Integra Group

Interim Condensed Consolidated Financial Statements (Unaudited)
as of and for the Six Months Ended
30 June 2011

Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders and Board of Directors of Integra Group:

Introduction

1 We have reviewed the accompanying interim condensed consolidated statement of financial position of Integra Group and its subsidiaries (the 'Group') as of 30 June 2011 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

2 We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3 Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

ZAO PricewaterhouseCoopers Audit

31 August 2011
Moscow, Russian Federation

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Integra Group
Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)
(expressed in thousands of US dollars)

	Note	Six months ended 30 June: 2011	2010*
Continuing operations			
Sales of services		427,896	376,852
Sales of goods		29,441	28,950
Total sales	**4**	**457,337**	**405,802**
Cost of sales	5	(384,923)	(332,556)
Impairment of property, plant and equipment	11	(300)	(4,306)
Gross profit		**72,114**	**68,940**
Selling, general and administrative expenses	6	(67,104)	(62,479)
(Loss) gain from disposal of property, plant and equipment and intangible assets		(2,444)	488
Operating profit		**2,566**	**6,949**
Finance income		560	373
Finance expense	16	(10,441)	(23,053)
Exchange gain		4,641	3,405
Share of results of associates		(1,040)	161
Loss before income tax		**(3,714)**	**(12,165)**
Income tax benefit (expense)	15	21,526	(8,545)
Profit (loss) for the period from continuing operations		**17,812**	**(20,710)**
Discontinued operations			
Loss from discontinued operations	3	(4,866)	(9,729)
Profit (loss) for the period		**12,946**	**(30,439)**
Profit (loss) from continuing operations attributable to:			
Shareholders of Integra Group		**18,861**	**(21,064)**
Non-controlling interest		(1,049)	354
Loss from discontinued operations attributable to:			
Shareholders of Integra Group		**(4,866)**	**(9,729)**
Non-controlling interest		-	-
Profit (loss) attributable to:			
Shareholders of Integra Group		**13,995**	**(30,793)**
Non-controlling interest		(1,049)	354
Earnings (loss) per share attributable to shareholders of Integra Group (in US dollars per share):			
Earnings (loss) from continuing operations per share, basic	19	2.21	(2.50)
Earnings (loss) from continuing operations per share, diluted	19	2.04	(2.50)
Loss from discontinued operations per share, basic and diluted	19	(0.57)	(1.16)
Weighted average shares outstanding, basic	19	8,543,722	8,414,773
Weighted average shares outstanding, diluted	19	9,248,803	8,414,773
Profit (loss) for the period		12,946	(30,439)
Other comprehensive (loss) income			
Effect from foreign exchange hedge		-	(1,834)
Exchange gain (loss) from translation to presentation currency		29,940	(11,087)
Total comprehensive gain (loss) for the period		**42,886**	**(43,360)**
Comprehensive gain (loss) attributable to:			
Shareholders of Integra Group		**39,555**	**(43,163)**
Non-controlling interest		3,331	(197)

*Restated to get the impact of discontinued operations (note 3), as required by IFRS 5

Approved for issue and signed on behalf of the Board of Directors on 31 August 2011

A.J. Campo Mejia
Chief Executive Officer

Y. Budoukov
Chief Financial Officer

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

(expressed in thousands of US dollars)

	Note	30 June 2011	31 December 2010*
Assets			
Cash and cash equivalents	8	18,455	54,841
Trade and other receivables	9	298,382	242,148
Inventories	10	97,844	79,482
Assets of disposal group classified as held-for-sale	3	17,298	44,724
Total current assets		**431,979**	**421,195**
Property, plant and equipment	11	299,941	286,058
Goodwill and intangible assets	12	110,507	102,710
Investments in associates	13	16,910	16,555
Deferred income tax assets		33,862	8,197
Loans provided and other assets		3,583	7,213
Total non-current assets		**464,803**	**420,733**
Total assets		**896,782**	**841,928**
Liabilities and equity			
Accounts payable and accrued liabilities	14	191,025	149,838
Income tax payable		1,184	2,070
Other taxes payable	15	41,912	45,073
Borrowings	16	109,192	35,393
Liabilities of disposal group classified as held-for-sale	3	160	4,176
Total current liabilities		**343,473**	**236,550**
Borrowings	16	57,422	131,107
Deferred income tax liability		14,431	14,230
Other non-current liabilities		1,603	1,346
Total non-current liabilities		**73,456**	**146,683**
Total liabilities		**416,929**	**383,233**
Share capital and share premium	17	993,037	995,673
Treasury shares	17	(25,282)	(6,190)
Cumulative translation reserve		(84,056)	(109,616)
Accumulated deficit		(475,476)	(489,471)
Total equity attributable to shareholders of Integra Group		**408,223**	**390,396**
Non-controlling interest		71,630	68,299
Total equity		**479,853**	**458,695**
Total liabilities and equity		**896,782**	**841,928**

*Restated upon accounting for certain adjustments to the purchase price allocation, as permitted by IFRS 3 (note 1.8).

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

(expressed in thousands of US dollars)

	Six months ended 30 June:	
	2011	**2010**
Cash flows from operating activities		
Loss before income tax from continuing operations	(3,714)	(12,165)
Loss before income tax from discontinued operation	(1,089)	(10,112)
Adjustments for:		
Gain from disposal of subsidiaries	(586)	-
Impairment of property, plant and equipment and loss recognised on the re-measurement of assets of disposal group	300	4,306
Depreciation and amortization	45,699	49,792
Loss (gain) from disposal of property, plant and equipment and intangible assets	2,434	(488)
Finance expense, net	9,879	24,206
Share-based compensation	2,689	5,330
Share of results of associates	1,040	(161)
Receivables and inventories impairment and other write-offs	3,101	4,743
Exchange gain	(4,641)	(3,647)
Other	49	(369)
Operating cash flows before working capital changes	**55,161**	**61,435**
Change in trade and other receivables	(50,671)	(12,202)
Change in inventories	(13,037)	(236)
Change in accounts payable and accrued liabilities	37,219	4,875
Change in other taxes payable	(3,940)	8,536
Operating cash flows before interest and income taxes	**24,732**	**62,408**
Income tax paid	(6,540)	(7,826)
Finance expense paid	(10,814)	(19,724)
Net cash generated from operating activities	**7,378**	**34,858**
Cash flows from investing activities:		
Purchase of property, plant and equipment	(42,030)	(25,709)
Proceeds from the disposal of property, plant and equipment and intangible assets	2,998	44
Proceeds from disposal of Stromneftemash, net of pre-tax costs to sell and cash	14,401	-
Loans provided	-	(283)
Proceeds from repayment of loans	2,967	145
Interest received	401	537
Other	(578)	(1,215)
Net cash used in investing activities	**(21,841)**	**(26,481)**
Cash flows from financing activities:		
Proceeds from disposal of non-controlling interest	7,007	-
Exercise of options for cash	1,360	-
Global Depository Receipts buy-back	(19,092)	-
Proceeds from borrowings	37,378	131,537
Repayment of borrowings	(48,669)	(130,955)
Net cash (used in) generated from financial activities	**(22,016)**	**582**
Net (decrease) increase in cash and cash equivalents	**(36,479)**	**8,959**
Cash and cash equivalents at the beginning of the period	54,841	37,272
Effect of exchange differences on cash balances	827	(1,417)
Cash and cash equivalents at the end of the period	**19,189**	**44,814**

