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BY ACCEPTING AND OPENING THE ATTACHED DOCUMENT, YOU AGREE NOT TO FORWARD THIS ON TO ANY OTHER PERSON, INTERNAL OR EXTERNAL TO YOUR COMPANY, IN WHOLE OR IN PART. YOU ALSO ACKNOWLEDGE AND AGREE TO THE FOLLOWING RESTRICTIONS.

All countries: No action has been or will be taken in any jurisdiction that would permit or require a public offering of the securities, or possession or distribution of this e-mail or the attached document or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. The distribution of this e-mail and the attached document in certain jurisdictions may be restricted by law and persons into whose possession the document comes should inform themselves about, and observe, any such restrictions.

United States: The securities have not been registered under the United States Securities Act of 1933, as amended (the "Securities Act"). This e-mail and the attached document, or any copy thereof, may not be taken or transmitted into the United States or any of its territories or possessions or to US persons or distributed, directly or indirectly, in the United States or to any employee or affiliate of the recipient located therein except in "offshore transactions" (as that term is defined in Regulation S under the Securities Act).

European Economic Area: In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that member state (the "Relevant Implementation Date") the securities will not be offered to the public in that Relevant Member State, except that they may, with effect from and including the Relevant Implementation Date, be offered to the public in that Relevant Member State:

(i) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(ii) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(iii) at any time in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

The expression "offer to the public" in relation to any of the securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state. The expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom: This e-mail and the attached document are for distribution in the United Kingdom only to, and are directed only at, persons who either have professional experience in matters relating to investments or are high net worth entities falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as "relevant persons"). This e-mail and the attached document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this e-mail and the attached document relates is available only to relevant persons and will be engaged in only with relevant persons.

INTEGRA GROUP

(An exempted company incorporated under the laws of the Cayman Islands)

Global Offering of 1,994,266 Class A Common Shares in the form of 39,885,320 Global Depositary Receipts Offer Price: US$16.75 per Global Depositary Receipt

This prospectus (the "Prospectus") relates to an offering (the "Offering") of 1,994,266 Class A common shares, each with a nominal value of US$0.0001 (the "Shares"), of Integra Group (the "Company"), an exempted company incorporated under the laws of the Cayman Islands, in the form of 39,885,320 global depositary receipts ("GDRs"), each without nominal value, with 20 GDRs representing an interest in one Share. The Offering is comprised of an offer by the Company of 1,492,537 Shares in the form of 29,850,740 GDRs and an offer by certain non-management shareholders of the Company (the "Selling Shareholders") of a total of 501,729 Shares in the form of 10,034,580 GDRs.

This document constitutes a prospectus relating to the Company prepared in accordance with the prospectus rules (the "Prospectus Rules") of the UK Financial Services Authority (the "Financial Services Authority") made under Section 73A of the Financial Services and Markets Act 2000 (the "FSMA"). This Prospectus will be made available to the public in accordance with the Prospectus Rules.

The Offering does not constitute an offer to sell, or the solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Offering consists of an offering outside the Russian Federation and the United States of America (the "United States") of GDRs pursuant to Regulation S ("Regulation S") under the US Securities Act of 1933, as amended (the "Securities Act"). The GDRs have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered, sold, pledged or otherwise transferred in the United States of America (the "United States") absent registration or an exemption from registration under the Securities Act. For a description of certain restrictions on sales and transfers of the GDRs, see "Selling and Transfer Restrictions".

The Company has granted the Joint Bookrunners, acting on behalf of the Managers, an option (the "Over-Allotment Option"), exercisable within 30 days after the announcement of the Offer Price, to purchase in the aggregate up to 299,139 additional Shares in the form of up to 5,982,780 GDRs at the Offer Price solely to cover over-allotments, if any, in the Offering. See "Subscription and Sale".

AN INVESTMENT IN THE GDRS INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS". The GDRs are of a specialist nature and should only be purchased and traded by investors who are particularly knowledgeable in investment matters.

The Company has applied to the Financial Services Authority for a block listing of up to 157,544,760 GDRs (of which 39,885,320 will be issued on the closing date of the Offering (the "Closing Date") and up to 5,982,780 may be issued pursuant to the Over-Allotment Option, if exercised, with the remainder being issued from time to time against the deposit of Shares with JPMorgan Chase Bank, N.A., as depositary (the "Depositary")) to its official list (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") to admit such GDRs for trading under the symbol INTE on its main market for listed securities (the "Main Market") through its International Order Book (regulated market segment) (the "IOB"). The IOB is a regulated market for purposes of the Markets in Financial Instruments Directive 2004/39/EC. Admission to the Official List, together with admission to the Main Market ("Admission"), constitutes listing on a stock exchange. Prior to the Closing Date, there has not been any public market for the Shares or the GDRs. The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB will commence on a "when and if issued" basis on or about February 22, 2007 and that unconditional trading through the IOB will commence on or about the Closing Date. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if the Admission does not take place and will be at the sole risk of the parties concerned. The Shares have not been, and are not expected to be, listed on any stock exchange.**

The GDRs offered hereby are being offered by the managers as named in "Subscription and Sale" or through their selling agents, when, as and if delivered to and accepted by them and subject to their right to reject any order in whole or in part. The GDRs will be evidenced by a Master Global Depositary Receipt (the "Master GDR"), which will be issued by the Depositary, registered in the name of, and deposited with, BNP Paribas Securities Services, Luxembourg branch, as common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream"). Euroclear and Clearstream are expected to accept the GDRs for settlement in their respective book-entry settlement systems. The Company expects that delivery of the GDRs will be made through the facilities of Euroclear and Clearstream on or about the Closing Date. Except as set forth herein, investors may hold beneficial interests in and transfer the GDRs only through Euroclear or Clearstream and their direct and indirect participants, as applicable. Transfers within Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system.

Joint Global Coordinators

Morgan Stanley **Renaissance Capital** **Alfa Capital Markets**

Joint Bookrunners

Morgan Stanley **Renaissance Capital**

The date of this Prospectus is February 22, 2007

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

If you are in any doubt about the contents of this document, you should consult your stockbroker, bank manager, solicitor, accountant or financial adviser. It should be remembered that the trading price of the GDRs can go down as well as up.

The Company accepts responsibility for the information contained in this Prospectus. To the best knowledge of the Company (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. As far as the Company is aware and able to ascertain, no facts have been omitted which would render the information reproduced or sourced from the market report described below inaccurate or misleading and, with respect to the reproduced or sourced information, the Company accepts responsibility only for the accurate extraction of such information from the market report.

The Company notes that certain information under the heading "Industry" and related market and competitive data appearing elsewhere in this Prospectus has been reproduced from a market report dated December 2006 that was prepared at our request and expense by Douglas–Westwood Limited, a third party, referred to hereinafter as Douglas–Westwood. The business address of Douglas–Westwood is Saint Andrews House, Station Road East, Canterbury CT1 2WD, England. Douglas–Westwood is a global consulting and services organization focused on the energy and marine industries. Douglas–Westwood has no material interest in the Company. Excerpts of the market report prepared by Douglas–Westwood for us, any summaries of portions of such market report, and any information sourced from such market report are included in this Prospectus with the approval, consent and authorization of Douglas–Westwood which has authorized the contents of those parts of this Prospectus. Douglas–Westwood accepts responsibility for the market and competitive data in the sections entitled "Summary", "Industry", "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" attributable to it and confirms that it has taken all reasonable care to ensure that the information contained in the parts of the Prospectus for which it is responsible is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information.

The contents of the Company's website do not form any part of this Prospectus.

Morgan Stanley & Co. International Limited, Renaissance Securities (Cyprus) Limited and Alfa Capital Holdings (Cyprus) Limited, London branch (the "Managers") are acting for the Company and no one else in connection with the Offering. They will not regard any other person as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing advice in relation to the Offering or any transaction or arrangement referred to in this Prospectus.

The distribution of this Prospectus and the offer of the Shares and GDRs in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company, the Selling Shareholders or the Managers to permit a public offering of the Shares or the GDRs or to permit the possession or distribution of this Prospectus (or any other offering or publicity materials or application forms relating to the Shares) in the UK or any other jurisdiction where action for that purpose may be required. Accordingly, neither this document nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions. The Offering and sale of the GDRs and the distribution of this Prospectus are subject to the restrictions set forth below and under "Subscription and Sale" and "Selling and Transfer Restrictions".

Investors should rely only on the information in this Prospectus. No person has been authorized to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied on as having been authorized by the Company, the Selling Shareholders or the Managers. Neither the delivery of this Prospectus nor any subscription or purchase of shares made pursuant to this Prospectus shall, under any circumstances, create any implication that there has been no change in the affairs of the Company and its subsidiaries (the "Group") since, or that the information contained herein is correct at any time subsequent to, the date of this Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Managers by the FSMA or the regulatory regime established thereunder, none of the Managers accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Shares, the GDRs or the Offering. The Managers accordingly disclaim all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of such Prospectus or any such statement.

The contents of this Prospectus are not to be construed as legal, financial, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice. None of the Company, the Selling Shareholders or any of the Managers makes any representation to any offeree or purchasers of the GDRs regarding the legality of an investment in such GDRs by such offeree or purchaser.

In connection with the Offering, the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Managers or any of them and any of their affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the Offering, Morgan Stanley & Co. International Limited, as the Stabilizing Manager, or persons acting on its behalf, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a period of 30 days after the announcement of the Offer Price. However, the Stabilizing Manager is not required to enter into such transactions. Such stabilizing, if commenced, may be discontinued at any time, and may only be undertaken during the period from the date of adequate public disclosure of the final price of the GDRs, up to and including, if undertaken, 30 calendar days thereafter (the "Stabilization Period").

In connection with the Offering, the Stabilizing Manager or persons acting for it, may over-allot GDRs. For the purposes of allowing the Stabilizing Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by the Stabilizing Manager during the Stabilization Period, the Company has granted the Stabilizing Manager the Over-Allotment Option pursuant to which the Stabilizing Manager may require the Company to issue additional Shares, to be issued by the Depositary as GDRs, up to in the aggregate a maximum of 15% of the total number of GDRs comprised in the Offering, at the Offer Price. The Over-Allotment Option is exercisable, in whole or in part, upon notice by the Stabilizing Manager, at any time during the Stabilization Period. Any GDRs made available pursuant to the Over-Allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of this Prospectus, including the risks involved.

A copy of this Prospectus can be obtained at the registered office of the Company. See "General Information". The information set forth in this Prospectus is only accurate as of the date on the front cover of this Prospectus. The Company's business and financial condition may have changed since that date.

NOTICE TO INVESTORS IN THE CAYMAN ISLANDS

An exempted company such as the Company that is not listed on the Cayman Islands Stock Exchange is prohibited from making any invitation to the public in the Cayman Islands to subscribe for the Shares or the GDRs.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

In any Member State of the European Economic Area ("EEA") that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "Prospectus Directive"), this communication is only addressed to, and is only directed at, qualified investors in that Member State within the meaning of the Prospectus Directive.

This Prospectus has been prepared on the basis that all offers of GDRs will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of GDRs. Accordingly any person making or intending to make any offer within the EEA of GDRs which are the subject of the placement contemplated in this Prospectus should only do so in circumstances in which no obligation arises for the Company or any of the Managers to produce a prospectus for such offer. Neither the Company nor the Managers have authorized, nor do they authorize, the making of any offer of GDRs through any financial intermediary, other than offers made by Managers which constitute the final placement of GDRs contemplated in this Prospectus.

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

Neither the Shares nor GDRs have been registered under the law of the Russian Federation "On the Securities Market" dated April 22, 1996, as amended, and the Shares and GDRs are not being offered, sold or delivered in the Russian Federation. This Prospectus should not be considered as a public offer or advertisement of GDRs in the Russian Federation, and is not an offer, or an invitation to make offers, to purchase any GDRs in the Russian Federation or to any Russian resident except as may be permitted by Russian law.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This Prospectus is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act (Financial Promotion) Order 2005 (the "Order"); and (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, all such persons together being referred to as "relevant persons". The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such GDRs will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

NOTICE TO INVESTORS IN THE UNITED STATES

The GDRs and the Shares have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction and may not be offered or sold in the United States except pursuant to Regulation S under the Securities Act and all applicable state securities laws. The GDRs are being offered and sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S.

NOTICE TO INVESTORS IN KAZAKHSTAN

The GDRs will not, directly or indirectly, be offered for subscription or purchase in Kazakhstan, nor will invitations to subscribe for or buy or sell GDRs be issued in Kazakhstan, nor will any draft or definitive document in relation to any such offer, invitation or sale be distributed in Kazakhstan, except in compliance with the laws of Kazakhstan.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements, which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "would", "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Among the important factors that could cause our actual results, performance or achievements to differ materially from those expressed in such forward-looking statements include those set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Risk Factors" and elsewhere in this Prospectus. These forward-looking statements speak only as at the date of this Prospectus. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any of such statements are based unless required to do so by the disclosure rules or the listing rules of the Financial Services Authority.

SERVICE OF PROCESS AND ENFORCEMENT OF FOREIGN JUDGMENTS

The Company is incorporated under the laws of the Cayman Islands. The Selling Shareholders are incorporated under the laws of several jurisdictions. Certain persons referred to herein are residents of the Russian Federation and certain entities referred to herein are incorporated under the laws of the Cayman Islands or the Russian Federation or other countries of the Commonwealth of Independent States. All or a substantial portion of our assets and the assets of such persons and entities and the majority of the Selling Shareholders are located outside the United Kingdom. As a result, it may not be possible for investors to effect service of process upon such persons in the United Kingdom or to enforce against them or us judgments obtained in foreign courts predicated upon the laws of jurisdictions other than the Cayman Islands.

There is no bilateral treaty between the Cayman Islands and the United Kingdom or any multi-lateral treaty to which the Cayman Islands and the United Kingdom are a party in respect of the recognition and enforcement of judgments obtained in the English courts. A judgment obtained in a foreign court will be recognized and enforced in the courts of the Cayman Islands without any re-examination of the merits at common law, by an action commenced on the foreign judgment in the Grand Court of the Cayman Islands, where the judgment is final and in respect of which the foreign court had jurisdiction over the defendant according to Cayman Islands conflict of law rules and which is conclusive, for a liquidated sum not in respect of penalties or taxes or a fine or similar fiscal or revenue obligations, and which was neither obtained in a manner, nor is of a kind enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Except as otherwise noted, the audited consolidated financial statements of the Company and its subsidiaries as of and for the periods ended December 31, 2005, 2004 (and, in the case of certain subsidiaries, for the period ended December 31, 2003) included in this Prospectus (the "Audited Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board, and the unaudited condensed consolidated interim financial information of the Company and its subsidiaries as of and for the nine-month periods ended September 30, 2006 and 2005 included in this Prospectus (the "Unaudited Condensed Consolidated Interim Financial Information") has been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). We refer to our Audited Consolidated Financial Statements and our Unaudited Condensed Consolidated Interim Financial Information together as our "Consolidated Financial Statements".

The financial statements of JSC "Azimuth Energy Services", JSC "Geostan" and LLC "Tomsk Geophysical Company" as of and for the periods ended December 31, 2005 and 2004 and the unaudited interim combined financials statements of Azimuth as of September 30, 2006 and for the nine months ended September 30, 2006 and 2005 were prepared in accordance with accounting principles generally accepted in the United States of America.

The unaudited condensed pro forma financial information for the year ended December 31, 2005 and as of and for the nine months ended September 30, 2006 is presented to give effect to the acquisition of PNBK, Smith Eurasia, YGF, TNGF, GFS, RGK, SRIPNO, Argillit, STM, PBN, BI, URBO, NLK and Azimuth (collectively referred to as the "Acquired Entities") as if they had occurred on January 1, 2005 or September 30, 2006, as appropriate.

We present "Adjusted EBITDA" in this Prospectus. Adjusted EBITDA represents profit (loss) before interest income (expenses), exchange gains (losses), income taxes, gain on acquisition of subsidiaries, loss on disposal of property, plant and equipment, depreciation and amortization, share-based compensation and minority interest. We present Adjusted EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS. Some of these limitations are as follows:

- Adjusted EBITDA does not reflect the impact of financing costs, impact of income taxes, depreciation and amortization, gain on acquisitions of subsidiaries, loss on disposal of property, plant and equipment, share-based compensation, and exchange costs.
- Adjusted EBITDA is also calculated using profits attributable to both shareholders of the Company and minority shareholders of subsidiaries. By including profits and losses attributable to minority shareholders, Adjusted EBITDA does not reflect the portion of the consolidated group's results accruing to shareholders of the Company.

Other companies in our industry may calculate Adjusted EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. We rely primarily on our IFRS operating results and use Adjusted EBITDA only supplementally. See our Consolidated Financial Statements included elsewhere in this Prospectus.

Adjusted EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Adjusted EBITDA is not a measurement of our operating performance under IFRS and should not be considered as an alternative to profit, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

In this Prospectus we refer to LLC "Argillit" as "Argillit", LLC "BK Alliance-3", LLC "BK Alliance", LLC "Alliance-5", LLC "Tarpan" and LLC Firma "Paritet", collectively, as "Alliance", LLC "BK Sever" as "BKS", LLC "PBN Group" as "PBN", Smith Eurasia, Inc., SE Management LLC, Supply International and Smith Eurasia Ltd., collectively, as "Smith Eurasia", OJSC "Pavlovsky Mashzavod" as Pavlovsky Mashzavod, OJSC "Yamalgeophyzika" as "YGF", OJSC "Tyumenneftegeophyzika" as "TNGF", LLC "Geophyzservis" as "GFS", OJSC "Russian Geophysical Company" as "RGK", LLC "Oil Equipment Renovation Services and Sales" as "SRIPNO", LLC "KomiQuest" as "KomiQuest", OJSC "Concern Stromneftemash" as "STM", CJSC "PNBK" as

"PNBK", LLC "VNIIBT-Burovoy Instrument" as "BI", CJSC "Uralmash-Burovoe Oborudovanie" as "URBO", LLC "Integra Drilling" as "Integra Drilling" and JSC "Azimuth Energy Services" as "AES", JSC "Geostan" as "Geostan" and LLC "Tomsk Geophysical Company" as "TGC", AES, Geostan and TGC, collectively, as "Azimuth", OJSC NPO "Burovaya Technika" as "NPO Burovaya Technika" and CJSC "NLK" as NLK. When we refer to any of these entities, we include their subsidiaries.

Market data used in this Prospectus under the captions "Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Industry" and "Business" have been extracted from official and industry sources and other sources we believe to be reliable. Throughout this Prospectus, we have also set forth certain statistics from industry sources and other sources we believe to be reliable. Sources of such information, data and statistics include the Ministry of Natural Resources. Such information, data and statistics have been accurately reproduced and, as far as we are aware and are able to ascertain from information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading.

In this Prospectus, unless the context requires otherwise, all references to the "Company" are to Integra Group. Unless the context requires otherwise, all references to "Integra", "we", "us", "our", "the Group" or "our Group" are to the Company and its consolidated subsidiaries, taken as a whole.

In this Prospectus, all references to "RUR" and "ruble" are to the currency of the Russian Federation, all references to "€", "Euro" and "euro" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community and all references to "US$", "$", "US dollar" and "dollar" are to the currency of the United States. Solely for the convenience of the reader and, except as otherwise stated, this Prospectus contains translations of some ruble amounts into US dollars at a conversion rate of RUR 26.78 to US$1.00, which was the official average exchange rate quoted by the Central Bank of the Russian Federation (the "Central Bank") on September 30, 2006. No representation is made that the ruble or dollar amounts referred to herein could have been or could be converted into rubles or dollars, as the case may be, at these rates, at any particular rate or at all. See "Exchange Rate Information".

In this Prospectus, all references to:

- "US" are to the United States;
- "UK" are to the United Kingdom;
- "Russia" are to the Russian Federation;
- "EU" are to the European Union and its member states as of the date of this Prospectus;
- "EEA" are to the European Economic Area and its member states as of the date of this Prospectus; and
- "CIS" are to the Commonwealth of Independent States, its member and associated member states as of the date of this Prospectus, being Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Certain amounts and percentages that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the mathematical aggregation of the figures which precede them, and figures expressed as percentages in the text may not total 100% when aggregated.

SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the GDRs should be based on a consideration of this Prospectus as a whole, including the Risk Factors. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the EEA, no civil liability will attach to the Company in any such Member State solely on the basis of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the EEA, the plaintiff investor may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

The Company

We are a leading Russian independent provider of onshore oilfield services and are also one of the leading manufacturers in the Russian Federation of drilling rigs with heavy lifting capacity and cementing equipment and certain specialized equipment used in the exploration, development and production of oil and gas. We offer a diversified range of products and services to local and international oil and gas companies, primarily in Russia and other CIS countries.

We were formed in March 2004 by a group of Russian and western executives who saw an opportunity to build an independent oilfield services and equipment manufacturing company by acquiring existing assets in the growing and consolidating oilfield services and equipment manufacturing markets in the Russian Federation. Through 14 strategic acquisitions, we have become one of the leading companies in the oilfield services and equipment manufacturing sectors of the Russian market. According to Douglas–Westwood, based on their estimate of 2006 revenue, we have an approximately 3.9% share of the oilfield services market in Russia and an approximately 67.8% share of the Russian oilfield services equipment manufacturing market among drilling rigs with heavy lifting capacity, performance downhole motors, turbines and cementing equipment.

For the nine months ended September 30, 2006, we had sales of US$324.9 million, operating profit of US$8.6 million and Adjusted EBITDA of US$54.5 million on an actual basis and sales of US$487.6 million and an operating loss of US$1.9 million on a pro forma basis including all of the acquisitions completed during 2006.

Our current business is divided into two main divisions, equipment manufacturing and oilfield services, with the oilfield services division further divided into two primary lines of business: drilling, workover and integrated project management ("IPM") services and formation evaluation services.

Our oilfield services business operates at each stage of the upstream oil and gas business—exploration, development and production. We offer drilling, workover and project management services, logging and seismic services, cementing, coring and other specialized services, and we also manufacture, sell and lease drilling tools. We have oilfield services operations in each major onshore oil and gas producing region in the Russian Federation—Timan-Pechora, the Volga-Urals, Western Siberia and Eastern Siberia—and have a presence in many other CIS countries.

Our equipment manufacturing businesses design, manufacture and supply new and upgraded heavy drilling rigs under the well-known Russian brand 'Uralmash', and also design, manufacture and sell cementing equipment. Our main manufacturing assets are located in Ekaterinburg and Kostroma in the Volga-Urals region of Russia and Tyumen in the Western Siberia region of Russia where there is a developed industrial and transportation infrastructure and access to a skilled labor force.

In both our oilfield services and equipment manufacturing divisions, we count among our customers the major Russian and international oil and gas companies operating in Russia and other CIS countries, as well as small and medium-sized independent companies operating in these markets. Although we provide extraction services to the oil and gas industry, we have no ownership interest in the oil and gas that we help our customers to extract.

Competitive Strengths

- Leading independent oilfield services provider and oilfield equipment manufacturer in the Russian Federation.
- Broad range of oilfield services and equipment.
- Presence in all major onshore oil and gas producing regions of the Russian Federation.
- Diversified customer base.
- Experienced management team.

Strategy

- Grow our market share through value enhancing acquisitions.
- Support organic growth of acquired operations by modernizing and/or upgrading equipment and improving integration to increase efficiencies and realize synergies.
- Offer more value-added oilfield services through project management and engineering services and utilization of customized technologies.
- Expand our manufacturing business by increasing the volume and type of equipment manufactured and offering repair and maintenance services.
- Continue to diversify our oilfield services to ensure sustainable revenue.

Industry Overview

Douglas—Westwood estimates that the total market for oilfield services, as well as oilfield service equipment manufacturing, was US$11.8 billion in 2006 which will rise to US$15.6 billion by 2011. According to Douglas—Westwood's estimates, US$69.7 billion will be spent in total between 2007 and 2011 in the oilfield services market, representing a compound annual growth rate of 18% based on 2006 prices.

Current Trading and Prospects

Sales in the fourth quarter were significantly above the previous quarterly levels due to seasonal trends in manufacturing and formation evaluation, as well as the consolidation of recent acquisitions for the full quarter. As a result of unusually warm weather during December and January, mobilization of some of our drilling and seismic crews has been delayed. This may affect our ability to timely perform our contracts in the first quarter; however, management currently believes that the Company's performance for the full year 2007 is unlikely to be affected.

During the current annual contracting period, we have won a number of new tenders and additionally extended several contracts that expired in December 2006. The aggregate revenue attributable to 2007 under these contracts, contract extensions entered into through January 15, 2007 and the 2007 portion of multi-year contracts that had identifiable contract values for 2007 totaled approximately US$276.4 million. We also entered into a number of annual and multi-year contracts that have established rates for services. Because of the nature of the services contracted, the amount of revenue attributable to 2007 cannot be quantified as of the date of this Prospectus; however, management believes that the amounts that will be realized from these arrangements will be in line with our expected growth trends. We expect to win further tenders and enter into related contracts through the end of the annual contracting period which generally ends in March.

Recent Developments

- Subsequent to September 30, 2006: IG Holdings Limited acquired Azimuth from International Energy Services, Inc., for total consideration of US$37.3 million and agreed to acquire NLK for total consideration of US$3.7 million;
- we entered into several loan, guarantee and pledge agreements with lenders and other parties totaling US$232.3 million (including 10.7% ruble-denominated bonds due November 2011 with an aggregate principal amount equivalent to US$114.5 million); and
- we breached certain covenants in one of our debt agreements. To obtain a waiver of the breaches of covenants, we agreed to amend the terms of the agreement and make certain payments to the lender.

Risk Factors

An investment in the GDRs involves substantial risks and uncertainties. These risks and uncertainties include, among others, those listed below. Investors should carefully consider all of the information in this Prospectus prior to making an investment in the GDRs.

Risks Related to Our Business

- Our future business performance depends on the award of annual contracts as well as the renewals and extensions of existing contracts.
- We may incur losses on our turnkey contracts.
- We operate in a highly competitive industry.
- We rely on a small number of key customers.
- Certain management processes and internal controls have been deficient.
- The loss of our key senior managers could adversely affect our business.
- We may be unable to attract and retain sufficient skilled personnel.
- A number of our managers have been recently appointed to their positions.
- Changing technologies could increase competition.
- Our results of operations are subject to seasonal fluctuations.
- Our businesses may be subject to professional errors and omissions resulting in losses.
- We own less than 100% of the share capital of a number of our subsidiaries.
- Minority shareholders of our subsidiaries may successfully challenge prior transactions or fail to approve interested party transactions.
- A successful challenge to transactions of members of our Group and their predecessors-in-interest could result in the invalidation of such transactions.
- We may be required to make a tender offer for the shares of certain of our companies.
- Our tax status could change or relevant tax authorities could challenge any aspect of our structure.
- Board meetings held in the United Kingdom could have adverse tax consequences for us.
- We may be unable to protect our intellectual property.
- Work stoppages and other labor problems could adversely affect our business.
- Voting rights may be limited by certain tax-related provisions of our Articles.

Risks Related to Our Acquisition and Growth Strategy

- Assumptions underlying our growth strategy may prove to be incorrect.
- We may be unable to identify suitable targets or negotiate favorable terms.
- We have acquired businesses on the basis of limited financial and other information, and we may have assumed unexpected or unforeseen liabilities and obligations.

- We may have difficulty integrating our acquisitions or may not realize the anticipated benefits.
- Rapid growth may strain our resources.
- We may not be able to secure sufficient financing to fund our acquisition strategy.
- Our acquisitions and potential acquisitions may not be completed on the terms negotiated or at all.

Risks Related to Our Industry

- Consolidation among oil and gas companies and among oilfield services providers may result in fewer potential customers or the termination of existing contracts.
- Lower oil and gas prices and lower expenditures by the oil and gas industry can reduce demand for our services.
- Market data may be incomplete or subject to error.

Risks Related to Financial Matters

- We have had insufficient internal controls to properly monitor and comply with restrictions in our debt facilities, and have been in breach.
- We have material weaknesses in our internal controls.
- We have an insufficient number of accounting and financial personnel.
- Our accounting systems may not be as sophisticated or robust as other companies.
- Our historical and pro forma financial information may not be indicative of our future performance.
- Restrictions and covenants in our credit facility agreements limit our ability to take certain actions.
- We may not have access to additional capital required in the future.
- Continued or future losses and negative cash flows could adversely affect us.
- Inflation could increase our operating costs.

Risks Related to the Russian Federation

- Political and governmental instability in the Russian Federation could adversely affect your investment.
- Legal systems, processes and practices in the Russian Federation are still developing.
- Crime and corruption could disrupt our ability to conduct business.
- The banking system in Russia remains underdeveloped.
- Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity.
- The unfavorable opinion of the Russian state authorities of listings outside of Russia of the securities of non-Russian companies with Russian assets, may result in government action against us.
- Unlawful, selective or arbitrary government action may have an adverse effect on our business.
- Shareholder liability under Russian legislation could cause us to become liable for the obligations of our Russian subsidiaries.
- Appraisal rights provisions of Russian law may impose additional costs on us.
- The taxation and customs system in Russia is subject to changes and inconsistencies, and we could face large and perhaps arbitrary tax claims.

Risks Related to this Offering

- The Offering may not result in an active or liquid trading market for the GDRs.

- Cayman Islands law may make it difficult for GDR holders to protect their interests.
- Provisions of our articles of association and Cayman Islands law may discourage a takeover.
- Our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries.
- You may have limited recourse against us, our directors and senior management because we generally conduct our operations in Russia and certain of our directors and all of our senior managers reside in Russia.
- Our chief executive officer currently owns 15.42% of our share capital on a fully diluted basis.
- Future share sales could affect the GDR price.
- Investors will experience immediate and substantial dilution.

Summary of the Offering

The Offering comprises an offer of 1,994,266 Shares in the form of 39,885,320 GDRs (excluding the Over-Allotment Option). This is comprised of an offer by the Company of 1,492,537 Shares in the form of 29,850,740 GDRs and an offer by the Selling Shareholders of a total of 501,729 Shares in the form of 10,034,580 GDRs. In addition, the Company will offer up to 299,139 Shares in the form of up to 5,982,780 GDRs pursuant to the Over-Allotment Option. The GDRs are being offered outside the Russian Federation and the United States in reliance on Regulation S.

Use of Proceeds

After deduction of underwriting commission, fees and expenses relating to the Offering, the net proceeds of the Offering received by the Company will be US$460 million (assuming no exercise of the Over-Allotment Option). If the Over-Allotment Option is exercised in full, the net proceeds of the Offering received by the Company will be US$557 million. We intend to use our net proceeds to repay in the aggregate up to US$239.2 million of indebtedness due upon, or that may become due as a result of, the Offering and outstanding obligations in connection with certain of our acquisitions, repay certain of our other existing financial indebtedness, fund future acquisitions and make capital expenditures. After deduction of underwriting commission, the Selling Shareholders will receive net proceeds of US$162 million.

Dividend Policy

To the extent that we declare and pay dividends, holders of the GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs, subject to the terms of the Deposit Agreement. We do not expect to pay any dividends in the near term.

Capitalization and Indebtedness

Our capitalization at September 30, 2006 was US$426.0 million and our net indebtedness (defined as total debt less cash and cash equivalents) at September 30, 2006 was US$395.4 million.

Lock-up Arrangements

Each of the Company, our Directors, members of our senior management, and certain of our other shareholders who enter into lock-up agreements may not, for a period commencing on the date of the Underwriting Agreement and ending 180 days after the Closing Date (i) issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any of the foregoing), directly or indirectly, any Shares, GDRs or certain other securities whose value is derivative of the Shares or GDRs (in each case, which are legally or beneficially owned or otherwise held or controlled by them) or (ii) enter into transactions with a similar effect to any of the foregoing, subject to certain exceptions or without the prior written consent of the Joint Bookrunners.

Documents on Display

Copies of this Prospectus, the Consolidated Financial Statements, the auditors' reports, the Company's constitutional documents and a copy of the Douglas–Westwood report will be on display during normal business hours for the twelve months from the date of this Prospectus at the Company's registered office at Walkers SPV Limited, Walker House, Mary Street, P.O. Box KY1-9002, George Town, Grand Cayman, Cayman Islands.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth certain historical consolidated financial information as of September 30, 2006 and for the nine months ended September 30, 2006 and 2005, and as of and for the periods ended December 31, 2005 and 2004. Financial information as of September 30, 2006 and for the nine months ended September 30, 2006 and 2005 has been extracted without adjustment from our Unaudited Condensed Consolidated Interim Financial Information prepared in accordance with IAS 34 included elsewhere in this Prospectus. In our opinion, the Unaudited Condensed Consolidated Interim Financial Information includes all adjustments of a normal and recurring nature, which we consider necessary for a fair presentation of our financial position and the results of operations for such periods. Our results as of and for the nine months ended September 30, 2006 are not necessarily indicative of the results for the financial year ended December 31, 2006 or for any other period. Financial information as of and for the periods ended December 31, 2005 and 2004 has been extracted without adjustment from our Audited Consolidated Financial Statements, prepared in accordance with IFRS and included elsewhere in this Prospectus. The summary financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements included elsewhere in this Prospectus.

	Nine months ended September 30,		Period ended December 31,	
	2006	**2005**	**2005**	**2004**
	(in thousands of US dollars)			
Consolidated statement of income data				
Sales	324,941	41,993	97,921	—
Cost of sales	(253,736)	(36,083)	(76,688)	—
Gross profit	**71,205**	**5,910**	**21,233**	—
Selling, general and administrative expenses	(62,848)	(10,132)	(23,829)	(1,242)
Gain on acquisition and disposals of subsidiaries	—	8,931	16,592	7,904
Gain from disposal of Quest	225	—	—	—
Impairment of goodwill and other expenses	—	(921)	(1,038)	—
Operating profit	**8,582**	**3,788**	**12,958**	**6,662**
Finance loss, net	(18,026)	(3,218)	(8,781)	(21)
Share of results of associates, net of income tax	708	1,961	2,056	—
Profit (loss) before taxation	**(8,736)**	**2,531**	**6,233**	6,641
Total income tax expense	(6,833)	(102)	(2,884)	—
Profit (loss) for the period	**(15,569)**	**2,429**	**3,349**	**6,641**
Profit (loss) attributable to:				
Minority interest	1,501	(209)	(540)	—
Shareholders of Integra Group	**(17,070)**	**2,638**	**3,889**	**6,641**
Consolidated cash flow data				
Net cash used in operating activities	(21,443)	(8,161)	(6,830)	(1,639)
Net cash used in investing activities	(295,171)	(74,817)	(116,142)	(2,631)
Net cash provided by financing activities	366,386	104,586	143,989	5,000

	As of September 30,	As of December 31,	
	2006	**2005**	**2004**
	(in thousands of US dollars)		
Consolidated balance sheet data			
Cash and cash equivalents	67,326	21,471	730
Goodwill and other intangible assets	325,001	34,329	433
Property, plant and equipment	334,916	139,419	25,098
Total assets	**1,050,843**	**296,746**	**34,834**
Total debt	462,757	126,782	11,610
Total liabilities	**762,661**	**213,721**	**24,068**
Total equity	288,182	83,025	10,766
Total liabilities and equity	**1,050,843**	**296,746**	**34,834**

RISK FACTORS

An investment in the GDRs involves a high degree of risk. Prospective investors should carefully consider the risks described below and the other information contained in this Prospectus before making a decision to invest in the GDRs. Any of the following risks, individually or together, could adversely affect our business, financial condition, results of operations or prospects, in which case the trading price of the GDRs could decline, resulting in the loss of all or part of an investment in the GDRs.

The risks and uncertainties below are not the only ones we face, but represent the risks that we believe are material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware, and these risks could have the effects set forth above.

Risks Related to Our Business

Our future business performance depends on the award of annual contracts and renewals and extensions of existing contracts.

