upon rates available to the Group on similar instruments of similar maturities. At both 31 December 2006 and 31 December 2005, the carrying values of total long-term borrowings approximated their fair values.

Subsequent to 31 December 2006, the Group repaid in full the Senior Notes, the Restructured Senior Notes, the Facility Agreement, and its long-term borrowings from Sberbank, IMB and Nomos-bank.

	<b>31 December:</b>	
	<b>2006</b>	<b>2005</b>
Senior Notes	1,991	14,364
Restructured Senior Notes	15,472	-
Facility Agreement	96,748	84,086
First Russian Rouble-denominated bonds	75,484	-
Second Russian Rouble-denominated bonds	112,409	-
Alfa-Bank	40,796	-
Sberbank	14,345	5,784
IMB	11,644	9,294
NOMOS-bank	7,000	-
Other	11,029	732
Subtotal	386,918	114,260
Less: current portion of long-term borrowings	(145,999)	(3,760)
<b>Total long-term borrowings</b>	<b>240,919</b>	<b>110,500</b>
Warrants	5,170	4,598
<b>Total long-term financial liabilities</b>	<b>246,089</b>	<b>115,098</b>

*Senior Notes and Restructured Senior Notes.* In May 2005, the Group issued unsecured Senior Notes to two investment funds totalling \$14,500,000 and maturing in May 2008. The Senior Notes bore interest of 18.0 percent per annum due semi-annually on 31 May and 30 November. Through 30 November 2006, the Group had the right to settle interest by issuing new notes in the amount of interest owed. Additionally, the Group could prepay all or part of the notes after 30 November 2006, 31 May 2007 and 30 November 2007 at 108.50 percent of par, 104.25 percent of par and 100.00 percent of par, respectively.

In connection with the issuance of the Senior Notes, the Group issued 14,500 warrants to the holders to purchase 120,833 of the Group's Class A common shares for \$20.00 per share. Management estimated the value of the warrants to be \$136,000. This amount was recorded within equity in the Group's consolidated balance sheet, with a corresponding reduction in the carrying value of the Senior Notes. The difference between the carrying value and the par value of the Senior Notes was accreted over the term to maturity as interest expense at an effective interest rate of 18.0 percent.

In April 2006, the Group refinanced a portion of the Senior Notes with par values of \$12,500,000. As a result of this refinancing, the interest rate on the new notes (the "Restructured Senior Notes") was reduced from 18.0 percent per annum to 11.0 percent per annum, payable semi-annually, the maturity was extended from 31 May 2008 to 30 April 2010, and the principal amount was increased from \$12,500,000 to \$15,000,000. The early redemption fee schedule was modified such that, subsequent to 30 April 2007, the Group would pay an early redemption premium of 5.0 percent, declining by 1.0 percent every six months through 31 October 2009. The new principal amount comprised the initial principal amount of \$12,500,000, \$1,250,000 of early prepayment premium, \$925,000 of accrued interest and \$325,000 of additional cash provided by the holders of the Restructured Senior Notes. Interest on the Restructured Senior Notes was payable semi-annually. Through 30 April 2008, the Group had the right to settle interest by issuing new Restructured Senior Notes.

**14 Financial Liabilities (Continued)**

The restructuring described above comprised a significant modification of terms as defined in IAS 39. Accordingly, management estimated the fair value of the Restructured Senior Notes and recorded a gain on extinguishment of liability of \$676,000, included within interest income in the consolidated statement of income, by applying management's estimate of the Group's external borrowing rate for similar instruments, 13.0 percent. At 31 December 2006, the carrying value of the Restructured Senior Notes was \$15,472,000. The difference between the carrying value and the face value of the Restructured Senior Notes was being accreted over the period to maturity at an effective interest rate of 13.0 percent.

In March 2007, the Group repaid in full its debt on the Senior Notes and the Restructured Senior Notes. The total repayment amount of the Senior Notes of \$2,269,000 included repayments of principal of \$2,000,000, accrued interest of \$99,000 and an early repayment fee of \$170,000. The total repayment amount of the Restructured Senior Notes of \$17,288,000 included principal of \$15,856,000, accrued interest of \$640,000 and an early repayment fee of \$793,000.