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

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

	Note	Share capital and share premium	Treasury shares	Cumulative translation reserve	Accumulated deficit	Total equity attributable to shareholders of Integra Group	Non-controlling interest	Total equity
Balance at 31 December 2009		**982,698**	**-**	**(106,471)**	**(481,468)**	**394,759**	**17,653**	**412,412**
Total comprehensive loss for the period		-	-	(10,536)	(32,627)	(43,163)	(197)	(43,360)
Total		**982,698**	**-**	**(117,007)**	**(514,095)**	**351,596**	**17,456**	**369,052**
Share-based compensation		5,330	-	-	-	5,330	-	5,330
Balance at 30 June 2010		**988,028**	**-**	**(117,007)**	**(514,095)**	**356,926**	**17,456**	**374,382**
Balance at 31 December 2010		**995,673**	**(6,190)**	**(109,616)**	**(489,471)**	**390,396**	**68,299**	**458,695**
Total comprehensive gain for the period		-	-	25,560	13,995	39,555	3,331	42,886
Total		**995,673**	**(6,190)**	**(84,056)**	**(475,476)**	**429,951**	**71,630**	**501,581**
GDR buy-back program	17	-	(19,092)	-	-	(19,092)	-	(19,092)
Class A common shares cancelled after disposal of Stromneftemash	17	(2,924)	-	-	-	(2,924)	-	(2,924)
Options received from disposal of Stromneftemash	17	(3,761)	-	-	-	(3,761)	-	(3,761)
Share-based compensation from stock options and RSU plans	17	2,689	-	-	-	2,689	-	2,689
Exercise of options for cash	17	1,360	-	-	-	1,360	-	1,360
Balance at 30 June 2011		**993,037**	**(25,282)**	**(84,056)**	**(475,476)**	**408,223**	**71,630**	**479,853**

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

1 General and Summary of Significant Accounting Policies

1.1 Statement of compliance. The interim condensed consolidated financial statements of Integra Group ("Integra"), together with its consolidated subsidiaries (collectively the "Group"), have been prepared by the Group in accordance with the International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been omitted or condensed. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes of Integra Group for the year ended 31 December 2010 issued on 20 April 2011 prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting principles applied are consistent with those as set out in the Group's annual consolidated financial statements for the year ended 31 December 2010.

1.2 Going concern and basis of preparation. These interim condensed consolidated financial statements have been prepared on a "going concern" basis, which presumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. The interim condensed consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below and in the consolidated financial statements and the notes of Integra Group for the year ended 31 December 2010 issued on 20 April 2011. These interim condensed consolidated financial statements are presented in US dollars.

1.3 Accounting policies. Except as described below, the accounting policies applied in these interim condensed consolidated financial statements are consistent with those applied in the annual consolidated financial statement as of and for the year ended 31 December 2010. The Group has adopted all new standards and interpretations that were effective from 1 January 2011. The impact of the adoption of these new standards and interpretations has not been significant with respect to these interim condensed consolidated financial statements.

1.4 Taxes on income. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

1.5 Seasonality. The Group's drilling service revenues can be negatively affected by severe winter weather conditions in certain regions, or by early winter thawing in other regions, since large volumes of drilling equipment and drilling rigs can only be transported when the ground is sufficiently frozen to create access roads. There is also a limited season for providing seismic services in certain Siberian regions of the Russian Federation which remain in flood-like, or swampy conditions, in warm weather. Such conditions generally restrict the provision of seismic services in Siberia to a period from December to April.

1.6 Merger of OOO Smith Production Technology into OOO Integra Drilling. In June 2011, the Group completed the merger of OOO Smith Production Technology into OOO Integra Drilling. Both of these entities are fully owned by the Group and are located in the Russian Federation.

1.7 New IFRS effective after 30 June 2011 and not early adopted. The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the Group and the Group is assessing the impact of the amended standards on its consolidated financial statements.

- **IFRS 7** (Amendment), *Financial Instruments: Disclosures,* issued in October 2010 and effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets.
- **IAS 12** (Amendment), *Income Taxes*, issued in December 2010 and effective for annual periods beginning on or after 1 January 2012. The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale.
- **IFRS 10**, *Consolidated Financial Statements*, issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, replaces all of the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements,* and SIC-12, *Consolidation - Special Purpose Entities.*

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

1 Summary of Significant Accounting Policies (continued)

1.7 New IFRS effective after 30 June 2011 and not early adopted (continued).

- **IFRS 12**, *Disclosure of Interest in Other Entities*, issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28, *Investments in Associates*.
- **IFRS 13**, *Fair Value Measurement,* issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- **IAS 1** (Amendment), *Presentation of Financial Statements,* issued June 2011, effective for annual periods beginning on or after 1 July 2012, changes the disclosure of items presented in Other Comprehensive Income (Loss) based on whether or not they may be recycled to profit or loss in the future.
- **IAS 19** (Amendment), *Employee Benefits,* issued June 2011, effective for periods beginning on or after 1 January 2013, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

The Group has reviewed and found the following new interpretations not relevant to the Group:

- **IFRS 1** (Amendment), *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters,* effective for annual periods beginning on or after 1 July 2010.
- **IFRS 1** (Amendment), *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters,* issued in December 2010 and effective for annual periods beginning on or after 1 July 2011.
- **IFRS 11**, *Joint Arrangements,* issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, replaces IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities—Non-Monetary Contributions by Ventures*.

1.8 Change in the Group's balances at 31 December 2010. During the six months ended 30 June 2011, the Group made certain adjustments to the purchase accounting for the acquisition of the seismic and data processing businesses of PetroAlliance and WesternGeco in Russia which resulted in the change of the Group's opening balances as follows:

	31 December 2010 As previously reported	**Purchase accounting adjustments for businesses acquired from PetroAlliance and WesternGeco**	**31 December 2010 Revised**
Assets			
Cash and cash equivalents	54,841	-	54,841
Trade and other receivables	242,148	-	242,148
Inventories	79,482	-	79,482
Assets of disposal group classified as held for sale	44,724	-	44,724
Property, plant and equipment	288,547	(2,489)	286,058
Goodwill and other intangible assets	100,306	2,404	102,710
Investments in associates	16,555	-	16,555
Deferred tax assets	7,699	498	8,197
Loans provided and other assets	7,213	-	7,213
Total assets	**841,515**	**413**	**841,928**

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

1 Summary of Significant Accounting Policies (continued)

1.8 Change in the Group's balances at 31 December 2010 (continued).

	31 December 2010 As previously reported	Purchase accounting adjustments for businesses acquired from PetroAlliance and WesternGeco	31 December 2010 Revised
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	149,838	-	149,838
Income taxes payable	2,070	-	2,070
Other taxes payable	45,073	-	45,073
Short-term borrowings	35,393	-	35,393
Liabilities of disposal group classified as held for sale	4,176	-	4,176
Long-term borrowings	131,107	-	131,107
Deferred tax liability	14,230	-	14,230
Other non-current liabilities	1,346	-	1,346
Share capital	995,673	-	995,673
Treasury shares	(6,190)	-	(6,190)
Cumulative translation reserve	(109,684)	68	(109,616)
Accumulated deficit	(490,618)	1,147	(489,471)
Non-controlling interest	69,101	(802)	68,299
Total liabilities and equity	**841,515**	**413**	**841,928**

The Group has not completed the purchase accounting of the acquisition of PetroAlliance and WesternGeco in Russia as of 30 June 2011.