A substantial portion of our sales are derived directly or indirectly from annual contracts that are subject to an annual tender and selection process. It is generally difficult to predict whether we will be awarded such contracts and, if awarded such contracts, whether they will proceed as originally planned. The annual tender process is affected by a number of factors outside of our control, such as market conditions and governmental approvals required of our customers. In preparation for a tender, we assess our current capacity in terms of employees, equipment and the availability of third parties, such as subcontractors and suppliers, and, if awarded the contract, determine how to deploy our resources in order to achieve the requirements of the contract. Often, we must pre-qualify to participate in tenders. If we are not selected or if the contracts we enter into are delayed and we are unable to execute the work we are contracted to perform within the timeframe we had agreed, our work flow may be interrupted, our contracts may not be renewed and our business, financial condition and results of operations and ultimately the trading price of the GDRs may be adversely affected.

We may incur losses on our turnkey contracts and such contracts could cause our revenues and earnings to fluctuate significantly.

Most of our drilling service contracts are made annually on a turnkey basis under which we agree to perform the contracted work for a fixed price from initial award through to completion. If our cost estimate for a contract is inaccurate, or if we do not execute the contract within the agreed timeframe for whatever reason, cost overruns may cause the project to be less profitable than expected or cause us to incur losses. On some occasions, we may be required to provide a quotation to a customer without being able to confirm our own costs for sourcing the required third party materials or services.

Such projects generally involve complex design and engineering or significant procurements of equipment and supplies. Our costs and any gross profit realized on such contracts may vary from the estimated amounts on which such contracts were originally based. The reasons for this may include, among others:

- errors in cost, design or estimated time for performance;
- difficulties in deliveries of equipment and supplies;
- schedule changes;
- changes in availability and cost of labor and material;
- failure of subcontractors to perform their contractual obligations; or
- other disruptions (such as delays in obtaining permits or prolonged adverse weather conditions).

Any or all of these factors may impact our ability to complete a project within budget or in accordance with the contracted schedule. Delays in completion of a turnkey project or failure to meet certain key performance indicators may result in excessive rig or crew down time and in certain circumstances may also expose us to damages, which could have a material adverse effect on our business, financial condition or results of operations and ultimately the trading price of the GDRs.

We operate in a highly competitive industry and our failure to compete effectively could result in reduced profitability and loss of market share.

The market for oilfield services in Russia is fragmented and highly competitive. Competition comes mainly from:

- current and former affiliates of Russian oil majors, such as the former Lukoil affiliate, BK Eurasia;

- international oilfield services providers, such as Halliburton, Schlumberger and Baker Hughes, among others, which employ modern technologies, provide high value-added products and services, and through their local subsidiaries and joint ventures provide oilfield services of varying technologies; and
- numerous local independent service providers that tend to provide basic services at relatively cheaper prices.

Competitive factors in our markets include price, quality and technical proficiency and service delivery on an "as needed, where needed" basis. Our ability to enhance our existing services and technical proficiency and to increase the scale of our operations, while controlling our costs, is of primary importance to our ability to compete effectively.

In addition, we face increasing competition from Chinese and certain North American and Western European manufacturers of oilfield equipment. In particular, with respect to drilling rigs with heavy lifting capacity, we face increasing competition from Bentec GmbH Drilling & Oilfield Services Systems ("Bentec"), a subsidiary of Abbot Group plc. Recent press reports indicate that Bentec may acquire manufacturing facilities to produce drilling rigs in Western Siberia, in close proximity to some of our most significant markets for drilling rigs, including a type of a cluster drilling rig that directly competes with the cluster rigs manufactured by us.

Our current competitors and any additional competitors that may enter the Russian oilfield services market may have greater financial, technical and other resources, broader experience, lower cost structures and better relationships in the oil and natural gas industries in Russia and the CIS. There can be no assurance that we will be able to maintain or increase our current market share in the future. In addition, more intense competition may force us to offer our services on less favorable terms and conditions. These competitive factors could have a material adverse effect on our business, financial condition and results of operations and ultimately on the trading price of the GDRs.

We rely on a small number of key customers for a significant percentage of our revenues.

Our contracts with Lukoil, TNK-BP and Rosneft represented approximately 25%, 17% and 3%, respectively, of our consolidated sales for the year ended December 31, 2005. Our contracts with TNK-BP, Lukoil and Rosneft represented approximately 22%, 13% and 12%, respectively, of our consolidated sales for the nine months ended September 30, 2006. TNK-BP accounts for approximately 33% of all sales in each of our formation evaluation and manufacturing segments. The loss of one or more of our key customers or a reduction in their capital or operating expenditure budgets for whatever reason could adversely affect demand for our equipment or services and reduce our sales. To the extent that industry consolidation continues within the Russian oil and gas sector, we expect that the percentage of sales attributable to our largest customers will continue to increase, making us more dependent on these key customer relationships. The loss of one or more of our key customers could have a material adverse effect on our business, financial condition and results of operation and ultimately on the trading price of the GDRs.

Certain of our management processes and internal controls have been deficient and failed to ensure proper oversight, reporting and control of our business.

Our operations to date have been managed primarily by a group of individuals with experience in certain aspects of the Russian oilfield services industry. None of these individuals has had extensive management experience in the context of a group that has been rapidly formed by a series of acquisitions. In addition, none of these individuals has had sustained, long-term experience in managing a public company. Our management team has to date been focused primarily on completing a large number of acquisitions and related financings, and has had limited time to implement certain management processes and the internal controls required by a company of our size and diversity.

As a result, we have experienced and may continue to experience failures in various aspects of our management processes, including oversight, reporting and control functions. Although the possibility of the occurrence of such failures was emphasized to us by external experts knowledgeable in matters relating to accounting and controls, such failures have continued to occur. Examples of the types of problems we have encountered as a result of these failures include that, from time to time, we have violated the terms of certain debt, guarantee and pledge agreements entered into with various lenders and, in some cases, we have disregarded restrictive covenants to which we were subject. In addition, our management has in the past failed to disclose to our external advisors material events and information affecting our Group in a timely fashion. See "—Risks Related to Financial Matters".

We have identified additional risk management and other processes and further enhancements to be made to our existing systems and functions in 2007 and beyond as well as additional personnel to be added to our management team. As these additional measures have not yet been implemented, however, we cannot yet fully judge whether such measures will be sufficient to address the issues arising out of certain of our existing management procedures and internal controls, or whether additional measures will need to be implemented. We may continue to suffer from other failures or problems related to deficiencies due to our management processes and internal controls that we have not detected and that may have a material adverse effect on our business, financial condition, results of operation and the trading price of the GDRs. See "Management—Corporate Governance and Internal Controls".

The loss of any of our key senior managers could have a material adverse effect on our business.

The success of our oilfield services and equipment manufacturing businesses depends heavily on the continued services of our key senior managers, including Mr. Felix Lubashevsky, our chief executive officer, and Mr. Mark Sadykhov and Mr. Viktor Tkachev, our executive vice presidents for oilfield services and equipment manufacturing, respectively. These individuals possess industry specific skills in the areas of sales and marketing, engineering and manufacturing and/or mergers and acquisitions that are critical to the growth and operation of our businesses. While we have entered into employment contracts with our senior managers and have provided incentives for them to remain with us, including options under the share option plan approved by our board of directors in 2005 (the "Board of Directors" or the "Board"), the retention of their services cannot be guaranteed. For example, according to Russian labor law, some members of senior management could resign from the Group by giving us as little as two weeks' notice. We are not insured against damage that may be incurred in case of loss or dismissal of our key specialists or managers. Moreover, we may be unable to attract and retain qualified personnel to succeed such managers. If we lost or suffered an extended interruption in the services of one or more such managers, our business, financial condition and results of operations and ultimately the trading price of the GDRs could be adversely affected.

We may be unable to attract and retain sufficient skilled personnel that will enable us to operate profitably and expand our operations.

Demand for engineers, equipment operators and other technical and management personnel is currently high in Russia and their supply is limited, particularly in the case of skilled and experienced engineers and field service personnel working in the remote regions and harsh climates of the oil and gas regions of Russia. Because of the cyclical nature of our industry, many qualified workers choose to work in other industries where they believe lay-offs as a result of cyclical downturns are less likely. Our growth and profitability may be limited by the scarcity of engineers, equipment operators and other technical and management personnel or by potential increases in compensation costs associated with attracting and retaining these employees. If our compensation costs increase or we cannot attract and retain skilled personnel, our profitability would be negatively impacted and our production capacity and growth potential would be impaired.

Our future success will also depend on our continued ability to attract, retain and motivate highly qualified sales, programming, technical, customer support, financial and accounting, marketing, promotional and managerial personnel. The competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and we may not succeed in our attempts to structure compensation packages in a manner consistent with the evolving standards of the Russian labor market. The failure to manage our personnel needs successfully could materially adversely affect our business, financial condition or results of operations and ultimately the trading price of the GDRs.

A number of our managers have been recently appointed to their positions, and a failure by them to integrate successfully into an effective management team could adversely affect our business.

In June 2006, we appointed a chief financial officer, in August 2006, we appointed an executive vice president for oilfield services and a deputy chief financial officer and, in December 2006, we appointed an internal auditor. In February 2007, we appointed a general counsel, who is due to commence work at the end of Februrary 2007. We plan to hire additional managerial personnel, including a financial controller. These managers have only limited experience in working with each other as a management team and have limited experience working within our Group. Their failure to integrate successfully into an effective management team or our inability to find further key members of management could adversely affect our business, financial condition or results of operations as well as our internal controls and financial reporting. See "—Certain of our management processes and internal controls have been deficient and failed to ensure proper oversight, reporting and control of our business".

Changing technologies could increase competition, require us to make substantial additional investments in our business and could have a material adverse effect on our business, financial condition or results of operations.

We operate in an industry in which a significant technological change developed or obtained by our competitors could impact the demand for our products and services. We must anticipate and adapt to these changes and introduce, on a timely basis, competitively priced products and services that meet changing industry standards and customer preferences. As new technologies are developed, we may have to implement these new technologies at a substantial cost in order to remain competitive. We may not have or be able to secure adequate funding to develop these technologies. In addition, our competitors may have greater resources to develop new technologies and may implement them before we do, which may allow them to provide lower-priced or better-quality services. If this occurs, it could limit our ability to compete effectively and, as a result, decrease demand for our products and services, which could have a material adverse effect on our business, financial condition or results of operations and ultimately the trading price of the GDRs.

Our executive vice president for oilfield services and certain of his deputies hold interests in other companies within the oilfield services industry which may give rise to potential conflicts of interest between their duties to us and their other interests.

Mr. Mark Sadykhov, our executive vice president for oilfield services, and certain of his deputies hold interests in and/or manage other companies that may from time to time do business with us or whose operations may compete for their attention with those of our Group. Mr. Sadykhov and four of his deputies own an interest in Vostok Energy Limited and Mr. Sadykhov and two of his deputies are directors in Wilson Eurasia, a supply chain management company that from time to time sells services to our Group. Transactions with Vostok Energy Limited or Wilson Eurasia are likely to be considered related party transactions and to require disclosure of the interest by the affected party. Under the terms of Mr. Sadykhov's employment and non-compete agreements, there are no restrictions on his ability to own or manage these existing businesses. We cannot ensure that potential conflicts of interest between the duties owed to us by Mr. Sadykhov and certain of his vice presidents and their other interests will not otherwise arise and, if such conflicts do arise, that they will be adequately detected and resolved. See "Related Party Transactions".

Our results of operations are subject to seasonal fluctuations.

Adverse climatic conditions, such as cold weather, ice and snow, and flooding in warmer months generally affect our ability to provide some of our services. As a result, sales of drilling, workover and IPM services as well as formation evaluation services show seasonality and our business may be negatively affected during extremely cold periods in the winter and during periods when flooding prohibits access to remote oilfields.

In our drilling, workover and IPM services segment, we usually experience a pronounced reduction in revenues during the first and fourth quarters of the year reflecting the effect of extreme winter weather in the Russian oil and gas producing regions and the impact of the contracting cycle. Our drilling services can be negatively affected by severe winter weather conditions in certain regions of Russia and Kazakhstan that make oil and gas operations difficult in this period and by winter thawing since large volumes of drilling equipment and drilling rigs situated in certain regions can only be transported during winter when the ground is sufficiently frozen to create access roads. If adverse conditions are unusually intense, occur at abnormal periods or last longer than usual, we may not have enough time remaining during the year to complete all of our scheduled jobs which may prolong expected performance, result in penalties for delayed performance or prevent us from transporting equipment to the next job, all of which can result in lost sales revenues. For instance, during January and February 2006, Russia experienced severe temperatures of approximately -45 degrees Celsius in certain regions where we operate and our drilling operations were suspended for approximately 30 days in total, which contributed to delays in the mobilization of our equipment and service commencement dates.

Additionally, the contracting cycle for this segment generally begins in late fall and runs through the beginning of the following year, which typically results in a demand for financing in the fourth quarter and a lag in cash flow until the second quarter of the following year, since we generate lower sales during the time when we are investing in supplies and equipment for the coming year and performing de-mobilization and re-mobilization activities.

There is also a limited season for providing seismic services in the Siberian regions of Russia, as we are unable to gain access to these remote, undeveloped areas during the summer due to flood-like conditions from winter thawing. We are generally only able to provide seismic services in Siberia from December to April. As a result, we generate low or no revenues from these services during the second and third quarters of the year, and for the nine months ended September 30, 2006, our formation evaluation services segment experienced a decline in profit margin that we attribute to the seasonal decline in sales of seismic services by TNGF during this period. There is no assurance that we will not experience a similar decline in profit margin in the future.

Our businesses may be subject to professional errors and omissions resulting in substantial property loss and other liability claims that may materially adversely affect our operations and profitability.

Our business involves a high degree of professional judgment and errors and omissions could lead to liability claims under law, under the terms of our contracts or otherwise, as well as adverse publicity. Furthermore, the services we perform and the products we manufacture are used in hazardous or extreme environments and in complex applications associated with the exploration, development and production of oil and gas. An accident or a failure of a product or in the performance of a service could cause, and has caused on occasion, personal injury, loss of life, damage to property, equipment or the environment, consequential losses and suspension of operations. We maintain limited insurance, typically only to the extent mandated by Russian or other applicable law, and may not be adequately protected against liability for such events, including events involving third-party liability in respect of property or relating to our operations. We do not have full coverage for all of our facilities and we do not have any coverage for business interruption, environmental damage, construction risk and consequential damages, including lost production of our customer. We do not maintain separate funds or otherwise set aside reserves for accidents or failures and other such events. Moreover, we may not be able to maintain insurance at levels of risk coverage or policy limits that we deem adequate, nor can we guarantee that every contract contains and has properly incorporated adequate limitations on our liabilities. Any claims made under our policies will likely cause our premiums to increase. Any future damage caused by our products or services that are not covered by insurance, are in excess of policy limits, are subject to substantial deductibles or are not limited by the incorporation of adequate contractual limitations of liability could reduce our earnings and the cash available for our operations or lead to other material adverse effects on our business, financial condition or results of operations and ultimately on the trading price of the GDRs.

Compliance with health, environmental and safety laws and regulations could increase our costs or restrict our operations.

Our operations and properties are subject to regulation by various governmental entities and agencies, including in connection with obtaining and renewing licenses and permits and ongoing compliance with existing laws and regulations. For example, our operations routinely involve the handling of significant amounts of chemical substances, some of which are classified as hazardous. We also use radioactive measuring instruments and explosive materials in certain of our operations. Environmental regulations include, for example, those concerning:

- the use of hazardous substances;
- the containment, transportation and disposal of hazardous substances, oilfield waste and other waste materials;
- emission standards for operations; and
- management of live or dormant production wells.

The technical requirements of environmental laws and regulations are becoming increasingly complex and stringent and therefore more difficult and expensive to meet. In addition, environmental, health and safety laws in Russia are often unclear and contradictory, which makes it difficult for us to ensure compliance. If, in the future, we are required to incur material expenditures to comply with new and/or existing health, safety and environmental laws, this could restrict our ability to grow and materially adversely affect our business, financial condition or results of operations and ultimately the trading price of the GDRs.

Regulatory authorities exercise considerable discretion in the issuance and renewal of licenses and permits, in monitoring licensees' compliance with the terms thereof and in interpreting and enforcing applicable laws and regulations. Future inspections by regulatory authorities may conclude that we have violated applicable laws or regulations. If we are unable to refute these conclusions or to remedy these violations, the regulatory authorities may impose fines, criminal and administrative penalties or severe sanctions, including the suspension, amendment or termination of our licenses and permits and compel us to cease certain of our business activities. The loss of any licenses or profits would have a material adverse effect on our business, financial condition and results of operations and ultimately the trading price of the GDRs. See "—Risks Related to the Russian Federation—Legislative and Legal Risks".

We own less than 100% of the share capital or interests of a number of our operating subsidiaries.

We own less than 100% of the share capital or interests in a number of our operating subsidiaries, in particular, each of our key formation evaluation services operating subsidiaries. We generally enter into management contracts with those key operating subsidiaries which have minority shareholders so that we are able to conduct the day-to-day operations of those subsidiaries. Some of our subsidiaries have issued preferred shares that entitle their holders to the payment of annual dividends that cannot be less than the amounts specified in the respective charters of such subsidiaries. Under applicable Russian law, failure to declare and pay such dividends would result in the preferred shares becoming voting shares and our share of voting ordinary shares would be diluted accordingly, which could affect our ability to exercise effective control over the relevant subsidiaries. The existence of minority interests in certain of our subsidiaries may limit our ability to increase our equity interests in these subsidiaries, to combine similar operations, to realize synergies that may exist between their operations or to reorganize our structure in ways that may be beneficial to us. Furthermore, we may not be able to realize the full value of our interests.

If minority shareholders of our subsidiaries successfully challenge or fail to approve interested party transactions, or other shareholder matters, it could have a material adverse effect on our business, financial condition or results of operations.

We and our subsidiaries in the past have carried out, and continue to carry out, transactions with other members of the Group which may be considered to be "interested party transactions" under Russian law, requiring approval by disinterested directors or disinterested shareholders depending on the nature of the transaction and parties involved. For example, we have on previous occasions entered into management agreements and obtained guarantees for certain of our indebtedness from entities such as TNGF. The provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations. We cannot assure you that our and our subsidiaries' applications of these concepts will not be subject to challenge by former and current shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition or results of operations and ultimately the trading price of the GDRs.

In addition, Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders' meeting to approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50% of the assets of the company, repurchase by the company of shares and certain share issuances. In some cases, minority shareholders of our Russian subsidiaries may not approve interested party transactions requiring their approval or other matters requiring approval of minority shareholders or supermajority approval. In the event that these minority shareholders were to challenge successfully past interested party transactions, or do not approve interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition or results of operations and ultimately the trading price of the GDRs could be materially adversely affected.

If transactions of members of our Group and their predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal or contractual requirements, the remedies in the event of a successful challenge could include the invalidation of such transactions or the imposition of other liabilities on members of our Group.

Members of our Group, or their predecessors-in-interest at different times, took a variety of actions relating to share issuances, share disposals and acquisitions, mandatory buy-out offers, valuations of property, interested-party transactions, major transactions, meetings of the group members' governing bodies, other corporate matters and anti-monopoly issues that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant members of our Group or their predecessors-in-interest, could result in the invalidation of such transactions and our corporate decisions, restrictions on voting control or the imposition of other liabilities. Because applicable provisions of Russian law are subject to many different interpretations, we may not be able to defend successfully any challenge brought against such transactions, and the invalidation of any such transactions or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Subsequent to our acquisition and control of shares of YGF described under "Material Contracts", we learned that some YGF shareholders, including the shareholder from whom we purchased our interest in YGF, were parties to a shareholders' agreement pursuant to which these shareholders agreed to grant to each other certain rights with respect to the management of YGF and its shares, including a right of first refusal prior to the sale of any those shares. Although the selling shareholder confirmed to us that the shareholders' agreement was no longer in force at the time of the sale of shares to us, we subsequently learned that this fact is disputed by one of the shareholders also a party to the shareholders' agreement. In correspondence received in February 2007, that shareholder informed us of its position on this matter and made certain demands for the purchase of its shares.

In connection with our initial acquisition of STM in March 2006, we applied for and obtained approval from the Federal Anti-monopoly Service of the Russian Federation, or the "FAS", to complete the transaction. Shortly thereafter, we sold the shares but in July 2006, we reacquired the shares of STM. We did not reapply for approval from the FAS nor did we provide notification to the FAS of our second acquisition in July 2006, but relied on the approval provided for the March 2006 acquisition. This may constitute grounds for a challenge of the acquisition by the FAS.

There can be no assurance that any of our transactions or actions will not be challenged by state authorities, shareholders, transaction counterparties or other persons being interested in such a challenge and, if successfully challenged, that such transactions or actions could be invalidated and the invalidation of such transactions or actions could have a material adverse effect on our business, financial condition or results of operations.

We may be required to make a mandatory tender offer for the shares of certain of our companies.

Under applicable laws and regulations on tender offers in Russia and Kazakhstan, we are obligated to make a mandatory tender offer to acquire all of the issued and outstanding shares of companies in which we have acquired 30% or more of the issued and outstanding shares. In one of our companies, we own less than 30% of the issued and outstanding shares but have entered into a series of contractual arrangements with other shareholders that allow us to combine their shares with the shares we own to exercise majority voting rights and effectively control the company's financial and operating policies. Accordingly, because we are deriving the economic benefit from such shares in a manner similar to legal ownership, we consolidate the company's operating results in our financial statements as though it was our subsidiary. If this arrangement is found to constitute an acquisition by us of more than 30% of the issued and outstanding shares, we will have an obligation to make a mandatory tender offer to acquire all of the issued and outstanding shares of the company that we do not already own. If this were to occur, we may have to divert financial resources allocated for other corporate uses for the purpose of financing such mandatory tender offer or seek alternate financing, and we may become otherwise liable to pay damages to existing minority shareholders. Excluding any damages that we may owe to the existing minority shareholders of such Company, we estimate that the cost to us of acquiring all of the remaining issued and outstanding shares would be approximately US$19 million. There can be no assurance that the actual cost to us of acquiring such shares will not exceed the amount we have estimated. After the Offering, we may seek to acquire all of the issued and outstanding shares of these companies that we do not currently own. We are currently in the process of acquiring the tendered shares of minority shareholders of AES and Geostan following our acquisition of these companies in December 2006. The expected cost to us of these tendered shares is approximately US$0.7 million.

We may be adversely affected if our tax status changes or if relevant tax authorities challenge any aspect of our Group's structure.

We were incorporated under the laws of the Cayman Islands as an exempted company and, as such, obtained an undertaking on March 30, 2004 from the Governor in Cabinet of the Cayman Islands which in substance provides that, for a period of twenty years, no law which is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to us and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on our common shares. Our directors currently intend to ensure that we continue to meet the conditions for exempted company status and to conduct our affairs in such a manner that we are not regarded as tax resident in any jurisdiction. However, if such status or our tax residence is successfully challenged by the relevant tax authorities, we may incur additional tax liabilities which could materially adversely affect our business financial condition, results of operations and ultimately the trading price of the GDRs.

The holding of Board meetings in the United Kingdom could have adverse tax consequences, if it resulted in us being treated as being managed and controlled in the United Kingdom.

Under English law, a company incorporated outside the United Kingdom is treated as resident in the United Kingdom for tax purposes if it is "managed and controlled" in the United Kingdom. Whether a company is managed and controlled in the United Kingdom is a matter of fact, although the prime determinant is where a company holds its Board meetings. In 2005, our first year of trading, we held the majority of our physical Board meetings in the United Kingdom. Since the start of 2006, we have held our physical Board meetings in a variety of locations, including Russia, Sweden, France and the United Kingdom.

There is a risk that the holding of Board meetings in the United Kingdom could result in our being treated as being managed and controlled in the United Kingdom with the result that all of our worldwide income, profit and gains would be subject to UK corporation tax (subject to a possible tax credit for any non-UK taxes paid on or in respect of such income, profit and gains). Furthermore, if this were the case, any transfer, or agreement to transfer, our Shares or the GDRs would be likely to attract UK stamp duty or stamp duty reserve tax.

We may be unable to secure or protect our rights to intellectual property.

While we have used the trade name "Integra" since our establishment in March 2004 and have made certain investments in building the "Integra" brand, we do not have any exclusive rights to the trade name or trademark "Integra". Furthermore, we are aware of several entities that have registered "Integra" or a similar name as their trade name and/or trademark in classes of services or products that include our areas of activity in Russia and certain other countries. Such entities have rights, and may seek, to prevent us from continuing to use "Integra" or a similar name as our trade name and/or from continuing to use "Integra" or a similar name as a trademark with respect to any or all of our products and/or services.

In February 2007, we applied to the Russian Patent and Trademark Agency, "Rospatent", for registration of the trademark "Integra" in relation to our class of services in the Russian Federation. In connection with such application, on February 6, 2007, we entered into an non-exclusive license agreement with OOO "Integra Group.ru", the owner in Russia of exclusive rights to trademark "Integra" with respect to the class of services relevant to our business. The agreement will become effective upon its registration by Rospatent. Also, on February 6, 2007, we entered into an agreement with OOO "Integra Group.ru" whereby the latter granted its consent for our applying to Rospatent for registration of a trademark containing the word "Integra". However, we cannot assure that such Rospatent registration will in fact occur and that Rospatent will recognize validity of such grant of consent to our trademark application.

We also rely on a combination of patents, trademarks and trade secrets, which we have obtained ourselves or licenses from third parties, to obtain and/or protect our technology and the trademarks that we use. We hold approximately 140 patents for our products and processes and four trademarks. We rely on license agreements with OJSC "Uralmashzavod", a former affiliate of URBO, for our non-exclusive right to use the name "Uralmash" in English and Cyrillic in Russia in connection with our drilling rigs manufacturing business. We also rely on our agreements with Smith Eurasia Limited, as exclusive agent for Smith Services, a business unit of Smith International, Inc., for the right to use the name "Smith" in the CIS. In the past, representatives of Smith International, Inc. have orally objected to the use of the name "Smith Eurasia" in the CIS, but, to date, have not commenced or threatened any legal action to halt it.

Intellectual property rights are difficult to protect in Russia and the other markets where we operate. In addition, litigation may be necessary to enforce our rights, determine the rights of others or defend against claims of infringement. If we are prevented from continuing to use the name "Integra" as our trade name and/or trademark, our business, results of operations and financial condition could be materially adversely affected. If we are unable to enforce our patents and trademarks or otherwise protect our proprietary rights to our intellectual property, our business, results of operations and financial condition could be materially adversely affected. See "Business—Intellectual Property".

Work stoppages and other labor problems could adversely affect our business.

Some of our employees are represented by trade unions and we have collective bargaining agreements that cover approximately 65% of our employees. A lengthy strike or other work stoppage at any of our facilities could have a material adverse effect on our business, financial condition or results of operations. See "Business—Employment".

Our chief executive officer beneficially owns 15.42% of our share capital on a fully diluted basis prior to giving effect to this Offering.

Immediately prior to the Offering, Mr. Felix Lubashevsky, our chief executive officer and member of our Board of Directors beneficially owns 940,000 Class B common shares representing approximately 15.42% of the share capital of our Company on a fully diluted basis. As a major shareholder, our chief executive officer has additional means of affecting the management and direction of the company, particularly by voting in the election of members of our Board of Directors.

Risks Related to Our Acquisition and Growth Strategy

The assumptions underlying our growth strategy may prove to be incorrect.

Our strategy from inception has been to create the leading independent provider of diversified onshore oilfield services and manufacturer of associated equipment in Russia. We have adopted this strategy based on our belief that the market for oilfield services is consolidating and that large vertically integrated oil and gas companies are seeking to divest their non-core assets, including their oilfield services operations. Our strategy is also based on the assumption that sustained high oil prices combined with the increasing need to locate new oil and gas reserves and replace depleting oil and gas reserves will lead to increased capital expenditures for exploration, development and production by oil and gas companies working in Russia compared to current levels. We believe that these factors will result in an opportunity for growth of the oilfield services business in Russia. Relying on these beliefs and assumptions, we have acquired businesses in each of the major oil and gas regions of Russia and made substantial investments in our acquired businesses with the intention of developing an independent company that offers oil and gas companies operating in Russia diversified onshore oilfield services and specialized equipment for oilfield exploration, development and production. If any of our beliefs or assumptions prove to be incorrect, our return on our acquisitions, and the expected growth resulting from the investments we have made in such acquisitions, may not materialize and our business, financial condition and results of operations and ultimately the trading price of the GDRs would be materially adversely affected.

As a result of the ongoing consolidation in the Russian oilfield services industry, we may not be able to identify suitable targets or may have difficulties in negotiating favorable acquisition terms.

While the oilfield services market in Russia remains fragmented, consolidation is actively underway. In the next three to five years, we expect that most of the Russian oilfield services market will be controlled by a small number of companies. We are likely to face increased competition from other oilfield services companies for the assets we wish to acquire. Increased competition may lead to higher prices being paid for oilfield services companies or assets and may decrease the number of such companies or assets that can be bought at attractive valuations. Such increased competition may arise in particular from large international oilfield services companies either expanding their presence in the Russian market or making an initial entry into the Russian market as well as from other domestic market participants, including state-owned or state-affiliated oil and gas companies that may decide to form oilfield services companies of their own. As a result, we may be unable to identify suitable targets and future potential acquisitions may be more difficult to negotiate or cost more than we are willing or able to pay, any or all of which may undermine our growth strategy and leave us at a competitive disadvantage relative to larger companies.

We have acquired and may continue to acquire businesses or assets on the basis of limited financial and other information, and we may have assumed and may continue to assume unexpected or unforeseen liabilities and obligations.

We are actively pursuing a strategy that includes rapid expansion in part through acquisitions. Because laws and corporate practices are generally not as developed in Russia and the CIS as in other markets, companies that we acquire may have engaged in business practices that were not in compliance with local law, international business practices or our internal policies.

Many companies in Russia and other CIS countries, including our potential targets, do not prepare financial statements in accordance with IFRS, US GAAP, or any other set of internationally recognized accounting standards. While most Russian companies prepare Russian statutory accounts, these accounts may not always reflect all material transactions. Therefore, we may not be able to rely on a target's documented financial information as indicative of its past financial performance. In addition, there may be significant differences between our accounting policies and those of a target (including policies related to revenue recognition, valuation of assets and capitalization of expenses), which may also affect the comparability between a target and ourselves. Because we may not have the benefit of reliable financial statements, we may discover areas of financial concern after making an acquisition that we did not foresee prior to the acquisition, which could have a material adverse effect on our business, financial condition or results of operations and ultimately the trading price of the GDRs.

While it is generally our intention to conduct due diligence prior to each acquisition by us, in some instances in the interests of securing an acquisition by committing to a purchase in a short time-frame, we have acquired companies after performing only limited due diligence. The size and organization of certain of our targets has also meant that on certain occasions only limited financial and other information was made available to us by the sellers prior to the acquisitions. As a result, we may have failed to discover liabilities of, or operating or other problems in, the businesses or assets we have acquired. Because of the relatively short period of time we have owned or operated these businesses or assets, particularly in cases where we carried out limited due diligence, we may not yet be fully aware of the extent of acquired liabilities or of the existence of other problems. In relation to certain of these acquisitions, we were not able to obtain full indemnification from the sellers. We expect to continue this style of acquisitions of businesses and assets in the foreseeable future.

In relation to two of the acquisitions that we made in 2006, we paid a substantial portion of the purchase price for such acquisitions prior to the closing of the transactions and prior to the receipt of any of the shares that were the subject of the transactions. This was a risk that we were prepared to take in the interests of securing the acquisitions, but it meant that we were exposed to the risk of failing to recover the funds we had paid in the event that the transactions failed to be completed.

If an acquired company failed to comply with legal requirements or to administer good business practice and policies prior to its acquisition by us, we may not realize the value we anticipated for such acquired company or this may otherwise undermine the strategy we were pursuing in acquiring that company. This could lead to adverse consequences, such as the need to make large provisions against acquired assets or to write down acquired assets and the need to devote significant time and attention to institute compliant behaviors during post acquisition integration. Any such failures committed by the acquired company, either prior to its acquisition by us or after the acquisition but before we were able to discover such failures, could have a material adverse effect on the business, financial condition and results of operation of the acquired company or our Group or on the trading price of the GDRs.

We may have difficulty integrating our acquisitions or we may not realize the anticipated benefits from our acquisitions.

Since our formation in 2004, we have completed 14 acquisitions involving the purchase of oilfield services and equipment manufacturing assets or companies and we expect to continue to make complementary acquisitions. The integration of these and future acquisitions into our operations poses significant management, administrative and financial challenges. These challenges include, among others:

- integration of the acquired businesses, including management information and financial control systems, marketing, customer service and product offerings;
- transfer, assignment and re-registration of agreements and permits and consents into our name following an acquisition;
- additional or unexpected capital expenditure requirements;
- retention of customers and suppliers;
- integration of different company and management cultures; and
- retention, hiring and training of key personnel.

The integration process may result in unforeseen difficulties and could require significant time and attention from management that would otherwise be directed at developing our existing business. Further, we cannot be certain that the anticipated cash flows, synergies and cost savings from these transactions will materialize or reach expected levels. For example, in April 2006, upon determining that we would be unable to purchase the remaining interest in KomiQuest and exercise full control over management decisions, we sold our interest in this company back to the original owner for the same price that we had purchased it in March 2005.

Rapid growth and a rapidly changing operating environment may strain our limited resources.

We have experienced rapid growth in a short period of time. Managing our growth has significantly strained our managerial and operational resources and is likely to continue to do so. Our operational, administrative and financial resources may be inadequate to sustain the growth that we want to achieve. As we integrate our acquisitions and as our customer base increases, an increase in investment is needed in our technology, facilities and other areas of operations, in particular research and development, customer service and sales and marketing which are important to our future success. As a result of such growth, we will need to continue improving our operational and financial systems and managerial controls and procedures. We will also have to maintain close coordination among our production, technical, accounting, finance, marketing, sales and promotional personnel. If we are unable to manage our growth and expansion effectively, the quality of our products and services and customer support could deteriorate which could have a material adverse effect on our business, financial condition or results of operations and ultimately the trading price of the GDRs. See "—Risks Related to Our Business—Certain of our management processes and internal controls have been deficient and failed to ensure proper oversight, reporting and control of our business".

We may not be able to secure sufficient financing to fund our acquisition strategy.

We anticipate that our cash flows will not be sufficient to fund our future acquisitions of other oilfield services or equipment manufacturing companies or assets. As such, obtaining sufficient financing is crucial to our acquisition strategy. We may not be able to secure such financing on favorable terms or at all due to the interest rate environment and limitations on our ability to enter into financing transactions imposed under the terms and conditions of our existing financial indebtedness. If we do not obtain sufficient financing for our acquisitions, we may be restricted in our ability to acquire attractive targets in the oilfield services market, which could cause us to lose market share. See "—Risks Related to Financial Matters".

Our acquisitions and potential acquisitions may be subject to regulatory and other conditions and may not be completed on the terms negotiated or at all or the regulatory authorities may conclude that we acquired or created a new company in contravention of antimonopoly legislation.

An important element of our growth strategy involves the acquisition of additional oilfield services and equipment manufacturing companies and assets. Due to our size, potential acquisitions are subject to prior approval by the FAS. The approval process may be lengthy and could delay the consummation of an acquisition and the realization of its expected benefits. In addition, the FAS may prevent an acquisition from taking place if it determines that it would be detrimental to competition in the relevant market. Alternatively, the FAS may permit acquisitions, but subject to conditions, such as divesting certain assets. In relation to our acquisition of PBN in 2006, although we observed our customary practice of filing an application for prior approval upon signing a definitive share purchase and prior to the acquisition of any shares, the FAS found that we had failed to comply with the prior approval requirements of the Russian anti-monopoly law and issued an administrative ruling to this effect. In a later finding, the FAS indicated that the PBN acquisition would not restrict competition and we were permitted to proceed with the transaction. Accordingly, we cannot be certain that we will be permitted to undertake our proposed acquisitions in a timely fashion, without remedies, or at all.