Details on the par value and carrying value of the Senior Notes and the Restructured Senior Notes are set out as follows:

	Senior Notes:		Restructured Senior Notes:	
	Par value	Carrying value	Par value	Carrying value
<b>Balance at 04 May 2005</b>	14,500	14,364	-	-
Accretion of discount	-	-	-	-
Interest added to principal	-	-	-	-
<b>Balance at 31 December 2005</b>	14,500	14,364	-	-
Accretion of discount	-	47	-	-
Interest added to principal	-	-	-	-
Senior Notes converted to Restructured Senior Notes	(12,500)	(12,425)	12,500	12,425
Early repayment premium	-	-	1,250	1,250
Accrued interest converted to Restructured Senior Notes	-	-	925	925
Cash received	-	-	325	325
Gain on restructuring	-	-	-	(676)
Accretion of discount	-	5	-	12
Interest added to principal	-	-	856	1,211
<b>Balance at 31 December 2006</b>	<b>2,000</b>	<b>1,991</b>	<b>15,856</b>	<b>15,472</b>

Under the terms of both the Senior Notes and the Restructured Senior Notes, the Group was subject to certain covenants related to new borrowings and financial ratios. Additionally, the Restructured Senior Notes agreement contained cross-default provisions allowing holders of the Restructured Senior Notes to demand immediate payment in the event of a default in any of the Group's borrowings. As a result of the default with respect to the Group's borrowings from Renaissance described above, the entire balance of both the Senior Notes and the Restructured Senior Notes was classified within current liabilities in the Group's consolidated balance sheet at 31 December 2006. The Group did not incur any other consequences from the notes holders as a result of the default described above.

**Facility Agreement.** In September 2005, the Group entered into a \$90,000,000 Facility Agreement with several different investment funds and financial institutions (collectively the "Lenders"). The Facility Agreement originally comprised of two separate \$45.0 million tranches, Facility A and Facility B. Both Facility A and Facility B bore interest of 14.0 percent per annum payable semi-annually on 31 March and 30 September. Interest accrued on Facility B loan at the rate of 10.0 percent per annum was due in cash on each interest payment date. The balance of the 14.0 percent interest due on the Facility B loan and all of the 14.0 percent interest due on the Facility A loan may have been paid in cash or added to the outstanding balance of the respective loan at the option of the Group.

**14 Financial Liabilities (Continued)**

As part of its agreement with the Lenders under the Facility Agreement, the Group issued 90,000 warrants to the Lenders. Each warrant allowed its holder to purchase the Group's common shares in the event that the Group completes an initial public offering ("IPO") of its Class A shares, at a purchase price equal to a 25.0 percent discount to the listing price. The number of shares each warrant entitled the holder to purchase equalled to 233.33 divided by the listing price of the Group's shares. Under the terms of the warrants, if exercised, the Group had the right to repurchase the warrants for a price per warrant which would aggregate to \$5,250,000. As the number of shares to be issued upon exercise of the warrants is variable depending on the listing price, the estimated fair value of the warrants was recorded as a liability in the consolidated balance sheet and the carrying value of the Facility loans was reduced by a corresponding amount. In February 2007, the holders of 90,000 of the warrants exercised their rights and acquired 62,687 of the Group's Class A common shares for total proceeds of \$15,750,000 (Note 25).

The Facility Agreement and the warrants were initially recognized at their respective fair values, which represent an effective interest rate of approximately 19.5 percent per annum on the combined instrument after consideration of issuance costs.

The difference between the carrying value and the principal of the Facility loans is accreted over the expected term to maturity as interest expense. At 31 December 2006 and 2005, the carrying value of the warrants was \$5,170,000 and \$4,598,000, respectively.

The following table details the allocation of proceeds received from the Facility Agreement and the respective carrying values for Facility A, Facility B and the warrants at 31 December 2006 and 2005:

	<b>Facility A</b>	<b>Facility B</b>	<b>Warrants</b>
Proceeds (net of issuance costs of \$3.743 million)	41,283	40,326	4,399
Interest expense:			
- capitalized to loan balance	1,733	495	-
- accretion of discount	126	123	199
<b>Balance at 31 December 2005</b>	<b>43,142</b>	<b>40,944</b>	<b>4,598</b>
Interest expense:			
- capitalized to loan balance	6,865	1,863	-
- accretion of discount	2,371	1,563	572
<b>Balance at 31 December 2006</b>	<b>52,378</b>	<b>44,370</b>	<b>5,170</b>

The par values of Facility A and Facility B, including capitalized interest, were \$53,597,000 and \$47,358,000, respectively, at 31 December 2006. The par values of Facility A and Facility B, including capitalized interest, were \$46,733,000 and \$45,495,000, respectively, at 31 December 2005. Both facilities were scheduled to mature on 30 September 2010.

Under the Facility, the Group was subject to certain financial covenants and restrictions on borrowings as well as cross-default provisions allowing the lenders may have demanded immediate payment of all outstanding borrowings in the event of default in the Group's other borrowings. As a result of the default with respect to the Group's borrowings from Renaissance Securities Trading Limited described above, the entire balance of the Facility Agreement was classified within current liabilities in the Group's consolidated balance sheet at 31 December 2006 within the current portion of long-term borrowings. No other consequences occurred as a result of the default with respect to the Facility Agreement.