2 Financial Risk Management

At 30 June 2011 and 31 December 2010, the Group's financial instruments were as follows:

	Notes	30 June 2011	31 December 2010
Financial assets:			
Cash and cash equivalents	8	18,455	54,841
Financial receivables	9	245,120	173,676
Loans provided and other assets		3,583	7,213
Total financial assets		**267,158**	**235,730**
Financial liabilities:			
Financial payables and accrued liabilities	14	120,943	85,754
Current borrowings	16	109,192	35,393
Non-current borrowings	16	57,422	131,107
Total financial liabilities		**287,557**	**252,254**

At 30 June 2011 and 31 December 2010, the carrying values of the financial assets and financial liabilities, except for the bonds (note 16), approximated their fair values.

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

2 Financial Risk Management (continued)

At 30 June 2011 and 31 December 2010, the carrying and fair values of the bonds were as follows:

	30 June 2011		31 December 2010	
	Carrying value	Fair value	Carrying value	Fair value
Bonds	5,257	5,422	4,843	5,139

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

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

The Group only maintains accounts with reputable banks and financial institutions and therefore believes that it does not have a material credit risk in relation to its cash or cash equivalents. The Group focuses on servicing large independent and Russian state-owned oil and gas exploration and production customer groups which management considers creditworthy. The Group monitors and assesses regularly the likelihood of collection on a customer-by-customer basis in order to mitigate exposure to potential material losses from uncollected accounts. The Group believes that its financial receivables which are neither past due nor impaired represent low exposure to credit risk and that its maximum exposure to credit risk is the carrying value of its financial assets recognized in the consolidated statement of financial position at both 30 June 2011 and 31 December 2010.

At 30 June 2011 and 31 December 2010, the ageing of the financial receivables (note 9) was as follows:

	30 June 2011				
				Including:	
	Total before impairment provision	Impaired	Total recognized	Neither past due nor impaired	Past due but not impaired
Unbilled amounts due for engineering and service contract work	64,045	-	64,045	64,045	-
Within 90 days	167,729	(392)	167,337	143,011	24,326
91 to 360 days	11,373	(748)	10,625	1,006	9,619
Over 360 days	15,851	(12,738)	3,113	388	2,725
Total trade receivables	**258,998**	**(13,878)**	**245,120**	**208,450**	**36,670**

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

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

2 Financial Risk Management (continued)

2.1.1. Credit risk (continued). Movements of the Group's provision for impairment of financial receivables were as follows:

	30 June 2011	31 December 2010
Balance at the beginning of the period	(12,508)	(15,706)
Provision for financial receivables	(5,044)	(4,157)
Unused amounts reversed	4,659	7,084
Transfer to discontinued operations	-	162
Exchange differences	(985)	109
Balance at the end of the period	**(13,878)**	**(12,508)**

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

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

At 30 June 2011 and 31 December 2010, the Group maintained committed lines of credit facilities in which the following amounts were available for drawdown to meet short and medium-term financing needs:

	30 June 2011	31 December 2010
Total amount of credit facilities available for withdrawal	137,399	84,452
Amounts withdrawn	(36,329)	(45,328)
Amount available for withdrawal	**101,070**	**39,124**

At 30 June 2011 and 31 December 2010, interest on the unused facilities, if drawn, would have been payable at an average interest rate of 6.2 percent and 7.2 percent per annum, respectively.

Scheduled maturities of current financial liabilities (notes 14 and 16) outstanding at 30 June 2011 and 31 December 2010 were as follows:

	30 June 2011		
	Financial payables and accrued liabilities	Short-term borrowings	Total current financial liabilities
Within 90 days	111,776	5,581	117,357
91 to 180 days	4,540	21,526	26,066
181 to 365 days	4,627	82,085	86,712
Total current financial liabilities	**120,943**	**109,192**	**230,135**

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

2 Financial Risk Management (continued)

2.1.2. Liquidity risk (continued).

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

Scheduled maturities of long-term borrowings (note 16) outstanding at 30 June 2011 and 31 December 2010 and payments of interest arising after the reporting date were as follows:

	30 June 2011
12 months ended 30 June:	
2012	2,873
2013	32,138
2014	7,446
2015	2,518
2016	28,615
Total long-term borrowings	**73,590**

	31 December 2010
12 months ended 30 December:	
2011	12,975
2012	112,474
2013	28,244
Total long-term borrowings	**153,693**

For purposes of this disclosure, the cash flows are presented in undiscounted nominal terms and the interest payable on floating rate borrowing to maturity was calculated using the rates in existence as of 30 June 2011 and 31 December 2010, respectively.

2.1.3. Interest rate risk. The Group is exposed to cash flow interest rate risk from its variable interest rate borrowings, which was not hedged at 30 June 2011. The Group assesses interest rate risk by reference to market information about ranges of changes in floating interest rates of both actual movements during the year prior the reporting period and reasonably possible changes in the year thereafter.

In each of the six months ended 30 June 2011 and 2010, the Group determined such interest rate sensitivity as one percent and determined that if the floating interest rates increased or decreased by one percent, with all other variables held constant, the Group's loss for the six months ended 30 June 2011 and 2010 and total equity at 30 June 2011 and 2010 would have changed as follows:

	30 June 2011	**30 June 2010**
Incremental pre-tax loss from increase in the floating interest rate by one percent	(319)	(68)
Incremental pre-tax profit from decrease in the floating interest rate by one percent	319	68

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

2 Financial Risk Management (continued)

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

In each of the six months ended 30 June 2011 and 2010, the Group assessed the ranges of reasonably possible exchange rate sensitivity as one Russian rouble to one US dollar exchange rate and determined that if the exchange rates increased or decreased by one Russian rouble, with all other variables held constant, the Group's loss and total equity would have changed from the retranslation of the assets and liabilities denominated in US dollars existing at 30 June 2011 and 2010, respectively, as follows:

	30 June 2011	**30 June 2010**
Incremental pre-tax loss from increase of the RR / $ exchange rate by one Russian rouble	(656)	(837)
Incremental pre-tax profit from decrease of the RR / $ exchange rate by one Russian rouble	680	864

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

The Group considers capital to be a sum of short-term and long-term borrowings and total equity. The Group currently monitors capital risk on the basis of a range of financial ratios relevant to the debt markets including, but not limited to, gearing ratio, referred to as the total borrowings divided by capital. At 30 June 2011 and 31 December 2010, the Group's gearing ratio was 25.8 percent and 26.6 percent, respectively. The Group considers that the long-term optimal gearing ratio is in the range between 35.0 percent and 40.0 percent.