In part, the relevant legislation also restricts the acquisition or founding of companies by groups of companies or individuals acting in concert without such approval or notifications. As the legislation and regulations with respect to such matters are ambiguous, there can be no assurance that the FAS will not conclude that an acquisition or the creation of a new company was done in contravention of applicable legislation and competition has been reduced as a result. Any such finding could result in the imposition of administrative sanctions or require the divestiture of such newly acquired or created company or other assets, materially adversely affecting our business, financial condition or results of operations and ultimately the trading price of the GDRs.

Risks Related to Our Industry

Consolidation among oil and gas companies and among oilfield services providers may result in fewer potential customers for us or in the termination of existing contracts with customers or suppliers.

Oil and gas operators in the Russian Federation have undergone substantial consolidation in the last few years and additional consolidation is possible. Consolidation among oil and gas companies and among oilfield services providers may result in fewer potential clients for us. Such consolidation may lead to increased competition to secure contracts. Furthermore, mergers and acquisitions may result in the acquisition of one or more of our customers by an entity which has access to its own oilfield services division or which has established relations with one or more of our competitors. Similarly, a change of control of an oilfield or well managed or serviced by us may lead to the early termination of our contracts in relation to that oilfield or project if the new owner chooses to work with one or more of our competitors. Additionally, our presence in both the equipment manufacturing and oilfield services markets in Russia may deter an oilfield services competitor from commissioning a piece of drilling equipment through one of our manufacturing enterprises or seeking engineering or technology services from us. Likewise, if our existing suppliers, such as Smith International with whom we have an exclusive relationship for the sale of drill bits and drilling and service tools to certain customers, determine that our drilling and workover services or other services may deny them access to the broadest possible customer base in Russia and other CIS countries, they may be unwilling to maintain or expand such exclusive relationships with us. The termination of any of our contracts or a reduction in demand for our services as a result of merger and acquisition activity may have a material adverse effect on our business, financial condition and results of operations and ultimately on the trading price of the GDRs.

A substantial or extended decline in oil and gas prices could result in lower expenditures by the oil and gas industry thereby reducing demand for our services and decreasing our revenue.

Demand for our equipment and services is sensitive to the level of exploration, development and production activity and capital expenditures by oil and natural gas companies in our markets. Any prolonged reduction in oil and natural gas prices could depress the levels of oil and natural gas exploration, development and production activity. Even the expectation of longer-term lower oil and natural gas prices by oil and gas companies may similarly cause them to reduce or defer major capital expenditures given the long-term nature of many large-scale development projects. Lower oil and natural gas prices could also make many of the mature or dormant wells on which we perform our services uneconomical for oil and natural gas companies, which would reduce demand for our services. Prices for oil and natural gas have been and are likely to continue to be subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of other factors that are beyond our control, including, among others:

- the level of worldwide demand for oil and natural gas, which is affected by worldwide population growth and general economic and business conditions;
- governmental regulations, including policies regarding the exploration and development of oil and natural gas reserves and regarding production;
- environmental conservation measures, including those relating to carbon dioxide emissions;
- increases in the development of, and public subsidies for, alternative fuels;
- shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- taxation of oil and natural gas and associated consumer products;
- global weather conditions and possible natural disasters;
- political, military, and socio-political conditions;
- the available excess production capacity within OPEC and the level of oil production by non-OPEC countries;
- oil refining capacity;
- the cost of producing and delivering oil and gas;
- the willingness of governments to allow oil and natural gas to be transported through their countries to third countries; and
- terrorist attacks on oil and gas installations.

A substantial or an extended decline in oil and gas prices could result in lower expenditures by our customers and materially adversely affect our business, financial condition and results of operations and ultimately on the trading price of the GDRs. At the same time, an increase in worldwide oil and gas prices may not necessarily result in an increase in demand for our equipment and services. Historically, there has been a lag of approximately six months on average between an increase in the worldwide oil and gas prices and the implementation of new oil and gas projects requiring oilfield services and equipment.

The history and composition of the Russian oilfield services and equipment manufacturing market make data collection and comparison difficult and such data may be incomplete and/or subject to error.

The oilfield services and equipment manufacturing business in Russia has undergone a great deal of change in the last two decades. During the Soviet period, documentation concerning oilfield development was not recorded and monitored as stringently as is customary in other parts of the world. Additionally, in today's market, both in-house service providers associated with major Russian oil and gas companies and independent service providers are reluctant to divulge information, such as pricing and sales, not readily available in the public domain. Some independent companies that are small have little visibility or operate within an extremely limited geographical area resulting in information gaps about industry participants, particularly within an oil and gas region. There is also uncertainty regarding the ownership of assets. For example, inactive drilling rigs have been cannibalized to upgrade and repair other ageing rigs and record keeping is ambiguous. The total number of workover and drilling rigs reported in this Prospectus is an assumed number based on capacity, utilization and known drilling and workover activity in each onshore oil and gas producing region of Russia. In the absence of publicly available information on a significant proportion of participants in the industry, many of whom are small and/or privately owned operators, or their asset base, investors should not place undue reliance on available data on market sizes and projected growth rates, including the market and competitive data extracted from the report prepared by Douglas-Westwood and presented in this Prospectus. Additional factors should be considered in assessing the usefulness of this data and in particular projected growth rates. See "Important Information about this Prospectus".

Risks Related to Financial Matters

We have had insufficient internal controls to properly monitor and comply with the restrictions contained in our debt facilities, and as a result have been in breach of certain of our debt facilities. Any future default under our debt facilities, or consequent action by our lenders, may have a material adverse effect on our financial condition and the trading price of our GDRs.

Our growth has been financed in large part through borrowings. Since our inception in March 2004 and through September 30, 2006, we have borrowed US$461.1 million. These borrowings were raised through at least 45 separate bank facilities or other forms of loan agreements from a variety of lenders and two separate issuances of Russian ruble-denominated bonds. As of September 30, 2006, the group as a whole had outstanding total short-term and long-term borrowings of US$462.8 million, which included debt of certain of our subsidiaries existing at the time we acquired them. All of these facilities and loan agreements subject us to differing financial and other restrictive covenants. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Borrowings".

Until recently, we have lacked the internal controls to properly monitor and comply with the financial and other covenants to which our debt facilities subject us. This has resulted in a number of breaches of and defaults under our debt facilities, and subsequent cross-defaults under other debt facilities. In addition, so as to enable us to pursue more aggressively our growth strategy, we have on occasions knowingly disregarded certain of those restrictive covenants that we judged to be immaterial and have raised new debt and granted security in circumstances where the relevant restrictive covenants prohibited such actions. Certain of these breaches of our debt facilities have required us to enter into negotiations with our lenders and to agree enhanced commercial terms in order to obtain appropriate waivers of such breaches, and to consider raising alternate sources of financing.

In August 2006, we entered into a US$75.0 million bridge facility agreement (the "August 2006 Facility Agreement") with Renaissance Securities Trading Limited which we refer to herein as Renaissance Securities, which is an affiliate of Renaissance Capital, one of the Managers. Under the terms of the August 2006 Facility Agreement, we covenanted to use our best endeavors to procure that our non-dormant subsidiaries provide guarantees of such debt and that, pending the provision of such guarantees, no member of our Group would incur any debt or grant any security. Prior to the provision of such guarantees and in violation of the covenants, we incurred new debt in an aggregate principal amount of US$112.8 million under ten separate loan agreements with a variety of other lenders, including Alfa-Bank and Sberbank, and we made various grants of security. In addition, in violation of the terms of the August 2006 Facility Agreement, we failed to notify Renaissance Securities of these breaches and the consequent events of default that occurred. These events of default also resulted in a cross-default occurring under the terms of other debt facilities to which we are party. On January 8, 2007, Renaissance Securities waived these breaches of covenants. As part of such waiver we agreed to enhanced commercial terms with Renaissance Securities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Borrowings".

We intend to repay the August 2006 Facility Agreement with Renaissance Securities in full from the proceeds of the Offering. While the breaches of the August 2006 Facility Agreement were waived on January 8, 2007, the lenders under certain of our other debt facilities which cross-defaulted as a result of these breaches may take or threaten to take action arising out of potential defaults or cross-defaults under their respective facilities, including an acceleration of the outstanding indebtedness. The facilities which cross-defaulted included a US$90.0 million facility agreement that we entered into in September 2005 with J.P. Morgan Europe Limited (as agent and security agent for various lenders) (the "September 2005 Facility Agreement") to finance our purchase of URBO and BI, our US$2.0 million 18% Senior Notes due 2008 and our US$15.0 million 11% Senior Notes due 2010. If any such acceleration or other action is taken by any of these or other lenders, under the terms of the waiver of the breach of the August 2006 Facility Agreement agreed with Renaissance Securities, a new event of default would occur under that agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Borrowings".

Over the course of 2006, we were also in breach of our representations and warranties on entering into certain of the financing agreements and/or also were in breach of various covenants in loan agreements with IMB, Alfa Bank, Commerzbank and Nomos Bank. The breaches of covenants related primarily to restrictions on the incurrence of other debt, or the granting of security or issuing of guarantees, without the relevant lender's consent and the breach of certain financial ratios that prohibit the incurrence of debt above certain levels within certain groups of our subsidiaries. Although we have now obtained waivers or consents for all breaches of such agreements that we were aware of, there can be no assurance that we may not in the future breach our financing agreements to which we are or may become a party.

While we are implementing improvements in our internal controls, there can be no assurance that we will not continue to breach the terms of the financial and other restrictive covenants to which our debt facilities subject us. If a default were to occur under a debt facility, other cross-defaults may also occur under our other debt facilities. A significant portion of our debt has been lent to us by Russian banks under bilateral, non-syndicated facilities without agents who are experienced in addressing borrower defaults. Their response to any such default or cross-default may be slow, inadequate or disproportionate (in asking for fees, increased interest or even acceleration). Any default or cross-default, and any consequent decision by a lender to accelerate its debt, would have a material adverse effect on our financial condition and the trading price of our GDRs. There can be no assurance that any lender would agree to waive a default or, if a waiver was obtained, that we would not be required to offer enhanced commercial terms to the affected lenders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

We have material weaknesses in our internal controls and we may not be able to remedy these weaknesses or prevent future weaknesses. If we fail to maintain effective internal controls, we may not be able to accurately report our financial results or prevent fraud, or properly control our business, which would have a negative effect on the trading price of the GDRs.

We have material weaknesses in our internal controls. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The deficiencies identified include the following:

- We have insufficient resources in our accounting and reporting function which may lead to errors and inconsistencies. Specifically, the size of our financial reporting group is not sufficient to service existing reporting requirements given our extensive acquisitions and existing and expected demand for timely and accurate financial reporting, both internal and external. Additionally, our ability to generate accurate financial information in a timely manner and to produce the consolidated financial statements is currently overly dependent on a small group of individuals and relies heavily on manually administered spreadsheets. These deficiencies contributed to adjustments which were made during the preparation of our Audited Consolidated Financial Statements for the financial year ended December 31, 2005 and our Unaudited Condensed Consolidated Interim Financial Information.
- Until recently, we have not had satisfactory procedures for monitoring compliance with our debt covenants. We have recently approved such procedures which are in the course of implementation, but there can be no assurance that these new procedures will be effective. As discussed in the risk factor above, our failure to properly monitor and comply with restrictions contained in our debt facilities resulted in the breach of certain of our debt facilities leading to defaults and cross defaults under our financing agreements.
- Our management has limited experience in financial reporting and may not have sufficient awareness of financial reporting requirements to ensure all material events are properly disclosed or accounted for.

In addition, external experts knowledgeable in matters relating to accounting and controls reported such matters as material weaknesses in written communications to us. However, we did not request and such experts did not perform an audit of our internal controls or any other procedures specifically designed to evaluate or test the operating effectiveness of our internal controls. Accordingly, we can provide no assurance either that all material weaknesses have been identified or that all other areas of our internal control system are operating effectively.

While we are taking steps to address these material weaknesses, we may not be successful in remedying them in a timely fashion to prevent future deficiencies in our internal controls. In addition, our rapid growth and our acquisition strategy will place an additional strain on our accounting personnel, management information and financial reporting systems, and may make it more difficult for us to remedy these material weaknesses or prevent future weaknesses. If we are unable to remedy these material weaknesses or prevent future weaknesses, we may not be able to prevent or detect a material misstatement in our annual or interim consolidated financial statements. Any such misstatement or other defect in our financial statements or the perceived weaknesses in our accounting personnel, management information or financial reporting systems may have a material adverse effect on, among other things, our ability to pursue our strategies, maintain our competitive strengths or raise debt or equity financing in the future, which could have a material adverse effect on our business, financial condition, results of operations, prospects or the trading price of our GDRs. See "—Risks Related to Our Business—Certain of our management processes and internal controls have been deficient and failed to ensure proper oversight, reporting and control of our business".

We currently have an insufficient number of accounting and financial personnel and we may be unable to hire adequate accounting personnel to effectively support our accounting department, which could affect our ability to ensure timely and reliable financial statements and to provide effective monitoring of the financial matters affecting our Group.

We currently have an insufficient number of accounting and financial personnel in place to support the size and complexity of our operations and to effectively monitor and report on financial developments. This resulted in errors and inconsistencies, problems with timeliness, accuracy, and quality of information, and insufficient documentation, accountability and internal review, among other things. If we are unable to provide our financial department with sufficient resources and personnel, in particular personnel who are also knowledgeable in IFRS, we may not be able to ensure that accounting policies are correctly applied in the future or that our financial reporting systems are otherwise effectively implemented. The shortage of finance personnel also means that where control weaknesses have been identified and corrective action agreed, that action may not be implemented in a timely fashion or at all. We are planning to hire additional accounting personnel, such as a financial controller and head of reporting, but the number of qualified managerial and technical personnel in Russia knowledgeable in IFRS is limited as a result of intense competition for the services of such persons. If we are unable to contract with or hire and retain in a timely manner such additional accounting personnel, our ability to record, process, summarize and report financial information in a timely and reliable manner could be adversely affected. See "—Risks Related to Our Business—Certain of our management processes and internal controls have been deficient and failed to ensure proper oversight, reporting and control of our business".

Our accounting systems may not be as sophisticated or robust as those of companies organized in jurisdictions with a longer history of compliance with IFRS and we are only beginning the implementation of a tax planning function.

Most Russian companies are not required to adopt IFRS and most subsidiaries that we have acquired did not report their results under IFRS or any other international accounting standard nor have they implemented accounting systems that are common in countries with a longer history of compliance with IFRS. As a result, we and our subsidiaries:

- lack a sufficient number of financial personnel with experience in the application and interpretation of IFRS;
- have limited experience exercising the judgment required by IFRS;
- have not fully developed and implemented the required methodologies for the preparation of IFRS financial statements, including the internal control frameworks, development methodologies or risk assessment activities on which they depend; and
- have limited information technology and business process automation systems that facilitate the methodologies for the preparation of IFRS financial statements.

As a result, our financial information is less reliable than that of other companies using such systems and could adversely affect the quality of decision making by our senior management. Furthermore, the historic financial information of our subsidiaries has been subject to differing accounting policies, is not uniform and has required the reclassification of certain entries in order for our accounting personnel to process and consolidate the information for the purposes of producing our financial statements. As we develop and implement our accounting systems, we may identify further deficiencies with our subsidiaries' historic financial information that may impact our historical financial statements.

Due to our rapid growth, legacy tax risks assumed by us through acquisitions increase the risk of actual tax claims filed against us. As a result of our expansion into territories beyond Russia, such risks may increase further. We have only recently formed a tax planning function and currently the scope of responsibilities and actual activities of this function are limited due to limited personnel.

Our historical and pro forma financial information may not be indicative of our future performance.

This Prospectus contains our Unaudited Condensed Consolidated Interim Financial Information and our Audited Consolidated Financial Statements. In each of the periods covered, our results of operations were significantly influenced by the acquisitions we undertook. The growth we have experienced since our inception in 2004 is primarily attributable to our acquisition strategy. As a result, our historical results are not directly comparable. Additionally, the historical performance of the companies we have acquired set out in the stand alone financial statements in F-80 to F-317 may not be indicative of the results achievable by us following such acquisition nor is there any assurance that we can improve upon these results. Some companies we have acquired, such as BKS and Alliance, experienced deteriorating operating and financial performance following our acquisition of them. Further, subsequent to September 30, 2006, the date of our Unaudited Condensed Interim Financial Information, we raised the equivalent of US$232.3 million in borrowings and made additional acquisitions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments" and "—Liquidity and Capital Resources". Such borrowings are not included in either our Unaudited Condensed Consolidated Interim Financial Information or our Unaudited Condensed Pro Forma Financial Information as of September 30, 2006.

In addition, this Prospectus contains unaudited condensed pro forma financial information for the year ended December 31, 2005 and as of and for the nine months ended September 30, 2006, as set forth in the Unaudited Condensed Pro Forma Financial Information. Our Unaudited Condensed Pro Forma Financial Information gives effect to the acquisition of the Acquired Entities as if they had occurred on January 1, 2005 or September 30, 2006, as applicable. We note, however, that our Unaudited Condensed Pro Forma Financial Information should not be relied upon as an indication of the financial position or results of operations we would have achieved if the acquisition of the Acquired Entities had occurred on January 1, 2005 or September 30, 2006, as applicable, nor should it be used as an indication of our future performance following the consolidation of all of the Acquired Entities into our results. Many of our most significant acquisitions to date occurred within the last twelve months and we have only recently begun to integrate these companies into the Group.

Additionally, our Unaudited Condensed Pro Forma Financial Information differs significantly from our Consolidated Financial Statements, as our Unaudited Condensed Pro Forma Financial Information has been derived by the application of pro forma adjustments related to the Acquired Entities to our Audited Consolidated Financial Statements. For example, STM's results for the year ended December 31, 2005 and for the nine months ended September 30, 2006 include the results of OJSC "Strommashina", its only operating subsidiary, while it was under bankruptcy proceedings. In the case of Smith Eurasia and PBN, intragroup transactions occurred on a regular basis and may not have been subject to the same corporate governance requirements applied by us. For these and other reasons, there is a risk that the results of our subsidiaries may be significantly different following our acquisition of them.

Accordingly, our Unaudited Condensed Pro Forma Financial Information contained elsewhere in this Prospectus is presented for illustrative purposes only and may not, because of its nature, be indicative of our financial position or results of operations. Our future results of operations and financial position may differ materially from the pro forma amounts reflected in our Unaudited Condensed Pro Forma Financial Information. Prior to making an investment in the GDRs, investors should read both our Unaudited Condensed Pro Forma Financial Information and our Consolidated Financial Statements, and understand the differences between them and their limitations.

Restrictions and covenants in our or our subsidiaries' credit facility agreements limit our ability to take certain actions.

We and certain of our subsidiaries are subject to a number of restrictive covenants under our financing agreements. These covenants require us to maintain specified financial ratios and may limit our ability to, among other things:

- borrow additional debt;
- pay dividends, make other distributions or repurchase shares;
- make investments;
- consolidate, merge or dispose of assets;
- grant security interests;
- enter into transactions with affiliates; or
- enter into transactions resulting in a change of control.

If we fail to comply with these or other similar covenants, we will default under these agreements and this may also result in a cross-default under our other financing agreements. A default, if not waived, could result in an acceleration of our indebtedness, in which case such indebtedness would become immediately due and payable. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it. Even if new financing is available, it may not be on terms that are acceptable to us. We may not have the ability to borrow under our credit facilities unless we satisfy these covenants and other availability tests. See "—We have had insufficient internal controls to properly monitor and comply with the restrictions contained in our debt facilities, and as a result have been in breach of certain of our debt facilities. Any future default under our debt facilities, or consequent action by our lenders, may have a material adverse effect on our financial condition and the trading price of our GDRs".

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to expand our current business. To the extent that funds are insufficient to fund future acquisitions or operating requirements, we may need to raise additional funds through financings or curtail our growth. Any equity or debt financing, if available at all, may be on terms that are not favorable to us, and may dilute the interest of existing shareholders (to the extent that we issue new securities). If we cannot obtain adequate capital on favorable terms or at all, our business, financial condition or results of operations and ultimately the trading price of the GDRs could be adversely affected.

Continued or future losses and negative cash flows could adversely affect our operational and financial condition.

We have a short operating history. Since we intend to continue to invest in developing our equipment and services businesses, losses or negative cash flows we have incurred to date may continue to be incurred. There is no assurance that we will subsequently become or remain profitable in the future. The attainment of profitability will be dependent, among other matters, upon our ability to manage our growth and expansion successfully.

Inflation could increase our costs and decrease our operating margins.

The Russian economy has been characterized by high rates of inflation. The annual inflation rate subsided to approximately 15% in 2002, 12% in 2003, 11.7% in 2004 and 10.9% in 2005. Certain of our costs, such as salaries, are sensitive to rises in the general price level in Russia. In this situation, due to competitive pressures, we may not be able to raise the prices for our products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase our costs and decrease our operating margins.

Continued or increased limitations on the conversion of rubles to hard currency in Russia could increase our costs when paying any dividends to our shareholders and making payments in hard currency to suppliers and creditors which could cause us to default on our obligations to them.

The ruble is only in the first stages of becoming convertible outside of Russia. In addition, because of the limited development of the foreign currency market in Russia, we may experience difficulty converting rubles into other currencies. Any delay or other difficulty in converting rubles into a foreign currency to make a payment or delay or restriction on the transfer of foreign currency from Russia could adversely affect our ability to meet payment and debt obligations and any dividend payments in the future, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults.

Risks Related to Business Operations in Emerging Markets

Investors in emerging markets, such as Russia and other CIS countries, are subject to greater risks than investors in more developed markets, including significant political, legal and economic risks and risks related to fluctuations in the global economy.

Investors in emerging markets, such as Russia, should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant political, legal and economic risks. Emerging economies, such as the Russian and other CIS economies, are subject to rapid change and the information included herein may become outdated relatively quickly. Russia's economy, like other emerging economies, is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in Russia or other emerging economies could dampen foreign investment in these markets and adversely affect their economies. These developments could limit our access to capital and make execution of our acquisition and growth strategy more difficult.

Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal, financial and tax advisors before making an investment in the GDRs.

Risks Related to the Russian Federation

Political and Social Risks

Political and governmental instability to varying degrees in the Russian Federation could adversely affect the trading price of the GDRs.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy into a market-oriented economy. However, the course of political, economic and other reforms has in some respects been uneven, and the composition of the governments has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. The newly developed institutions and the legal and regulatory system lack a long-term institutional history and are not firmly established. Shifts in government policy and regulation in the Russian Federation have at times been unpredictable, and changes in government policy that could affect us or our investors may (and in certain cases are likely to) continue. The Russian political system remains vulnerable to popular dissatisfaction with the results of privatization in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

For example, in February 2004, just prior to his election to a second term as president, President Putin dismissed his entire cabinet, replaced the prime minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various state agencies and announced plans for a major overhaul of the federal administrative system. President Putin implemented reforms under which executives of sub-federal political units are no longer elected by the population, but instead are nominated by the President and confirmed by the legislature of the sub-federal political unit. Pursuant to legislation that took effect on December 7, 2006, single-member-district elections for the State Duma are to be eliminated, and all votes are instead to be cast on a party-list basis. Elections for the State Duma are scheduled for late 2007, and the next Presidential election is scheduled for 2008. According to the Constitution of the Russian Federation, President Putin is prohibited from seeking election to a third term.

Possible future governmental changes, including those following the next State Duma and Presidential elections, major policy shifts or lack of consensus internally between the leaders, executive and legislative bodies and powerful economic groups within one or more of the countries in which we operate could lead to political instability in those jurisdictions, which, in certain cases, could have a material adverse effect on our operations, financial condition, prospects and the trading price of the GDRs.

The immaturity of legal systems, processes and practices in the Russian Federation may adversely affect our business, financial condition or results of operations.

Risks associated with the legal systems of the Russian Federation include, to varying degrees: inconsistencies between and among laws, presidential decrees, edicts and governmental and ministerial orders and resolutions; conflicting local, regional, and federal rules and regulations; the lack of judicial or administrative guidance regarding the interpretation of the applicable rules; the untested nature of the independence of the judiciary and its immunity from political, social and commercial influences; the relative inexperience of jurists, judges and courts in interpreting recently enacted legislation and complex commercial arrangements; a high degree of unchecked discretion on the part of governmental authorities; substantial gaps in the regulatory structure due to delays in or absence of implementing regulations; bankruptcy procedures that are not well-developed and are subject to abuse; and a lack of binding judicial precedent. All of these weaknesses affect our ability to protect and enforce our legal rights, including rights under contracts, and to defend against claims by others.

The relatively recent enactment of many laws, the lack of consensus about the scope, content and pace of political and economic reform and the rapid evolution of legal systems in ways that may not always coincide with market developments have resulted in ambiguities, inconsistencies and anomalies and, in certain cases, the enactment of laws without a clear constitutional or legislative basis. Legal and bureaucratic obstacles and corruption exist to varying degrees in each of the jurisdictions in which we operate, and these factors are likely to hinder our further development. These characteristics give rise to investment risks that do not exist in countries with more developed legal systems. The developing nature of the legal systems in Russia and the other countries in which we operate could result in our business, financial condition or results of operations and ultimately the trading price of the GDRs being materially adversely affected.

The reversal of reform policies or the implementation of government policies in Russia targeted at specific individuals or companies could harm our business as well as investments in Russia more generally.

Since President Putin took office as prime minister and then president in 1999, the political and economic situation in Russia has generally become more stable and conducive to investment. However, signs of a breakdown in the consensus among key governmental officials have raised questions about the direction of future economic reforms. Any significant struggle over the direction of future reforms, or the reversal of the reform program, could lead to deterioration in Russia’s investment climate that might constrain our ability to obtain financing, limit our sales in Russia and otherwise harm our business and results of operations.

In 2003, Russian authorities arrested Mikhail Khodorkovsky and Platon Lebedev, key shareholders and managers of OAO NK Yukos (“Yukos”), then Russia’s largest oil company by production, on tax evasion and related charges, and on May 31, 2005 they were each sentenced to eight years of imprisonment on these charges. Significant back tax claims have since been brought against Yukos, resulting in the auction of its major production subsidiary, OAO Yuganskneftegaz ("Yuganskneftegaz"), and the effective destruction of Yukos. Yuganskneftegaz was acquired, indirectly, by OAO NK Rosneft, a state-owned oil company, resulting in the first effective renationalization of a significant company privatized in the 1990s. Some analysts contend that the arrests, destruction of Yukos and renationalization of Yuganskneftegaz evidence a willingness on the part of the Putin administration to reverse key political and economic reforms implemented in the 1990s, including certain privatizations. Other analysts, however, believe that these arrests were isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider program of asset redistribution. For further discussion of recent activities by Russian tax authorities, see "—Legislative and Legal Risks—The taxation and customs system in Russia is subject to changes and inconsistencies".

Political, social and other conflicts create an uncertain operating environment that hinders our long-term planning ability and could adversely affect the value of our investments in Russia.

The Russian Federation is a federation of 86 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus creates uncertainties in our operating environment, which may prevent us from effectively and efficiently carrying out our business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area. Violence and attacks relating to this conflict have also spread to other parts of Russia, including terrorist attacks in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce in Russia, and could materially adversely affect our results of operations and financial condition, and thus the trading price of the GDRs.

Crime and corruption could disrupt our ability to conduct business.

The political and economic changes in Russia since the early 1990s have led, amongst other things, to reduced policing of society and increased lawlessness. In September and October 2006, the Deputy Chairman of the Central Bank and a well-known reporter were assassinated in what were allegedly contract killings. Organized criminal activity, particularly property crimes in large metropolitan centers, has reportedly increased significantly since the dissolution of the Soviet Union. In addition, the Russian and international media have reported high levels of corruption in Russia and elsewhere in the CIS. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further the interest of the government and individual officials or business groups. Moreover, certain members of the Russian media appear to have published biased articles in exchange for payment. Although we adhere to our own internal compliance procedures in order to counteract the effects of crime and corruption, illegal activities or demands of corrupt officials, allegations that we or our management have been involved in corruption, illegal activities or biased articles and negative publicity could materially adversely affect our ability to conduct our business in Russia and the trading price of the GDRs.

Social instability could lead to labor and social unrest, renewed centralized authority or increased nationalism.

The failure of the Russian government and of many private enterprises to pay full salaries regularly, and the failure of salaries and benefits generally to keep pace with the increasing cost of living, could lead to labor and social unrest, increased support for centralized authority and rise in nationalism. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to a strike that included blockading major railroads. In 2005, Russian pensioners organized street protests against government proposals to monetize in-kind benefits. These protests periodically blocked highways and streets in major Russian cities. In 2006, groups of individuals allegedly defrauded by various real estate investment schemes organized protests in cities and towns across Russia, including a hunger strike. The Russian government and both Houses of the Federal Assembly adopted resolutions in an attempt to satisfy the demands of the protesters. Such labor and social unrest could disrupt normal business operations, which also could materially adversely affect our business, financial condition and results of operations.

Economic instability in Russia could adversely affect our business.

Since the dissolution of the Soviet Union in 1991, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- a weak banking system providing limited liquidity to domestic enterprises;
- a large number of loss-making enterprises that have continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- the growth of black and grey market economies;
- high levels of capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- high government debt relative to gross domestic product;
- hyperinflation;
- an unstable currency;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

The Russian economy has been subject to abrupt downturns. In particular, in August 1998, the Russian government defaulted on its ruble-denominated securities, the Central Bank stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of August 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies.

Recent favorable trends in the Russian economy, such as the increase in gross domestic product, a relatively stable ruble and a reduced rate of inflation, may not continue or may be abruptly reversed. For example, during 2005 economic growth slowed and consumer price inflation remained high. Furthermore, consumer price inflation in Russia increased in the first part of 2006. In addition, because Russia produces and exports large quantities of oil and natural gas, the Russian economy is particularly vulnerable to fluctuations in the price of oil and natural gas on the world market, and a decline in the price of oil or natural gas could significantly slow or disrupt the Russian economy. The occurrence of any of these events could materially adversely affect Russia's economy and our business in the future and ultimately the trading price of the GDRs.

The banking system in Russia remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

The banking and other financial systems in Russia are not well-developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The 1998 financial crisis referred to above resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April through July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August

1998. As a result of various market rumors and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the government or the Central Bank and foreign-owned banks generally were not adversely affected by the turmoil. There are currently also only a limited number of creditworthy Russian banks, most of which are located in Moscow. Most Russian banks do not meet international banking standards, and the transparency of the Russian banking sector still falls short of internationally accepted norms.

Under the terms of certain of our financing agreements, we are required to maintain a minimum amount of turnover and funds at the private Russian banks with which we do business. Another banking crisis or the bankruptcy or insolvency of the banks with which we hold funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity.

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, power generation and transmission, communications systems and building stock. For example, during the winter of 2000 and 2001, electricity and heating shortages in Russia's far eastern Primorye region seriously disrupted the local economy. In August 2000, a fire at the main transmission tower in Moscow interrupted television and radio broadcasting for weeks. In May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity. The Russian government is actively pursuing plans to reorganize its rail, electricity and telephone systems, as well as the public utilities. Any such reorganizations may result in increased charges and tariffs while failing to generate the anticipated capital investment that is needed to repair, maintain and improve these systems. The deterioration of physical infrastructure in Russia harms its national economy, disrupts the transportation of goods and supplies, adds costs to doing business and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on our business, financial condition or operating results.

Deterioration of Russia's relations with other countries in which we operate could disrupt normal business activity.

Since Mr. Putin became President in 1999, Russia has attempted to reassert its geopolitical interests in what had previously been Republics of the USSR, some of which are current and potential future markets for our services and products. On several occasions, this has resulted in deterioration of Russia's relations with such countries. For example, in the fall of 2006, acting in response to arrests in Tbilisi, Republic of Georgia, of alleged Russian foreign intelligence officers by Georgian authorities, Russia imposed a comprehensive economic embargo on Georgia, which included a ban on all auto, air and rail travel to and from Georgia, restrictions on money transfers to and from Georgia and the deportation of hundreds of Georgian citizens who were alleged to have been residing in Russia illegally. The Russian Law "On Special Economic Measures", adopted subsequent to the Georgian embargo, grants the President of Russia, acting only upon recommendation of the Russian Security Counsel, authority to both (i) impose restrictions or prohibit dealings with foreign states and/or foreign citizens and (ii) impose obligations to perform specific activities in furtherance of the adopted economic measures. If Russia were to impose a similar embargo or adopt any of the restrictive economic measures contemplated by the Law "On Special Economic Measures" with respect to the countries in which we currently operate and/or plan to operate in the future, our business, financial condition, results of operations and the value of the GDRs could be materially adversely affected. Similarly, if other countries were to impose similar measures on Russia, including, for example, restrictions on financing transactions or on the listing of companies with substantial assets in Russia, our business, financial condition, results of operations and the trading price of the GDRs could be materially adversely affected.

Legislative and Legal Risks

Weaknesses relating to the Russian legal system and legislation create an uncertain environment for investment and business activity in the region, and could have a material adverse effect on our business and the trading price of the GDRs.

Russia is still developing the legal framework required to support a market economy. The risks described above under "—Political and Social Risks—The immaturity of legal systems, processes and practices in the

Russian Federation may adversely affect our business, financial condition or results of operations", create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies.

Additionally, the independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is less than complete. The court system is understaffed and underfunded; judges and courts are generally inexperienced in the areas of business and corporate law; judicial precedents generally have no binding effect on subsequent decisions; and most court decisions are not readily available to the public. Enforcement of court judgments can, in practice, be difficult. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims, and law enforcement agencies do not always enforce or follow court judgments. We may be subject to such claims and may not be able to receive fair trials or to enforce any judgments in our favor.

These uncertainties also extend to property rights. During its transition from a centrally-planned economy to a market economy, Russia has enacted laws to protect private property against expropriation and nationalization. However, due to a lack of experience in enforcing these provisions and to political pressure, Russian courts might not enforce these protections in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, any of our entities' assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on our business, financial condition and results of operations.

Failure to comply with existing laws and regulations or the findings of government inspection, or increased government regulation of our operations, could result in substantial additional compliance costs or sanction.

Our operations and properties are subject to regulation by various government entities and agencies, in connection both with obtaining and renewing various licenses and permits and with continuing compliance with existing laws and regulations. Regulatory authorities exercise considerable discretion in the issuance and renewal of licenses and permits, in monitoring licensees' compliance with the terms thereof, and in interpreting and enforcing applicable laws and regulations. Russian authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties. Any such future inspections may conclude that we have violated applicable laws or regulations, and we may be unable to refute such conclusions or to remedy such violations. Such conclusions may result in the imposition of fines, penalties or more severe sanctions, including the suspension, amendment or revocation of our licenses and permits, a requirement that we cease certain of out business activities or criminal and administrative penalties could be instituted against our officers, each of which could materially adversely affect our business, financial condition and results of operations.

The unfavorable opinion of the Russian state authorities of listings outside of Russia of the securities of non-Russian companies with Russian assets, the may result in government action against us or our Russian subsidiaries.

The Russian Federal Service for Financial Markets (the "FSFM") has publicly expressed its disapproval of listings of securities of non-Russian companies in circumstances where the main assets of the companies are shares or other interests in Russian companies. The Russian Law "On the Securities Markets" has recently been amended to allow foreign issuers to issue Russian depositary receipts with respect to their shares. Although current Russian legislation does not prohibit the listing and trading of GDRs representing the Shares on the London Stock Exchange, there can be no assurance that the FSFM will not seek to take action against us or our Russian subsidiaries. The Company intends to set up a Russian depositary receipt ("RDR") facility after FSFM, stock exchange and other regulations needed for the establishment of RDR programs have been adopted and become effective.

Unlawful, selective or arbitrary government action may have a material adverse effect on our business or the trading price of the GDRs.