The Group repaid both facilities in full in March 2007. The total repayment amount of \$108,000,000 included repayment of the principal outstanding amount of Facility A and Facility B of \$51,727,000 and \$46,874,000, respectively, accrued interest on Facility A and Facility B of \$3,379,000 and \$3,062,000, respectively, and a prepayment fee of 3.0 percent of the principal amounts of \$2,958,000.

#### **14 Financial Liabilities (Continued)**

**First Russian Rouble-denominated Bonds.** In March 2006, the Group issued Russian Rouble-denominated bonds with a total nominal value of RR 2.0 billion (\$76.0 million at 31 December 2006) (the “First Russian Rouble-denominated Bonds”). The First Russian Rouble-denominated Bonds bear fixed interest of 10.5 percent per annum, payable semi-annually, and mature in March 2009.

**Second Russian Rouble-denominated bonds.** In December 2006, the Group issued Russian Rouble-denominated bonds with a total nominal value of RR 3.0 billion (\$113.9 million at 31 December 2006) (the “Second Russian Rouble-denominated Bonds”). The bonds bear a fixed interest of 10.7 percent per annum, payable semi-annually, and mature in November 2011.

**Alfa-Bank.** In June and October 2006, the Group entered into a series of Russian Rouble-denominated loan agreements with Alfa-Bank totalling RR 1,074 million (\$40.8 million at 31 December 2006). The loan facilities bear interest rates ranging from 10.5 to 10.9 percent per annum (weighted average interest rate of 10.75 percent at 31 December 2006) and mature between February 2007 and October 2008. The loans are collateralized by certain of the Group’s property, plant and equipment with carrying value equivalent to \$70,180,000 at 31 December 2006.

Under the terms of the agreements, the Group is subject to certain covenants, including restrictions of incurrence of new debt without consent of the lender and maintaining certain minimum balances at designated bank accounts. At 31 December 2006, the Group was in compliance with the covenants.

**Sberbank.** During 2006, through acquisition, the Group assumed two Russian Rouble-denominated loan agreements with Sberbank. The loans bore fixed interest of 10.5 percent per annum payable monthly. As of 31 December 2006, RR 377 million (\$14.3 million) was outstanding under the agreements. The loans were scheduled to mature between January 2007 and October 2009 and were collateralized by certain of the Group's property, plant and equipment and inventory with carrying value equivalent to \$9,635,000 and \$1,566,000, respectively, at 31 December 2006. The loans were repaid in full in April 2007.

During 2005, through acquisition, the Group assumed a Russian Rouble-denominated credit facilities with Sberbank for a maximum amount of RR 250 million (\$8.7 million at 31 December 2005). The facilities bore interest ranging between 12.5 and 13.0 percent per annum at 31 December 2005. The loans were repaid in full in March 2006.

**IMB.** In December 2005, the Group entered into a Euro-denominated loan facility with International Moscow Bank (IMB) totalling Euro 7.8 million (\$10.3 million and \$9.3 million at 31 December 2006 and 2005, respectively). The loan bore a floating interest rate of EURIBOR plus 5.5 percent per annum payable monthly (9.5 percent at 31 December 2006) and was scheduled to mature in June 2007.

In March 2006, through acquisition the Group assumed a US Dollar-denominated loan agreement with International Moscow Bank (“IMB”) for a maximum amount of \$4.0 million, of which \$1.3 million was outstanding at 31 December 2006. The loan bore a floating interest rate of LIBOR plus 6.5 percent per annum, payable monthly (10.5 percent at 31 December 2006) and was scheduled to mature in September 2007. As of 31 December 2006, \$1,333,000 was outstanding under the loan. The loan was collateralized by certain of the Group’s property, plant, equipment with carrying values of \$3,842,000 at 31 December 2006.

The Group fully repaid the loans in March 2007.

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

**14 Financial Liabilities (Continued)**

Scheduled maturities of long-term borrowings outstanding at 31 December 2006 and 2005 are as follows:

	<b>Scheduled maturities at 31 December:</b>	
	<b>2006</b>	<b>2005</b>
2007	128,866	12,050
2008	25,696	14,364
2009	86,357	-
2010	-	84,086
<b>Total long-term borrowings</b>	<b>240,919</b>	<b>110,500</b>

*Interest expense.* Interest expense for the years ended 31 December 2006 and 2005 comprised the following:

	<b>Year ended 31 December:</b>	
	<b>2006</b>	<b>2005</b>
<i>Short-term borrowings</i>		
Renaissance Securities Trading Limited	3,278	-
Alfa-Bank	4,901	-
Sberbank	545	-
Alba-Alliance	94	-
Other	1,355	1,806
Total interest expense associated with short-term borrowings	10,173	1,806
<i>Long-term borrowings</i>		
Senior Notes	1,732	1,752
Restructured Senior Notes	1,213	-
Facility Agreement, including:		
interest at coupon rate of 14.0 percent per annum	13,386	3,465
accretion of issuance costs	3,934	249
First Russian Rouble-denominated bonds	6,933	-
Second Russian Rouble-denominated bonds	841	-
Alfa Bank	735	-
Sberbank	706	-
IMB	1,032	2
NOMOS Bank	712	-
Accretion of discount associated with warrants on Senior Notes	63	-
Accretion of discount associated with warrants on Facility Agreement	572	199
Other	4,753	321
<b>Total interest expense</b>	<b>46,785</b>	<b>7,794</b>