The current policy of the Group and its subsidiaries is not to pay dividends and its subsidiaries only pay dividends on their preferred shares. Effective from the transaction of the sale of 25.0 percent interest in IG Seismic Services Limited, the payment of dividends from earnings of IG Seismic Services Limited to Schlumberger Oilfield Holdings Limited and Integra is subject to separate decisions made by the IG Seismic Services Limited's board of directors in each financial year. At 30 June 2011 and 31 December 2010, neither the Group nor any of its subsidiaries were subject to externally imposed capital requirements.

3 Discontinued Operations and Assets Held for Sale

In the six months ended 30 June 2010, the Group recognized ZAO URBO, the sole producer of drilling rigs within the Group, as discontinued operation and sold its 100 percent interest in it in August 2010. In December 2010, the Group decided to dispose of Stromneftemash and Tyumen Shipbuilding Plant ("TSP"), manufacturers of cementing units and other oilfield equipment. All aforementioned entities were part of the Equipment Manufacturing segment.

The Group recognized Stromneftemash's and TSP's assets and liabilities as held-for-sale as of 31 December 2010. Stromneftemash represented a discontinued operation of the cementing units and other oilfield equipment that was a separate business line and cash generating unit. The Group sold Stromneftemash in April 2011 and TSP in August 2011 for $21.8 million and $26.8 million, respectively.

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

3 Discontinued Operations and Assets Held for Sale (continued)

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

For the period until the disposal in the six months ended 30 June 2011:	**Stromneftemash**
Sales	5,863
Expenses	(7,538)
Loss before income tax	**(1,675)**
Income tax	(4,013)
Loss after income tax	**(5,688)**
Consideration received from the disposal of Stromneftemash in cash	15,107
Consideration received from the disposal of Stromneftemash in GDR and stock options (note 17)	6,685
Net assets of Stromneftemash on disposal	(21,084)
Pre-tax cost to sell	(122)
Income tax benefit	236
After-tax cost to sell	114
Loss from discontinued operations	**(4,866)**

For six months ended 30 June 2010:	**URBO**	**Stromneftemash**	**Total**
Sales	26,415	17,565	43,980
Expenses	(28,658)	(20,083)	(48,741)
Loss before tax of disposal group	**(2,243)**	**(2,518)**	**(4,761)**
Income tax	(849)	363	(486)
Loss after tax of disposal group	**(3,092)**	**(2,155)**	**(5,247)**
Pre-tax costs to sell	(5,351)	-	(5,351)
Income tax	869	-	869
After-tax costs to sell	(4,482)	-	(4,482)
Loss for the period from disposal group	**(7,574)**	**(2,155)**	**(9,729)**

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

For the period until disposal in the six months ended 30 June 2011:	**Stromneftemash**
Net cash generated from operating activities	13,493
Net cash generated from (used in) investing activities	-
Net cash used in financing activities	(19,430)
Net decrease in cash and cash equivalents	**(5,937)**

For the six months ended 30 June 2010:	**URBO**	**Stromneftemash**
Net cash used in operating activities	(17,965)	(11,602)
Net cash generated from (used in) investing activities	2,087	(556)
Net cash generated from (used in) financing activities	6,976	12,219
Net decrease in cash and cash equivalents	**(8,902)**	**61**

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

3 Discontinued Operations and Assets Held for Sale (continued)

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

	At disposal date
Cash and cash equivalents	584
Trade and other receivables	10,393
Inventories	10,037
Property, plant and equipment	11,803
Intangible assets	107
Other non-current assets	3
Total assets	**32,927**
Accounts payable and accrued liabilities	8,910
Other taxes payable	2,925
Deferred tax liability	8
Total liabilities	**11,843**
Net assets	**21,084**

The assets and liabilities of TSP at 30 June 2011 were as follows:

	30 June 2011
Cash and cash equivalents	734
Trade and other receivables	1,410
Inventories	610
Property, plant and equipment	14,472
Intangible assets	16
Other non-current assets	56
Total assets	**17,298**
Accounts payable and accrued liabilities	127
Other taxes payable	33
Total liabilities	**160**

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

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

4 Segment Information

The Group identifies its reporting segments as follows:

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

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

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

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

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

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

4 Segment Information (continued)

Segment information related to the Group's financial performance for the six months ended 30 June 2011 and 2010 is set out as follows:

Six months ended 30 June 2011:	**Drilling, Workover & IPM**	**Technology Services**	**Formation Evaluation**	**Equipment Manufacturing**	**Other**	**Corporate**	**Intersegment Eliminations**	**Total**
Continuing operations								
Sales external	209,141	96,199	151,848	-	149	-	-	457,337
Sales to other operating segments	-	5,383	38	-	3,090	-	(8,511)	-
Total sales	**209,141**	**101,582**	**151,886**	-	**3,239**	-	**(8,511)**	**457,337**
Cost of sales	(180,457)	(72,219)	(137,684)	-	(2,565)	-	8,002	(384,923)
Impairment of property, plant and equipment	-	-	(300)	-	-	-	-	(300)
Gross profit (loss)	**28,684**	**29,363**	**13,902**	-	**674**	-	**(509)**	**72,114**
Selling, general and administrative expenses	(17,896)	(8,431)	(15,488)		(507)	(25,021)	239	(67,104)
Loss from disposal of property, plant and equipment and Intangible assets	(939)	(883)	(598)	-	-	(13)	(11)	(2,444)
Operating profit (loss)	**9,849**	**20,049**	**(2,184)**	-	**167**	**(25,034)**	**(281)**	**2,566**
Discontinued operations	-	-	-	(5,439)	36	537	-	(4,866)
Reconciliation of operating (loss) profit to the EBIT and adjusted EBITDA:								
Operating profit (loss)	**9,849**	**20,049**	**(2,184)**	-	**167**	**(25,034)**	**(281)**	**2,566**
Corporate overheads directly attributed to segments	(2,086)	(1,613)	(167)	-	-	3,866	-	-
Share of results of associates	-	(1,040)	-	-	-	-	-	(1,040)
Loss from the contract in Yemen (note 7)	-	-	2,657	-	-	-	-	2,657
EBIT	**7,763**	**17,396**	**306**	-	**167**	**(21,168)**	**(281)**	**4,183**
Depreciation of property, plant and equipment	16,113	9,755	17,912	-	4	618	-	44,402
Amortization of intangible assets	38	207	965	-	-	87	-	1,297
Impairment of property, plant and equipment	-	-	300	-	-	-	-	300
Loss from disposal of property, plant and equipment and intangible assets	939	883	598	-	-	13	11	2,444
Share-based compensation	-	-	-	-	-	2,689	-	2,689
Share of results of associates	-	1,040	-	-	-	-	-	1,040
Adjusted EBITDA	**24,853**	**29,281**	**20,081**	-	**171**	**(17,761)**	**(270)**	**56,355**