Governmental authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate the issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poors has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". In this environment, our competitors could receive preferential treatment from the government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary governmental action, if directed at our operations in Russia, could lead to our business, financial condition, results of operations or the trading price of the GDRs being materially adversely affected.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our Russian subsidiaries. Our past transactions and those of our Russian subsidiaries could be challenged under mandatory provisions of Russian law, negatively affecting our business, financial conditions and results of operations.

The Russian Civil Code, the Federal Law "On Joint Stock Companies" and the Federal Law "On Limited Liability Companies" generally provide that shareholders in a Russian joint stock company or members of a limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an "effective parent") is capable of determining decisions made by another (an "effective subsidiary"). The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to act or fail to act, knowing that such action or inaction would result in losses. Until very recently, there were no decisions of the Russian courts based on this provision of the law. However, on January 26, 2006, Arbitrazh Court of the Moscow region, reviewing the case on appeal, adopted a decision where it imposed liability on the shareholders of the bankrupt subsidiary. Accordingly, in our position as an effective parent, we could be liable in some cases for the debts of our effective subsidiaries in Russia.

We have taken a variety of actions in Russia involving the establishment of new business organizations, share issuances, share acquisitions and disposals, so-called "major transactions" and "interested party transactions" and other transactions that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or other interested parties, could result in the invalidation of such transactions or the imposition of other liabilities. Applicable provisions of Russian law are subject to many different interpretations and there can be no assurance that we would be able to successfully defend any challenge brought against such transactions. The invalidation of any such transactions or imposition of any such liability may, individually or in the aggregate, result in our business, financial conditions or results of operations being materially adversely affected.

Appraisal rights provisions of Russian law may impose additional costs on us.

Under Russian law, shareholders of a Russian joint stock company that vote against or abstain from voting on some decisions have "appraisal rights", or the right to sell their shares to such company at market value. The decisions that trigger this right to sell shares include:

- a reorganization of the joint stock company;
- the approval by shareholders of a "major transaction", in the event that a Russian joint stock company's board of directors is unable to reach a unanimous decision to approve the transaction and regardless of whether the transaction is actually consummated. A "major transaction" is one whose value comprises over 25% of the assets of the joint stock company, calculated in accordance with Russian Accounting Standards ("RAS"); and

• the amendment of the joint stock company's charter in a manner that limits shareholder rights.

A joint stock company's obligation to purchase shares in these circumstances is limited to 10% of its net assets, calculated according to RAS at the time the decision is taken. The application of these appraisal rights to our subsidiaries in which we do not currently own 100% or to any Russian joint stock company that we may acquire less than 100% of in the future, could have a material adverse effect on our cash flows and our ability to service our indebtedness.

The taxation and customs system in Russia is subject to changes and inconsistencies.

The discussion below provides general information regarding Russian taxes and customs duties and is not intended to be inclusive of all issues. Investors should seek advice from their own advisors as to these tax and customs matters before investing in the GDRs.

Historically, the system of tax collection in Russia was relatively ineffective, resulting in the continual imposition of new taxes in an attempt to raise state revenues. The primary current body of tax law, the Russian Federation Tax Code and the Russian Federation Customs Code (together the "Codes"), have been in force for a relatively short period of time (compared to tax and customs laws in more developed market economies), and the Russian government's implementation and application of these tax and customs laws is often unclear or inconsistent. While the advent of the Codes has improved the situation somewhat, there can be no assurance that the Codes will not be changed in the future in a manner adverse to the stability and predictability of the tax and customs systems. These factors, plus the potential for state budget deficits, raise the risk of a sudden imposition of additional taxes and custom duties which could adversely affect us.

Generally, taxes and duties payable by Russian companies are substantial and numerous. These taxes and duties include, among others, income taxes, value-added tax ("VAT"), excise taxes, custom duties on importation of goods and services, social and pension contributions, property tax and other taxes.

Russian tax and customs laws and regulations are subject to frequent change, varying interpretation and inconsistent enforcement. In some instances, despite the potential for challenge on constitutionality grounds, Russian tax and customs authorities apply changes to the laws retroactively, issue claims for periods which, under the statute of limitations, have expired and review the same periods on multiple occasions. In addition to the usual tax and customs burden imposed on Russian companies, these conditions complicate tax planning and related business decisions. In addition, tax laws are unclear with respect to deductibility of certain expenses.

Accordingly, few clear precedents with regard to the interpretation of these laws have been established. Often, differing opinions regarding interpretation of the laws exist both between companies subject to such taxes and customs duties and within Russian government ministries and organizations, such as the former Ministry of Taxes and Duties (the functions of which have since March 2004 been divided between the Federal Tax Service and the Ministry of Finance) and the former State Customs Committee (the functions of which have since March 2004 been transferred to the Federal Customs Service) and their various inspectorates, creating uncertainties and areas of conflict.

Generally, tax declarations remain open and subject to inspection by tax authorities for a period of three years following the relevant tax year. The fact that a year has been reviewed by tax authorities does not preclude the tax authorities from carrying out further review of that year, or any tax declaration applicable to that year, during the three-year period. In addition, on July 14, 2005 the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax inspection. Because none of the relevant terms are defined, the tax authorities may have broad discretion to argue that a taxpayer has "obstructed or hindered" an inspection and ultimately seek penalties beyond the three-year term.

This uncertainty could expose our Russian subsidiaries to significant unanticipated taxes, fines and penalties and enforcement measures despite our best efforts at compliance, which could result in a greater than expected tax burden.

Moreover, transfer-pricing legislation became effective in Russia on January 1, 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, barter transactions, external trade transactions and transactions with unrelated parties with significant price fluctuations (if the price in respect of the relevant transaction differs from the prices on similar transactions conducted within a short period of time by more than 20%). There has been no formal guidance (although some court practice is available) as to how these rules will be applied. If the tax authorities impose significant additional tax liabilities on our Russian subsidiaries as a result of transfer pricing adjustments, it could have a material adverse effect on our business, financial condition, results of operations or prospects.

We and our non-Russian subsidiaries are generally considered to be non-residents of Russia for tax purposes. Though we believe that we conduct our operations in accordance with applicable requirements, there can be no assurance that Russian tax authorities will not deem that we or any of our non-Russian subsidiaries have a permanent establishment in Russia as a result of activities of our or our subsidiaries or the exercise of management and control from within Russia. There are instances where foreign companies that perform holding or finance functions and are managed and controlled from Russia have been challenged by Russian tax authorities as having a permanent establishment in Russia. Such a challenge to our operations could result in us or one or more of our non-Russian subsidiaries being subject to Russian profits tax computed under Russian tax principles and Russian income tax withholding being assessed on interest and certain other payments made from such companies.

The foregoing conditions create tax and customs risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. There can be no assurance that current taxes and customs duties will not be increased or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. In addition to our regular tax and customs burden, these risks and uncertainties complicate our tax and customs planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and our business, financial conditions, results of operations or the trading price of the GDRs could be materially adversely affected.

We could face large and perhaps arbitrary tax claims.

Since 2003, the Russian Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has aggressively reviewed certain Russian companies' use of tax optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. For example, the Federal Tax Service determined that Yukos owes over US$28.0 billion in back taxes and related penalties, and, in December 2004, Yukos' major production subsidiary, Yuganskneftegaz, was auctioned in partial settlement of these obligations. In addition, the press has reported significant claims for back taxes and related penalties against other oil companies including TNK-BP, telecommunications companies, including OJSC Vimpelcom, and other major companies.

In March 2005, President Putin announced that the government was considering plans to reform the system of tax collection and administration. However, in April 2005, the back tax claim against TNK-BP for 2001 was increased by RUR 22 billion, bringing the total claim against TNK-BP for 2001 to RUR 26 billion, and Sibneft, another oil company, received a back tax claim for RUR 21 billion. As a result of further audits of TNK-BP's operations in 2002 and 2003, the Federal Tax Service filed a claim against TNK-BP for payment of approximately US$1.8 billion, comprised of back taxes for such years and related penalties. As a result, TNK-BP has reportedly paid approximately US$1.5 billion in settlement of the back taxes and related penalties for 2002 and 2003. The Federal Tax Service could become more aggressive in respect of future tax audits, which may have a material adverse effect on our business, financial condition, results of operations or the trading price of the GDRs could be materially adversely affected.

Our subsidiaries could be forced into liquidation on the basis of technical non-compliance with certain requirements of Russian law, which could materially adversely affect our business, financial condition or results of operations.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its technical non-compliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which technical deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as at the end of the second or any subsequent year of a company's operation, can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets. However, their solvency, i.e., their ability to pay debts as they fall due, is not otherwise adversely affected by such negative net assets. Our subsidiary, Alliance, has in the past had negative net assets. If involuntary liquidation were to occur, then we would be forced to reorganize the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition or results of operations.

In the event that deficiencies or ambiguities in Russian legislation are successfully exploited to challenge our ownership of our subsidiaries, we could lose our ownership interest.

Under Russian law, transfers of shares and other ownership interests may be invalidated on various grounds, including, among others, that a transferor does not have the right to dispose of such shares or interests or that the transfer violates rules governing interested-party or other transactions. As a result, actual or alleged defects in prior transfers of interests in our subsidiaries could affect our title to such interests. In the event that any transactions underlying the ownership of our subsidiaries are successfully challenged, we could lose all or part of our ownership interest in these companies, which would materially adversely affect our business, financial condition and results of operations.

Although no actions seeking to invalidate our subsidiaries' corporate status, alleging non-compliance with applicable laws and regulations relating to the formation of our subsidiaries or challenging subsequent share transfers in our subsidiaries have been brought, we cannot guarantee that such actions will not be brought in the future. Furthermore, notwithstanding the fact that the statute of limitations for challenging transactions under current Russian legislation is three years, there can be no assurance that a longer statute of limitations will not be retroactively implemented.

We may be adversely affected if our ownership structure is challenged on the grounds of violation of certain formal requirements of Russian corporate legislation.

A number of our operating subsidiaries are 100% owned by us indirectly through other wholly-owned subsidiaries. Such ownership structure may be seen as violating certain formal requirements of Russian corporate legislation, such as on the basis that a company may not have an entity owned by one person as its sole shareholder. In the event of a successful challenge of this ownership structure, some of our operating subsidiaries may be subsequently liquidated and, as a result, our business, financial condition and results of operations may be adversely affected.

Risks Related to this Offering

Because there has been no prior active public trading market for the GDRs, the Offering may not result in an active or liquid trading market for the GDRs, and their price may be highly volatile.

Before the Offering, there has been no public trading market for the GDRs or for our shares. Although the GDRs will be admitted to trading on the London Stock Exchange, an active, liquid trading market may not develop or be sustained after this Offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the GDRs does not develop, the trading price of the GDRs may be more volatile and it may be difficult to complete a buy or sell order for the GDRs.

The trading prices of the GDRs may be subject to wide fluctuations in response to many factors that are unrelated to us or our performance, including, among others:

- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by us or our competitors;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia and the other emerging markets in which we operate; and
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges of Russia and the other emerging markets in which we operate.

In addition, the trading price of the GDRs may decline below the Offer Price, which will be determined by the results of the book-building exercise being conducted by the Managers.

The Shares underlying the GDRs are not listed and may be illiquid.

Unlike many other GDRs traded on the London Stock Exchange, the Shares underlying the GDRs are neither listed nor traded on any stock exchange, and we do not intend to apply for the listing or admission to trading of the Shares on any stock exchange. As a result, a withdrawal of Shares by a holder of GDRs, whether by election or due to certain events described under "Terms and Conditions of the Global Depositary Receipts", will result in that holder obtaining securities that are significantly less liquid than the GDRs and the price of those Shares may be discounted as a result of such withdrawal.

Holders of GDRs may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.

Our corporate affairs will be governed by our amended and restated memorandum of association (the "Memorandum of Association"), the amended and restated articles of association (the "Articles of Association") and by the Companies Law (2004 Revision) (the "Companies Law") and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as under statutes or judicial precedent in existence in many onshore jurisdictions. Therefore, you may have more difficulty in protecting your interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in an onshore jurisdiction due to the comparatively less developed nature of Cayman Islands law in this area.

Cayman Islands law does not specifically provide for shareholder appraisal rights on a merger or consolidation of a company. This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation or to require that the offeror give you additional consideration if you believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies such as us have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders of the company. Our directors have discretion under our Articles of Association to determine whether or not, and under what conditions, its corporate records may be inspected by the shareholders, but are not obliged to make them available to the shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors. Our Cayman Islands counsel is not aware of any reported class action or derivative action having been brought in a Cayman Islands court.

Provisions of our articles of association and Cayman Islands corporate law may discourage a takeover, which could adversely affect the trading price of the GDRs.

Our Articles of Association permit our Board of Directors to issue preferred shares from time to time, with such rights and preferences as they consider appropriate. Our Board of Directors could authorize the issuance of preferred shares with terms and conditions and under circumstances that could have the effect of discouraging a takeover or other transaction.

Cayman Islands law does not provide for mergers as that expression is understood in many onshore jurisdictions. While Cayman Islands law does have statutory provisions that provide for the reconstruction and amalgamation of companies, the procedural and legal requirements necessary to consummate these transactions are more rigorous and take longer to complete than the procedures typically required to consummate a merger onshore. Under Cayman Islands law and practice, an amalgamation must be approved by a majority of each class of a company's shareholders, who must also represent 75% of the total value of such class. The amalgamation must also be approved by a majority of each class of the company's creditors, who must also represent at least 75% of the total value of such class of creditors. These shareholder and creditor votes must be held at a meeting or meetings convened for that purpose. The convening of these meetings and the terms of the amalgamation must also be sanctioned by the Grand Court of the Cayman Islands. If a dissenting shareholder challenges the amalgamation, the court will only approve it if it is satisfied that:

- the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;

- the arrangement is such as a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

Our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries.

Because we are a holding company, our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries. Furthermore, the payment of dividends by our subsidiaries and/or our ability to repatriate such dividends may, in certain instances, be subject to statutory restrictions, retained earnings criteria, and covenants in our subsidiaries' financing arrangements and are contingent upon the earnings and cash flow of those subsidiaries. In some companies, including some in which we do not own 100% of the shares, preferred shareholders have rights to dividends that take precedence over ours. The inability on the part of some of our subsidiaries to pay dividends would negatively affect the amount of funds available to us to pay dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

You may have limited recourse against us and members of our directors and senior management because we generally conduct our operations outside of the United Kingdom and certain of our directors and all of our senior managers reside outside of the United Kingdom.

Our presence outside of the United Kingdom may limit your legal recourse against us. We are a company incorporated in the Cayman Islands. All our assets are located outside of the United Kingdom and the Cayman Islands and are located principally in the Russian Federation. In addition, all but two of our directors and senior managers reside or are located outside of the United Kingdom. As a result, you may not be able to effect service of process within the United Kingdom upon us or our directors and senior managers, or to enforce judgments obtained against us or our directors and senior managers in foreign jurisdictions. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United Kingdom, liabilities predicated on UK securities laws.

Voting rights with respect to our shares, including the shares represented by the GDRs, are limited by the terms of certain provisions of our Articles of Association.

Under our Articles of Association, the voting power of all shares is automatically adjusted so that any individual US Person (as such term is defined in Section 957(c) of the United States Internal Revenue Code of 1986 as amended from time to time) which acquires control of more than 9.5% of the voting power of all our issued and outstanding shares will be disenfranchised as regards voting rights by which the voting power attributable to such holding exceeds 9.5% of the voting power of all our issued and outstanding Shares. This disenfranchisement is in respect of voting rights only and is without prejudice to a shareholder's other rights under the Articles of Association. This restriction on voting rights does not apply to John B. Fitzgibbons, the chairman of our Board of Directors. See "Description of Share Capital and Corporate Structure" and "Management—Interests of Members of Board of Directors and Management in the Company".

In addition, (i) Shares will not carry any right to vote, and (ii) the Board of Directors may decline to approve or register any transfer of Shares or require the repurchase of Shares, to the extent that the Board of Directors determines, in its sole and absolute discretion, that it is necessary in order to avoid adverse tax, legal or regulatory consequences to us.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement and by applicable provisions of Cayman Islands law.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement and relevant requirements of our Articles of Association and Cayman Islands law.

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement relating to the GDRs and relevant requirements of our Articles of Association and Cayman Islands law. There are, therefore, practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them.

For example, our Articles of Association require us to notify shareholders at least ten days in advance of any meeting. Shareholders will receive notice of general meetings directly from us and will be able to exercise their voting rights either by attending the meeting in person or by voting by proxy. GDR holders, in comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreement, we will provide that notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no English or Cayman Islands legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange), to distribute to GDR holders notice of the meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. Due to this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for Shareholders. GDRs for which the Depositary does not receive timely voting instructions will not be voted. In addition, GDR holders may not exercise voting rights in respect of fractional entitlements.

There can be no assurance that holders and beneficial owners of GDRs will (i) receive sufficient notice of general meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions (as discussed below) or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action where the holder or beneficial owner has voted against any proposed resolution, abstained from voting or not given voting instructions. See "Terms and Conditions of the Global Depositary Receipts" for a description of the voting rights of GDR holders.

Moreover, GDR holders will not be able to instruct the Depositary to introduce proposals for the agenda of general meetings, request that a general meeting be called, nominate candidates for our Board of Directors or otherwise exercise the rights of minority Shareholders arising under our Articles of Association or applicable provisions of Cayman Islands law. If GDR holders wish to take such actions, they must request in a timely manner that their GDRs be cancelled and take delivery of the underlying Shares and thus become the owner of the Shares on our share register.

GDRs for which the Depositary receives no specific voting instructions from the holders thereof will not be voted.

Future sales of our shares could adversely affect the trading price of the GDRs.

Sales of a substantial number of our shares in the market after this Offering or the possibility that these sales may occur, could significantly affect the market price for our GDRs. These sales, or the possibility that these sales may occur, could also make it more difficult for us to sell our shares or other equity securities in the future.

Investors in this Offering will experience immediate and substantial dilution.

Investors purchasing our Shares in the form of GDRs in this Offering will incur immediate and substantial dilution in net tangible book value per share as a result of the exercise of warrants and the automatic conversion of our preferred shares. To the extent that outstanding options or other securities to acquire our Class A common shares are exercised, further dilution will occur. See "Dilution".

THE OFFERING

The Company	Integra Group, a Cayman Islands exempted limited liability company.
The Offering	The Offering comprises an offer of 1,994,266 Shares in the Company in the form of 39,885,320 GDRs (excluding the Over-Allotment Option). This is comprised of an offer by the Company of 1,492,537 Shares in the form of 29,850,740 GDRs and an offer by certain non-management shareholders of the Company (the "Selling Shareholders") of a total of 501,729 Shares in the form of 10,034,580 GDRs. The GDRs are being offered outside the Russian Federation and the United States in reliance on Regulation S.
Over-Allotment Option	The Company has granted an Over-Allotment Option to the Stabilizing Manager, exercisable during the Stabilization Period, to purchase in the aggregate up to 299,139 additional Shares in the form of up to 5,982,780 GDRs solely to cover over-allotments, if any, in the Offering.
Offer Price	US$16.75 per GDR, implying a price per Share of US$335.00.
The GDRs	20 GDRs will represent one Share. The GDRs will be issued and delivered by the Depositary pursuant to the Deposit Agreement. The GDRs will be evidenced by the Master GDR. See "Summary of Provisions Relating to the GDRs while in Master Form". GDRs representing 1,994,266 Shares will initially be created for the purposes of the Offering. Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be registered in the name of the Depositary for the further benefit of the holders and beneficial owners of the GDRs. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDR. See "Terms and Conditions of the Global Depositary Receipts".
The Shares	Our authorized share capital is US$100,000, consisting of (i) 900,000,000 common shares with a nominal value of US$0.0001 per share and (ii) 100,000,000 preferred shares with a nominal value of US$0.0001 per share. On the Closing Date, assuming (i) completion of the Offering and exercise of the Over-Allotment Option in full, (ii) exercise on a cashless basis on or prior to the Closing Date of the 12,400 warrants issued in connection with our 18% Senior Notes, and (iii) exercise in full by warrantholders on or prior to the Closing Date of the 90,000 warrants issued in connection with the September 2005 Facility Agreement, our issued and outstanding share capital will consist of 6,732,817 common shares (being comprised of 5,792,817 Class A common shares and 940,000 Class B common shares), all of which are fully paid. The Shares are subject to applicable provisions of Cayman Islands law and regulation and our Memorandum of Association and Articles of Association, and have the rights described under "Description of Share Capital and Corporate Structure". The issued share capital described above does not include 1,144,421 issued share options, of which 321,040 have vested to date. If such share options were included, our issued or fully diluted share capital would consist of 7,877,238 Class A Common shares.
Depositary	JPMorgan Chase Bank, N.A.

Lock up	Each of the Company, Directors, members of our senior management and certain of our other shareholders who enter into lock-up agreements may not, for a period commencing on the date of the Underwriting Agreement and ending 180 days after the Closing Date (i) issue, offer, sell, transfer, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any of the foregoing), directly or indirectly, any Shares, GDRs or certain other securities whose value is derivative of the Shares or GDRs (in each case, which are legally or beneficially owned or otherwise held or controlled by them), or (ii) enter into transactions with a similar effect to any of the foregoing, subject to certain exceptions or without the prior written consent of the Joint Bookrunners. One of the exceptions to the Company's lock-up is that the Company may issue Shares or GDRs during the 180 day lock-up period, without the consent of the Joint Bookrunners, in connection with the acquisition of a company or business to the vendor of such company or business, provided that such issues of Shares or GDRs do not exceed in the aggregate 20% of the fully diluted share capital of the Company immediately following the Offering and provided further that the recipient of such Shares or GDRs agrees to enter into a lock-up agreement on the same terms for the remainder of the 180 day lock-up period.
Voting Rights	The Deposit Agreement does not allow for the voting of fractional entitlements. Since each Share is represented by 20 GDRs, holders of GDRs will need 20 GDRs to be entitled to one vote. The Depositary will endeavor to exercise on behalf of holders of GDRs, at any meeting of holders of the Shares of which the Depositary receives timely notice, the voting rights relating to the Shares underlying the GDRs in accordance with instructions it receives from holders of GDRs. The Company will notify the Depositary of any resolution to be proposed at any general meeting of the Company. See "Terms and Conditions of the Global Depositary Receipts—The Global Depositary Receipts—Voting Rights".
Dividends	Holders of Shares, including the Depositary, will be entitled to receive amounts (if any) paid by us as dividends on the Shares. See "Dividend Policy".
Taxation	For a discussion of certain United Kingdom and Cayman Islands tax consequences of purchasing and holding the GDRs, see "Material Tax Considerations".
Use of Proceeds	After deduction of underwriting commission, fees and expenses relating to the Offering, the net proceeds of the Offering received by the Company will be US$460 million (assuming no exercise of the Over-Allotment Option). If the Over-Allotment Option is exercised in full, the net proceeds of the Offering received by the Company will be US$557 million. We intend to use our net proceeds to: • repay the bridge loans received from Renaissance Securities Trading Limited, an affiliate of one of the Managers, Renaissance Capital, in the amount of US$95.4 million (including principal, accrued interest and an exit fee agreed in connection with the restructuring of one of the bridge loans); • repay the bridge loan received from OJSC "Alfa-Bank" in the amount of US$50.7 million (including principal and accrued interest); • in the event that the lenders exercise their option to seek repayment following a listing, repay up to US$45 million in

principal amount of the September 2005 Facility Agreement, together with capitalized and accrued interest of up to US$10.7 million;

- repay the loan from KB Aljba-Alliance in the amount of US$16.7 million (including principal and accrued interest); and
- pay the promissory note issued in connection with our acquisition of Azimuth in the amount of US$20.7 million.

We intend to use any remaining funds to (i) repay certain of our other existing financial indebtedness, (ii) fund acquisitions, and (iii) make capital expenditures. See "Use of Proceeds".

After deduction of underwriting commission, the Selling Shareholders will receive net proceeds from the Offering of US$162 million.

Listing and Trading . . . . We have applied (i) to the Financial Services Authority for a block listing of up to 157,544,760 GDRs, consisting of 39,885,320 GDRs to be issued on the Closing Date, up to 5,982,780 additional GDRs to be issued pursuant to the Over-Allotment Option, if exercised, and the remainder to be issued from time to time in each case against the deposit of Shares with JPMorgan Chase Bank, N.A., as Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's market for listed securities through its IOB. Prior to the Closing Date, there has not been any public market for the Shares or the GDRs. It is expected that conditional trading of the GDRs on the London Stock Exchange through the IOB will commence on a "when and if issued" basis on or about the pricing date and unconditional trading through the IOB will commence on or about the Closing Date. **The Shares have not been, and are not expected to be, listed on any stock exchange.**

Payment and Settlement . . . . The Depositary has applied to have the GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream. Payment for, and delivery of, the GDRs will be made on or about the Closing Date through the facilities of Euroclear and Clearstream. The Master GDR will be registered in the name of, and deposited with, BNP Paribas Securities Services, Luxembourg Branch, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through Euroclear or Clearstream, as applicable. The security identification numbers of GDRs offered hereby are as follows:

GDR ISIN:	US45822B2051
GDR Common Code:	028661835
GDR CUSIP Number:	45822B205
GDR SEDOL:	B1R14X3

London Stock Exchange GDR trading symbol: INTE

Risk Factors . . . . An investment in the GDRs involves a high degree of risk. Prospective investors should consider carefully the risks described under "Risk Factors".

USE OF PROCEEDS

After deduction of underwriting commission, fees and expenses relating to the Offering, we will receive net proceeds from the Offering of US$460 million (assuming no exercise of the Over-Allotment Option). If the Over-Allotment Option is exercised in full, we will receive net proceeds from the Offering of US$557 million.

We intend to use our net proceeds to:

- repay the bridge loans received from Renaissance Securities Trading Limited, an affiliate of Renaissance Capital, one of the Managers, in the amount of US$95.4 million (including principal, accrued interest and an exit fee agreed in connection with the restructuring of one of the bridge loans);
- repay the bridge loan received from OJSC "Alfa-Bank" in the amount of US$50.7 million (including principal and accrued interest);
- in the event that the lenders exercise their option to seek repayment following a listing, repay up to US$45 million in principal amount of the September 2005 Facility Agreement, together with capitalized and accrued interest of up to US$10.7 million;
- repay the loan from KB Aljba-Alliance in the amount of US$16.7 million (including principal and accrued interest); and
- pay the promissory note issued in connection with our acquisition of Azimuth in the amount of US$20.7 million.

We intend to use any remaining funds to (i) repay certain of our other existing financial indebtedness, (ii) fund acquisitions, and (iii) make capital expenditures.

After deduction of underwriting commission, the Selling Shareholders will receive net proceeds from the Offering of US$162 million.

DILUTION

Dilution is the amount by which the Offer Price will exceed the net tangible book value per Class A common share after this Offering. The net tangible book value per Class A common share is equal to the amount of our total tangible assets (total assets less intangible assets) less total liabilities and minority interest, divided by the number of our Class A common shares outstanding. Our net tangible book value at September 30, 2006 was negative US$116.9 million, or negative US$61.67 per Class A common share. On the basis of the assumptions set out below, after giving effect to the issuance of the Shares in this Offering and after deducting estimated underwriting discounts and commissions and estimated offering expenses, our fully diluted pro forma net tangible book value immediately following this Offering as of September 30, 2006 would have been US$483.9 million, or US$65.22 per Class A common share. This represents an immediate increase in net tangible book value of US$126.88 per Class A common share to existing shareholders and an immediate dilution in fully diluted net tangible book value of US$269.78 per Class A common share to new investors.

The following table illustrates this per share dilution:

Offer Price per Class A common share	US$335.00
Net tangible book value per Class A common share before this Offering	US$(61.67)
Increase per Class A common share attributable to this Offering	181.00
Decrease per Class A common share attributable to exercise of warrants, conversion of preferred shares, conversion of Class B shares and exercise of all stock options, unless the effect of exercising such options would be antidilutive to fully diluted net tangible book value per Class A common share after this offering.	(54.11)
Pro forma net tangible book value per Class A common share immediately after this Offering	US$65.22
Dilution per Class A common share to new investors	US$269.78

The table and calculations above assume that:

(i) the Over-Allotment Option is exercised in full;

(ii) each issued and outstanding Class B common share has been exchanged for an equal number of Class A common shares (although such exchange will not occur on Admission);

(iii) each issued and outstanding preferred share has been exchanged for an equal number of Class A common shares (which exchange will occur automatically on Admission);

(iv) the 12,400 outstanding warrants issued in connection with our 18% Senior Notes have been exercised on a cashless basis for an aggregate of 97,164 Class A common shares;

(v) the 90,000 warrants issued in connection with the September 2005 Facility Agreement have been exercised for an aggregate of 62,687 Class A common shares; and

(vi) each option granted (including options granted after September 30, 2006), whether vested or not, has been exercised for an equal number of Class A common shares, unless the effect of exercising such options would be anti-dilutive to fully diluted net tangible book value per Class A common share after this offering.

Had the calculations above assumed the exercise of all options granted, including those that would be anti-dilutive, pro forma net tangible book value per Class A common share immediately following this Offering would have been US$72.04.

Assuming that the above adjustments are made, our issued share capital as of September 30, 2006 would have consisted of 7,420,287 Class A common shares (assuming anti-dilutive options, whether granted or not, had not been exercised) or 7,877,238 Class A common shares (assuming anti-dilutive options, whether granted or not, had been exercised).

DIVIDEND POLICY

As a holding company, the level of our income and our ability to pay dividends depend primarily upon the receipt of dividends and distributions from our subsidiaries. The payment of dividends by our subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and the ability of our subsidiaries to make, in accordance with relevant legislation, company law, exchange controls and contractual restrictions, dividend payments to us. See "Risk Factors—Risks Related to this Offering—Our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries and "—Risks Related to Financial Matters—Restrictions and covenants in our or our subsidiaries' credit facility agreements limit our ability to take certain actions" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources".

We may pay dividends out of profits, which include net earnings and retained earnings from prior years, and out of share premium reserve. To the extent that we declare and pay dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs, subject to the terms of the Deposit Agreement. Cash dividends may be paid to the Depositary in any currency and, except as otherwise described under "Terms and Conditions of the Global Depositary Receipts—Conversion of Foreign Currency", are converted into US dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

We do not intend to pay any dividends in the near term and expect to reinvest any profit into our business.

EXCHANGE RATE INFORMATION

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the ruble and US dollar and the ruble and euro, based on the official exchange rate quoted by the Central Bank. The exchange rate is expressed in rubles per US dollar and in rubles per euro. Fluctuations in the exchange rate between the ruble and US dollar and between the ruble and the euro in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of our consolidated financial statements and other information presented in this Prospectus.

RUR per US$1.00 **Year ended December 31,**	**High Exchange Rate**	**Low Exchange Rate**	**Average Exchange Rate(1)**	**Period end**
2002	31.86	30.14	31.35	31.78
2003	31.88	29.25	30.69	29.45
2004	29.45	27.75	28.82	27.75
2005	29.00	27.46	28.27	28.78
2006	28.48	26.18	27.09	26.33
Month ended				
August 31, 2006	26.84	26.67	26.76	26.74
September 30, 2006	26.80	26.64	26.75	26.78
October 31, 2006	26.97	26.73	26.87	26.75
November 30, 2006	26.78	26.31	26.62	26.31
December 31, 2006	26.39	26.18	26.29	26.33
January 31, 2007	26.58	26.45	26.53	26.53

RUR per Euro 1 **Year ended December 31,**	**High Exchange Rate**	**Low Exchange Rate**	**Average Exchange Rate(1)**	**Period end**
2002	33.11	26.30	29.64	33.11
2003	36.82	32.95	34.66	36.82
2004	37.84	34.12	35.81	37.81
2005	37.84	33.68	35.26	34.19
2006	34.88	33.33	34.12	34.70
Month ended,				
August 31, 2006	34.40	34.15	34.27	34.31
September 30, 2006	34.34	33.96	34.09	33.98
October 31, 2006	34.10	33.72	33.89	34.03
November 30, 2006	34.68	33.99	34.24	34.68
December 31, 2006	34.88	34.57	34.73	34.70
January 31, 2007	34.49	34.31	34.39	34.39

(1) The average of the exchange rates on the last business day of each full month for the relevant annual periods, and on each business day for which the Central Bank quotes the ruble to US dollar and Euro exchange rate for the relevant monthly period.

On February 21, 2007 the exchange rate quoted by the Central Bank between the US dollar and the ruble was US$1.00 to RUR 26.20 and between the euro and the ruble was Euro 1 to RUR 34.48.

No representation is made that the ruble amounts referred to in this Prospectus could have been or could be converted into any currency at the above exchange rates, at any other rate or at all. The ruble is generally not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to distort their values relative to the ruble.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2006, on an actual basis and as adjusted to give effect to the Offering and certain related transactions. You should read the data set forth below in conjunction with "Use of Proceeds", "Selected Consolidated Historical Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements included elsewhere in this Prospectus.

	At September 30, 2006	
	Historical	**As Adjusted[(1)]**
	(in thousands of US dollars)	
Cash and cash equivalents	67,326	408,535
Short-term debt (including current portion of long-term debt)[(2)]	244,860	65,305
Total long-term debt (net of current portion of long-term debt)	217,897	275,700
Shareholder's equity:		
Convertible preferred shares	—	—
Common shares	—	—
Cumulative translation adjustment	6,806	6,806
Warrants	116	—
Share premium	209,316	789,407
Treasury shares at cost	(1,598)	(1,598)
Accumulated deficit	(6,540)	(27,534)
Total equity	208,100	767,081
Total capitalization	425,997	1,042,781

(1) Adjustments:

(a) Adjusted to give effect to the proceeds from the Offering of US$557 million, net of estimated associated costs and assuming the Over-Allotment Option is exercised in full.

(b) Adjusted to give effect to the repayment of (i) the bridge loan received from Renaissance Securities Trading Limited, an affiliate of Renaissance Capital, one of the Managers, in the amount of US$95.4 million (including principal, accrued interest and an exit fee agreed in connection with the restructuring of one of the bridge loans), (ii) the bridge loan received from OJSC "Alfa-Bank" in the amount of US$50.7 million (including principal and accrued interest), (iii) in the event that lenders exercise their option to seek repayment following a listing, the September 2005 Facility Agreement in the amount of up to US$55.7 (including principal and interest), and (iv) the loan from KB Aljba-Alliance in the amount of US$16.7 million (including principal and accrued interest). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources".

(c) Adjusted to give effect to the payment of the promissory note issued in connection with our acquisition of Azimuth in the amount of US$20.7 million. See "Material Contracts—Acquisition Agreements".

(d) Adjusted to give effect to the automatic conversion of our Series A and Series B convertible preferred shares into Class A common shares. Each preferred share will be automatically converted into an equal number of fully paid Class A common shares upon Admission. See "Description of Share Capital and Corporate Structure—Preferred Shares".

(e) Adjusted to give effect to (i) the exercise on a cashless basis of the 12,400 warrants issued in connection with our 18% Senior Notes for an aggregate of 97,164 Class A common shares, and (ii) the expected exercise of the 90,000 warrants issued in connection with the September 2005 Facility Agreement for an aggregate of 62,687 Class A common shares and resulting in the Company receiving on completion of the Offering additional proceeds of US$15.75 million. See "Material Contracts—Agreements in connection with the Issue of our Securities—Issuance of Warrants in connection with the 18% Senior Notes" and "—Issuance of Warrants in connection with the September 2005 Facility Agreement".

(f) Adjusted to give effect to the issuance of our long-term Russian ruble-denominated bonds in a principal amount of US$114.5 million issued in December 2006 and the repayment of $67.2 million and US$37.3 million, respectively, to Alfa-Bank and IMB for bridge loans obtained in July 2006 and August 2006, respectively.

(2) As required by IFRS, because the waiver with respect to the default under the August 2006 Facility Agreement was received after December 31, 2006, the full carrying value as of that date of all borrowings containing cross-default provisions will be classified as current liabilities in our consolidated balance sheet at December 31, 2006.