**15 Shareholders' Equity**

**Shares authorized and issued.** At 31 December 2006, the Group's authorized share capital comprised 900 million Class A common shares and Class B common shares, each having a par value of \$0.0001, of which 2,085,844 were issued. Additionally, the Group had authorized 598,862 Series A convertible preferred shares and 1,156,585 Series B convertible preferred shares. Holders of Series A convertible preferred shares and Series B convertible preferred shares were entitled to vote together with the holders of Class A common shares as a single class on all matters submitted for a vote of holders of Class A common shares. The Holders of Series A convertible preferred shares and Series B convertible preferred shares were entitled to certain preferential rights in the event of distributions or liquidation. The Holders of Series A convertible preferred shares and Series B convertible preferred shares were also entitled, at their option, at any time to convert any such convertible preferred shares into an equal number of fully paid Class A common shares. Such conversion into fully paid common shares occurred immediately upon the closing of the Group's initial public offering of its shares in February 2007.

The following table summarizes share and share premium activity for the years ended 31 December 2006 and 2005, respectively (share premium in thousands of US dollars).

	Number of common shares:		Number of preference shares:		Share Premium
	Class A	Class B	Series A	Series B	
<b>Balance at 31 December 2004</b>	<b>1,125,000</b>	-	<b>750,000</b>	-	<b>4,125</b>
Share-based compensation (Note 16)	-	-	-	-	3,023
Issuance of Class B common shares	-	1,000,000	-	-	-
Issuance of Series B preference shares	-	-	-	1,176,471	39,429
<b>Balance at 31 December 2005</b>	<b>1,125,000</b>	<b>1,000,000</b>	<b>750,000</b>	<b>1,176,471</b>	<b>46,577</b>
Share-based compensation (Note 16)	-	-	-	-	15,199
Issuance of shares for purchase of Smith Eurasia (Note 5)	266,666	-	-	-	60,000
Issuance of shares in private equity placement	444,445	-	-	-	95,242
Conversion of preference shares into common shares	171,024	-	(151,138)	(19,886)	-
Conversion of Class B common shares into Class A common shares – cashless	55,209	(60,000)	-	-	-
Exercise of warrants	17,500	-	-	-	336
Exercise of stock options	13,763	-	-	-	-
Shares cancelled through cashless exercise of stock options	(663)	-	-	-	-
Purchase of treasury shares	(7,100)	-	-	-	-
<b>Balance at 31 December 2006</b>	<b>2,085,844</b>	<b>940,000</b>	<b>598,862</b>	<b>1,156,585</b>	<b>217,354</b>

**Class B common shares.** In July 2005, the Group issued 1,000,000 Class B common shares to an executive for \$100. The holder of Class B common shares is entitled to exchange Class B common shares for an equal number of Class A common shares for an exchange price of \$12.00 per share, subject to certain reductions such as for dividends declared on Class A common shares. Such exchange rights are subject to vesting provisions such that 500,000 of Class B common shares were exchangeable into Class A common shares on 1 January 2006 and the remaining were exchangeable into Class A common shares on 1 January 2007.

During 2006, 60,000 Class B common shares were converted into 55,209 Class A common shares in a cashless exercise. The converted 55,209 Class A shares are valued in the shareholders' equity at historic value totalling \$166,000.

## **15 Shareholders' Equity (Continued)**

**Issuance of Series B preference shares.** In October 2005, the Group issued 1,176,471 Series B convertible preference shares in exchange for \$39.4 million, net of direct costs of \$0.6 million.

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

**Treasury shares.** In August 2006, the Group purchased 7,100 shares from a former employee at \$225.0 per share for a total amount of \$1,598,000.

**Exercise of warrants.** In connection with the issuance of the Senior Notes (Note 14), the Group issued 14,500 warrants to the holders to purchase 120,833 of the Group's Class A common shares for \$20.00 per share. Management estimated the value of the warrants to be \$136,000. This amount was recorded within equity in the Group's consolidated balance sheet, with a corresponding reduction in the carrying value of the Senior Notes. In April 2006, 2,100 of the Group's warrants issued in connection with the Senior Notes were exercised, resulting in issuance of 17,500 Class A common shares. At 31 December 2006, 12,400 warrants to acquire 103,333 Class A common shares at \$20.00 per share remained outstanding. In February 2007, after the initial public offering 8,500 warrants were exercised into 70,833 shares for cash proceeds of \$1,417,000. 3,900 warrants were exercised into 30,560 class A common shares on a cash-less basis, under which 1,940 class A common shares were cancelled (Note 25).