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

4 Segment Information (continued)

Six months ended 30 June 2010:	Drilling, Workover & IPM	Technology Services	Formation Evaluation	Equipment Manufacturing	Other	Corporate	Intersegment Eliminations	Total
Continuing operations								
Sales external	184,734	88,155	132,599	-	314	-	-	405,802
Sales to other operating segments	25	4,220	2	-	2,455	-	(6,702)	-
Total sales	**184,759**	**92,375**	**132,601**	**-**	**2,769**	**-**	**(6,702)**	**405,802**
Cost of sales	(162,315)	(61,628)	(112,010)	-	(2,771)	-	6,168	(332,556)
Impairment of property, plant and equipment	-	(3,339)	(967)	-	-	-	-	(4,306)
Gross profit (loss)	**22,444**	**27,408**	**19,624**	**-**	**(2)**	**-**	**(534)**	**68,940**
Selling, general and administrative expenses	(19,232)	(7,395)	(11,959)	-	(813)	(22,332)	(748)	(62,479)
(Loss) gain from disposal of property, plant and equipment and Intangible assets	453	(41)	76	-	-	-	-	488
Operating profit (loss)	**3,665**	**19,972**	**7,741**	**-**	**(815)**	**(22,332)**	**(1,282)**	**6,949**
Discontinued operations	-	(10)	-	(5,514)	-	(3,856)	(349)	(9,729)
Reconciliation of operating (loss) profit to the EBIT and adjusted EBITDA:								
Operating profit (loss)	**3,665**	**19,972**	**7,741**	**-**	**(815)**	**(22,332)**	**(1,282)**	**6,949**
Corporate overheads directly attributed to segments	(1,562)	(1,427)	(991)	-	-	3,980	-	-
Share of results of associates	-	161	-	-	-	-	-	161
EBIT	**2,103**	**18,706**	**6,750**	**-**	**(815)**	**(18,352)**	**(1,282)**	**7,110**
Depreciation of property, plant and equipment	16,969	9,422	16,519	-	5	802	-	43,717
Amortization of intangible assets	1,677	244	342	-	-	85	-	2,348
Impairment of property, plant and equipment	-	3,339	967	-	-	-	-	4,306
(Loss) gain from disposal of property, plant and equipment and intangible assets	(453)	41	(76)	-	-	-	-	(488)
Share-based compensation	-	-	-	-	-	5,330	-	5,330
Share of results of associates	-	(161)	-	-	-	-	-	(161)
Adjusted EBITDA	**20,296**	**31,591**	**24,502**	**-**	**(810)**	**(12,135)**	**(1,282)**	**62,162**

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

4 Segment Information (continued)

Segment information related to the Group's financial position as at 30 June 2011 and 31 December 2010:

	Drilling, Workover & IPM	Technology Services	Formation Evaluation	Equipment Manufacturing	Other	Corporate	Intersegment Eliminations	Total
At 30 June 2011:								
Total assets	399,077	377,239	328,709	39,170	7,866	1,073,256	(1,328,535)	896,782
Total liabilities	181,817	257,818	60,258	27,096	10,213	291,348	(411,621)	416,929
Six months ended 30 June 2011:								
Additions to non-current assets	21,820	10,112	15,619	-	14	338	-	47,903

	Drilling, Workover & IPM	Technology Services	Formation Evaluation	Equipment Manufacturing	Other	Corporate	Intersegment Eliminations	Total
At 31 December 2010:								
Total assets	313,149	355,120	311,571	44,724	7,987	1,117,715	(1,308,338)	841,928
Total liabilities	138,756	126,908	68,235	4,176	8,866	332,515	(296,223)	383,233
Six months ended 30 June 2010:								
Additions to non-current assets	5,860	8,106	9,180	-	-	171	-	23,317

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

4 Segment Information (continued)

In the six months ended 30 June 2011 and 2010, the Group earned its external revenues by its geographical segments as follows:

	Six months ended 30 June:	
	2011	**2010**
Russia	442,220	383,331
Other countries	15,117	22,471
Total external sales	**457,337**	**405,802**

At 30 June 2011 and 31 December 2010, the Group had its goodwill and intangible assets, property, plant and equipment and investments in associates by their geographical segments as follows:

	30 June 2011	**31 December 2010**
Russia	387,836	360,382
Other countries	39,522	44,941
Total property, plant and equipment, goodwill and intangible assets, and investments in associates	**427,358**	**405,323**

In the six months ended 30 June 2011, the Group earned transaction revenues from continuing operations each exceeding 10 percent of the Group's consolidated revenues with three major customers in the amounts of $65.7 million, $49.1 million and $47.9 million reported by the Group's drilling, workover and IPM, technology services, and formation evaluation.

In the six months ended 30 June 2010, the Group earned revenues each exceeding 10 percent of the Group's consolidated revenues, with three major customers in the amounts of $85.5 million, $60.2 million and $27.6 million reported by the Group's drilling, workover and IPM, technology services, formation evaluation and equipment manufacturing.

5 Cost of Sales

	Six months ended 30 June:	
	2011	**2010**
Services	157,333	124,827
Employee costs (including mandatory social contributions of $28.2 million and $20.1 million for the six months ended 30 June 2011 and 2010, respectively)	133,901	118,976
Materials and supplies	46,066	44,291
Depreciation of property, plant and equipment	43,027	41,580
Loss from the contract in Yemen (note 7)	2,657	-
Amortization of intangible assets	1,035	2,017
Other	904	865
Total cost of sales	**384,923**	**332,556**

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

6 Selling, General and Administrative Expenses

	Six months ended 30 June:	
	2011	**2010**
Employee costs (including mandatory social contributions of $ 5.1 million and $3.8 million for the six months ended 30 June 2011 and 2010, respectively)	33,956	27,622
Services	17,490	18,162
Taxes, other than income tax	3,685	2,743
Share-based compensation expense	2,689	5,330
Transportation expenses	1,468	1,080
Depreciation of property, plant and equipment	1,375	2,137
Receivables impairment, bad debt and other write-offs	3,074	3,527
Amortization of intangible assets	262	331
Inventories impairment and obsolete stock write-offs	(13)	1,523
Other	3,118	24
Total selling, general and administrative expenses	**67,104**	**62,479**

7 Engineering and Services Contracts

The Group sales include revenues from engineering and service contracts of $327.3 million and $321.4 million for the six months ended 30 June 2011 and 2010, respectively. The status of engineering and service contracts in progress as of 30 June 2011 and 31 December 2010:

	30 June 2011	**31 December 2010**
Contract costs incurred from inception	660,319	352,131
Contract profits (less recognized losses) incurred from inception	96,789	35,522

The recognition of the revenue from engineering and service contracts uncompleted as of 30 June 2011 is primarily based on an assumption of profit margins expected to be earned from inception to completion of each contract. If such expected profit margins reduced by one percent, the revenue from such contracts would reduce by $2.2 million.

Loss from the contract in Yemen. In December 2009, the Group entered into a contract to perform seismic services in Yemen for a total contract price of $9.0 million. From February 2011 until the date of this report there have been a political unrest in Yemen and during this period the Group had to suspend its operating activities and bear expenses related to maintaining its operating base in the country. Currently, the situation in Yemen appears to be stabilizing and the Group expects to restart the work in September 2011. Since the inception the Group incurred a total amount of costs of $6.9 million and expects to incur a total loss of $2.7 million till completion which has been recognized in the interim condensed consolidated statement of comprehensive income.