SELECTED CONSOLIDATED HISTORICAL FINANCIAL INFORMATION

The selected consolidated historical financial information set forth below (other than Adjusted EBITDA, Adjusted EBITDA margin, Net Debt, Debt to Equity, and Cost of Acquisitions) as of September 30, 2006 and for the nine months ended September 30, 2006 and 2005 has been extracted without adjustment from our Unaudited Condensed Consolidated Interim Financial Information prepared in accordance with IAS 34 included elsewhere in this Prospectus. In our opinion, the Unaudited Condensed Consolidated Interim Financial Information includes all adjustments of a normal and recurring nature, which we consider necessary for a fair presentation of our financial position and the results of operations for such periods. Our results as of and for the nine months ended September 30, 2006 are not necessarily indicative of the results for the financial year ended December 31, 2006 or for any other period. The selected consolidated financial information set forth below (other than Adjusted EBITDA, Adjusted EBITDA margin, Net Debt, Debt to Equity, and Cost of Acquisitions) as of and for the periods ended December 31, 2005 and 2004 has been extracted without adjustment from our Audited Consolidated Financial Statements prepared in accordance with IFRS and included elsewhere in this Prospectus.

Our results of operations for the periods presented are significantly affected by acquisitions. Results of operations of these acquired businesses are included in our consolidated financial statements for the periods after their respective dates of acquisition. The financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", and is qualified in its entirety by reference to, our Consolidated Financial Statements, our unaudited Condensed Consolidated Interim Financial Information included elsewhere in this Prospectus.

We have consolidated the operations of acquired companies from their respective dates of acquisition. See "Unaudited Condensed Pro Forma Financial Information" on page P-1 of this Prospectus.

Selected Income Statement Data

	Nine months ended September 30,		Period ended December 31,	
	2006	2005	2005	2004
	(in thousands of US dollars, except share and per share data)			
Sales	324,941	41,993	97,921	—
Cost of sales	(253,736)	(36,083)	(76,688)	—
Gross profit	**71,205**	**5,910**	**21,233**	**—**
Selling, general and administrative expenses	(62,848)	(10,132)	(23,829)	(1,242)
Gain on acquisition and disposals of subsidiaries	—	8,931	16,592	7,904
Gain on disposal of Quest	225	—	—	—
Impairment of goodwill	—	(921)	(926)	—
Loss on disposal of property, plant and equipment	—	—	(112)	—
Operating profit	**8,582**	**3,788**	**12,958**	**6,662**
Interest income	1,194	152	452	11
Interest expense	(27,927)	(3,025)	(7,794)	(32)
Exchange gain (loss)	8,707	(345)	(1,439)	—
Share of results of associates, net of income tax	708	1,961	2,056	—
Profit (loss) before taxation	**(8,736)**	**2,531**	**6,233**	**6,641**
Total income tax expense	(6,833)	(102)	(2,884)	—
Profit (loss) for the period	**(15,569)**	**2,429**	**3,349**	**6,641**
Profit (loss) attributable to:				
—Minority interest	1,501	(209)	(540)	—
—Shareholders of Integra Group	**(17,070)**	**2,638**	**3,889**	**6,641**
Earnings (loss) per share (in US dollars per share)				
—Basic	(5.28)	1.41	1.81	4.43
—Diluted	(5.28)	1.40	1.69	4.43
Weighted average shares outstanding				
—Basic	3,232,762	1,875,000	2,146,493	1,500,000
—Diluted	3,232,762	1,878,125	2,297,339	1,500,000

Selected Balance Sheet Data

	As of September 30, 2006	As of December 31, 2005	2004
		(in thousands of US dollars)	
Cash and cash equivalents	67,326	21,471	730
Other current assets	271,469	85,162	8,357
Goodwill and other intangible assets	325,001	34,329	433
Property, plant and equipment	334,916	139,419	25,098
Other non-current assets	52,131	16,365	216
Total assets	**1,050,843**	**296,746**	**34,834**
Short-term borrowings and current portion of long-term borrowings	244,860	11,684	10,661
Other current liabilities	225,142	64,082	9,723
Long-term financial liabilities	217,897	115,098	949
Other non-current liabilities	74,762	22,857	2,735
Total liabilities	**762,661**	**213,721**	**24,068**
Minority interest	80,082	25,145	—
Equity attributable to Integra Group shareholders	208,100	57,880	10,766
Total equity	**288,182**	**83,025**	**10,766**
Total liabilities and equity	**1,050,843**	**296,746**	**34,834**

Selected Cash Flow Data

	Nine months ended September 30,		Period ended December 31,	
	2006	2005	2005	2004
		(in thousands of US dollars)		
Net cash used in operating activities	(21,443)	(8,161)	(6,830)	(1,639)
Net cash used in investing activities	(295,171)	(74,817)	(116,142)	(2,631)
Net cash provided by financing activities	366,386	104,586	143,989	5,000

Additional Financial Information

	As of and for the nine months ended September 30, 2006	As of and for the period ended December 31, 2005	2004
	(in thousands of US dollars, except percentages)		
Adjusted EBITDA(1)	54,515	8,839	(1,237)
Adjusted EBITDA margin(2)	17%	9%	—
Capital expenditures(3)	96,165	17,119	128
Net debt(4)	395,431	105,311	10,880
Debt to equity(5)	2.2	2.2	1.1
Cost of acquisitions(6)	281,397	108,957	4,049

(1) Adjusted EBITDA represents profit (loss) before interest income (expenses), exchange gains (losses), income taxes, gain on acquisition of subsidiaries, loss on disposal of property, plant and equipment, depreciation and amortization, share-based compensation and minority interest. We present Adjusted EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS. Some of these limitations are as follows:

- Adjusted EBITDA does not reflect the impact of financing costs, impact of income taxes, depreciation and amortization, gain on acquisitions of subsidiaries, loss on disposal of property, plant and equipment, share-based compensation, and exchange costs.
- Adjusted EBITDA is also calculated using profits attributable to both shareholders of the Company and minority shareholders of subsidiaries. By including profits and losses attributable to minority shareholders, Adjusted EBITDA does not reflect the portion of the consolidated group's results accruing to shareholders of the Company.

Other companies in our industry may calculate Adjusted EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. We rely primarily on our IFRS operating results and use Adjusted EBITDA only supplementally.

Adjusted EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Adjusted EBITDA is not a measurement of our operating performance under IFRS and should not be considered as an alternative to profit, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

(2) Calculated as Adjusted EBITDA divided by sales.
(3) Represents additions to property, plant and equipment and intangible assets.
(4) Calculated as total debt (comprising long-term financial liabilities plus short-term borrowings and current portion of long-term borrowings) less cash and cash equivalents.
(5) Calculated as total debt to total equity attributable to shareholders of the Company.
(6) Represents cost of acquisitions including transaction costs.

Reconciliation of EBITDA and Adjusted EBITDA to profit (loss) attributable to our shareholders is as follows for the periods indicated:

	Nine months ended September 30,		Period ended December 31,	
	2006	**2005**	**2005**	**2004**
	(in thousands of US dollars)			
Profit (loss) attributable to our shareholders	(17,070)	2,638	3,889	6,641
Depreciation and amortization	38,451	3,073	8,412	5
Interest income	(1,194)	(152)	(452)	(11)
Interest expense	27,927	3,025	7,794	32
Total income tax expense	6,833	102	2,884	—
EBITDA	**54,947**	**8,686**	**22,527**	**6,667**
Exchange (gains) losses	(8,707)	345	1,439	—
Impairment of goodwill	—	921	926	—
Loss on disposal of property, plant and equipment	692	65	112	—
Gain on acquisition and disposal of subsidiaries	(225)	(8,931)	(16,592)	(7,904)
Share-based compensation	7,015	1,116	3,023	—
Share of results of associates, net of income tax	(708)	(1,961)	(2,056)	—
Profit (loss) attributable to minority interest	1,501	(209)	(540)	—
Adjusted EBITDA	**54,515**	**32**	**8,839**	**(1,237)**

SUMMARY UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following tables set forth summary unaudited condensed pro forma financial information for the Company for the year ended December 31, 2005 and as of and for the nine months ended September 30, 2006. Such information is presented to give effect to:

- the acquisitions of certain of our subsidiaries;
- the debt and equity financings related to the acquisition of certain of our subsidiaries; and
- the Offering and use of proceeds thereof.

The unaudited condensed pro forma financial information for the year ended December 31, 2005 and the nine months ended September 30, 2006 is prepared as if the above transactions had occurred on January 1, 2005. The unaudited condensed pro forma financial information as of September 30, 2006 is prepared as if (i) the acquisitions after September 30, 2006 and (ii) the Offering and the size of proceeds thereof had occurred on September 30, 2006. All of the pro forma adjustments in this unaudited condensed pro forma financial information relate to items that are expected to have a continuing impact on our operations.

The unaudited condensed pro forma financial information assumes the receipt of US$462 million of net proceeds from the Offering (assuming no exercise of the Over-Allotment Option). There can be no assurance that we will raise such amount of net proceeds and, accordingly, this unaudited condensed pro forma financial information is subject to change.

This pro forma financial information has been extracted without material adjustment from, and is more fully presented in, "Unaudited Condensed Pro Forma Financial Information" on page P-1 of this Prospectus.

	Nine months ended September 30, 2006	**Year ended December 31, 2005**
	(in thousands of US dollars, except share and per share data)	
Unaudited Pro Forma Statement of Income		
Sales	487,641	421,028
Cost of sales	(397,965)	(395,771)
Gross profit	89,676	25,257
Selling, general and administrative expenses	(91,452)	(85,254)
Gains on acquisition and disposal of subsidiaries	225	16,592
Impairment of goodwill	-	(926)
Gain (loss) on disposal of property, plant and equipment	(342)	2,260
Operating loss	(1,893)	(42,071)
Interest expense, net	(30,600)	(29,728)
Extinguishment of restructured tax liabilities	-	539
Exchange gain (loss)	9,555	(2,053)
Share of results of associates	931	3,723
Loss before taxation	(22,007)	(69,590)
Total tax benefit (expense)	(2,117)	10,100
Loss for the period	(24,124)	(59,490)
Profit (loss) attributable to:		
– Minority interest	3,160	(6,617)
– Shareholders of Integra Group	(27,284)	(52,873)
Earnings (loss) per share (in US dollars per share)		
—Basic	(4.76)	(9.55)
—Diluted	(4.76)	(9.29)
Weighted average shares outstanding		
—Basic	5,735,549	5,537,847
—Diluted	5,735,549	5,688,693

Unaudited Pro Forma Balance Sheet

	September 30, 2006 (in thousands of US dollars)
Cash and cash equivalents	474,256
Trade and other receivables	192,223
Inventories	92,007
Total current assets	758,485
Goodwill and other intangible assets	325,187
Property, plant and equipment	380,617
Investments in associates	15,133
Deferred tax assets	1,838
Loans provided and other assets	36,144
Total non current assets	758,919
Total assets	**1,517,404**
Accounts payable and accrued liabilities	190,444
Income tax payable	19,080
Other taxes payable	22,217
Short term borrowings and current portion of long term borrowings	190,009
Total current liabilities	421,750
Long-term financial liabilities	163,762
Deferred tax liability	84,446
Other non current liabilities	1,644
Total non current liabilities	249,852
Total liabilities	671,602
Equity attributable to shareholders of Integra Group	765,009
Minority interest	80,793
Total equity	845,802
Total liabilities and equity	**1,517,404**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated and certain of our subsidiaries consolidated financial statements and their related notes included elsewhere in this Prospectus. Financial information as of September 30, 2006 and for the nine months ended September 30, 2006 and 2005 has been derived from our Unaudited Condensed Consolidated Interim Financial Information and the accompanying notes thereto, prepared in accordance with IAS 34 included elsewhere in this Prospectus. Financial information as of and for the years ended December 31, 2005 and 2004 has been derived from our Audited Consolidated Financial Statements prepared in accordance with IFRS and included elsewhere in this Prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in the section of this Prospectus entitled "Risk Factors" and elsewhere in this Prospectus.

Overview

We are a leading Russian independent provider of onshore oilfield services and are also a leading manufacturer in the Russian Federation of drilling rigs with heavy lifting capacity, cement equipment and certain specialized equipment used in the exploration, development and production of oil and gas. We offer our diversified range of oilfield equipment and services to local and international oil and gas companies operating primarily in Russia and other countries of the CIS.

We were formed in March 2004 by a group of Russian and western executives who saw an opportunity to build an independent oilfield services and equipment manufacturing company by acquiring, integrating and optimizing existing assets in the growing and consolidating oilfield services and equipment manufacturing markets in the Russian Federation. Between December 2004 and 2006 we completed 14 acquisitions, becoming one of the leading companies in the oilfield services and equipment manufacturing sectors of the Russian market. According to Douglas–Westwood, based on their estimate of 2006 revenues, we have a 3.9% share of the oilfield services market in Russia and a 67.8% share of the oilfield services equipment manufacturing market in Russia among drilling rigs with heavy lifting capacity, cementing equipment, turbines and downhole motors. See "Business—Recent Developments" and —"History" and "Industry".

Our current business is divided into two main divisions, oilfield services and equipment manufacturing. The oilfield services division is further divided into two primary lines of business: drilling, workover and IPM services and formation evaluation services. We manage our operations from our central administrative offices located in Moscow and we maintain administrative offices at our regional operating bases located in the Volga-Urals, Timan-Pechora, Eastern and Western Siberia and Kazakhstan.

Our operating subsidiaries are organized within our reportable segments according to the products and services they offer and have common operating management within each segment.

We report our business activities in the following three segments:

- drilling, workover and IPM;
- formation evaluation; and
- manufacturing

Our holding company as well as our management and finance subsidiaries that are used to facilitate the holding structure and provide management and finance support to the operating companies do not form a part of any reportable segment.

As a result of the acquisitions we made in 2006, we reorganized our business structure. In prior periods, we reported in three segments: drilling and workover, manufacturing and geophysics. We (i) added IPM services to our drilling and workover services segment due to the addition of this and other services as part of our oilfield services offerings as a result of our acquisition of Smith Eurasia, (ii) renamed our geophysics segment to formation evaluation services to be more consistent with international market terminology and (iii) transferred BI, our drilling tools manufacturing business, from our manufacturing segment to our drilling, workover and IPM services segment to align our drilling tools division more closely with our engineering and technology services personnel. Our segment results in our audited consolidated financial statements for the years ended December 31, 2005 and 2004, our unaudited condensed interim consolidated financial information and this Management's Discussion and Analysis of Financial Condition and Results of Operations are presented as if the 2006 reorganization of our business occurred on the date we were formed.

We own interests in 70 subsidiaries, of which 40 are operating subsidiaries directly involved in providing onshore oilfield services and manufacturing oilfield services equipment. We also have holding, management and finance subsidiaries that are used to facilitate the holding structure and provide management and finance support to the operating companies. Of our 70 subsidiaries, we own a 100% interest in 35. We also own minority interests in four companies that we treat as associates in our financial statements. We have entered into a management contract with one associate, NNGF, pursuant to which we manage their operations for a fee. See "General Information" for a list of our subsidiaries and associates and our ownership interest and "Risk Factors —Risks Related to Our Business—We own less than 100% of the share capital or interests of a number of our operating subsidiaries", for a description of certain risks associated with our minority interests. Additionally, see "Related Party Transactions" for a description of our management contracts with our associates.

Recent Developments

Acquisition of AES, Geostan and TGC

In December 2006, we acquired from International Energy Services, Inc., a 100% interest in TGC, a 94.1% interest in AES, and a 99.5% interest in Geostan, for total consideration of US$37.3 million, including transaction costs of US$0.3 million. These companies, which are located in Tomsk, Russia and Almaty, Kazakhstan, provide seismic services and will become a part of our formation evaluation services segment. See "Material Contracts".

Issuance of RUR 3 billion Ruble Bond

In December 2006, Integra Finance LLC, our wholly-owned subsidiary, issued ruble denominated bonds with an aggregate principal amount equivalent to US$114.5 million. The bonds are guaranteed by URBO, BI and TNGF. The bonds pay interest semi-annually at a rate of 10.7% per annum and mature in November 2011. There are no early redemption provisions. The bonds are listed on the Moscow Interbank Currency Exchange (the "MICEX"). See "Material Contracts" and "—Liquidity and Capital Resources".

New Borrowings

Subsequent to September 30, 2006, we entered into several loan, guarantee and pledge agreements with lenders and other parties. These borrowings are further described below in "—Liquidity and Capital Resources—Borrowings".

Default and Restructuring of August 2006 Facility Agreement

In August 2006, we entered into a US$75 million bridge facility agreement with Renaissance Securities, an affiliate of Renaissance Capital, one of the Managers. Under the terms of the August 2006 Facility Agreement, we covenanted that, pending the provision of certain guarantees, no member of our Group would incur any debt or grant any security. Prior to the provision of such guarantees and in violation of the covenants, between August 15, 2006 and December 14, 2006, we incurred new debt and made various grants of security. In addition, in violation of the terms of the August 2006 Facility Agreement, we failed to notify Renaissance Securities of these breaches and the resulting events of default that occurred. On January 8, 2007, Renaissance Securities waived these breaches of covenants, but as part of the negotiations to obtain such waiver, we agreed, among other things, to:

- pay a US$2.0 million restructuring fee to Renaissance Securities;
- increase the rate of interest on the loan to 12% with retroactive effect to October 1, 2006, the approximate date of the first breach by us under the August 2006 Facility Agreement;
- make a payment in the amount of 12.5% of the loan amount and accrued interest on completion of the Offering;
- provide monthly cash flow reports to the lenders; and
- procure that our material subsidiaries provide the required guarantees of the loan on or prior to February 2, 2007 (which have since been provided). See "—Liquidity and Capital Resources—Borrowings".

Cross-defaults of Existing Borrowings

The events of default under the August 2006 Facility Agreement with Renaissance Securities described above also resulted in a cross-default occurring under the terms of other debt facilities to which we are party. We subsequently notified these lenders of the breaches and of the waiver we had obtained from Renaissance Securities. See "Risk Factors—Risks Related to Financial Matters".

Acquisition of NLK

In September and October 2006, we entered into share purchase agreements with four individuals and one company pursuant to which we agreed to acquire 100% of NLK, a company that provides leasing services to companies of our Group, for US$3.7 million. To date, we have paid US$1.5 million, and we have acquired 19.9% of the shares. According to the terms of the share purchase agreements, we will pay the remaining consideration and receive the balance of the shares of NLK in February 2007.

Current Trading and Prospects

Sales in the fourth quarter were significantly above the previous quarterly levels due to seasonal trends in manufacturing and formation evaluation, as well as the consolidation of recent acquisitions for the full quarter. As a result of unusually warm weather during December and January, mobilization of some of our drilling and seismic crews has been delayed. This may affect our ability to timely perform our contracts in the first quarter; however, management currently believes that the Company's performance for the full year 2007 is unlikely to be affected.

During the current annual contracting period, we won a number of new tenders and additionally extended several contracts that expired in December 2006. The aggregate revenue attributable to 2007 under these contracts, contract extensions and the 2007 portion of multi-year contracts that had identifiable contract values for 2007 through January 15, 2007 totaled approximately US$276.4 million. We also entered into a number of annual and multi-year contracts that have established rates for services. Because of the nature of the services contracted, the amount of revenue attributable to 2007 cannot be quantified as of the date of this Prospectus; however, management believes that the amounts that will be realized from these arrangements will be in line with expected growth trends. We expect to win further tenders and enter into related contracts through the end of the annual contracting period which generally ends in March.

The contracts that form the basis of our estimates for our expected work flow and revenues in 2007, including those providing for agreed upon total contract payments, are subject to a number of significant uncertainties including customer modifications by mutual consent and unilateral customer modification or cancellation without penalty due, among other things, to losses by our clients of their respective exploration and/or production licenses. The revenues attributable to 2007 are only our estimate, and actual revenues and trends for this period may materially differ from such estimate due to a variety of factors. The amount of revenues we will ultimately realize will also depend upon the services that subsidiaries of our Group provide over the term of the relevant contract. See "Risk Factors—Risks Related to our Business—Our future business performance depends on the award of annual contracts and renewals and extensions of existing contracts".

Certain Factors Affecting our Financial Position and Results of Operations

Acquisitions

Between December 2004 and December 2006, we completed 14 strategic acquisitions and purchased companies and assets for a total cash consideration of US$326 million, excluding share consideration. Our results of operations reflect the impact of this acquisition strategy as well as the timing of each acquired company's consolidation in our financial statements. As a result, sales, expenses and profit for corresponding periods in different years are not directly comparable in this "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Our results of operations and financial condition may be affected by, among other things, gains on acquisitions and disposals of subsidiaries, goodwill and impairment of goodwill, differences in operating margins and required capital expenditures, increased leverage as a result of financing our acquisitions, increased operating expenses and other non-recurring costs. For example, we had gains on acquisitions and disposals of subsidiaries for the year ended December 31, 2005 and 2004 of US$16.6 million and US$7.9 million, respectively, while for the nine months ended September 30, 2006, such gain was US$0.2 million. Likewise our total debt increased from US$11.6 million as of December 31, 2004 to US$462.8 million as of September 30, 2006, resulting in an increase in our ratio of total debt to total equity from 1.1:1 to 2.2:1. Furthermore, because most oilfield service contracts in Russia are entered into annually for a fixed price from initial award through to completion, depending on the date of acquisition, we may have limited ability to influence the results of operations of our acquired companies for as long as a full year after the date of acquisition. See "—Company Acquisitions" and "—Liquidity and Capital Resources" and the historical financial statements of certain significant acquisitions included elsewhere in this Prospectus.

Change in Mix of Services and Products

Our results of operations are affected by changes in the mix of services and equipment we provide to our customers. As a result of our acquisitions and the businesses we have established, our services and product offerings have expanded from offering drilling services in January 2005 to offering a wide range of onshore oilfield services for the exploration, development and production of oil and gas and oilfield services equipment manufacturing. Consistent with our strategy, we have recently added a number of new value-added services, such as IPM services, to our portfolio of core services and products.

For the nine months ended September 30, 2006, our operating profit margin was 9% in the drilling, workover and IPM segment, 17% in the manufacturing segment and 2% in the formation evaluation segment. For the nine months ended September 30, 2005, our operating profit margin was 1% in the drilling, workover and IPM segment and 14% in the formation evaluation segment. We had no sales in the manufacturing segment for the nine months ended September 30, 2005 as we entered the manufacturing business in late September 2005 and began to consolidate manufacturing into our results in October 2005. For the full year in 2005, our operating profit margin was 3% in the drilling, workover and IPM segment, 22% in the manufacturing segment and -10% in the formation evaluation segment.

In November 2006, we reorganized our business operations by (i) introducing technology and IPM services as an additional services offering forming a part of our drilling and workover services business and (ii) transferring our manufacturing and research and development companies for drilling tools to our drilling, workover and IPM services business. Through our drilling, workover and IPM services business we have started to expand our product and service offerings to include project management services, such as turnkey drilling and field development, more technology oriented services such as cementing and coring services, and we have expanded our drilling tools business to include leasing of oilfield services equipment in addition to direct sales. We plan to further expand our technology oriented services with coil tubing and directional drilling services and launch a repair and maintenance business specifically dedicated to servicing the drilling rigs we manufacture.

We expect that our business strategy will continue to include selective acquisitions, which, combined with the demands of our customers, will allow us to continue to expand our portfolio of services and products.

Seasonality

We generally experience a decline in sales in our drilling and seismic services businesses during certain periods of the year.

Our sales of drilling services can be negatively affected by severe winter weather conditions in certain regions of Russia that make oil and gas operations difficult in this period. For example, during January and February 2006, Russia experienced severely cold temperatures of approximately -45 degrees Celsius in certain regions where we operate and our drilling operations were suspended for approximately 30 days in total which contributed to delays in the mobilization of our equipment and service commencement dates. Our sales of drilling services may also be negatively affected by spring thawing because large volumes of drilling equipment and drilling rigs situated in certain regions can only be transported during winter when the ground is sufficiently frozen to create access roads. If we fail to complete a drilling contract on a time, we may be unable to move our equipment during the winter and our drilling rigs must remain on the completed well site.

There is also a limited season for providing seismic services in the Siberian regions of Russia as we are unable to gain access to these remote, undeveloped areas during the summer due to flood-like conditions from winter thawing. We are generally only able to provide seismic services in Siberia from December to April. As a result, we generate low or no revenues from these services during the second and third quarters of the year. In the nine months ended September 30, 2006, our formation evaluation services segment experienced a decline in operating profit margin that we attribute, in large part, to the seasonal decline in sales of seismic services by TNGF during this period.

As we grow and diversify, we believe that the impact of seasonality on our business will become less pronounced as our sales are derived from a broader portfolio of product and services offerings and we introduce initiatives to re-deploy assets during off-peak seasons in Russia. For example, during the second and third quarters of 2006 we started providing seismic services in countries less subject to seasonality, such as Mauritania and Azerbaijan. See "Risk Factors—Risks Related to our Business—Our results of operations are subject to seasonal fluctuations".

Contracting

Current contracting practices and growth in the Russian market for drilling, workover and IPM services also contribute to fluctuations in our operating results and our demand for financing. Approximately 80% of our business is obtained through open tenders conducted annually. This process generally begins with requests for proposals in September and ends with signed contractual commitments between December and March. As a result, a substantial portion of our business activity in the first quarter is devoted to rig up and rig down operations and transportation of equipment and personnel and we experience a decrease in sales revenues while continuing to incur a certain amount of costs. Although we generally pass these mobilization costs on to our customers, we typically require financing during the fourth quarter to cover such costs and to purchase supplies and equipment and undertake capital expenditures to meet our anticipated contractual commitments for the coming year. See "—Sales".

Capital Expenditures

Our sales of services can be negatively affected by the level of the capital expenditures we require to equip our crews and to replace fully depreciated equipment and other fixed assets. Our current capital expenditures are primarily for property, plant and equipment to support the development and growth of our business. For example, of the US$93.6 million we spent in the nine months ended September 2006, we purchased seismic equipment to support five additional seismic crews, upgraded nine drilling rigs to increase the number of operational rigs and we upgraded certain drilling equipment in an effort to increase our productivity in the drilling, workover and IPM segment.

Management Reporting and Controls

We have material weaknesses in our internal controls. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The deficiencies identified include the following:

- We have insufficient resources in our accounting and reporting functions which may lead to errors and inconsistencies. Specifically, the size of our financial reporting group is not sufficient to service existing reporting requirements given our extensive acquisitions and existing and expected demand for timely and accurate financial reporting, both internal and external. Additionally, our ability to generate accurate financial information in a timely manner and to produce the consolidated financial statements is currently overly dependent on a small group of individuals and relies heavily on manually administered spreadsheets. These deficiencies contributed to adjustments which were made during the preparation of our Audited Consolidated Financial Statements and our Unaudited Condensed Consolidated Interim Financial Information.

- Until recently, we have not had satisfactory procedures for the monitoring of compliance with our debt covenants. Our failure to properly monitor and comply with restrictions contained in our debt facilities resulted in the breach in the last quarter of 2006 of certain of our debt facilities leading to defaults and cross defaults under our financing agreements. As required by IFRS, because the waiver with respect to the default under the August 2006 Facility Agreement was received after December 31, 2006, the full carrying value as of that date of all borrowings containing cross-default provisions will be classified as current liabilities in the Company's consolidated balance sheet at December 31, 2006. Additionally, the restructuring of the August 2006 Facility Agreement will result in a loss to us of approximately US$12 million which will be recorded in our consolidated income statement in January 2007. The breaches which occurred in the last quarter of 2006 have all since been waived. After consultation with our Audit Committee, we have recently approved new procedures for monitoring compliance with our debt covenants, which are in the course of implementation.

- Our management has limited experience in financial reporting and may not have sufficient awareness of financial reporting requirements to ensure all material events are properly disclosed or accounted for.

In addition, external experts knowledgeable in matters relating to accounting and controls reported such matters as material weaknesses in written communications to us. However, we did not request, and such experts did not perform, an audit of our internal controls or any other procedures specifically designed to evaluate or test the operating effectiveness of our internal controls. Accordingly, we can provide no assurance either that all material weaknesses have been identified or that all other areas of our internal control system are operating effectively.

We have identified additional risk management and other processes and further refinements to be made to our existing systems and functions in 2007 and beyond, which we believe will strengthen the ability of our management team to oversee our business properly. As these additional measures have not yet been implemented, however, we have been unable to assess whether these measures will be sufficient to redress the issues arising out of certain of our existing management procedures and internal controls, or whether further measures will need to be implemented. See "Management", "Risks Related to Financial Matters" and "—Liquidity and Capital Resources".

Company Acquisitions

We have grown primarily through acquisitions. As an active consolidator of existing oilfield services and equipment manufacturing companies, we have focused on acquiring companies that offer core services and products and that allow us to have operations primarily in the major onshore oil and gas regions of Russia, as well as other countries in the CIS.

The following table describes the acquisitions we made between December 2004 and December 2006 in each segment. We discuss related financing issues below in "—Liquidity and Capital Resources" and, due to the materiality of certain of such acquisitions to the financial performance of the Group, we present the standalone historical financial statements of certain significant acquisitions in the historical financial statements included in this Prospectus.

Acquired entity	Date of acquisition	Percentage acquired	Percentage currently held	Cost of acquisition in US $	Goodwill (if applicable in US $)	Excess of fair value of net assets acquired over purchase price (if applicable)
				(in thousands of US dollars)		
Drilling, Workover and IPM Segment						
Tarpan & Paritet[1]	December 2004	100%	100%	3,424	433	—
BKS	December 2004	100%	100%	625	—	7,904
Quest[2]	March 2005	100%	—	3,030	1,441	—
SRIPNO[3]	April 2005	100%	100%	300	926	—
BI[8]	September 2005	100%	100%	42,169	9,546	—
PNBK[8]	March 2006	100%	100%	22,763	258	—
Argillit	May 2006	100%	100%	4,874	208	—
PBN	July 2006	99.98%	99.98%	20,015	19,472	—
Smith Eurasia[4,8]	August 2006	100%	100%	139,520	69,908	—
Formation Evaluation Segment						
RGK & GFS[5]	May 2005	100%	100%	4,919	—	9,038
TNGF[8]	December 2005	75%	75%	29,780	—	7,554
YGF[6,8]	August 2006	14.56%	50.74%	78,048	23,248	—
Azimuth[7,8]	December 2006	—	—	37,301	—	—
Manufacturing						
URBO	September 2005	100%	100%	28,759	7,604	—
STM	July 2006	100%	100%	16,177	5,613	—

(1) We acquired our interest in Alliance through Tarpan and Paritet.
(2) In February 2006, we sold Quest, which held our interest in KomiQuest, back to its original owner for US$1.8 million.
(3) In April 2006, we transferred all of the assets of SRIPNO to Integra KRS. We plan to liquidate SRIPNO.
(4) Amounts include transaction costs and share consideration valued at US$60 million.
(5) We acquired interests in PGF, GFS and NNGF through RGK.
(6) We own 14.56% of the shares directly and control a further 36.18%. See "Material Contracts—Acquisition and Control of YGF".
(7) Our ownership of Azimuth consists of a 100% interest in TGC, a 99.5% interest in the share capital of Geostan and a 94.1% interest in the share capital of AES. As of the date of this Prospectus, management had not completed its final purchase accounting estimates.
(8) We present stand-alone historical financial statements for this company in the Prospectus.

Sales

We generate our revenues primarily from the sale of onshore oilfield services and oilfield services equipment.

Sales of Services

Our sales include sales of drilling, workover, project management, logging and seismic services. Our sales of services represented 80% and 77% of our total sales for the nine months ended September 2006 and for the year ended December 31, 2005, respectively. As our first acquisitions were made in December 2004, we effectively commenced business activity in the year ended December 31, 2005, and no sales were made in the period ended December 31, 2004.

Substantially all of our sales of services are derived from contracts of approximately one year or less. We generally work under fixed price turnkey contracts where we assume the risk of performing a service such as delivering a drilled well according to customer specification within a defined budget and time frame. We enter into these turnkey contracts either on the basis of a tender process or through direct negotiation with the customer. The vast majority of our contracts are awarded on the basis of a tender process. Therefore, our ability to generate sales and profit is dependent in large part on our ability to compete for and be awarded contracts through the tender process and to perform the contracted work within the budget and time frame that we have estimated in our winning bid. See "Risk Factors—Risks Related to Our Business—Our future business performance depends on the award of annual contracts and renewals and extensions of existing contracts".

While the terms of our contracts often vary by customer, most contracts with major customers provide for payment terms of between 15 to 60 days from the date of acceptance of the completed service by the customer. With regard to smaller or new customers, we negotiate a mobilization payment of approximately 50% of the contract amount to cover certain mobilization and materials costs. If the relocation of equipment involves significant expense, we attempt to negotiate an advance payment covering these expenses from major customers as well. Contracts may contain penalties for late completion. To date, however, we have not incurred such penalties and we believe market practice is to renegotiate the terms of the underlying contract in relation to the complexity of the project.

Under sales, we also account for our management contract with our associate, NNGF. For the nine months ended September 30, 2006 and September 30, 2005 and the year ended December 31, 2005, we had management fees of US$0.4 million, US$0.2 million and US$0.4 million, respectively. The management fees represented 1% of total sales for each of the respective periods. The management fee is tied to the quarterly income of NNGF.

Sales of Equipment

Our sales include: sales of drilling rigs and spare parts; drilling rig upgrades and maintenance; sales of drilling tools, such as downhole motors and turbines; and sales of cementing equipment. Equipment sales comprised 20% and 23% of our total sales for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively. We owned no manufacturing assets and made no equipment sales until our acquisition of URBO and BI in September 2005. We began selling cementing units upon our acquisition of STM in July 2006.

Contract terms vary according to the type of equipment being sold and the manufacturing cycle for such equipment.

Substantially all of our sales are derived from fixed price turnkey contracts where we have assumed the risk of delivering our product such as a drilling rig according to customer-tailored circumstances within a defined time frame, subject to variations determined by the parties during the manufacturing process. We enter into turnkey contracts either on the basis of a tender process or through direct negotiations with the customer. The vast majority of our contracts are awarded on the basis of a tender process. Therefore, our ability to generate revenues is dependent in large part on our ability to compete for and be awarded contracts through the tender process and to perform the contracted work within the budget, quality and time frame that we have estimated in our winning bid. See "Risk Factors—Risks Related to our Business—Our future business performance depends on the award of annual contracts and renewals and extensions of existing contracts".

Since the manufacturing period for a drilling rig is approximately 10 to 12 months, a variety of payment methods are utilized. Typically, our payment terms provide for a pre-payment in the amount of 20% to 50% of the purchase price, a further partial payment upon 50% completion of the rig, and a further payment in the amount 10% to 20% of the purchase price once the manufactured rig has been prepared for shipment. Final payment in the amount of 5% to 10% of the purchase price is payable upon commissioning of the rig in the location designated by our customer. However, we recognize revenue according to the percentage of completion method. See—"Critical Accounting Policies".

Contracts for the supply of drilling tools are generally fulfilled within one month. The drilling tools are generally manufactured according to standard industry specifications and are marketed to a wide range of customers. Payment structures vary from 100% advance payments to credit sales paid within 60 days of delivery of a product.

Sales of cementing equipment have less standardized contract and payment terms. Ordinarily, we receive approximately 90% of the purchase price for our cementing units at the time we ship them to our customers.

Costs of Sales and Other Operating Expenses

Cost of Sales

We have four primary cost categories within our cost of sales: materials and supplies, employee costs (including obligatory social contributions), costs of services contracted from third parties and depreciation and amortization. Cost of sales also includes taxes, losses from the disposal of assets and other costs.

Material and Supplies

To date, materials and supplies have been the largest component of our cost of sales and have been primarily influenced by our manufacturing business, URBO. Material costs as a percentage of our total cost of sales were 30% and 32% of our total cost of sales for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively. Material and supplies for our manufacturing segment primarily include metalwares, production tools and spare parts. Materials and supplies for our drilling and workover business primarily include the cost of drilling pipe, cement and drilling tools. Materials and supplies for our formation evaluation segment primarily include explosives, cables and spare parts.