## **16 Share-based Compensation**

**2005 Stock Option Plan.** In July 2005 the Group adopted the 2005 Stock Option Plan (the "2005 Plan"). Options vest over periods of up to four years and are exercisable for ten years from the grant date. Vesting provisions differ by award. Through 31 December 2006, the Group's Board of Directors had authorized stock options for the purchase of up to 1,150,000 shares. At 31 December 2006, stock options to purchase 41,150 shares remained authorized and available for grant.

The total grant date fair value of the stock options granted under the 2005 Plan during the years ended 31 December 2006 and 2005 was \$50,300,000 and \$5,397,000, respectively. The fair value of stock options granted is recognized over the respective vesting periods. During the years ended 31 December 2006 and 2005, \$13,875,000 and \$1,242,000, respectively, of compensation expense associated with awards granted was recognized within selling, general and administrative expenses in the Group's consolidated statement of income. An associated credit was recorded as share premium in the consolidated statement of changes in shareholders' equity.

**Class B common shares.** In July 2005, the Group issued 1,000,000 Class B common shares to an executive for \$100. The holder of Class B common shares is entitled to exchange the Class B common shares for an equal number of Class A common shares for an exchange price of \$12.00 per share, subject to certain reductions such as for dividends declared on Class A common shares. Such exchange rights are subject to vesting provisions such that 500,000 of the Class B common shares were exchangeable into Class A common shares on 1 January 2006 and the remaining were exchangeable into Class A common shares on 1 January 2007.

The Group accounts for the award of Class B common shares in a manner similar to that of a stock option grant. The total grant date fair value of Class B common shares, including the associated exchange options, issued in July 2005 was \$3,105,000. This amount was recognized as an expense over the vesting period of the exchange provision. During the years ended 31 December 2006 and 2005, \$1,324,000 and \$1,781,000 of compensation expense associated with Class B common shares was recognized within selling, general and administrative expenses in the Group's consolidated statement of income.

**16 Share-based Compensation (Continued)**

*Options outstanding.* The following summarizes information about stock options activity, including Class B common shares, for the years ended 31 December 2006 and 2005.

	Weighted average exercise price in \$ per share	Options
<b>Options outstanding at 31 December 2004</b>	-	-
Granted	15.81	1,630,400
<b>Options outstanding at 31 December 2005</b>	<b>15.81</b>	<b>1,630,400</b>
Granted	176.74	530,950
Exercised	11.42	(73,763)
Forfeited	79.43	(52,500)
<b>Options outstanding at 31 December 2006</b>	<b>56.24</b>	<b>2,035,087</b>

Range of exercise prices (in US Dollars per share)	Options outstanding		Options exercisable		
	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted average exercise price (\$)	Options exercisable at year end	Weighted average exercise price (\$)
\$4.00 - \$12.00	1,139,137	8.0	\$11.59	547,705	\$11.24
\$15.00 - \$34.00	515,000	8.9	\$29.89	180,002	\$29.75
\$130.00 - \$275.00	380,950	9.7	\$225.39	-	-
	<b>2,035,087</b>		<b>\$56.24</b>	<b>727,707</b>	<b>\$15.82</b>

The Black-Scholes option valuation model is used for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Based on the assumptions below, the weighted average fair value of employee stock options granted during 2006 and 2005 was \$94.74 and \$5.21 per option, respectively. The significant inputs into the option valuation model were as follows.

	Awards granted during the year ended 31 December:	
	2006	2005
Share price	\$122.50 – 225.0	\$14 – 30
Dividend yield	-	-
Expected volatility	40.00%	40.00%
Risk-free interest rate	4.5-5.1%	3.8-4.6%
Expected life	1-3 years	4-7 years

Had the expected volatility been 25.0 percent, 50.0 percent or 75.0 percent, the weighted average fair value of employee stock options granted during 2006 would have been \$75.92, \$106.89 or \$133.95 per option, respectively.



**Integra Group**  
**Notes to the Consolidated Financial Statements**  
(expressed in US Dollars (tabular amounts in thousands, except as indicated))

**17 Earnings per Share**

The following table sets for the computation of basic and diluted earnings per share.

	<b>Year ended 31 December:</b>	
	<b>2006</b>	<b>2005</b>
<b><i>Numerator</i></b>		
Profit attributable to shareholders of Integra Group for basic earnings per share	(40,380)	3,889
Profit attributable to shareholders of Integra Group for diluted earnings per share	(40,380)	3,889
<b><i>Denominator</i></b>		
Weighted average number of common shares outstanding during the period - basic	3,359,052	2,146,493
Incremental common shares attributable to exercise of outstanding options	-	143,804
Incremental common shares attributable to exercise of warrants issued with Senior Notes	-	7,042
<b>Denominator for diluted earnings per share</b>	<b>3,359,052</b>	<b>2,297,339</b>
Basic (loss) earnings per share (in US Dollars per share)	(12.02)	1.81
Diluted (loss) earnings per share (in US Dollars per share)	(12.02)	1.69

Preferred shares are included in the calculation of basic earnings per share as they are fully paid and convertible into an equal number of common shares for no cost.