8 Cash and Cash Equivalents

At 30 June 2011 and 31 December 2010, the cash and cash equivalents of $18.5 million and $54.8 million, respectively were readily convertible to the full amounts of cash and cash equivalents amounts without any restriction in their use.

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

9 Trade and Other Receivables

	30 June 2011	31 December 2010
Financial receivables:		
Trade receivables (net of allowances for doubtful accounts of \$3.3 million and \$3.4 million at 30 June 2011 and 31 December 2010, respectively)	66,406	50,237
Amounts due from customers for engineering and service contract work (net of allowances for doubtful accounts of \$10.6 million and \$9.1 million at 30 June 2011 and 31 December 2010, respectively)	178,714	123,439
Total financial receivables	**245,120**	**173,676**
Non-financial receivables:		
VAT recoverable	11,855	9,186
Advances to suppliers	21,884	19,108
Prepaid expenses and other receivables	19,523	40,178
Total non-financial receivables	**53,262**	**68,472**
Total trade and other receivables	**298,382**	**242,148**

10 Inventories

	30 June 2011	31 December 2010
Materials and supplies (net of allowances for obsolete materials \$4.6 million and \$4.9 million at 30 June 2011 and 31 December 2010, respectively)	80,556	65,329
Work in progress (net of allowances for obsolete work in progress \$0.2 million and \$0.2 million at 30 June 2011 and 31 December 2010, respectively)	3,921	3,523
Finished goods (net of allowances for obsolete finished goods \$1.6 million and \$1.6 million at 30 June 2011 and 31 December 2010, respectively)	13,367	10,630
Total inventories	**97,844**	**79,482**

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

11 Property, Plant and Equipment

	Rigs	Land and Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost						
At 31 December 2010	**85,769**	**90,354**	**339,570**	**64,546**	**31,615**	**611,854**
Additions	5,021	2,132	34,402	2,711	2,888	47,154
Disposals	(2,905)	(8,187)	(12,473)	(2,442)	(515)	(26,522)
Exchange differences	7,187	6,548	26,434	5,063	1,899	47,131
At 30 June 2011	**95,072**	**90,847**	**387,933**	**69,878**	**35,887**	**679,617**
Accumulated depreciation						
At 31 December 2010	**(56,409)**	**(26,322)**	**(188,799)**	**(33,686)**	**(20,580)**	**(325,796)**
Depreciation	(5,543)	(2,111)	(29,212)	(4,978)	(2,558)	(44,402)
Impairment	-	(300)	-	-	-	(300)
Disposals	2,501	1,149	10,538	2,254	428	16,870
Exchange differences	(4,744)	(2,083)	(15,243)	(2,653)	(1,325)	(26,048)
At 30 June 2011	**(64,195)**	**(29,667)**	**(222,716)**	**(39,063)**	**(24,035)**	**(379,676)**
Net book value						
At 31 December 2010	**29,360**	**64,032**	**150,771**	**30,860**	**11,035**	**286,058**
At 30 June 2011	**30,877**	**61,180**	**165,217**	**30,815**	**11,852**	**299,941**

At 30 June 2011 and 31 December 2010, certain property, plant and equipment with a net book value of $4.1 million and $5.9 million, respectively, were pledged as collateral for the Group's accounts payable and borrowings (note 16).

12 Goodwill and Intangible Assets

At 30 June 2010 and 31 December 2009, the Group's goodwill and intangible assets are analyzed as follows:

	30 June 2011	31 December 2010
Goodwill	98,137	90,405
Intangible assets (net carrying amount)	12,370	12,305
Total goodwill and intangible assets	**110,507**	**102,710**

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

12 Goodwill and Intangible Assets (continued)

Goodwill. At 30 June 2011 and 31 December 2010, the carrying value of goodwill was attributed to the Group's cash-generating units ("CGU") as follows:

Cash generating unit	30 June 2011	31 December 2010
Workover	26,830	24,716
Integra Geophysics	26,235	24,168
Smith Siberian Services	21,998	20,265
Drilling Tools	9,693	8,929
GeoPrime	7,971	7,343
Azimuth Energy Services	5,410	4,984
Total	**98,137**	**90,405**

Goodwill is attributed to each CGU expected to benefit from the respective acquisition as required by IAS 36, *Impairment of Assets*. In assessing whether goodwill has been impaired, the carrying amount of each CGU, including goodwill, is compared with the recoverable amount of the CGU. The recoverable amount of each CGU was determined based on value-in-use calculations using a discounted cash flow model. The Group assesses the value-in-use of each CGU based on the five-year business plans for each CGU, which are annually approved by the Group's senior management. The cash flows beyond the five-year period are extrapolated using a growth rate linked to expected general inflation in the Russian Federation.

13 Investments in Associates

	30 June 2011	31 December 2010
Nizhnevartovskneftegeophyzika	12,424	12,012
Neftegeotechnology	2,712	2,469
Stavropolneftegeophyzika	1,774	2,074
Total investments in associates	**16,910**	**16,555**

14 Accounts Payable and Accrued Liabilities

	30 June 2011	31 December 2010
Financial payables and accrued liabilities:		
Trade payables	36,211	32,243
Payables under contracts with customers for engineering and service contract work	83,803	52,554
Interest payable	929	957
Total financial payables and accrued liabilities	**120,943**	**85,754**
Non-financial payables and accrued liabilities:		
Accrued liabilities and other creditors	24,892	30,780
Advances from customers for engineering and service contract work	44,416	31,760
Advances from other customers	774	1,544
Total non-financial payables and accrued liabilities	**70,082**	**64,084**
Total accounts payable and accrued liabilities	**191,025**	**149,838**

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

15 Taxes

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

	Six months ended 30 June:	
	2011	**2010**
Loss before income tax	(3,714)	(12,165)
Theoretical tax benefit at Russian statutory income tax rate of 20 percent	743	2,433
Effect of income taxed at rates lower than 20 percent	52	(606)
Effect of loss taxed at rates higher than 20 percent	6	(43)
Recognition of deferred tax asset from tax losses accumulated by OOO Integra Drilling	25,014	-
Tax losses not expected to be utilized against future profits from overseas activities	(3,702)	(5,085)
Tax losses not expected to be utilized against future profits from domestic activities	-	(969)
Share-based compensation	(538)	(1,066)
Non-tax deductible expenses and other	(49)	(3,209)
Total income tax benefit (expense)	**21,526**	**(8,545)**

Recognition of deferred tax assets accumulated by OOO Integra Drilling. Following the merger of OOO Smith Production Technology into OOO Integra Drilling (note 1), it became probable that the combined company would generate sufficient future taxable profits to utilize deferred tax assets in the total amount of $25.0 million from (a) tax losses in the total amount of $108.7 million that OOO Integra Drilling had accumulated prior to the merger, and (b) temporary differences arising on accounts receivable allowances and other items in the total amount of $16.4 million.