Employee Costs

Employee costs constitute the second largest component of our cost of sales. Employee costs as a percentage of our total cost of sales were 27% and 28% of our total cost of sales for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively. Employee costs include costs of our personnel directly engaged in providing services and manufacturing equipment. Employee costs were primarily influenced by our drilling, workover and IPM segment due to the higher proportion of total sales this segment represented in our results and to a lesser extent by our formation evaluation segment which employs a greater share of engineers and scientists earning on average relatively higher wages than employees in our other segments.

Employee costs include amounts we are required to pay to the Russian government in support of the pension fund, social insurance fund and the medical fund. The rate of contribution depends upon the amount of the salaries, wages and benefits accrued for the Group's employees in the Russian Federation. Contributions are payable according to a sliding scale of 2% to 26% depending on the amount of salaries, wages and benefits. Our obligatory social contributions were US$14.6 million and US$5.8 million for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively.

Services Contracted from Third Parties

Services contracted from third parties as a percentage of our total cost of sales were 27% and 26% of our total cost of sales for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively.

We generally contract with third parties to provide us with certain services under our drilling, workover, IPM or formation evaluation services contracts when we do not or cannot perform these services ourselves.

In our drilling, workover and IPM segment, services contracted represented the largest component of this segment's cost of sales and comprised from third parties primarily include the cost of subcontracting for logging, cementing or casing services, road construction, rig mobilization, materials transportation, warehouse security and other support services, such as repair and maintenance of property, plant and equipment.

In our formation evaluation segment, services contracted from third parties primarily include the transportation of equipment and production materials to the oilfield, security at our warehouses and repair and maintenance of the property, plant and equipment.

In our manufacturing segment, services contracted from third parties primarily include the supply of rig assembly components, transportation of materials and finished goods and repair and maintenance of property, plant and equipment.

Although the total amount of our costs attributed to third parties has increased in each successive period, we expect that services contracted from third parties will decrease as a percentage of our total cost of sales in 2007 as a result of our strategic goal to decrease the amount of third party services contracted in support of our rig manufacturing. In our drilling, workover and IPM segment, our costs of services from third parties are influenced by the complexity and structure of the services required by our customers under turn-key contracts and, consequently, we expect these costs to fluctuate from period to period. We expect the percentage of third party costs attributed to formation evaluation to remain fairly constant in the near term.

Depreciation and Amortization

Depreciation and amortization expense as a percentage of our total cost of sales were 14% and 11% for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively.

Other

The remaining portion of our cost of sales, which we categorize as "other" and comprises primarily taxes and losses of disposals of assets, was 2% and 3% of our total cost of sales for the nine months ended September 30, 2006 and for the period ended December 31, 2005. Other costs include purchases of miscellaneous production support services and other production overhead costs, such as purchases for maintenance of property, plant and equipment, production licenses and losses on disposal of property, plant and equipment directly attributable to our operating activities.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses include:

- employee costs, including related social contributions required by Russian law;
- services acquired from third parties;
- share-based compensation to management and employees;
- transportation expenses;
- taxes other than income taxes;
- depreciation related to non-operating assets;
- provision for bad debts and obsolete stocks;
- loss from disposal of assets; and
- other.

The majority of our total selling, general and administrative expenses are generated by our corporate offices, where executive management's compensation is recorded and from which the majority of our third party legal, financial and strategic advisors are contracted. During 2005 and 2006, we increased our corporate infrastructure significantly in terms of both number of employees and office space. Our total corporate headcount grew from 25 at December 31, 2004 to 268 at September 30, 2006. As part of that growth, we strengthened our finance and accounting functions, including the addition of new management positions such as a chief financial officer, a deputy chief financial officer and a head of internal audit and, most recently, a general counsel. Due to our growth during 2005 and 2006, we expect that total selling, general and administrative expenses attributed to our corporate offices will be higher in 2007 than previous years. However, we also expect that the pace of growth of our corporate costs will slow in 2007 as we have filled most of our key positions and now have a nearly fully-staffed corporate operation.

Selling, general and administrative expenses also include similar costs from each of our subsidiaries. We expect such costs to remain roughly stable or even decrease as we consolidate and integrate operations and eliminate redundant positions. Each future acquisition will add a layer of selling, general and administrative expenses to our existing selling, general and administrative cost base until integration is complete and rationalized within our management structure.

Employee Costs

Employee costs constitute the largest component of selling, general and administrative expenses. Employee costs as a percentage of our total selling, general and administrative expenses were 42%, 49% and 57% for the nine months ended September 30, 2006 and for the years ended December 31, 2005 and 2004, respectively. Employee costs include salaries, bonuses and other related costs of our management, legal, finance and administrative personnel at our corporate offices and at our subsidiaries, but exclude share-based compensation which is reported separately within selling, general and administrative expenses.

During the two years and nine months period ended September 30, 2006, salaries have generally risen in the Russian market due to inflation as well as the scarcity of skilled, professional employees. Salaries at our Company have risen approximately 10% during 2006.

In 2007, we expect our total employee costs and selling, general and administrative expenses to grow as a result of (i) increased headcount resulting from acquisitions made in the fourth quarter of 2006 acquisitions we expect to make during 2007, as well as expected growth in our existing operations, (ii) new positions created within our management team during 2006, namely the positions of chief financial officer, executive vice president of oilfield services, deputy chief financial officer and internal auditor, and (iii) reorganization of the management our oilfield services business and the creation of new service offerings such as technology services and IPM.

Services

Services contracted from third parties as a percentage of our total selling, general and administrative expenses were 26%, 15% and 41% for the nine months ended September 30, 2006 and for the years ended December 31, 2005 and 2004, respectively.

We generally contract with third parties to provide us with certain legal, financial and other advisory services. Such services include general legal advice as well as costs related to actual or potential litigation, audit fees, advisory services related to transactions that we ultimately do not complete, public relations work and other advisory services. Most services are provided to our corporate offices in Moscow.

Share Options Granted to Management and Employees

Share options granted to directors, management and employees as a percentage of our total selling, general and administrative expenses were 11% and 13% for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively. We did not grant any options in 2004.

We provide share-based compensation to management and key employees as a means of attracting and retaining high-quality personnel as well as ensuring an alignment of interests between management and shareholders. Our Board of Directors approved the 2005 Stock Option Plan in July 2005 and we made our first grants at that time. Accordingly, our results for the year ended December 31, 2005 include only a partial year's impact of the associated expense. As of the date of this Prospectus, share-based awards have been granted only to directors and to management in our corporate offices in Moscow. For further details on share-based awards, please see "Management" and our Consolidated Financial Statements included elsewhere in this Prospectus.

Transportation

Transportation expenses as a percentage of our total selling, general and administrative expenses were 2.3% and 3.5% for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively. Transportation expenses primarily include costs of deliveries of finished goods of our manufacturing segment to customers according to the signed supply agreements and charter flights to remote regions without commercial air service.

Taxes

Taxes other than income taxes as a percentage of our total selling, general and administrative expenses were 4% and 1% for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively. Such taxes include property tax, non-recoverable value-added tax attributable to our administrative operations, land tax, transportation tax, environmental charges and other taxes and levies.

Depreciation

Depreciation expense included in selling, general and administrative expenses comprises the depreciation of administrative buildings, office equipment and furnishing at our corporate offices and at subsidiary administrative locations. Depreciation expense as a percentage of our total selling, general and administrative expenses was 3.0% and 0.5% for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively.

Provision for Bad Debts and Obsolete Stocks

We do not make general provisions for bad debts or obsolete stocks but accrue such amounts in relation to specific accounts receivable and items in stock by adjusting them to the recoverable amounts if lower than their carrying values. We conduct a review of our accounts receivable on a quarterly basis and make a case by case assessment of those accounts with receivables outstanding greater than 90 days. In the first nine months of September 30, 2006, we accrued US$0.8 million for bad debts and obsolete stocks.

Other

The remaining portion of our selling, general and administrative expenses, which we categorize as "other", comprises rent and maintenance of office buildings, bank charges for services provided, disposals of inventories unrelated to our operating activities, employee awards, charitable contributions, fines and penalties paid to third parties, including the tax authorities and losses on disposal of property, plant and equipment attributable to selling, general and administrative expenses. Other expenses were 10% and 19% of total selling, general and administrative expenses for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively.

We are considering relocating our headquarters in Moscow to larger premises to accommodate our growth. The occupancy costs associated with such premises may be higher than our existing occupancy costs and could result in an increase in total administrative expenses in 2007 and thereafter.

Other Operating Expenses

In addition to costs of sales and selling, general and administrative expenses, our other operating expenses include:

Gains on Acquisition and Disposal of Subsidiaries

Our results of operations include gains on acquisitions and disposals of subsidiaries of US$0.2 million, US$16.6 million and US$7.9 million for the nine months ended September 30, 2006, and the periods ended December 31, 2005 and 2004, respectively. Such gains are recognized when the net fair value of acquired identifiable assets and liabilities exceeds our purchase cost. We evaluate each potential acquisition primarily based upon its strategic value to us, rather than based solely upon the individual values of its identifiable assets and liabilities.

The effect of future acquisitions on our consolidated statements of income will depend on the difference between such identified values and our purchase cost.

Impairment of Goodwill

Since our inception in March 2004, we have completed 14 acquisitions. We expect to continue to grow our operations through acquisitions. Goodwill arises in a business combination when our acquisition cost exceeds the fair value of our share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate. Certain of our acquisitions have resulted in significant goodwill that we have attributed to synergies that we expect to realize upon integrating the acquired businesses into our existing operations. We test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate potential impairment. For the year ended December 31, 2005, we recorded an impairment charge of US$0.9 million against goodwill in our acquisition of SRIPNO, as its performance and prospects were below our original expectations.

Interest Income/(Expense)

Interest expense includes interest on short-term and long-term borrowings, amortization of discounts or premiums relating to borrowings, amortization of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of the recognition of finance leases and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs.

Exchange Gain/(Loss)

We incur exchange gains/losses on US dollar denominated monetary items (including borrowings) at substantially all of the subsidiaries and associates of Integra Group as their functional currency for reporting purposes is the Russian ruble. Under such treatment, transactions denominated in foreign currencies are translated into Russian rubles on incurrence and the carrying values of monetary items are re-translated based on the Russian ruble to the foreign currency exchange rate at the reporting date with the difference being shown on our income statement. We do not incur exchange gains/losses on US dollar denominated items at the level of Integra Group as its functional currency for reporting purposes is the US dollar. We recognized significant foreign exchange gains of US$8.7 million during the nine months ended September 30, 2006 compared to exchange losses of US$0.3 million incurred during the nine months ended September 30, 2005. The significant gain was primarily the result of the sharp depreciation of the US dollar against the Russian ruble and an increase in the amount of both our short-term and long term debt denominated in US Dollars.

Share of Results of Associates

We hold interests in NNG, SNGF and NGT-G, all of which offer logging services in Western Siberia. These interests are accounted for under the equity method and the results of operations of these companies are not consolidated in our financial statements.

Results of Operations

The table below sets forth a summary of our consolidated results of operations for the periods indicated.

	Nine months ended September 30,		Period ended December 31,	
	2006	2005	2005	2004
	(in thousands of US dollars, except as indicated)			
Sales	324,941	41,993	97,921	—
Cost of sales	(253,736)	(36,083)	(76,688)	—
Gross profit	**71,205**	**5,910**	**21,233**	**—**
Selling, general and administrative expenses	(62,848)	(10,132)	(23,829)	(1,242)
Gain on acquisition and disposal of subsidiaries	225	8,931	16,592	7,904
Impairment of goodwill and losses on disposal of property, plant and equipment	—	(921)	(1,038)	—
Operating profit	**8,582**	**3,788**	**12,958**	**6,662**
Operating Profit Margin	3%	9%	13%	—
Interest income	1,194	152	452	11
Interest expense	(27,927)	(3,025)	(7,794)	(32)
Exchange gain (loss)	8,707	(345)	(1,439)	—
Share of results of associates, net of income tax	708	1,961	2,056	—
Profit (loss) before taxation	**(8,736)**	**2,531**	**6,233**	**6,641**
Current income tax benefit (expense)	(10,783)	159	(4,153)	—
Deferred income tax benefit (expense)	3,950	(261)	1,269	—
Total tax expense	**(6,833)**	**(102)**	**(2,884)**	**—**
Profit (loss) for the period	**(15,569)**	**2,429**	**3,349**	**6,641**
Profit (loss) attributable to minority interest	1,501	(209)	(540)	—
Profit (loss) attributable to shareholders of Integra Group	(17,070)	2,638	3,889	6,641

The table below provides selected information about our segment results for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 and the period ended December 31, 2005 compared to the period ended December 31, 2004. Sales, cost of sales and selling, general and administrative expenses of individual companies are combined together on a segment basis in order to present segment results in the format below.

	Nine Months Ended September 30		Period ended December 31	
	2006	**2005**	**2005**	**2004**
	(in thousands of US dollars, except as indicated)			
Drilling, Workover and IPM				
Sales	195,231	38,983	70,396	—
Cost of sales	(153,339)	(33,760)	(57,334)	—
Gross profit	**41,892**	**5,223**	**13,062**	**—**
Selling, general and administrative expenses	(24,977)	(4,970)	(10,613)	—
Operating profit	**16,915**	**253**	**2,449**	**—**
Operating profit margin	**9%**	**1%**	**3%**	**—**
Adjusted EBITDA	**38,527**	**3,117**	**9,885**	**—**
Adjusted EBITDA margin	**19.7%**	**8.0%**	**14.0%**	**n/a**
Formation Evaluation				
Sales	66,762	3,112	4,968	—
Cost of sales	(57,785)	(2,323)	(3,837)	—
Gross profit	**8,977**	**789**	**1,131**	**—**
Selling, general and administrative expenses	(7,610)	(346)	(1,649)	—
Operating profit	**1,367**	**443**	**(518)**	**—**
Operating profit margin	**2%**	**14%**	**(10)%**	
Adjusted EBITDA(1)	**13,775**	**675**	**(132)**	**—**
Adjusted EBITDA margin (2)	**20.6%**	**21.7%**	**(2.7)%**	**—**
Manufacturing				
Sales	66,145	—	22,854	—
Cost of sales	(45,808)	—	(15,527)	—
Gross profit	**20,337**	**—**	**7,327**	**—**
Selling, general and administrative expenses	(8,780)	—	(2,260)	—
Operating profit	**11,557**	**—**	**5,067**	**—**
Operating profit margin	**17%**		**22%**	
Adjusted EBITDA	**16,215**	**—**	**5,683**	**—**
Adjusted EBITDA margin	**24.5%**	**—**	**24.9%**	**—**
Corporate				
Selling, general and administrative expenses	(21,482)	(4,918)	(9,706)	(1,242)
Other income / (expenses)	225	8,010	15,666	7,904
Operating profit	**(21,257)**	**3,092**	**5,960**	**6,662**
Adjusted EBITDA	(14,002)	(3,760)	(6,597)	(1,237)
Elimination of inter-segment sales				
Sales	(3,197)	(102)	(297)	—
Cost of sales	3,197	—	(10)	—
Gross profit	**—**	**(102)**	**(287)**	**—**
Selling, general and administrative expenses	—	102	287	—
Operating profit	—	—	—	—

(1) Adjusted EBITDA represents profit (loss) before interest income (expenses), exchange gains (losses), income taxes, gain on acquisition of subsidiaries, loss on disposal of property, plant and equipment, depreciation and amortization, share-based compensation and minority interest. We present Adjusted EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS. Some of these limitations are as follows:

- Adjusted EBITDA does not reflect the impact of financing costs, impact of income taxes, depreciation and amortization, gain on acquisitions of subsidiaries, loss on disposal of property, plant and equipment, share-based compensation, and exchange costs.

- Adjusted EBITDA is also calculated using profits attributable to both shareholders of the Company and minority shareholders of subsidiaries. By including profits and losses attributable to minority shareholders, Adjusted EBITDA does not reflect the portion of the consolidated group's results accruing to shareholders of the Company.

Other companies in our industry may calculate Adjusted EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. We rely primarily on our IFRS operating results and use Adjusted EBITDA only supplementally.

Adjusted EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Adjusted EBITDA is not a measurement of our operating performance under IFRS and should not be considered as an alternative to profit, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

(2) Calculated as Adjusted EBITDA divided by total sales.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Sales

Sales increased by US$282.9 million to US$324.9 million for the nine months ended September 30, 2006 from US$42.0 million for the nine months ended September 30, 2005. Our results of operations for the nine months ended September 30, 2006 were primarily affected by acquisitions of subsidiaries in all three segments, most notably our acquisitions of the equipment manufacturers URBO and BI, the seismic services company TNGF and the drilling services company PNBK, while our results of operations for the nine months ended September 30, 2005 were primarily affected by acquisitions of the drilling services companies Alliance and BKS, the formation evaluation services company RGK and to a lesser extent by our workover services companies Integra KRS, KomiQuest and SRIPNO.

Of the total increase of US$282.9 million in our sales between the nine months ended September 30, 2006 and 2005, US$228.2 million, or 81%, was attributable to incremental sales from the consolidation of companies that we did not own in the previous period and US$54.7 million, or 19%, was attributable to an increase in sales among companies that we owned in the previous period and that were fully or partially consolidated into our results during the nine months ended September 30, 2005. Below we present a timeline showing the period of consolidation of our subsidiaries acquired or formed for the purpose of reporting our results of operations between the nine months ending September 30, 2006 and September 30, 2005.

Nine Months Ended September 30, 2005			Nine Months Ended September 30, 2006		
1st Quarter	2nd Quarter	3rd Quarter	1st Quarter	2nd Quarter	3rd Quarter
Alliance	SRIPNO	Integra KRS	URBO	PNBK	STM
BKS	RGK		BI	Argillit	PBN
Quest			TNGF		Smith Eurasia
					YGF

Of the US$228.2 million increase in sales attributable to consolidation of acquisitions in 2006, US$66.1 million, or 29%, related to acquisitions in the manufacturing segment, US$112.3 million, or 49%, related to acquisitions in our drilling, workover and IPM services segment and US$49.8 million, or 22%, related to acquisitions in our formation evaluation services segment. The contribution to sales of our acquisitions within each segment largely reflects the length of the period of the consolidation from the date of acquisition.

URBO and BI were acquired at the end of September 2005 and did not contribute to total sales for the nine months ended September 30, 2005 but represented 19% and 16% of our total sales for the nine months ended September 30, 2006, respectively. TNGF was acquired at the end of December 2005 and, as a result, is not reflected in our results for the nine months ended September 30, 2005, but represented 13% of our total sales for the nine months ended September 30, 2006. PNBK was acquired in March 2006 and was not reflected in our sales for the nine months ended September 30, 2005, but represented 8% of our total sales for the nine months ended September 30, 2006.

Of the US$54.7 million increase in total sales attributable to our existing companies, US$44.0 million, or 80%, was attributable to an increase in sales of services in the drilling, workover and IPM segment and US$13.8 million, or 25%, was attributable to an increase in total sales of services in the formation evaluation segment. (excluding US$3.1 million, or 5%, of total sales attributable to inter-segment sales). We had no sales in our manufacturing segment prior to our acquisition of URBO in September 2005.

Below is a table detailing our sales by segment, before eliminating intersegment sales:

Segment	Segment Sales in US$ thousands and as a % of Total Sales for the nine months ended September 30, 2006		2005	
Drilling, Workover and IPM	$195,231	59.5%	38,983	92.6%
Formation Evaluation	66,762	20.3%	3,112	7.4%
Manufacturing	66,145	20.2%	—	— %
Subtotal	328,138		42,095	
Less intersegment sales	(3,197)		(102)	
Consolidated sales	324,941		41,993	

Alliance and BKS were fully consolidated in our results for the nine months ended September 30, 2006 and 2005 and represented 13% and 7% of total sales for the nine months ended September 30, 2006, respectively, and 50% and 27% of total sales for the nine months ended September 30, 2005, respectively. The decline was attributable to the new acquisitions.

RGK (including GFS and PGF) was fully consolidated in our results for the nine months ended September 30, 2006 and was consolidated for four months in our results for the nine months ended September 30, 2005 and represented US$14.7 million, or 5%, of sales for the nine months ended September 30, 2006 and US$3.2 million, or 8%, of sales for the nine months ended September 30, 2005.

Our other acquisitions in 2006, such as Argillit, PBN, STM, Smith Eurasia and YGF, had a similar but less significant effect as they were either less significant in size or were owned for too short of a period of time to contribute significantly to our sales for the nine months ended September 30, 2006.

Drilling, Workover and IPM

Drilling, workover and IPM sales represented 60% of our total sales for the nine months ended September 30, 2006 compared to 93% for the nine months ended September 30, 2005. The change in sales composition was directly attributable to our entering the equipment manufacturing business in September 2005 as well as our additional acquisition of formation evaluation businesses, in particular, the seismic business TNGF, which contributed to a more balanced distribution of sales in the first nine months of 2006 and offset our dependence on sales from drilling and workover services in the comparable period of 2005.

Sales of drilling, workover and IPM services increased by US$156.2 million to US$195.2 million for the nine months ended September 30, 2006 from US$39.0 million for the nine months ended September 30, 2005. Of the total increase of US$156.2 million in the drilling, workover and IPM services segment, US$112.2 million, or 72%, was attributable to sales from the consolidation of acquired companies in the drilling, workover and IPM services segment that were not owned in the comparable period in 2005, and US$44.0 million, or 28%, was attributable to increased sales of services by our existing companies in the drilling, workover and IPM services segment that were consolidated in the comparable period in 2005 for all or a portion of such period depending on the date of acquisition.

Following its acquisition or formation, the contribution to sales of each subsidiary in our drilling, workover and IPM services segment for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 was as follows:

		Contribution to Sales in US$ millions and as a % of segment sales for the nine-month period ended			
Company	Acquired or formed in:	September 30, 2006		September 30, 2005	
Alliance	December 2004	40.7	21%	21.0	54%
BKS	December 2004	23.2	11%	11.5	30%
KomiQuest	March 2005	1.8	1%	4.6	12%
SRIPNO	April 2005	—	—	1.7	4%
Integra KRS	August 2005	17.2	9%	0.2	—
BI	September 2005	52.5	27%	—	—
PNBK	March 2006	26.9	14%	—	—
Argillit	May 2006	7.9	4%	—	—
PBN	July 2006	15.3	8%	—	—
Smith Eurasia	August 2006	9.7	5%	—	—
Total		195.2	100%	39.0	100%

Sales for each of Alliance and BKS increased by approximately 100% between the nine months ended September 30, 2006 and the nine months ended September 2005. Sales of Alliance increased primarily as a result of an increase in the volume of work, an increase in prices under our contract with Lukoil-Komi and the commencement of work under two new contracts which was partially offset by the termination of two existing contracts. Sales of BKS increased primarily due to two new turnkey contracts, which resulted in 24 wells being drilled prior to September 30, 2006. Both companies also had additional rigs in service to support the additional work volumes.

Although we acquired PBN and Smith Eurasia in July and August 2006, respectively, during their brief period of consolidation, sales comprised 8% and 5% of our total drilling, workover and IPM services sales for the nine months ended September 30, 2006. PBN operates primarily in Eastern Siberia where the average price per meter drilled is higher than that of other regions where we operate. Smith Eurasia is one of our largest acquisitions to date.

We formed Integra KRS in July 2005 to offer our workover services in Western Siberia. Following poor sales performance by KomiQuest and SRIPNO, we divested our interest in KomiQuest and transferred SRIPNO's assets to Integra KRS in April 2006. The sales performance of KomiQuest and SRIPNO are not directly comparable since these companies were only partially consolidated in 2005 following their acquisition in May of that year and were only partially consolidated in 2006 as a result of their disposal or transfer.

Formation Evaluation Services

Formation evaluation services sales comprised 20% of total sales for the nine months ended September 30, 2006 compared to 7% for the nine months ended 2005. The change in sales composition was directly attributable to our additional acquisitions of formation evaluation services businesses in 2006, primarily our acquisition of the seismic services company TNGF in late December 2005.

Sales of formation evaluation services increased by US$63.7 million to US$66.8 million for the nine months ended September 30, 2006 from US$3.1 million for the nine months ended September 30, 2005. Of the total increase in sales of US$63.7 million in the formation evaluation services segment, US$49.9 million, or 78%, was attributable to the incremental sales from the consolidation of acquired companies that were not owned in the previous period, US$13.8 million, or 22%, was attributable to increased sales of services by the companies in the formation evaluation services segment that were consolidated during the comparable period in 2005 for all or a portion of such period depending on the date of acquisition and the companies that were formed by the Group in 2006. The increase in sales in our existing formation evaluation services businesses was due to an increase in the volume of logging operations performed.

Following its acquisition or formation, the contribution to sales of each subsidiary in our formation evaluation services segment for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 was as follows:

		Contribution to Sales in US$ millions and as a % of segment sales for the nine-month period ended			
Company	**Acquired or formed in:**	**September 30, 2006**		**September 30, 2005**	
		(in millions of US dollars, except as indicated)			
RGK	May 2005	0.6	1%	0.4	13%
PGF	May 2005	6.6	10%	0.8	26%
GFS	May 2005	7.5	11%	1.9	61%
TNGF	December 2005	43.9	66%	—	—
YPGF	January 2006	2.3	3%	—	—
YGF	August 2006	5.9	9%	—	—
Total		66.8	100%	3.1	100%

As we did not acquire our formation evaluation services businesses until May 2005, the increase in sales of logging services by our existing formation evaluation services businesses was due in part to the length of the period of consolidation which was the full nine months in 2006 compared to only a portion of the period in 2005 and in part to an increase in the volume of logging operations. In addition to sales of logging services, the sales by RGK related to sales of management services attributable to its management contracts with NNGF, our associate. We did not offer seismic services in 2005.

Manufacturing

Manufacturing sales comprised 20% of total sales for the nine months ended September 30, 2006. Results of operations of our manufacturing segment for the nine months ended September 30, 2006 and 2005 are not comparable as we commenced our manufacturing business following our acquisitions of URBO at the end of September 2005. Accordingly, we had no manufacturing sales for the nine months ended September 30, 2005, as URBO was consolidated into our results as of October 2005.

Sales in our manufacturing segment for the nine months ended September 30, 2006 were US$66.1 million. Of total sales of US$66.1 million in our manufacturing segment, US$62.2 million, or 94%, was attributable to sales of equipment by URBO. STM, our oilfield services cementing equipment manufacturer, was acquired at the end of July 2006 and contributed only US$4.0 million, or 6%, to this segment's sales for the nine months ended September 30, 2006.

Costs of Sales

Costs of sales represented 78% of sales for the nine months ended September 30, 2006 compared to 86% of sales for the nine months ended September 30, 2005. The proportional decrease in the percentage of costs and corresponding increase in gross margin was due primarily to the addition of our manufacturing companies, in particular, URBO and BI, which exhibited higher margins than our services companies.

For the nine months ended September 30, 2006, material and supplies, employee costs and services from third parties represented 24%, 21% and 21% of sales, respectively, as compared with 16%, 30% and 31% of sales, respectively, for the corresponding period in 2005. Material and supplies costs increased as a percentage of our cost of sales relative to employee costs and services from third parties due primarily to the addition of our manufacturing companies which have material and supplies costs as their primary costs of sales.

Our cost of sales increased by US$217.6 million to US$253.7 million for the nine months ended September 30, 2006 from US$36.1 million for the nine months ended September 30, 2005. The increase was primarily attributable to the consolidation of our new subsidiaries. The remaining portion was attributable to an increase in the volume of drilling and workover activity of Alliance, BKS and Integra KRS.

For the nine months ended September 30, 2006, the segment cost of sales for drilling, workover and IPM, formation evaluation and manufacturing represented 60%, 22% and 18% of cost of sales, respectively, as compared with 94% and 6% of cost of sales, respectively, for the corresponding period in 2005.

There were no manufacturing sales in 2005 and, therefore, no cost of sales.

Segment	Segment Cost of Sales in US$ millions and as a % of Total Cost of Sales for the nine months ended September 30,			
	2006		2005	
	(in millions of US dollars, except as indicated)			
Drilling, Workover and IPM	153.3	60%	33.8	94%
Formation Evaluation	57.8	22%	2.3	6%
Manufacturing	45.8	18%	—	—

Drilling, Workover and IPM

Cost of sales for drilling, workover and IPM services increased by US$119.5 million to US$153.3 million for the nine months ended September 30, 2006 from US$33.8 million for the nine months ended September 30, 2005.

Of the total increase of US$119.5 million, US$75.5 million, or 63%, was attributable to the consolidation of acquisitions of companies in the drilling, workover and IPM segment that were not owned in the previous period and US$44.0 million, or 37%, was attributable to an increase in the cost of sales of our existing businesses that we acquired during or prior to the previous period and that were consolidated into our results for the nine months ended September 30, 2005 for all or a portion of such period depending on the date of such acquisition Alliance, BKS and Integra KRS had costs of sales of US$37.3 million, US$19.7 million and US$18.5 million, respectively, in the nine months ended September 30, 2006 compared to US$18.0 million, US$9.8 million and US$0.3 million, respectively, in the nine months ended September 30, 2005. The increase in costs of sales in our existing businesses was due to an increase in the volume of our drilling and workover services business resulting in higher costs of services procured from third parties and employee cost.

Services procured from third parties were the largest component of cost of sales of drilling, workover and IPM services. For the nine months ended September 30, 2006 and 2005, costs of services from third parties represented 34% and 37%, respectively, of our segment cost of sales. The segment cost of services procured from third parties increased by US$39.5 million to US$52.1 million for the nine months ended September 30, 2006 from US$12.6 million for the nine months ended September 30, 2005. Of the total increase of US$39.5 million, US$24.6 million, or 62%, was attributable to companies that did not form a part of our consolidated results for the nine months ended September 30, 2005 and US$14.9 million, or 38%, was attributable to our existing companies in the segment that were consolidated in the comparable period in 2005 for all or a portion of such period depending on the date of acquisition. Alliance, BKS and Integra KRS had costs of services procured from third parties of US$12.5 million, US$8.1 million and US$6.7 million, respectively, in the nine months ended September 30, 2006 compared to US$6.6 million, US$4.3 million and US$0.2 million, respectively, in the nine months ended September 30, 2005. Alliance and BKS are the only companies of our Group fully consolidated in both periods. Integra KRS was formed in July 2005 and its results are also fully presented in both periods.

Employee costs were the second largest component of cost of sales in the segment. For the nine months ended September 30, 2006 and 2005, employee costs represented 28% and 34%, respectively, of segment cost of sales. Employee costs increased by US$30.8 million to US$42.5 million for the nine months ended September 30, 2006 from US$11.7 million for the nine months ended September 30, 2005. Of the total increase of US$30.8 million, US$17.9 million, or 58%, was attributable to companies that did not form a part of our consolidated results for the nine months ended September 30, 2005 and US$12.9 million, or 42%, was attributable to our existing companies in the segment that were consolidated in the comparable period in 2005 for all or a portion of such period depending on the date of acquisition. Alliance, BKS and Integra KRS had employee costs of US$12.2 million, US$5.3 million and US$6.7 million in the nine months ended September 30, 2006 compared to US$5.7 million, US$2.7 million and US$0.1 million in the nine months ended September 30, 2005.

Material costs were the third largest component of cost of sales in the segment. For the nine months ended September 30, 2006 and 2005, material costs represented 24% and 18%, respectively, of segment cost of sales. Material costs increased as a percentage of segment costs of sales due to the acquisition of BI, our drilling tools manufacturing company. We purchased BI in late September 2005 and, therefore, we had no cost of sales of drilling tools in the nine months ended September 30, 2005. Materials costs increased by US$30.6 million to US$36.7 million for the nine months ended September 30, 2006 from US$6.1 million for the nine months ended September 30, 2005. Of the total increase of US$30.6 million, US$18.4 million, or 60%, was attributable to companies that did not form a part of our consolidated results for the nine months ended September 30, 2005 and 40% was attributable to our existing companies in the segment that were consolidated in the comparable period in 2005 for all or a portion of such period depending on the date of acquisition. Alliance, BKS and Integra KRS had material costs of US$9.8 million, US$4.3 million and US$2.6 million, respectively, in the nine months ended September 30, 2006 compared to US$3.7, US$1.5 and US$0.1 million, respectively, in the nine months ended September 30, 2005.

For the nine months ended September 30, 2006 and 2005, depreciation and amortization costs represented 13% and 8%, respectively, of segment cost of sales. Depreciation and amortization costs for the segment increased by US$17.1 million to US$19.8 million for the nine months ended September 30, 2006 from US$2.7 million for the nine months ended September 30, 2005. Of the total increase of US$17.1 million, US$13.2 million, or 77%, was attributable to companies that did not form a part of our consolidated results for the nine months ended September 30, 2005 and US$3.9 million, or 23%, was attributable to our existing companies in the segment that were consolidated in the comparable period in 2005 for all or a portion of such period depending on the date of acquisition. The increase in costs attributable to our existing companies resulted from an increase in the net book value of fixed assets caused by investments in property, plant and equipment.

The remaining portion of costs of sales of the segment, which we categorize as "other", increased by US$1.5 million to US$2.2 million for the nine months ended September 30, 2006 from US$0.7 million for the nine months ended September 30, 2005. For the nine months ended September 30, 2006 and 2005, other costs represented 1% and 2%, respectively, of segment cost of sales.

Formation Evaluation

Cost of sales of formation evaluation services increased by US$55.5 million to US$57.8 million for the nine months ended September 30, 2006 from US$2.3 million for the nine months ended September 30, 2005. Of the total increase of US$55.5 million, US$45.1 million, or 81%, was attributable to the consolidation of acquisitions of companies in the segment acquired during 2006 that were not owned in the previous period and US$10.4 million, or 19%, was attributable to an increase in the costs of sales of our existing businesses that we acquired in

May 2005 and that were consolidated into our results during the nine months ended September 30, 2005. Among our formation evaluation services companies, RGK, which we acquired in May 2005, were the only companies with results presented in both periods. RGK had costs of sales of US$12.7 million in the nine months ended September 30, 2006 compared to US$2.3 million in the nine months ended September 30, 2005. The increase in costs of sales of RGK was directly attributable to an increase in the volume of activity of our logging companies held by RGK.

Employee costs were the largest component of cost of sales in the segment. For the nine months ended September 30, 2006 and 2005, employee costs represented 36% and 47%, respectively, of the segment cost of sales. Labor is the primary cost component of formation evaluation services. Data gathering is labor intensive and each seismic field crew consists of anywhere from 80 to 200 people depending on the type of service being provided. Labor costs increased by US$19.5 million to US$20.6 million for the nine months ended September 30, 2006 from US$1.1 million for the nine months ended September 30, 2005. Of the total increase of US$19.5 million, US$18.1 million, or 93%, was attributable to the consolidation of acquisitions of companies in the segment acquired during 2006 that were not owned in the previous period and US$1.4 million, or 7%, was attributable to our existing businesses that we acquired in May 2005 and that were consolidated into our results during the nine months ended September 30, 2005. RGK had employee costs of US$2.4 million in the nine months ended September 30, 2006 compared to US$1.1 million in the nine months ended September 30, 2005.

Services procured from third parties are the second largest component of cost of sales in the segment. For the nine months ended September 30, 2006 and 2005, the cost of services procured from third parties represented 22% and 11%, respectively, of segment cost of sales. Services procured from third parties comprise primarily transportation services for the mobilization and rotation of crews and equipment but also included services contracted by us from NNGF to perform logging operations in Western Siberia. See “Related Party Transactions”. The cost of services increased by US$12.3 to US$12.6 million for the nine months ended September 30, 2006 from US$0.3 million for the nine months ended September 30, 2005. Of the US$12.3 million increase, US$6.1 million, or 50%, was attributable to the consolidation of acquisitions of companies in the segment acquired during 2006 that were not owned in the previous period and US$6.2 million, or 50%, was attributable to our existing businesses that we acquired May 2005 and that were consolidated into our results for the nine months ended September 30, 2005. RGK had costs for services procured from third parties of US$6.5 million in the nine months ended September 30, 2006 compared to US$0.3 million in the nine months ended September 30, 2005.