Incremental common shares attributable to exercise of warrants issued with Senior Notes and with respect to outstanding options were not included in the calculation of diluted earnings per share for the year ended 31 December 2006 as the effect would have been antidilutive.

**18 Construction Contracts**

The revenues and gross margins recognised on long-term construction contracts for the years ended 31 December 2006 and 2005 were as follows:

	<b>Year ended 31 December:</b>	
	<b>2006</b>	<b>2005</b>
Construction revenues	103,998	22,854
Construction costs	(63,811)	(14,858)
<b>Gross profit</b>	<b>40,187</b>	<b>7,996</b>

The aggregate amount of costs incurred on construction contracts that were in progress at 31 December 2006 and 2005 was \$53,551,000 and \$13,074,000, respectively. During 2006 and 2005, the Group recognised aggregate gross profits of \$32,527,000 and \$9,550,000, respectively less losses of nil and \$974,000, respectively, for contracts that were in progress at 31 December 2006 and 2005, respectively.

**Integra Group**  
**Notes to the Consolidated Financial Statements**  
(expressed in US Dollars (tabular amounts in thousands, except as indicated))

**19 Cost of Sales**

	<b>Year ended 31 December:</b>	
	<b>2006</b>	<b>2005</b>
Materials and supplies	137,587	24,842
Employee costs (including mandatory social contributions of \$18.7 million and \$4.2 million for the periods ended 31 December 2006 and 2005, respectively)	109,247	21,240
Depreciation and amortization	64,504	8,304
Services	108,528	20,143
Other	6,138	2,159
<b>Total cost of sales</b>	<b>426,004</b>	<b>76,688</b>

**20 Selling, General and Administrative Expenses**

	<b>Year ended 31 December:</b>	
	<b>2006</b>	<b>2005</b>
Employee costs (including unified social tax of \$5.5 million and \$1.6 million for the periods ended 31 December 2006 and 2005, respectively)	47,249	11,672
Services	25,568	3,551
Share options granted	15,199	3,023
Transportation expenses	1,854	841
Taxes other than income	6,179	212
Depreciation	2,157	108
Other	8,057	4,422
<b>Total selling, general and administrative expenses</b>	<b>106,263</b>	<b>23,829</b>

**21 Segment Information**

The Group organizes its operational activities into the following three reportable segments: drilling, workover and integrated project management ("IPM"), manufacturing and formation evaluation. The Group's drilling, workover and integrated project management segment manufactures drilling tools and provides a wide variety of services including rig up work, mud system services, rig and drill bit management, well cementing and completing, maintenance and capital workovers, chemical treatment, well preparation and completion work. The formation evaluation segment provides both well and field geophysical services including logging, perforation and 2D and 3D seismic data acquisition, processing and interpretation. The manufacturing segment comprises URBO, which was acquired in September 2005, and Strommachina and manufactures heavy oil and gas drilling rigs and other equipment. Corporate assets, liabilities and expenses such as certain administrative assets, general and administrative expenses and borrowings represent activities that cannot be directly allocated to the Group's primary operating segments. At 31 December 2006 and 2005, the Group operated substantially within one geographical segment which is the Russian Federation and CIS.

**Integra Group**  
**Notes to the Consolidated Financial Statements**  
(expressed in US Dollars (tabular amounts in thousands, except as indicated))

**21 Segment Information (Continued)**

Segment information as of and for the year ended 31 December 2006 was as follows:

	Drilling, workover and IPM	Formation evaluation	Manufacturing	Total
Segment assets	607,752	436,170	252,560	1,296,482
Corporate assets				567,812
Inter-segment eliminations				(630,164)
<b>Total assets</b>	<b>607,752</b>	<b>436,170</b>	<b>252,560</b>	<b>1,234,130</b>
Segment liabilities	381,422	190,038	144,989	716,449
Corporate liabilities				871,511
Inter-segment eliminations				(630,164)
<b>Total liabilities</b>	<b>381,422</b>	<b>190,038</b>	<b>144,989</b>	<b>957,796</b>

Segment information for the year ended 31 December 2006 was as follows:

	Drilling, workover and IPM	Formation evaluation	Manufacturing	Total
External revenues and other income	313,584	107,510	131,767	552,861
Inter-segment sales				(6,068)
<b>Total segment revenues</b>	<b>313,584</b>	<b>107,510</b>	<b>131,767</b>	<b>546,793</b>
External expenses	(294,591)	(105,188)	(103,882)	(503,661)
Corporate expenses				(37,049)
Inter-segment expenses				6,068
<b>Total segment expenses</b>	<b>(294,591)</b>	<b>(105,188)</b>	<b>(103,882)</b>	<b>(534,642)</b>
<b>Segment results</b>	<b>18,993</b>	<b>2,322</b>	<b>27,885</b>	<b>12,151</b>
Income of associated companies	-	457	-	457
Gain on disposal of Quest	225	-	-	225
Capital expenditures	88,475	58,273	18,564	165,312
Depreciation and amortization	(38,936)	(20,211)	(6,835)	(65,982)
Unallocated depreciation				(679)

**Integra Group**  
**Notes to the Consolidated Financial Statements**  
(expressed in US Dollars (tabular amounts in thousands, except as indicated))

**21 Segment Information (Continued)**

Segment information as of and for the year ended 31 December 2005 was as follows:

	Drilling, workover and IPM	Formation evaluation	Manufacturing	Total
Segment assets	139,690	102,043	53,419	295,152
Corporate assets				6,930
Inter-segment eliminations				(5,336)
<b>Total assets</b>	<b>139,690</b>	<b>102,043</b>	<b>53,419</b>	<b>296,746</b>
Segment liabilities	48,952	36,075	20,597	105,624
Corporate liabilities				113,433
Inter-segment eliminations				(5,336)
<b>Total liabilities</b>	<b>48,952</b>	<b>36,075</b>	<b>20,597</b>	<b>213,721</b>

Segment information for the year ended 31 December 2005 was as follows:

	Drilling, workover and IPM	Formation evaluation	Manufacturing	Total
External revenues and other income	70,396	4,968	22,854	98,218
Inter-segment sales				(297)
<b>Total segment revenues</b>	<b>70,396</b>	<b>4,968</b>	<b>22,854</b>	<b>97,921</b>
External expenses	(67,947)	(5,486)	(17,787)	(91,220)
Corporate expenses				(9,706)
Inter-segment expenses				297
<b>Total segment expenses</b>	<b>(67,947)</b>	<b>(5,486)</b>	<b>(17,787)</b>	<b>(100,629)</b>
<b>Segment results</b>	<b>2,449</b>	<b>(518)</b>	<b>5,067</b>	<b>(2,708)</b>
Income of associated companies	-	2,056	-	2,056
Gain on acquisitions	-	16,592	-	16,592
Capital expenditures	16,248	672	199	17,119
Depreciation and amortization	7,341	386	619	8,346
Unallocated depreciation				66

**22 Related Party Transactions**

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24, *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The related parties with whom the Group had transactions with or significant balances outstanding as of and for the periods ended 31 December 2006 and 2005 are Brookline Partners LLC, a shareholder, the Group's associates (NNGF, NGT and SNGF) and OOO Standart and OOO Standart-2, related through common management and a common shareholder.

## 22 Related Party Transactions (Continued)

Because of these relationships, it is possible that the Group may have entered transactions which unrelated parties might not and it is possible that the terms of these transactions are not the same as those that would have resulted from transactions with unrelated parties.

The table below discloses related party transactions as of and for the periods ended 31 December 2006 and 2005:

	<b>Year ended 31 December:</b>	
	<b>2006</b>	<b>2005</b>
Sales of production services to related parties	2,940	-
Sales of management services to related parties	592	380
Purchase of management services from related parties	648	638
Purchase of materials	29	-
Purchase of transportation services	1,269	1,233
Purchase of formation evaluation services	6,757	171
Other income	37	-
	<b>As of 31 December:</b>	
	<b>2006</b>	<b>2005</b>
Trade receivables, net	695	106
Trade payables, current	2,050	413
Loans issued to employees	1,020	-
Long-term borrowings	444	-
Promissory notes	-	-

**Management compensation.** The Group's senior management team comprised six and ten individuals whose compensation totalled \$14,654,000 and \$5,390,000 for the periods ended 31 December 2006 and 2005, respectively, including salary, bonuses and other benefits of \$3,568,000 and \$2,700,000, respectively, and share-based compensation of \$11,086,000 and \$2,690,000, respectively.

**Management services contract.** The Group maintained a management services contract with Brookline Partners LLC, a significant shareholder and an affiliate of the Chairman of the Board. The Group incurred \$645,000 and \$589,000 under this contract in 2006 and 2005, respectively, plus reimbursement of expenses totalling \$3,000 and \$49,000, respectively. In January 2007 the contract was terminated and replaced with an administrative services contract with another affiliate of the Chairman.

**Loans issued to employees.** During the year ended 31 December 2006, the Group issued a number of Russian Rouble-denominated loans to its employees in the amount equivalent to \$1,029,000. The loans bear interest rates ranging from nil to 10.0 percent per annum, payable upon repayment of the loans at their maturity in June 2007. At 31 December 2006, the fair value of the outstanding loans was \$1,020,000 and accrued interest was \$40,000.