Other taxes payable. Other taxes payable at 30 June 2011 and 31 December 2010 were as follows:

	30 June 2011	**31 December 2010**
Value-added tax	31,369	38,030
Mandatory social contributions	6,052	3,511
Personal income tax	2,730	1,995
Property tax	1,355	1,112
Other taxes	406	425
Total other taxes payable	**41,912**	**45,073**

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

16 Borrowings

	30 June 2011			31 December 2010		
	Amounts due within one year	**Amounts due after more than one year**	**Total**	**Amounts due within one year**	**Amounts due after more than one year**	**Total**
Bonds	5,257	-	5,257	4,843	-	4,843
Bank loans	103,935	57,258	161,193	30,550	130,956	161,506
Other	-	164	164	-	151	151
Total borrowings	**109,192**	**57,422**	**166,614**	**35,393**	**131,107**	**166,500**

The following tables summarize the Group's current and non-current borrowings by major currency and weighted average fixed and floating interest rates at 30 June 2011 and 31 December 2010.

	30 June 2011					
	Fixed rate		Floating rate		Total	
	Average interest rate	**Amount**	**Average interest rate**	**Amount**	**Average interest rate**	**Amount**
Amounts due within one year. Russian rouble-denominated	**11.5%**	**103,493**	**7.6%**	**5,699**	**11.3%**	**109,192**
US dollar-denominated	-	-	5.3%	24,979	5.3%	24,979
Russian rouble-denominated	10.2%	32,443	-	-	10.2%	32,443
Total amounts due after more than one year	**10.2%**	**32,433**	**5.3%**	**24,979**	**8.0%**	**57,422**
Total borrowings	**11.2%**	**135,936**	**5.7%**	**30,678**	**10.2%**	**166,614**

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

Short-term borrowings. In September 2010, the Group entered into a renewable credit line facility with Unicreditbank limited to RR 450.0 million ($16.0 million equivalent at 30 June 2011). At 30 June 2011 and 31 December 2010, the outstanding balance was $5.7 million and nil, respectively. The loan bore a floating interest of Mosprime plus 3.6 percent margin payable monthly. In August 2011, the Group repaid the loan in full and entered into a new renewable credit line facility with Unicreditbank limited to RR 500.0 million ($17.8 million equivalent at 30 June 2011). The new loan bears a floating interest of Mosprime plus 2.0 percent margin payable monthly.

Additionally, the short-term borrowings include the current portion of long-term borrowings with total amount of $103.5 million.

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

16 Borrowings (continued)

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

	30 June 2011	31 December 2010
VTB Bank	24,979	25,633
Alfa bank	78,733	72,530
Sberbank	51,782	63,343
Bonds	5,257	4,843
Other	164	151
Total long-term borrowings	**160,915**	**166,500**
Less: current portion of long-term borrowings	(103,493)	(35,393)
Total non-current borrowings	**57,422**	**131,107**

VTB Bank. In April 2010, the Group entered into a renewable US dollar-denominated loan facility with VTB Bank (Germany). In April 2011, the Group increased a maximum amount of the credit line from $50.0 million to $100.0 million and extended the facility maturity from November 2012 to April 2016. At 30 June 2011, the facility bore a floating interest payable quarterly at a rate consisting of 5.0 percent fixed margin and variable LIBOR rate. At 30 June 2011 and 31 December 2010, the loan balance was $25.0 million and $25.6 million, respectively, net of the borrowing costs of $1.0 million and $0.4 million, respectively.

Alfa bank. In July 2010, the Group entered into a Russian rouble-denominated loan facility with Alfa bank under which the outstanding amount at 30 June 2011 and 31 December 2010 was RR 2.2 billion ($78.7 million at 30 June 2011). At 30 June 2011, the loan bore fixed interest of 11.5 percent payable monthly.

Sberbank. In October 2010, the Group entered into a Russian rouble-denominated renewable loan facility with Sberbank for a maximum amount of RR 600.0 million ($21.4 million at 30 June 2011) of which RR 130.0 million and RR 589.1 million ($4.6 million and $21.0 million at 30 June 2011) was outstanding at 30 June 2011 and 31 December 2010, respectively. At 30 June 2011, the loan bore a fixed annual interest at a rate of 9.5 percent payable monthly and matures in October 2013.

In April 2010, the Group entered into a Russian rouble-denominated loan facility with Sberbank under which at both 30 June 2011 and 31 December 2010 the remaining nominal repayable balance of the loan was RR 1.34 billion ($47.7 million at 30 June 2011) and non-amortized borrowing costs were RR 16.2 million and RR 22.7 million ($0.6 million and $0.9 million at 30 June 2011, respectively). At 30 June 2011, the loan facility bore a fixed annual interest at a rate of 10.25 percent payable monthly. At 30 June 2011 and 31 December 2010, the Group had certain of its property, plant and equipment with carrying value equivalent to $4.1 million and $3.8 million, respectively, pledged as collateral to the loan (note 11).

In August 2011, the Group entered into a Russian rouble-denominated non-renewable loan facility with Sberbank for a maximum amount of RR 6.0 billion ($213.7 million at 30 June 2011). The loan bears a fixed annual interest at a rate of 9.95 percent payable quarterly with the principal payable in quarterly installments from September 2015 to August 2018. The loan proceeds were partially used to fully prepay the aforementioned loan balances of RR 2.2 billion and RR 1.34 billion received from Alfa bank and Sberbank.

Bonds. At both 30 June 2011 and 31 December 2010, the outstanding amount of the bonds was RR 147.6 million ($5.3 million at 30 June 2011). The bonds bear an interest of 16.75 percent payable semi-annually and mature in November 2011.

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

16 Borrowings (continued)

Finance expense. Finance expense for the six months ended 30 June 2011 and 2010 comprised the following:

	Six months ended 30 June:	
	2011	**2010**
Short-term borrowings		
Unicredit Bank	102	-
Sberbank	9	1,319
Other	667	1,557
Total finance expense on short-term borrowings	**778**	**2,876**
Long-term borrowings		
Alfabank	4,411	-
Sberbank	3,544	3,029
VTB bank	1,206	544
Bonds	428	7,331
EBRD syndicated loan	-	9,235
Other	74	38
Total finance expense on long-term borrowings	**9,663**	**20,177**
Total finance expense	**10,441**	**23,053**

17 Share Capital

The following table summarizes the change in share capital for the six months ended 30 June 2011 as follows:

	Number of common shares:		Share capital and share premium
	Class A	**Class B**	
Balance at 31 December 2010	**8,560,470**	**740,000**	**995,673**
Class A common shares received from disposal of Stromneftemash (note 3)	(42,500)	-	(2,924)
Options received from disposal of Stromneftemash (note 3)	-	-	(3,761)
Exercise of options for cash (note 18)	40,000	-	1,360
Exercise of options, cashless (note 18)	9,454	-	-
Vested restricted share units (note 18)	500	-	-
Share-based compensation from stock option and RSU plan (note 18)	-	-	2,689
Balance at 30 June 2011	**8,567,924**	**740,000**	**993,037**

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

Class B common shares. The holder of 740,000 Class B common shares, the beneficiary of whom is a director of the Group, is entitled to cast a vote on each share equal to that of one Class A common share on all matters submitted to a vote of Class A common shareholders. Class B common shares are convertible into Class A common shares upon exercise (note 18).