Depreciation and amortization was the third largest component of cost of sales in the segment. For the nine months ended September 30, 2006 and 2005, depreciation and amortization costs represented 21% and 10%, respectively, of segment cost of sales. Depreciation and amortization in the segment increased by US$12.0 million to US$12.2 million for the nine months ended September 30, 2006 from US$0.2 million for the nine months ended September 30, 2005. Of the total increase of US$12.0 million, US$11.4 million, or 95%, was attributable to companies that did not form a part of our consolidated results for the nine months ended September 30, 2005 and US$0.6 million, or 5%, was attributable to our existing companies in the segment that were consolidated in the comparable period in 2005 for all or a portion of such period depending on the date of acquisition. RGK had depreciation and amortization costs of US$0.8 million in the nine months ended September 30, 2006 compared to US$0.2 million in the nine months ended September 30, 2005. Depreciation and amortization costs were increasing due to the depreciation of our seismic equipment which has a useful life of approximately 5 years and requires continuous upgrade.

Material costs were the fourth largest component of cost of sales in the segment. For the nine months ended September 30, 2006 and 2005, material costs represented 17% and 25%, respectively, of segment cost of sales. Materials costs increased by US$9.5 million to US$10.1 million for the nine months ended September 30, 2006 from US$0.6 million for the nine months ended September 30, 2005. RGK had material costs of US$2.9 million in the nine months ended September 30, 2006 compared to US$0.6 million in the nine months ended September 30, 2005. Materials costs primarily consist of fuel and spare parts used for generators that are used to support crews working in remote areas.

The remaining portion of costs of sales in the segment, which we categorize as “other”, increased by US$2.2 million to US$2.3 million for the nine months ended September 30, 2006 from US$0.1 million for the nine months ended September 30, 2005. For the nine months ended September 30, 2006 and 2005, other costs represented 4% and 7%, respectively, of segment cost of sales.

Manufacturing

Cost of sales in our manufacturing segment for the nine months ended September 30, 2006 and 2005 were not comparable as we commenced our manufacturing business following our acquisitions of URBO and BI at the end of September 2005. Accordingly, we had no segment cost of sales for the nine months ended September 30, 2005.

Cost of sales for the segment was US$45.8 million for the nine months ended September 30, 2006, of which US$41.4 million was attributable to URBO and US$4.4 million to STM which we acquired at the end of July 2006.

Material costs were the largest component of cost of sales in the manufacturing segment. Material costs were US$31.0 million, or 68%, of segment cost of sales for the nine months ended September 30, 2006. URBO had material costs of US$29.7 million, and STM had costs from services procured from third parties of US$1.3 million.

Services procured from third parties were the second largest component of cost of sales in the segment. Cost of services procured from third parties were US$5.3 million, or 12%, of segment cost of sales for the nine months ended September 30, 2006. URBO had costs from services procured from third parties of US$4.9 million, and STM had costs from services procured from third parties of US$0.4 million.

Employee costs were the third largest component of cost of sales in the segment. Employee costs were US$4.9 million, or 11%, of segment cost of sales of manufacturing for the nine months ended September 30, 2006. URBO had employee costs of US$4.8 million, and STM had employee costs of US$0.1 million.

Depreciation and amortization for the nine months ended September 30, 2006 were US$4.5 million, or 10%, of cost of sales of manufacturing for the nine months ended September 30, 2006. URBO had depreciation and amortization costs of US$2.0 million, and STM had depreciation and amortization costs of US$2.5 million.

The remaining portion of cost of sales in the segment, which we categorize as "other", were US$0.2 million, or 0.3%, of costs of sales of manufacturing for the nine months ended September 30, 2006.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by US$52.7 million to US$62.8 million for the nine months ended September 30, 2006 from US$10.1 million for the nine months ended September 30, 2005. The increase was largely due to the inclusion of new subsidiaries in our consolidated results. Our administrative offices in Moscow represented 34% of total selling, general and administrative expenses and our administrative offices in the regions outside of Moscow represented 66% of total selling, general and administrative expenses for the nine months ended September 30, 2006. We expect the proportion of selling, general and administrative expenses attributed to our regional offices will decrease as we integrate our acquired companies, eliminate redundancies and analyze the allocation of such costs between operational and administrative expenses.

Employee costs, excluding share-based compensation, were the largest component of selling, general and administrative expenses. Employee costs represented 42% and 11% of selling, general and administrative expenses for the nine months ended September 30, 2006 and 2005, respectively. Employee costs increased by US$21.2 million to US$26.5 million for the nine months ended September 30, 2006 from US$5.3 million for the nine months ended September 30, 2005. The increase in employee costs was primarily due to the increase in the number of administrative personnel resulting from the increase in management requirements from our acquisitions, the introduction of additional corporate functions in our Moscow office and to a lesser extent to the increase in average salaries resulting from inflation.

Services were the second largest component of selling, general and administrative expenses. Services are represented by non-production services, which increased due to increased requirements in external consulting, legal and financial services supporting acquisitions, analysis and improvement of internal controls and budget and reporting functions. Services represented 26% and 11% of selling, general and administrative expenses for the nine months ended September 30, 2006 and 2005, respectively. Services increased by US$14.2 million to US$16.2 million for the nine months ended September 30, 2006 from US$2.0 million for the nine months ended September 30, 2005.

Share-based compensation represented 11% and 11% of selling, general and administrative expenses for the nine months ended September 30, 2006 and 2005, respectively. Share-based compensation expense increased to US$7.0 million for the nine months ended September 30, 2006 from US$1.1 million for the nine months ended

September 30, 2005. Share-based compensation included both awards granted under the 2005 Stock Option Plan and the cost associated with the award of 1,000,000 Class B common shares awarded to our chief executive officer in July 2005. We adopted the 2005 Stock Option Plan in July 2005 and made the first grants of our shares under the plan at such time. Accordingly, selling, general and administrative expenses for the nine months ended September 30, 2005 include only three months of expense associated with the awards granted in July 2005. See Note 15 of our Audited Consolidated Financial Statements for the year ended December 31, 2005 and Note 17 of our Unaudited Condensed Consolidated Interim Financial Information for the nine months ended September 30, 2006, located elsewhere in this Prospectus, for additional details on share-based compensation.

Selling, general and administrative expenses, which we categorize as "other", represented 10% and 11% of selling, general and administrative expenses for the nine months ended September 30, 2006 and 2005, respectively. Other expenses increased by US$4.9 million to US$6.0 million for the nine months ended September 30, 2006 from US$1.1 million for the nine months ended September 30, 2005. The increase in "other" costs as a percentage of our selling, general and administrative expenses was due to an increase in social expenses resulting from the employee goodwill and community service practices of our newly acquired companies.

Transportation expense represented 2% and 1% of selling, general and administrative expenses for the nine months ended September 30, 2006 and 2005, respectively. Transportation expense increased by US$1.3 million to US$1.4 million for the nine months ended September 30, 2006 from US$0.1 million for the nine months ended September 30, 2005.

Taxes other than income taxes represented 4.4% and 4% of selling, general and administrative expenses for the nine months ended September 30, 2006 and 2005, respectively. Taxes other than income taxes increased by US$2.4 million to US$2.8 million for the nine months ended September 30, 2006 from US$0.4 million for the nine months ended September 30, 2005.

Depreciation expense represented 3% and 1% of selling, general and administrative expenses for the nine months ended September 30, 2006 and 2005, respectively. Depreciation expense increased by US$1.8 million to US$1.9 million for the nine months ended September 30, 2006 from US$0.1 million for the nine months ended September 30, 2005.

Other Operating Expenses

Gain/(Loss) on Acquisition and Disposal of Subsidiaries

Our results are impacted by the results of our acquisition activity. Gains on acquisitions and disposals of subsidiaries was US$0.2 million for the nine months ended September 30, 2006 representing a gain recognized from the disposal of Quest. Gain on acquisitions of subsidiaries of US$8.9 million for the nine months ended September 30, 2005 included a gain of US$9.0 million recognized on the acquisition of RGK and GFS in May 2005.

Gain/(Loss) on Disposal of Property, Plant and Equipment

Loss on disposal of property, plant and equipment increased by US$0.6 million to US$0.7 million for the nine months ended September 30, 2006 from US$0.1 million for the nine months ended September 30, 2005.

Operating Profit

As a result of the foregoing factors, operating profit increased by US$4.8 million to US$8.6 million in the first nine months of 2006 from US$3.8 million in the first nine months of 2005. Excluding gains on acquisitions and disposals of subsidiaries, we had an operating profit of US$8.4 million for the nine months ended September 30, 2006 compared to an operating loss of US$5.1 million for the nine months ended September 30, 2005. For the nine months ended September 30, 2006 and 2005, our operating profit margin was 3% and 9%, respectively, and, excluding gains on acquisitions and disposals of subsidiaries, our operating profit margin was 3% and -12%, respectively. Excluding gains on acquisitions and disposals of subsidiaries, the increase in operating profit margin was due primarily to the acquisitions of BI and URBO which had higher operating margins relative to our other companies.

Operating profit in our drilling, workover and IPM services segment for the nine months ended September 30, 2006 increased by US$16.6 million to US$16.9 million from US$0.3 million for the nine months ended September 30, 2005. Excluding gains/(losses) on acquisition and disposal of subsidiaries, operating profit as a percentage of segment sales for the nine months ended September 2006 and 2005, was 9% and 1%, respectively. Alliance and BKS had an operating profit margin of 1% and -3%, respectively, for the nine months ended September 30, 2006 compared to 3% and -0.4%, respectively, for the nine months ending September 30, 2005. Although Alliance increased the number of drilling rigs in service period-on-period, we incurred higher than expected transportation costs as a result of our need to use helicopters to transport to the job site equipment we purchased after the winter mobilization period. Additionally, an early spring thaw in Komi made roads impassable and disabled the transportation network contributing to an increase in costs for transporting supplies to our drilling operations in the region. BKS also increased the number of drilling rigs in service period on period, however, some rigs were underutilized after a series of dry wells under one contract caused the customer to suspend drilling operations. These rigs and crews were on stand-by for approximately four months at our cost.

Operating profit in our formation evaluation services segment for the nine months ended September 30, 2006 increased by US$1 million to US$1.4 million from US$0.4 million for the nine months ended September 30, 2005 Operating profit margin was 2% and 14% for the nine months ended September 30, 2006 and 2005, respectively. Sales for the nine months ended in September 30, 2006 included TNGF sales of US$43.9 million representing 66% of total segment sales for that period but resulted in an operating loss of US$1.4 million due to the seasonality of seismic services. Sales of seismic services generally occur in the first and fourth quarters, and in the second and third quarters our sales of seismic services are not sufficient to cover the cost of maintaining a certain number of employees and equipment during the off-season. We are undertaking efforts to counter the effects of seasonality in sales of seismic services during the second and third quarters through, for example, our contract in Azerbaijan in September 2006 and our acquisition of Azimuth which has operations in Kazakhstan.

Operating profit in our manufacturing segment for the nine months ended September 30, 2006 was US$11.6 million. Operating profit margin was 17% for the nine months ended September 30, 2006. Of the total operating profit in our manufacturing segment, US$12.2 million was attributable to URBO, which was offset in part by a loss of US$0.6 million attributable to STM. Operating profit in our manufacturing segment for the nine months ended September 30, 2006 and 2005 was not comparable, as we commenced our manufacturing business following our acquisition of URBO at the end of September 2005. Accordingly, we had no profit in our manufacturing segment for the nine months ended September 30, 2005.

Other Income and Expenses

Interest income increased by US$1.0 million to US$1.2 million for the nine months ended September 30, 2006 from US$0.2 million for the nine months ended September 30, 2005. The increase in interest income was primarily attributable to income from cash held with financial institutions mainly in the form of bank deposits prior to certain of our acquisitions.

Interest expense increased by US$24.9 million to US$27.9 million for the nine months ended September 30, 2006 from US$3.0 million for the nine months ended September 30, 2005. The increase in interest expense was primarily as a result of our long-term borrowings, in particular the interest expense arising under the August 2006 Facility Agreement, the ruble-denominated bonds we sold in March 2006 and our 18% Senior Notes. For a more detailed discussion of our borrowings, see "—Liquidity and Capital Resources" below.

We reported a foreign exchange gain of US$8.7 million for the nine months ended September 30, 2006 compared with a US$0.4 million loss for the nine months ended September 30, 2005. The gain was due to the appreciation of the ruble against the US dollar in 2006 and the increase in our US dollar-denominated debt. We incur exchange gains/losses on US dollar denominated monetary items (including borrowings) at substantially all of the subsidiaries and associates of Integra Group as their functional currency for reporting purposes is the Russian ruble.

Our share of results in our associates, net of income tax, decreased by US$1.3 million to US$0.7 million for the nine months ended September 30, 2006 from US$2.0 million for the nine months ended September 30, 2005. The decrease is primarily the result of the gain on the acquisition of SNGF that was attributed to our share of results in our associates for the nine months ended September 30, 2005.

Income Taxes

Total income tax expense for the nine months ended September 30, 2006 was US$6.8 million compared to US$0.1 million for the nine months ended September 30, 2005. Loss before taxation for the nine months ended September 30, 2006 was US$8.7 million, including income from associates of US$0.7 million. For the nine months ended September 30, 2005, profit before taxation was US$2.5 million, including income from associates of US$2.0 million. Our tax expenses reflects the fact that we were unable, however, to obtain tax benefits for a significant portion of our interest and other expenses that were incurred by entities that do not generate taxable income to offset such expenses.

We are unable to obtain tax benefits for a significant portion of our interest expense and other expenses incurred by entities or in jurisdictions where we do not generate taxable income to offset such expenses. This significantly increased our effective tax rate for the nine months ended September 30, 2006 and 2005.

Profit for the period

Although operating profit increased between the periods, profit for the period decreased by US$18.0 million, resulting in a loss of US$15.6 million for the nine months ended September 30, 2006 from a profit of US$2.4 million for the nine months ended September 30, 2005. The decrease in profit for the period in the nine months ended September 30, 2006 was primarily attributable to an increase in interest expense and income tax expense, which was partially offset by a foreign exchange rate gain.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Our results of operations for the years ended December 31, 2005 and 2004 are not comparable given that our operations essentially commenced on January 1, 2005 following our acquisitions of Alliance and BKS at the end of December 2004. Accordingly, the year ended December 31, 2005 includes a full year of Alliance's and BKS' activities as well as more than seven months of the RGK (including PGF and GFS) and three months of URBO and BI's operations. Our acquisition of TNGF at the end of December 2005 did not have an effect on our performance in 2005.

Sales

As discussed above, we commenced operating activities from the year ended December 31, 2005, and no sales were recorded for the year ended December 31, 2004. Total sales for the year ended December 31, 2005 were US$97.9 million.

Drilling, Workover and IPM Services

Sales of drilling, workover and IPM services represented US$70.4 million, or 72%, of our total sales for the year ended December 31, 2005. Of this amount, US$28.6 million, or 41%, was attributable to Alliance, US$16.6, million, or 24%, to BK Sever, US$12.7 million, or 18%, to BI and US$7.4 million, or 11%, was attributable to KomiQuest, which we acquired in March 2005 and divested in March 2006, and US$2.4 million, or 3%, was attributable to Integra-KRS, which we formed in July 2005.

Formation Evaluation Services

Sales of formation evaluation services represented US$5.0 million, or 5%, of our total sales for the year ended December 31, 2005. Of this amount, US$3.2 million, or 65%, was attributable to GFS and US$1.7 million, or 35%, was attributable to RGK (including PGF but excluding GFS). Both companies were acquired in May 2005.

Manufacturing

Sales of manufacturing equipment comprised US$22.9 million, or 23%, of our total sales for the year ended December 31, 2005. All of the sales in the manufacturing segment were attributable to URBO, which was acquired in September 2005.

Cost of Sales

Since we commenced operating activities in the year ended December 31, 2005, no sales were recorded for the year ended December 31, 2004 and there were no costs of sales in 2004.

Cost of sales for the year ended December 31, 2005 was US$76.7 million, or 78%, of total sales. Of this amount, US$66.2 million, or 86%, was attributable to materials and employee costs and the costs of services procured from the third parties. On a segment basis, cost of sales for the year ended December 31, 2005 as a percentage of total cost of sales:

Segment	Segment Cost of Sales in US$ millions and as a % of Total Cost of Sales for the year ended December 31, 2005	
Drilling, Workover and IPM	57.3	75%
Formation Evaluation	3.8	5%
Manufacturing	15.5	20%

Material costs were the largest component of cost of sales. Material costs for the year ended December 31, 2005 were US$24.8 million, or 32%, of total cost of sales for the year ended December 31, 2005 and 25% of total sales. Material costs were the largest component of cost of sales for manufacturing and, for the year ended December 31, 2005, were US$11.28 million, or 76%, of segment cost of sales. Material costs were the second largest component of cost of sales of formation evaluation services and, for the year ended December 31, 2005, were US$1.03 million, or 27%, of segment cost of sales and 21% of segment sales. Material costs were the third largest component of cost of sales for drilling, workover and IPM services and, for the year ended December 31, 2005, were US$12.53 million, or 22%, of segment cost of sales and 18% of segment sales.

Employee costs were the second largest component of cost of sales. Employee costs for the year ended December 31, 2005 were US$21.24 million, or 28%, of our total cost of sales for the year ended December 31, 2005 and 22% of total sales. Employee costs were the largest component of cost of sales for drilling, workover and IPM services and, for the year ended December 31, 2005 were US$18.95 million, or 33%, of segment cost of sales and 27% of segment sales. Employee costs were also the largest component of cost of sales for formation evaluation services and, for the year ended December 31, 2005 were US$1.54 million, or 40%, of segment cost of sales and 31% of segment sales. Employee costs were the fourth largest component of cost of sales for manufacturing and, for the year ended December 31, 2005, were US$0.2 million, or 1%, of cost of sales and 1% of segment sales.

Services procured from third parties were the third largest component of cost of sales. The cost of services procured from third parties for the year ended December 31, 2005 was US$20.1 million, or 26%, of our total cost of sales for the year ended December 31, 2005 and 21% of total sales. Services procured from third parties were the second largest component of cost of sales for drilling, workover and IPM services and, for the year ended December 31, 2005, were US$16.8 million, or 29%, of segment cost of sales and 24% of segment sales. The cost of services procured from third parties were also the second largest component of cost of sales for manufacturing and, for the year ended December 31, 2005 were US$2.8 million, or 19%, of segment cost of sales and 12% of segment sales. Services procured from third parties were the third largest component of cost of sales of formation evaluation services and, for the year ended December 31, 2005, were US$0.6 million, or 15%, of segment cost of sales and 12% of segment sales.

Depreciation and amortization costs for the year ended December 31, 2005 were US$8.3 million, or 11%, of our total cost of sales for the year ended December 31, 2005. Depreciation and amortization costs for drilling, workover and IPM services for the year ended December 31, 2005 were US$7.3 million, or 13%, of segment cost of sales. Depreciation and amortization costs of formation evaluation services for the year ended December 31, 2005 were US$0.4 million, or 10%, of segment cost of sales. Depreciation and amortization costs for manufacturing for the year ended December 31, 2005 were US$0.6 million or 4% of segment cost of sales.

The remaining portion of our costs of sales, which we categorize as other, were US$2.16 million, or 3%, of our total cost of sales for the year ended December 31, 2005. Of this amount, other represented US$1.8 million, or 3%, of cost of sales for drilling, workover and IPM, US$0.31 million, or 8%, of cost of sales for formation evaluation services and US$0.62 million or 4% of cost of sales for manufacturing.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by US$22.6 million to US$23.8 million for the year ended December 31, 2005 from US$1.2 million for the year ended December 31, 2004. The increase was primarily due to the inclusion of new subsidiaries in our consolidated results.

Employee costs, excluding share-based compensation, are the largest component of selling, general and administrative expenses. Employee costs represented 49% of selling, general and administrative expenses for the year ended December 31, 2005. Employee costs increased by US$11.0 million to US$11.7 million for the year ended December 31, 2005 from US$0.7 million for the year ended December 31, 2004. The increase in employee costs was due primarily to an increase in the total number of administrative personnel resulting from increased administrative requirements following our acquisitions and increased average salaries resulting from inflation.

Services costs are the second largest component of selling, general and administrative expenses. Services costs represented 15% of selling, general and administrative expenses for the year ended December 31, 2005. Services costs increased by US$3.0 million to US$3.6 million for the year ended December 31, 2005 from US$0.5 million for the year ended December 31, 2004. The increase was attributable to the increased requirements in external consulting, legal and financial services procured to support our acquisitions, analysis and improvement of internal controls and budget and reporting functions.

Share-based compensation represented 13% of selling, general and administrative expenses. Share-based compensation was US$3.0 million for the year ended December 31, 2005. There was no share-based compensation for the year ended December 31, 2004. Share-based compensation includes both awards granted under the 2005 Stock Option Plan and the cost associated with the award of 1,000,000 Class B common shares to our chief executive officer in July 2005. We adopted the 2005 Stock Option Plan in July 2005 and incorporated our first grants of our shares under the plan at that time. Accordingly, selling, general and administrative expenses for the year ended December 31, 2004 included no expenses for share-based compensation, as no awards were granted in 2004 and for the year ended December 31, 2005 included the expense associated with the awards granted only from July 2005 forward. See our Audited Consolidated Financial Statements for the year ended December 31, 2005, located elsewhere in this Prospectus, for additional details on share-based compensation.

Transportation expense represented 4% of selling, general and administrative expenses for the year ended December 31, 2005. Transportation expense was US$0.8 million for the year ended December 31, 2005. There was no transportation expense for year ended December 31, 2004.

Taxes other than income taxes represented US$0.2 million or 1% of selling, general and administrative expenses for the year ended December 31, 2005.

Depreciation expense represented US$0.1 million or 0.5% of selling, general and administrative expenses for the year ended December 31, 2005.

The remaining portion of our selling, general and administrative expense, which we categorize as "other", represented US$4.5 million or 19% of our selling, general and administrative expense for the year ended December 31, 2005. These expenses included losses on the disposal of miscellaneous items of property, plant and equipment.

Other Operating Expenses

Gain/(Loss) on Acquisition of Subsidiaries

Gains on acquisition of subsidiaries increased by US$8.7 million to US$16.6 million for the year ended December 31, 2005 from US$7.9 million for the year ended December 31, 2004. As discussed above, our results were impacted by the results of our acquisition activity. The gains in 2005 included a gain of US$9.0 million recognized on the acquisition of RGK and GFS in May 2005 and a gain of US$7.6 million recognized on the acquisition of TNGF in December 2005. We believe the gain from both of these acquisitions resulted from the seller's underestimation of the value of the acquirees' operations and their dependence on a narrower customer base than ours. The gain on acquisition of subsidiaries in 2004 resulted from our acquisition of BKS in December 2004. This gain was attributed to liquidity problems experienced by the previous owners of BKS.

Impairment of Goodwill

Impairment of goodwill was US$0.9 million for the year ended December 31, 2005. No such impairment was recognized for the year ended December 31, 2004. Impairment of goodwill related to our April 2005 purchase of SRIPNO and its lower than expected operational performance and prospects following our acquisition. In April 2006, we transferred the assets of SRIPNO to Integra KRS.

Gain/(Loss) on Disposal of Property, Plant and Equipment

Losses on disposal of property, plant and equipment were US$0.11 million for the year ended December 31, 2005. No such expense was recognized for the year ended December 31, 2004.

For the year ended December 31, 2005, gains on acquisitions of subsidiaries, impairment of goodwill and losses on the disposal of property plant and equipment represented 17%, 1% and 0.1% of consolidated sales, respectively. Since we had no operating activity in 2004, no comparative information exists.

Operating Profit

As a result of the foregoing factors, operating profit for the year ended December 31, 2005 increased by US$6.3 million to US$13.0 million from US$6.7 for the period ended December 31, 2004. Excluding gains/ (losses) on acquisitions of subsidiaries, operating losses for the period ended December 31, 2005 and 2004 were US$3.6 million and US$1.2 million, respectively.

Operating profit in our drilling, workover and IPM services segment for the year ended December 31, 2005 was US$2.5 million. Excluding gains/(losses) on acquisition of subsidiaries, operating profit as a percentage of segment sales for the year ended December 31, 2005 was 3.5%.

Operating loss in our formation evaluation services segment for the year ended December 31, 2005 was US$0.5 million. Excluding gains/(losses) on acquisition of subsidiaries, operating loss as a percentage of segment sales for the year ended December 31, 2005 was 10%.

Operating profit in our manufacturing segment for the year ended December 31, 2005 was US$5.1 million. Excluding gains/(losses) on acquisition of subsidiaries, operating profit as a percentage of segment sales for the year ended December 31, 2005 was 22%.

Other Income and Expenses

Interest income increased by US$0.4 million to US$0.5 million for the year ended December 31, 2005 from nil for the year ended December 31, 2004. The increase in interest income was primarily attributable to income from cash held with financial institutions mainly in the form of bank deposits.

Interest expense increased to US$7.8 million for the year ended December 31, 2005 from nil for the year ended December 31, 2004. The increase in interest expense was primarily as a result of interest expense under the September 2005 Facility Agreement, the 18% Senior Notes we issued in May 2005 and our short-term ruble-denominated borrowings. See a more detailed discussion of our borrowings in "—Liquidity and Capital Resources" below.

We recorded a foreign exchange loss of US$1.4 million for the year ended December 31, 2005. The losses resulted from the appreciation of the US dollar against the ruble in 2005. The exchange rate increased from 27.75 rubles per US dollar as of December 31, 2004 to 28.78 rubles per US dollar as of December 31, 2005. We had no foreign exchange impact for the year ended December 31, 2004. We incur exchange gains/losses on US dollar denominated monetary items (including borrowings) at substantially all of the subsidiaries and associates of Integra Group as their functional currency for reporting purposes is the Russian ruble.

Our share of results in our associates amounted to US$2.1 million for the year ended December 31, 2005. This included US$0.8 million of income from NNGF/NGT, US$0.1 million of income from SNGF and a gain of US$1.2 million representing the excess of the fair value of the identified net assets of SNGF over our cost of acquisition. We acquired minority interests in each of these companies in May 2005.

Income Taxes

Total income tax expense for the year ended December 31, 2005 was US$2.9 million. There was no income tax for the year ended December 31, 2004.

The increase in income tax expense for the year ended December 31, 2005 was due to the increase in our operations as well as to deferred tax assets not recognized by us. US$2.5 million of deferred tax assets were not recognized in 2005, including US$1.8 million relating to accumulated tax losses expiring between 2014 and 2015 and US$0.7 million relating to accumulated losses that do not have an expiration date. In addition, non-deductible expenses at our Russian subsidiaries increased resulting in income tax expense of US$1.0 million for the year ended December 31, 2005. There were no income tax expenses for the year ending December 31, 2004 as we had no income generating activity.

Minority interest

Minority interest in loss of subsidiaries was US$0.5 million for the year ended December 31, 2005. Minority interest in loss of subsidiaries consisted primarily of our share in the net losses of certain of our minority subsidiaries, in particular, KomiQuest, in the amount of US$0.3 million, BI's subsidiary, NPO Burovaya Technika, in the amount of US$0.2 million.

Profit for the period

Profit for the period decreased by US$3.3 million, or 50%, to US$3.3 million for the year ended December 31, 2005 from US$6.6 million for the year ended December 31, 2004. The decrease in our profit for the year ended December 31, 2005 was primarily attributable to growth in our selling, general and administrative expenses, interest expense, and foreign exchange losses and current income tax. The profit we experienced for the period ending December 31, 2004 was primarily the result of gains recognized on the acquisition of our first two subsidiaries in the amount of US$7.9 million.

Liquidity and Capital Resources

To date, our growth has been financed with both short-term and long-term borrowings, denominated primarily in rubles and US dollars, as well as sales of our shares. In the near term, we expect our primary sources of liquidity to be cash provided from operating activities, debt and equity offerings, including the proceeds of our Offering, and bank loans obtained by our subsidiaries. Our principal financing requirements have been, and continue to be, strategic acquisitions and capital expenditures.

We intend to limit our borrowing in US dollars and primarily finance our capital requirements through ruble borrowings to match our largely ruble-denominated revenues and costs. We also intend to increase the proportion of long-term debt instruments as part of our overall borrowings. For example, in December 2006, we issued bonds with aggregate principal amount of RUR 3.0 billion, (equivalent to US$114.5 million) that matures in November 2011.

Cash Flows

As discussed elsewhere in this Prospectus, we commenced operations during 2004. Accordingly, our activities in 2004 were not nearly as extensive as they were in 2005 and 2006. The table below shows our net cash flows from operating, investing and financing activities for the nine months ended September 30, 2006 and 2005 and for the period ended December 31, 2005 and 2004.

	Nine months ended September 30,		Period ended December 31,	
	2006	2005	2005	2004
	(in thousands of US dollars)			
Net cash used in operating activities	(21,443)	(8,161)	(6,830)	(1,639)
Net cash used in investing activities	(295,171)	(74,817)	(116,142)	(2,631)
Net cash provided by financing activities	366,386	104,586	143,989	5,000

Operating activities

Net cash used in operating activities was US$21.4 million for the nine months ended September 30, 2006 and US$8.2 million for the nine months ended September 30, 2005. Net cash used in operating activities included investments in working capital totaling US$60.8 million for the nine months ended September 2006 and US$6.0 million for the nine months ended September 30, 2005. Excluding investments in working capital, net cash provided by operating activities was US$39.4 million in the first nine months of 2006 compared to net cash used in operating activities of US$2.2 million in the first nine months of 2005. The US$21.4 million of net cash used in operating activities in the first nine months of 2006 was largely financed by short-term borrowings. Net cash used in operating activities was US$6.8 million and US$1.6 million for the years ended December 31, 2005 and 2004, respectively. Net cash used in operating activities increased in each period as a result of working capital requirements primarily to support the growth of our operations. See "—Working Capital" below and Note 4 to the Audited Consolidated Financial Statements.

Investing activities

Net cash used in investing activities was US$295.2 million and US$74.8 million for the nine months ended September 30, 2006 and 2005, respectively, and US$116.1 million and US$2.6 million for the years ended December 31, 2005 and 2004, respectively.

During the nine months ended September 30, 2006 and 2005, US$206.2 million and US$68.4 million, respectively, was used for the acquisition of new subsidiaries and US$91.5 million and US$6.6 million, respectively, was used for purchases of property, plant and equipment. For the years ended December 31, 2005 and 2004, US$99.8 million and US$2.0 million, respectively, was used for the acquisition of new subsidiaries, and US$15.9 million and US$0.1 million, respectively, was used for purchases of property, plant and equipment. See "—Company Acquisitions".

In the nine months ended September 30, 2006, we significantly increased our acquisition activities over 2005 in terms of the number of acquisitions completed and the value of each acquisition. Among the companies we acquired were Smith Eurasia for US$139.5 million, PNBK for US$22.8 million, STM for US$16.2 million, PBN for US$20.0 million and effective control of YGF for US$78.0 million. Cash outflow related to these acquisitions, net of cash acquired, totaled US$206.2 million during the nine months ended September 30, 2006. We also significantly increased our cash outflows associated with capital expenditures to US$91.5 million for the first nine months of 2006 from US$15.9 million in 2005, which we used principally to upgrade our drilling rigs and purchase new logging equipment.

During 2005, we significantly increased our acquisition activities over 2004, including acquiring BI for US$42.2 million, TNGF for US$29.8 million, URBO for US$28.8 million and other purchases totaling US$8.2 million. Cash outflow related to these acquisitions, net of cash acquired, totaled US$99.8 million during 2005. We also significantly increased our cash spent on capital expenditures to US$15.9 million in 2005 from US$0.1 million in 2004, which we used principally to purchase new equipment for our workover business and to upgrade our drilling rigs.

In 2004, the first year of our operations, we acquired a combination of cash and shares in BKS, Tarpan and Paritet. At that time, Tarpan and Paritet owned the companies that today form Alliance. Total cash outflow, net of cash acquired, for these acquisitions was US$2.0 million. Total cash used in investing activities during 2004 was US$2.6 million, of which US$0.1 million was used for purchases of property, plant and equipment and US$0.4 million was used to make loans to BKS to meet current operating needs prior to its acquisition by us.

Financing activities

Net cash provided by financing activities was US$366.7 million and US$104.6 million for the nine months ended September 30, 2006 and 2005, respectively, and US$144.0 million and US$5.0 million for the years ended December 31, 2005 and 2004, respectively.

The net cash provided by financing activities was used to finance our acquisitions and our investments in working capital.

We have financed our investing and operational activities using a mixture of debt and equity financing. During 2004, we raised US$3.0 million through an issuance of Series A convertible preferred shares at US$4.00 per share. We also raised an additional US$2.0 million through a loan from Value Recovery Fund Limited in December 2004.

During 2005, we issued 1,176,471 Series B convertible preferred shares at US$34.00 per share. Net proceeds from the issuance totaled US$39.4 million. Our significant long-term borrowing activities included US$90.0 million raised from the September 2005 Facility Agreement entered into with J.P. Morgan Europe Limited, as agent, for a group of lenders, US$14.4 million from the issuance of 18% Senior Notes, US$9.3 million from International Moscow Bank, or IMB, and US$8.7 million from Sberbank. The remaining borrowings of US$13.5 million relate primarily to drawdowns of our short-term revolving credit facilities from Ukhtabank, Sberbank, Zapsibkombank, Promtorgbank and Klientskiy Bank.

During 2005, we also repaid borrowings of US$31.4 million, primarily relating to our short-term revolving credit facilities and outstanding short-term borrowings of the companies we acquired.

During the nine months ended September 30, 2006, we issued 444,445 Class A common shares at US$225.00 per share. Net proceeds from the issuance totaled US$95.4 million. Our significant long-term borrowing activities during this period included (i) issuance of a three year ruble-denominated bond with an aggregate principal amount equivalent to US$74.7 million, (ii) refinancing US$12.5 million of the 18% Senior Notes with US$15.0 million of 11% Senior Notes, (iii) a US$7.0 million loan from NOMOS-Bank, and (iv) a series of ruble-denominated long-term loans from Alfa-Bank, an affiliate of Alfa Capital Holdings (Cyprus) Limited, one of the managers in the Offering, for the equivalent of approximately US$15.0 million. We also entered into a series of short-term facility agreements, of which the most significant were the US$75.0 million August 2006 Facility Agreement with Renaissance Securities, an affiliate of Renaissance Capital, one of the Managers, a US$67.2 million bridge loan facility from Alfa-Bank and a US$37.3 million bridge loan facility from IMB.

During the nine months ended September 30, 2006, we also repaid borrowings of US$50.9 million, primarily relating to our short-term revolving credit facilities and the outstanding short-term borrowings of the companies we acquired.

Working Capital

As of September 30, 2006, and December 31, 2005 and 2004, we had cash and cash equivalents of US$67.3 million, US$21.5 million and US$0.7 million, respectively, which was primarily ruble-denominated.

As of September 30, 2006, we had negative working capital of US$131.2 million. Our working capital at December 31, 2005 was US$30.9 million, representing an increase of US$42.2 million from our negative working capital of US$11.3 million at December 31, 2004. We define working capital as current assets less current liabilities. The substantial deterioration in our working capital position as of September 30, 2006 was primarily due to a substantial increase in the level of short-term borrowings used to finance our operations and our acquisitions. Between July 2006 and September 2006, we entered into several agreements for short-term borrowings in the form of bridge loans totaling approximately US$205.0 million, including US$180.0 million in short-term borrowings from Renaissance Capital, IMB and Alfa-Bank discussed above. See "—Cash Flows". These short-term borrowings were used to acquire Smith Eurasia and PBN and obtain effective control of YGF, to finance capital expenditures and purchase equipment and supplies for the 2007 contract season, primarily for the drilling, workover and IPM segment. After September 30, 2006, we have repaid US$104.6 million of these short-term borrowings with the proceeds of a five-year ruble-denominated bond with an aggregate principal amount equivalent to US$114.5 million and currently expect to repay additional short-term borrowings from the proceeds of the Offering. See "—Recent Developments" and "Use of Proceeds". The improvement in our working capital position as of December 31, 2005 compared to December 31, 2004 was primarily due to an increase in the proportion of our total borrowings comprised of long-term debt and by the acquisition of cash generating companies, primarily URBO and BI.