**Shareholder loans.** There were no shareholder loans outstanding, issued or repaid during the year ended 31 December 2006. During the year ended 31 December 2005, the Group obtained short-term loans from certain of its shareholders totalling \$1,736,000 and bearing interest at 15.0 percent per annum. All loans were repaid in full prior to 31 December 2005.

## 23 Contingencies, Commitments and Operating Risks

**Contractual commitments and guarantees.** In the normal course of business, the Group entered into contracts for the purchase of property, plant and equipment. At 31 December 2006 and 2005, the Group had unpaid contracted amounts of \$37,305,000 and \$6,457,000, respectively.

## **23 Contingencies, Commitments and Operating Risks (Continued)**

**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 recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

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

As of 31 December 2006, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

**Insurance policies.** The Group holds certain insurance policies in relation to its operations and assets including, but not limited to life insurance of employees, in respect of public liability and other insurable risks. The Group has Directors and Officers insurance policy in respect of its public liability.

**Legal proceedings.** At 31 December 2006, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, 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 been accrued or disclosed in these consolidated financial statements.

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

## **24 Financial Risks**

The Group's activities expose it to a variety of financial risks, including credit risk, the effects of changes in foreign currency exchange rates and interest rates. The Group's overall risk management objective is to reduce potential adverse effects of the above risks on the financial performance of the Group, however the Group's management currently does not maintain any formal management programs beyond management of credit risks.

**Credit risks.** Financial assets, which potentially subject to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Credit risks related to accounts receivable are systematically monitored and are considered when impairment provisions are created. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk.

**24 Financial Risks (Continued)**

During 2006, a significant proportion of the Group's sales were made to and trade receivables were due from four oil and gas majors: TNK-BP, Lukoil, Rosneft and Gazprom. Balances are presented below in millions of US Dollars.

	Sales for the year ended 31 December 2006	Net amount due at 31 December 2006
TNK-BP	130	34
Lukoil	61	14
Rosneft	53	12
Gazprom	40	10

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded. Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

**Foreign exchange risk.** At 31 December 2006 a substantial proportion of the Group's borrowings were denominated in US Dollars which were largely repaid following the IPO. The Group does not have any formal hedging arrangements to mitigate its foreign exchange risk.

**Interest rate risk.** Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Currently, the Group does not maintain a formal management program focusing on the unpredictability of financial markets or seeking to minimize potential adverse effects on the financial performance of the Group. However, the majority of the Group's borrowings are at fixed rates, reducing its exposure to interest rate fluctuations.

**25 Subsequent Events**

**Initial public offering.** In February 2007 the Group completed its Initial Public Offering ("IPO") of 1,492,537 Class A common shares at London Stock Exchange ("LSE") in the form of 29,850,740 Global Depository Receipts ("GDRs"), each with nominal value of 0.0001 20 GDRs representing an interest in one share. In addition, the Group issued 299,139 shares in the form of 5,982,780 GDRs to cover over allotments in offering. The offering was at price of \$335 per share or \$16.75 per one GDR. The over-allotment option was utilized in full at the offering.

From both IPO and over-allotment offering the Group raised \$600,211,000 cash consideration, gross of \$29,632,000 of fees charged at the offering. Additionally, the shareholders' equity is reduced by \$14,039,000 of costs directly related to the preparation of the Group for the IPO.

In connection with entering into the \$90,000,000 Facility Agreement (Note 14), the Group issued 90,000 warrants to the lenders. After the initial public offering the warrant holders exercised in full their entitlement to exercise the warrants into 62,686 Class A common shares at an exercise price of \$251.25. The Group received proceeds of \$15,750,000 from the exercise of these options in February 2007.

In addition in connection with issuance of Senior Notes of \$14,500,000 (Note 14), the Group issued 14,500 warrants to the lenders. In April 2006, 2,100 warrants were exercised resulting in issuance of 17,500 Class A common shares to the lenders. After the initial public offering the warrant holders exercised in full their entitlement to exercise the remaining 12,400 warrants into 101,392 Class A common shares at an exercise price of \$20. In February 2007, the Group received proceeds of \$1,417,000 (net of cashless exercise of 1,940 Class A common shares at the offering price of \$335 of \$650,000) from the exercise of these options.

**Acquisition of New Leasing Company (NLK).** In February 2007, the Group completed its acquisition of NLK for \$3,645,000.

**Integra Group**  
**Contact Information**

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The Group's registered office in the Russian Federation is:

Integra Group  
Smolenskaya-Sennaya square, bld. 27-29/1, block 6  
119121 Moscow  
Russian Federation

Telephone: +7 495 933 06 21  
Email: [reception@integragroup.ru](mailto:reception@integragroup.ru)