GDR buy-back program closure. In May 2011, the Group completed its global depository receipts (GDR) buy-back program under which it had repurchased 7,260,040 GDR for the total amount of $25.3 million including the transaction costs of $0.3 million and the repurchased GDR were held in treasury as of 30 June 2011. In July 2011, the Group converted the repurchased 7,260,040 GDR into 363,002 Integra's Class A common shares and simultaneously cancelled them.

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

17 Share Capital (continued)

Shares and options related to the disposal of Stromneftemash. In April 2011, as part of the sales consideration sold Stromneftemash (note 3) the Group received 850,000 GDR and 107,500 options with fair value of $2.9 million and $3.8 million, respectively. The 850,000 GDR were converted into 42,500 Integra's Class A common shares that were cancelled and the 107,500 options expired unexercised (note 18).

18 Share-based Compensation

2009 Restricted Share Units Plan. The table below summarizes the change in the restricted share units (RSU) in the six months ended 2011.

	Number of RSU
31 December 2010	**193,328**
Granted	89,500
Vested	(500)
Unvested forfeited	(19,664)
30 June 2011	**262,664**

The total fair value of the RSU granted in the six months ended 30 June 2011 and 2010 was $5.6 million and nil, respectively, and the share-based compensation expense related to the RSU grant in the six months ended 30 June 2011 is to be accrued within four years. In the six months ended 30 June 2011 and 2010, the Group recognized the RSU expense of $2.5 million and $3.5 million as share-based compensation expense within the selling, general and administrative expenses.

2005 Stock Option Plan and Class B common shares. In the six months ended 30 June 2011 and 2010, the Group's Board of Directors did not authorize any issuance of options to purchase the Group's Class A common shares. At 30 June 2011 and 31 December 2010, a total of 751,967 and 621,467 options, respectively, remained available to grant.

The table below summarizes the stock options changes, including 740,000 of the Class B common shares convertible into Integra's Class A common shares (note 17) upon exercise which are not part of the 2005 Stock Option Plan.

	Weighted average exercise price in US dollars per share	Number of Options
Options outstanding at 31 December 2010	**$48.50**	**1,192,516**
Exercised	$29.14	(51,345)
Vested expired unexercised	$70.00	(130,500)
Options outstanding at 30 June 2011	**$46.70**	**1,010,671**

There were no options granted in the six months ended 30 June 2011. The exercised options include 11,345 ones exercised for 9,454 Class A common shares (note 17) on a cashless basis under which 1,891 options were cancelled in lieu of payment for the shares.

	Options outstanding			Options exercisable	
Range of exercise prices (in US dollars per share)	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted average exercise price ($)	Options exercisable at period end	Weighted average exercise price ($)
$4.00 - $34.00	194,171	4.1	$19.38	194,171	$19.38
$34.39 (Class B common shares)	740,000	4.5	$34.39	740,000	$34.39
$46.20 - $382.00	76,500	6.8	$235.19	65,167	$264.71
	1,010,671		**$46.70**	**999,338**	**$46.49**

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

19 Earnings (Loss) per Share

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

Six months ended 30 June 2011:	**Continuing operations**	**Discontinued operations**	**Total**
Numerator:			
Profit (loss) attributable to shareholders of Integra Group for basic and diluted loss per share	18,861	(4,866)	13,995
Denominator:			
Weighted average number of common shares outstanding during the period, basic	8,543,722	8,543,722	8,543,722
Weighted average number of common shares outstanding during the period, diluted	9,248,803	8,543,722	9,248,803
Basic earnings (loss) per share (in US dollars per share)	2.21	(0.57)	1.64
Diluted earnings (loss) per share (in US dollars per share)	2.04	(0.57)	1.51

Six months ended 30 June 2010:	**Continuing operations**	**Discontinued operations**	**Total**
Numerator:			
Loss attributable to shareholders of Integra Group for basic and diluted loss per share	(21,064)	(9,729)	(30,793)
Denominator:			
Weighted average number of common shares outstanding during the period, basic and diluted	8,414,773	8,414,773	8,414,773
Basic and diluted loss per share (in US dollars per share)	(2.50)	(1.16)	(3.66)

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

20 Related Party Transactions

The related parties with whom the Group had transactions during the six months ended 30 June 2011 and 2010, or had balances outstanding at 30 June 2011 and 31 December 2010 include, the Group's associates, certain third parties related through a common directorship and certain affiliates of the Chairman of the Group's Board of Directors and of a director of the Group.

	Six months ended 30 June:	
	2011	**2010**
Sales of production services by the Group to related parties	-	20
Purchase of administrative services by the Group from related parties	(150)	(150)
Purchase of materials by the Group	(18)	-
Other income	1	-

	30 June 2011	**31 December 2010**
Trade receivables, net	3	35
Trade payables, current	331	305
Loan provided to a director	-	2,900

20 Related Party Transactions (Continued)

Management compensation. In the six months ended 30 June 2011 and 2010, the Group's senior management team comprised nine and ten members of the management board, respectively, and six and five non-executive directors, respectively, whose compensation totalled $8.9 million and $8.5 million, respectively, including salary, bonuses and other benefits of $6.9 million and $5.0 million, respectively, and share-based compensation of $2.0 million and $3.5 million, respectively.

Administrative services contract. In each of the six months ended 30 June 2011 and 2010, the Group incurred expenses of $0.15 million under an administrative services contract with an affiliate of the Chairman of the Board of Directors.

21 Contingencies, Commitments and Operating Risks

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

Contractual commitments and guarantees. In the normal course of business, the Group entered into contracts for the purchase of property, plant and equipment and other assets. At 30 June 2011 and 31 December 2010, the Group had unpaid contractual commitments of $18.0 million and $10.8 million, respectively.

Employee benefits. A number of the Group operating entities have existing contractual commitments under collective agreements requiring them to provide certain social and other benefits to their employees. The terms and conditions of each collective agreement are specific to each particular operating entity and actual annual outlays can vary from entity to entity. At 30 June 2011 and 31 December 2010, the Group recorded a liability in the amount of $1.5 million and $1.3 million, respectively, of its obligation for one-time retirement grants provided for in the collective agreements in these consolidated financial statements.

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

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

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

Legal proceedings. At 30 June 2011 and 31 December 2010, the Group was involved in a number of court proceedings, both as a plaintiff and a defendant, arising in the ordinary course of business. The Group management believes that there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations or financial position of the Group and which have not otherwise been accrued or disclosed in these consolidated financial statements.

22 Subsequent Events

Acquisition of ZAO Siam. In August 2011, the Group signed a share-purchase agreement for acquisition of ZAO Siam for a total consideration of RR 2.2 billion (equivalent to $78.4 million at 30 June 2011) subject to certain variations determinable upon completion of the transaction. ZAO Siam and its subsidiaries operate in the hydrodynamic testing of wells, including production of equipment and providing the testing.

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