As required by IFRS, because the waiver with respect to the default under the August 2006 Facility Agreement was received after December 31, 2006, the full carrying value as of that date of all borrowings containing cross-default provisions will be classified as current liabilities in the Company's consolidated balance sheet at December 31, 2006.

Assuming completion of the Offering, we believe we have sufficient working capital to meet our requirements for at least the next twelve months. However, we are dependent upon the continued availability of debt at attractive rates and equity at valuations reflecting our expectations of the business and certain other factors. See Note 4 to the Audited Consolidated Financial Statements, "Risk Factors—Risks Related to Our Business" and "—Risks Related to Financial Matters".

Capital Expenditures

Our business is capital-intensive and expenditures are required to upgrade our manufacturing facilities and to maintain, replenish and expand our inventory of rigs and other oilfield service equipment.

Our capital expenditures including acquisition of property, plant and equipment and intangible assets during the first nine months of 2006 and for each of the years ended December 31, 2005 and 2004 amounted to the following:

	Nine months ended September 30, 2006	Period ended December 31, 2005	Period ended December 31, 2004
	(in thousands of US dollars)		
Drilling, workover and IPM	65,514	16,248	—
Formation evaluation	21,525	672	—
Manufacturing	9,126	199	—
Corporate	—	—	128
Total	**96,165**	**17,119**	**128**

Our capital expenditures for the acquisition of property, plant and equipment and intangible assets during the first nine months of September 2006 were US$96.2 million, which were used (i) in our drilling business for modernization and upgrades to our drilling rigs, to purchase new workover rigs, transportation and other equipment required to expand our workover business, (ii) to purchase additional seismic stations for our formation evaluation services segment, (iii) to purchase production capacity in Tyumen for our manufacturing segment to meet the expected capacity requirements for our drilling rigs production and to purchase and upgrade equipment for our manufacturing business, (iv) to purchase various machines and other equipment for the production of drilling tools, and (v) for purchases of new logging equipment. Our most significant projects included, in our formation evaluation services segment, the replacement of fully depreciated seismic equipment at TNGF and, in our drilling, workover and IPM segment, the purchase of new machines used for the production of drilling tools at BI.

During 2005, our first full year of operations as a consolidated Group, we invested US$15.9 million in our property, plant and equipment. We used these funds to purchase new equipment to start our workover business, modernize and repair our drilling rig fleet and purchase new logging equipment.

In 2004, the first year of our operations, we invested US$0.1 million in property, plant and equipment for purchases of office furniture, computers and other office equipment.

In 2007, we anticipate making capital expenditures of approximately US$190 million. A significant portion of our capital expenditures will be directed to our drilling, workover and IPM segment for the purchase of new mobile drilling rigs, the upgrade of existing rigs required to be put in service to meet contract requirements and acquisition of coil tubing technology. In our formation evaluation services segment we plan to purchase additional seismic wires and seismic stations. In our manufacturing segment we plan to expand manufacturing capacity in Tyumen and Ekaterinburg and purchase additional equipment to assist in our continued shift in production of components away from third parties to in-house manufacturing. We also expect to use these funds to develop a repair and maintenance business for our drilling rigs and a leasing business for our drilling tools. We currently expect less than 25% of our budget for capital expenditure will be devoted to maintenance of capital equipment. The actual amount of our capital expenditures for 2007 will be influenced by the volume of services contracted, the specific requirements of our customers and the approvals granted by of our Board of Directors.

We anticipate that the funds necessary to meet our current capital requirements and those to be incurred in the foreseeable future (including with respect to any possible acquisitions) will come from cash currently on hand, from operating cash flows and from debt and equity financings from Russian and international lending institutions and capital markets.

Borrowings

Overview

Since our inception in March 2004 and through September 30, 2006, we have raised US$660.4 million in total capital, of which US$461.1 million was raised in the form of borrowings. After September 30, 2006, we have raised the equivalent of approximately US$232.3 million in additional borrowings. See "—Recent Borrowings" below for a description of our additional borrowings since September 30, 2006.

We have used our borrowings primarily to finance our acquisitions and, to a lesser extent, to support our working capital position. Below is a discussion of our significant borrowing arrangements. For additional information on this debt, please refer to the discussion below, as well as the notes to our Consolidated Financial Statements contained elsewhere in this Prospectus. For a description of some of the risks associated with certain of our indebtedness, please refer to the section of this Prospectus entitled "Risk Factors".

The weighted average interest rates of our outstanding total borrowings by currency at September 30, 2006 and December 31, 2005 and 2004 are outlined in the table below.

Total borrowings

	Weighted average interest rate at:		
	September 30, 2006	**December 31, 2005**	**December 31, 2004**
Ruble-denominated borrowings	10.1%	12.5%	17.3%
US dollar-denominated borrowings	15.0%	18.9%	25.0%
Euro-denominated borrowings	8.8%	7.9%	0.0%

Recent Borrowings

Subsequent to September 30, 2006, we entered into a number of financing agreements, each of which is summarized below. Through these additional borrowings, we raised the equivalent of US$224.9 million primarily in ruble-denominated loans.

- *KB Aljba-Alliance*. IG Holdings and BI each entered loan agreements with KB Aljba Alliance or one of its affiliates as follows:
  - *Fiske Assets Limited*. On December 11, 2006, IG Holdings Limited entered into a loan agreement with Fiske Assets Limited, an affiliate of KB Aljba Alliance, in the amount of US$3.9 million. The loan bears interest at 13% per annum and is due to be repaid on February 28, 2007. The loan is unsecured and has no covenants.
  - *KB Aljba-Alliance*. On December 11, 2006, BI entered into a loan agreement with KB Aljba-Alliance in the amount of RUR 160 million. The loan bears interest at 13% per annum and is due to be repaid on February 28, 2007. The loan is secured by a pledge of certain assets of S.L. Capital Services Limited.
- *Sberbank*. TNGF entered into a loan agreement with Sberbank and YGF entered into two loan agreements with Sberbank as follows:

    - On October 25, 2006, YGF entered into a loan agreement with Sberbank in the amount of RUR 269.4 million of which RUR154.5 has been drawn. The loan bears interest at 10.4% per annum and is due to be paid in equal quarterly installments beginning January 28, 2008 through October 23, 2009. The loan is secured by a pledge of certain assets of YGF.

    - On November 22, 2006, YGF entered into a loan agreement with Sberbank in the amount of RUR 87.0 million. The loan bears interest at 9% per annum and is due to be repaid on November 21, 2007.

    - On November 30, 2006, TNGF entered into a loan agreement with Sberbank in the amount of RUR 190.0 million. The loan bears interest at 9% per annum and is due to be repaid on November 29, 2007.

- *Alfa-Bank*. Each of URBO, NPO Burovaya Technika and YGF entered into loan agreements with Alfa-Bank as follows:

    - On October 31, 2006, YGF entered into a loan agreement with Alfa-Bank in the amount of RUR 668.7 million. The loan bears interest at 10.9% per annum and is due to be repaid on October 30, 2008. The loan is guaranteed by URBO, BI, Integra KRS, BKA, BKS and PBNK and is also secured by a pledge of fixed assets of Integra KRS, BKA, BKS and PNBK. Among other things, the loan agreements impose limits on the total bank debt and guarantees of certain of our subsidiaries, require the borrower to maintain, together with the guarantors, certain minimum activity in bank accounts with the lender.

    - On November 23, 2006, NPO Burovaya Technika entered into a loan agreement with Alfa-Bank in the amount of RUR 66.5 million. The loan bears interest at 10% per annum and is due to be repaid on May 23, 2007. The loan is guaranteed by URBO, BI and IG Holdings Limited. Among other things, the loan agreements impose limits on the total bank debt and guarantees of certain of our subsidiaries, require the borrower to maintain, together with the guarantors, certain minimum activity in bank accounts with the lender.

    - On December 14, 2006, URBO entered into a loan agreement with Alfa-Bank in the amount of RUR 1,312 million. The loan bears interest at 10.5% and is due to be repaid upon the earlier of December 13, 2007 or within ten days of the initial public offering of our shares. The loan is guaranteed by BI, BKA, PNBK, IG Holdings Limited and Integra Group. Among other things, the loan agreements impose limits on the total bank debt and guarantees of certain of our subsidiaries, require the borrower to maintain, together with the guarantors, certain minimum activity in bank accounts with the lender.

- *OOO Capital Invest*. On November 20, 2006, Integra Finance entered into a loan agreement with OOO Capital Invest in the amount of RUR 67.5 million. The loan bears interest at 11.1% per annum and is due to be repaid on May 17, 2007. The loan is unsecured and has no covenants.

- *Second Ruble Bond*. On December 5, 2006, Integra Finance LLC, our wholly-owned subsidiary, issued ruble denominated bonds with an aggregate principal amount of RUR 3 billion, or the equivalent of US$114.5 million. The bonds are guaranteed by URBO, BI and TNGF. The bonds are listed on the MICEX. The bonds pay interest semi-annually at a rate of 10.7% per annum and mature on November 29, 2011. There are no early redemption provisions.

- *Renaissance Securities*. On January 15, 2007, Integra Group entered into a loan agreement with Renaissance Securities in the amount of US$5.0 million. The loan bears interest at 12% per annum and is due to be repaid on the earlier of July 15, 2007 or the listing of our shares. The loan is secured by guarantees of our subsidiaries and our CEO and contains the same covenants as the August 2006 Facility Agreement described below. See—"Short-term US dollar-denominated borrowings".

Additionally, as a result of the breach of certain covenants in the August 2006 Facility Agreement with Renaissance Securities, we renegotiated the terms of that facility and also obtained waivers and consents from various lenders for various breaches and cross-defaults of our existing financing agreements with these lenders that occurred during the course of 2006 but were not addressed until December 2006. For further information about these defaults and waivers, see—"Recent Developments" and "Risk Factors—Risks Related to Financial Matters".

Short-term borrowings

Short-term ruble-denominated borrowings

Our outstanding short-term, ruble-denominated borrowings at September 30, 2006 are outlined in the table below.

	September 30, 2006	December 31, 2005	December 31, 2004
	(in thousands of US dollars)		
Short-term borrowings denominated in rubles			
Alfa-Bank 2nd Bond placement bridge	67,214	—	—
IMB 2nd Bond placement bridge	37,341	—	—
Alfa-Bank	23,222	—	—
Other	4,221	2,769	7,360
Total short-term borrowings denominated in rubles	131,998	2,769	7,360

Alfa-Bank 2nd Bond Placement Bridge Loan. In July 2006, we entered into two ruble-denominated term loans with Alfa-Bank totaling RUR 1.8 billion, a principal amount equivalent to US$67.2 million, at September 30, 2006. The loans bore interest at 9.25% per annum and was repaid on December 6, 2006 out of the proceeds of our second ruble bond issues.

IMB *2nd Bond Placement Bridge Loan*. In August 2006, we entered into a short-term, ruble-denominated term loan with International Moscow Bank totaling RUR 1.0 billion, a principal amount equivalent to US$37.3 million at September 30, 2006. The loan bore interest at 9.25% per annum and was repaid on December 6, 2006 out of the proceeds of our second ruble bond issues.

Alfa-Bank Loan. Between February and July 2006, we obtained short-term, ruble-denominated loans totaling RUR 622 million, a principal amount equivalent to US$23.2 million at September 30, 2006, from Alfa-Bank. These loans bear interest at rates ranging from 9.5% to 10.5% per annum and are due to be repaid between December 2006 and March 2007. The loans are guaranteed by certain of our subsidiaries and secured by pledges of inventory and fixed assets of some of our subsidiaries. Among other things, the loan agreements impose limits on the total bank debt and guarantees of certain of our subsidiaries, require the borrower to maintain, together with the guarantors, certain minimum activity in bank accounts with the lender.

Bank Vozrozhdeniye and Rosbank. In connection with the acquisition of PBN in July 2006, we assumed a series of Russian ruble-denominated loan agreements with Bank Vozrozhdeniye and Rosbank for an aggregate amount outstanding equivalent to US$4.2 million at September 30, 2006. The loans bear fixed interest rates ranging from 14.0% to 15.4% per annum which are payable monthly and are due to be repaid between December 2006 and April 2007. The loans are collateralized by pledges of inventory of PBN with carrying value equivalent to US$0.7 million. At the date of acquisition of PBN, the fair values of the borrowings did not significantly differ from their carrying values.

Short-term US dollar-denominated borrowings

Our outstanding short-term, US dollar-denominated borrowings (excluding the current portion of long-term borrowings) at September 30, 2006 and December 31, 2005 and 2004 are outlined in the table below.

	September 30, 2006	December 31, 2005	December 31, 2004
	(in thousands of US dollars)		
Short term borrowings denominated in US dollars			
Renaissance financing	75,000	—	—
Other short term loans	—	4,600	2,000
Total short term borrowings denominated in US dollars	75,000	4,600	2,000

In August 2006, we obtained a US$75.0 million syndicated bridge facility from Renaissance Securities. The facility initially bore interest of LIBOR plus 4.7% per annum (or 10.2% per annum at September 30, 2006) and is due to be repaid on July 15, 2007 or, earlier, upon a listing of our shares. The facility also required us to use our best endeavors to procure guarantees from our non-dormant subsidiaries, and that, upon obtaining the requisite number of guarantees, the interest rate on the facility would be reduced to LIBOR plus 3.5% per annum. The facility restricts our ability to incur indebtedness at the level of IG Holdings Limited.

Prior to the provision of such guarantees and in violation of the covenants, we incurred new debt and we made various grants of security which resulted in breaches of the covenants. In January 2007, Renaissance Securities waived these breaches of covenants, but as part of the negotiations to obtain such waiver, we agreed, among other things, to pay a US$2.0 million restructuring fee to Renaissance Securities, to increase the rate of interest on the loan to 12.0% per annum with retroactive effect to October 1, 2006, to make a payment in the amount of 12.5% of the loan amount and accrued interest on completion of the Offering, and to provide monthly cashflow reports to the lenders. We also agreed to procure that certain of our material subsidiaries provide guarantees of the loan on or prior to February 2, 2007 (which have since been provided). See "—Recent Developments" for a description of our breach of covenants of this agreement and certain of our other financing agreements, and see "Risk Factors—Risks Related to Financial Matters—We have had insufficient internal controls to properly monitor and comply with the restrictions contained in our debt facilities, and as a result have been in breach of certain of our debt facilities. Any future default under our debt facilities, or consequent action by our lenders, may have a material adverse effect on our financial condition and the trading price of our GDRs".

Other short term loans (USD). In December 2005, we entered into a US$4.6 million, US dollar-denominated loan agreement with S.L. Capital Services Limited bearing interest at 12% per annum and maturing in January 2006. In January 2006, we repaid the loan ahead of schedule.

The weighted average interest rates of our outstanding short-term borrowings by currency at September 30, 2006 and December 31, 2005 and 2004 are outlined in the table below.

Short-term borrowings

	Weighted average interest rate at:		
	September 30, 2006	December 31, 2005	December 31, 2004
Russian ruble-denominated borrowings	9.6%	12.7%	17.5%
US dollar-denominated borrowings	10.2%	12.0%	25.0%

Long- term borrowings

Long-term Russian ruble denominated borrowings

Our outstanding long-term, Russian ruble-denominated borrowings at September 30, 2006 and December 31, 2005 and 2004 are outlined in the table below.

	September 30, 2006	December 31, 2005	December 31, 2004
	(in thousands of US dollars, except as indicated)		
Long term borrowings denominated in rubles			
Series A Bonds	74,683	—	—
Alfa-Bank	15,142	—	—
Sberbank	18,915	5,784	1,798
Other	12,769	732	232
Total long term borrowings denominated in rubles	121,509	6,516	2,030

Series A Ruble Bonds. In March 2006, Integra Finance LLC issued Series A ruble-denominated bonds ("Series A Bonds") with an aggregate principal amount of RUR 2.0 billion, equivalent to US$74.7 million at September 30, 2006. The Series A Bonds bear fixed interest of 10.5% per annum, payable semi-annually, and mature in March 2009. The bonds are guaranteed by URBO, Integra KRS and BK Alliance. We also provided a secondary guarantee. The bonds are listed on MICEX. There are no early redemption provisions. The bonds are governed by the laws of the Russian Federation.

Alfa-Bank Loans. In June 2006, PNBK and TNGF entered into long-term, ruble-denominated loan agreements with Alfa-Bank totaling RUR 406 million in the aggregate. The loans bear interest of 10.5% per annum and are due to be repaid in December 2007. The loans are guaranteed by certain of our subsidiaries and secured by pledges of PNBK's and TNGF's fixed assets. Amounts outstanding at September 30, 2006 were RUR 406 million (US$15.1 million). Among other things, the loan agreements impose limits on the total bank debt and guarantees of certain of our subsidiaries and require the borrower to maintain, together with the guarantors, certain minimum activity in bank accounts with the lender.

Sberbank Loans. In connection with its acquisition of YGF in August 2006, the Group assumed a series of Russian ruble-denominated loan agreements with Sberbank for an equivalent of approximately US$27 million. The loans bear fixed interest rates ranging from 10.0% to 13.0% per annum, payable monthly. As of September 30, 2006, US$18.9 million (RR 506.5 million) was outstanding under the agreements. The loans mature between October 2006 and October 2008 and are collateralized by certain of the Group's inventory with a carrying value equivalent to US$20.5 million. All but one of the loans are secured with a pledge of YGF's assets.

Other long term borrowings

Our outstanding long-term borrowings in currencies other than the ruble at September 30, 2006 and December 31, 2005 and 2004 are outlined in the table below.

	September 30, 2006	December 31, 2005	December 31, 2004
	(in thousands of US dollars)		
Long term borrowings denominated in other currencies			
September 2005 Facility Agreement *(USD)*	92,691	84,086	—
18% Senior Notes *(USD)*	1,989	14,364	—
11% Senior Notes *(USD)*	14,997	—	—
IMB *(EUR and USD)*	11,626	9,294	—
Nomos Bank *(USD)*	7,000	—	—
Other		—	—
Total long term borrowings denominated in other currencies	128,303	107,744	—

September 2005 Facility Agreement. In September 2005, IG Holdings Limited entered into a US$90.0 million facility agreement with several different investment funds and financial institutions (collectively the "Lenders"). The September 2005 Facility Agreement comprises two separate US$45.0 million tranches through Facilities A and B, each bearing interest at 14.0% per annum, payable semi-annually, a portion of which may be capitalized as loan principal. The loans are due to be repaid in September 2010. In the event of a listing or of certain issuances of shares by the Company following a listing, the lenders under Facility A must be offered the option of being repaid at par from the net proceeds of the listing or issuance. In connection with the September 2005 Facility Agreement, we and IG Management Limited each entered into a deed of shares pledge and assignment dated September 22, 2005 with J.P. Morgan Europe Limited, as security agent to pledge in favor of the lenders, as security for IG Holdings Limited's obligations under the September 2005 Facility Agreement, all of their respective shares in IG Holdings Limited. Among other things, the September 2005 Facility Agreement requires IG Holdings Limited to maintain a specifically defined leverage ratio of no more than 5 to 1 on a consolidated basis. There are also limitations on IG Holdings and certain of its subsidiaries with respect to the sale of assets and payment of dividends. See "–Recent Developments" for a description of our breach of certain of our financing agreements, and see "Risk Factors—Related to Financial Matters—We have had insufficient internal controls to properly monitor and comply with the restrictions contained in our debt facilities, and as a result have been in breach of certain of our debt facilities. Any future default under our debt facilities, or consequent action by our lenders, may have a material adverse effect on our financial condition and the trading price of our GDRs".

Warrants were issued in conjunction with the September 2005 Facility Agreement as described further below under "—Warrants". The US$8.6 million increase from US$84.1 million at December 31, 2005 to US$92.7 million at September 30, 2006 is due to capitalization of interest and accretion.

Senior Notes. In May 2005, pursuant to a securities purchase agreement, we issued unsecured Senior Notes denominated in US dollars to three investment funds (Greylock Global Opportunity Master Fund Limited for US$8.0 million, Greylock Global Distressed Debt Master Fund Limited for US$4.5 million and Value Recovery Fund Limited for US$2.0 million) totaling US$14.5 million, bearing interest at 18.0% per annum. The maturity date of the notes is May 4, 2008, but we have the option to redeem the notes, in whole or in part, at any time following November 30, 2006. Additionally, we issued warrants in conjunction with the May 2005 securities purchase agreement as described further below in "—Warrants". In April 2006, pursuant to a securities purchase agreement, we refinanced the Senior Notes issued to two out of the three investment funds (Greylock Global Opportunity Master Fund Limited and Greylock Global Distressed Debt Master Fund Limited) totaling US$12.5 million. At September 30, 2006, the face value of the refinanced Senior Notes totaled US$15.0 million (US$10.0 million Greylock Global Opportunity Master Fund Limited and US$5.0 million Greylock Global Distressed Debt Master Fund Limited), which included the original principal, US$1.3 million of early repayment premium, US$0.9 million of accrued interest converted into principal and US$0.3 million of additional borrowings. Interest is payable semi-annually at a rate of 11% per annum and, until April 30, 2008, we are entitled to elect either to pay such interest in cash or to capitalize it and add it to the principal amount of the notes. The maturity date of the notes is April 30, 2010, but we have the option to redeem the notes, in whole or in part, at any time after April 30, 2007. Among other things, both the May 2005 and the April 2006 securities purchase agreements require us to maintain a historical leverage ratio of 8.5 to 1 on a consolidated basis and projected leverage ratio of 6.5:1. The agreements also limit sales of assets and subsidiary stock.

IMB Loan Facility. In December 2005, we obtained a euro-denominated loan facility with International Moscow Bank for euro 7.8 million. The loan bears a floating interest rate of EURIBOR plus 5.5% per annum. All outstanding amounts are due in four equal monthly installments during the period from March to June 2007. There were no additional borrowings under the facility during 2006. The loan is guaranteed by certain of our subsidiaries and secured by certain of the fixed assets of NNGF. The borrower is required to submit to International Moscow Bank its quarterly and annual Russian statutory accounting statements and monthly consolidated management accounts. The borrower is also required to maintain, together with the guarantors, certain activity in its bank accounts with International Moscow Bank. The borrower and the guarantors are restricted from further borrowing, providing guarantees or assuming other obligations to third parties without the prior written consent of International Moscow Bank.

Nomos Bank. In March 2006, we entered into a US$7.0 million, US dollar-denominated loan agreement with Nomos Bank. The loan bears interest at 12.0% per annum and is due to be repaid in March 2009. The loan is guaranteed by certain of our subsidiaries and secured by a pledge of certain leased property of TNGF and a real property in Tyumen. The borrower is required to maintain a minimum level of activity in its bank account with Nomos Bank, is required to notify Nomos Bank about its newly created obligations to third parties (including borrowings and guarantees) and is restricted from creating any significant charge on TNGF's assets without prior written consent of Nomos Bank. During certain periods in 2006, we failed to meet the account maintenance requirements. Subsequently, the loan was amended to increase the interest rate to 14.0% per annum and modify the security required. On September 29, 2006, we received a letter from Nomos Bank stating that there was no violation under the agreement and that the increase in the interest rate cured any past violation of the account maintenance requirement.

Value Recovery Fund. In December 2004, we entered into a US$2.0 million, US dollar-denominated loan agreement with Value Recovery Fund Limited bearing interest at 25.0% per annum and maturing in December 2005. In May 2005, we repaid the loan ahead of schedule and issued to Value Recovery Fund Limited our 18% Senior Notes as discussed above.

The weighted average interest rates of our outstanding long-term borrowings by currency at September 30, 2006 and December 31, 2005 and 2004 are outlined in the table below.

Long-term borrowings

	Weighted average interest rate at:		
	September 30, 2006	**December 31, 2005**	**December 31, 2004**
Ruble-denominated borrowings	10.8%	12.4%	15.5%
US dollar-denominated borrowings	18.1%	19.2%	—
Euro-denominated borrowings	8.8%	7.9%	—

Warrants

In connection with the September 2005 Facility Agreement, we issued 90,000 warrants to the lenders under that facility. Each warrant allows its holder to purchase a variable number of our Class A common shares in the event that we complete an initial public offering of our Class A common shares, at a purchase price equal to a 25 percent discount to the listing price. The number of shares each warrant entitles the holder to purchase is equal to US$233.33 divided by the listing price of our shares. Under the terms of the warrants, we have the option to repurchase the warrants for US$5.25 million in the aggregate, but we have not exercised this option. 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 has been recorded as a liability in the consolidated balance sheet and the carrying value of the September 2005 Facility Agreement borrowings was reduced by a corresponding amount. At September 30, 2006 and December 31, 2005, the carrying value of the warrants was US$4.9 million and US$4.6 million, respectively.

In connection with the 18% Senior Notes, we issued 14,500 warrants to the holders, exercisable for 120,833 of our Class A common shares (or 8.3333 Class A common shares per warrant) at an exercise price of US$20.00 per share. The warrants may be exercised at any time upon the payment of the exercise price and delivery of the warrants. In the event of a qualifying initial public offering of our common shares for gross proceeds of at least US$10.0 million where the offering price is more than US$25.00 per common share, all unexercised warrants will automatically be exercised on completion of the offering on a cashless net exercise basis through the delivery of common shares. If the offering price is less than US$25.00 per share, there is no automatic exercise of the warrants on completion of the offering and all unexercised warrants will expire one year following the offering. At the time of issue, we estimated the value of the warrants to be US$0.1 million. This amount was recorded within equity in our consolidated balance sheet, with a corresponding reduction in the original carrying value of the 18% Senior Notes. In April 2006, 2,100 of the warrants were exercised by the holders and exchanged for 17,500 Class A common shares. 12,400 warrants remain outstanding and exercisable for 103,333 of our Class A common shares (or 8.3333 Class A common shares per warrant) at an exercise price of US$20.00 per share.

Available credit facilities

As at September 30, 2006 all of our credit facilities were fully drawn.

Contractual Obligations

The following table summarizes the principal maturities of our long-term debt, including its current portion, and the minimum payments required under our capital lease obligations and purchase obligations, each as of September 30, 2006. We expect to meet our contractual obligation payment requirements with cash flows from our operations and other financing arrangements. Subsequent to September 30, 2006, there have been a number of additional changes in certain of our outstanding indebtedness. For information regarding these changes, see "—Recent Developments".

	Payments due by period				
	Total	**Less than One year**	**One to three years**	**Three to five years**	**More than five years**
	(in thousands of US dollars)				
Contractual Obligations[1]					
Long-term financial liabilities	249,812	36,864	103,944	109,004	—
Purchase Obligations	30,450	30,450	—	—	—
Other long-term liabilities	1,644	—	1,644	—	—
Total	**281,906**	**67,314**	**105,588**	**109,004**	**—**

(1) Note that certain debt payments can be accelerated upon violation of debt covenants.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with IFRS requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual amounts may differ from these estimates. The following critical accounting policies require significant judgments, assumptions and estimates and should be read in conjunction with our consolidated financial statements included elsewhere in this Prospectus.

Functional Currency Determination

We have concluded that the functional currency of Integra Group is the US Dollar. In May 2005, we issued warrants with exercise prices denominated in US Dollars. The fair value of the warrants at the time of issue was $0.1 million. We have classified the warrants within equity in our 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 we had concluded that the US Dollar was not the functional currency of Integra Group, at December 31, 2005, current liabilities would have been higher by $1.8 million, warrants would have been lower by $0.1 million and profit for the year ended December 31, 2005 would have been reduced by $1.7 million. At September 30, 2006, liabilities would have been higher by $21.3 million, warrants would have been lower by $0.1 million, loss for the period would have been increased by $21.2 million and retained earnings would have been reduced by $22.9 million

Fair Values of Acquired Assets and Liabilities

Since inception in March 2004, we have completed numerous significant acquisitions. 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, we use all information available to determine whether an asset is recoverable or whether it is probable that an event will result in outflows of resources, 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.

In most cases, we also engaged independent experts to advise as to the fair values of acquired property, plant and equipment and intangible assets. Changes in any of the estimates subsequent to the finalization of acquisition accounting may result in losses in future periods.

We determine the fair values of identifiable assets, liabilities and contingent liabilities for acquired companies provisionally and recognise 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.

Estimated Impairment of Goodwill

We test 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.

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 judgment based upon experience with similar assets. In determining the useful life of an asset, we consider 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.

Deferred income tax asset recognition

Deferred tax assets represent income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded in our consolidated balance sheets to the extent that realization of the related tax benefits is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, we make judgements and applies estimates based on recent years' taxable profits and expectations of future taxable income.

Assessment of the Percentage of Completion on Services or Construction Contracts

Certain of the our 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 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.

Fair values of Financial Instruments

Fair value is the estimated 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 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.

Share Based Compensation

Following guidance set out in IFRS 2, "Share Based Payment", the fair value of equity settled options that are issued as a form of employee compensation is calculated using accepted option pricing models, which take into account various assumptions pertaining to the expected volatility of our share values and exercise patterns, and is recognized in equity and as an employment related expense in our income statement ratably over the applicable vesting periods. In 2005, we issued an aggregate total of 1,630,400 options to subscribe for Class A common shares and, for the nine months ended September 30, 2006, we issued an aggregate total of 430,000 options to subscribe for Class A common shares, in each case with vesting periods of between 1 and 5 years, to 27 employees (in connection with their employment agreements) and directors. The fair value of these options was expensed in our income statement in the amount of US$3.0 million in 2005 and of US$7.0 million for the nine months ended September 30, 2006. As of the date of this Prospectus, we had outstanding a total of 1,144,421 options to subscribe for Class A common shares.

In addition, we have agreed that, following completion of the audited financial statements for the year 2007, and conditional on their continued service as a member of the Audit Committee to that date, each of John Kennedy, Iosif Bakaleynik and Gail Coleman will be awarded 1,000 of our Class A common shares. We have also agreed that, following completion of the audited financial statements for the year 2007, and conditional on his continued service as a director and as of our Audit Committee to that date, Neil Gaskell will be awarded 2,000 of our Class A common shares.

Recent Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the accounting periods beginning on or after January 1, 2007 or later periods and which we have not early adopted.

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 accounting for interests in decommission funds.

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

IAS 21 (Amendment), *Net Investment in a Foreign Operation.* The amendment addresses accounting for certain types of transactions with foreign operations.

Qualitative and Quantitative Disclosures About Market Risk

We are exposed to market risk from adverse movements in foreign currency exchange rates and changes in interest rates on our obligations. Our overall risk management objective is to reduce the potential adverse effects of these risks on our financial performance, however, we do not maintain any formal hedging programs beyond management of credit risk.

Credit Risks. Financial assets, which potentially subject our entities to credit risk, consist principally of trade receivables. We have 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. In the first nine months to September 30, 2006, we accrued US$0.8 million for bad debts and obsolete stocks.

Our receivables are subject to differing payment terms negotiated by us at the time we enter into a sales contract. Our average payment period is 30 days from invoice. We regularly monitor the ageing of our receivables and perform credit analysis of customers with whom we work infrequently.

Interest rate risk. A certain portion of our borrowings carry a floating interest rate. The share of floating interest rate borrowings constituted 2.5% and 7.3% of our total borrowings as of September 30, 2006 and December 31, 2005, respectively. We had no floating interest rate borrowings as of December 31, 2004. We do not enter into treasury management transactions to mitigate interest rate risk. If both EURIBOR and LIBOR had increased by 1 percent during the nine months ended September 30, 2006, our interest expense on our floating interest rate borrowings would have increased by approximately US$0.1 million. There would have been a negligible increase in our interest expense for the year ended December 31, 2005 as the only floating interest rate loan was drawn on December 30, 2005.

Currency risk. Our principal exchange rate risk involves changes in the value of the Russian ruble relative to the US dollar. At 30 September 2006, a significant portion of our long-term financial liabilities, including the current portion of our long-term debt, was denominated in US dollars. However, the majority of our revenues and expenses are denominated in currencies other than the US dollar. Future decreases in the value of the Russian ruble relative to the US dollar would result in exchange losses. The remaining portion of our long-term financial liabilities (including the current portion of long-term debt) is denominated predominantly in Russian rubles. Future increases in the value of the Russian ruble relative to the US dollar would result in increases in the carrying value of our long-term debt. We do not enter into treasury management transactions to mitigate foreign exchange risk.

For the nine months ended September 30, 2006, we recognized exchange gains of US$8.7 million, largely as a result of appreciation of the Russian ruble relative to the US dollar.

INDUSTRY

Unless indicated otherwise, the market and competitive data in this section have been prepared by Douglas-Westwood Limited ("Douglas-Westwood"), a global consulting and services organization focused on the energy and marine industries. Douglas–Westwood compiled the historical data from a variety of published and in-house sources, including interviews and discussions with market participants, desktop research, market research, web-based research and competitor annual accounts. Douglas—Westwood compiled their projections for the market and competitive data beyond September 2006 in part on the basis of such historical data and in part on the basis of assumptions and methodology which we believe to be reasonable.

We confirm that the information provided by Douglas—Westwood and other third parties has been accurately reproduced and so far as we are aware and have been able to ascertain from information published by those third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nonetheless, in light of the absence of publicly available information on a significant proportion of participants in the industry, many of whom are small and/or privately owned operators, the data on market sizes and projected growth rates should be viewed with caution. Additional factors, which should be considered in assessing the usefulness of the market and competitive data and, in particular, the projected growth rates, are described elsewhere in this Prospectus, including those set out in the section headed "Risk Factors" on page 9 of this Prospectus.

The Russian Oil Industry

Russia is one of the world's largest producers of oil with production of approximately 9.5 million barrels of oil equivalent or "boe"/day according to the Institute of Energy Policy and is the second largest holder of hydrocarbon reserves with reserves currently totaling 100 billion barrels of oil and 300 billion boe of gas. The oil and gas industry is the largest and one of the most actively developing sectors of the Russian economy and is currently experiencing increased investment and rising production levels.

According to CDU-TEK, oil production in Russia declined by approximately 41.6% between 1990 and 1998. This decline was due to many factors, including overproduction of wells during the Soviet period, lack of capital expenditures, inefficient field development and secondary recovery methods, as well as reduced demand attributable to Russia's economic recession. CDU-TEK reports that Russian oil production has grown at a compound annual growth rate ("CAGR") of 7.5% between 1999 and 2005 due to several factors, including a substantial increase in world and domestic oil prices, a decrease in production costs as a result of ruble devaluation, increased rehabilitation of non-operational wells, increased export opportunities, improved management and access to capital and new technologies. Total current onshore production is 7 billion boe per year.

The Russian oil industry has also undergone significant consolidation in recent years. In February 2003, Alfa-Access-Renova and British Petroleum each contributed certain assets of TNK, Onako and Sidanko in Russia and Ukraine to form TNK-BP. In December 2004, the Russian government auctioned 76.8% of the total shares and 100% of the common shares of Yuganskneftegaz, YUKOS' largest production subsidiary, in partial settlement of back tax claims against YUKOS, with Rosneft becoming the ultimate owner of Yuganskneftegaz. In October 2005, Gazprom acquired a 72.7% interest in Sibneft, increasing Gazprom's aggregate interest in Sibneft to 75.7%. According to CDU-TEK, as a result of this industry consolidation, the top four oil producers in Russia (Lukoil, Rosneft, TNK-BP and Surgutneftegas) accounted for 64% of the country's oil output in 2005, with Lukoil being the largest producer at approximately 87.3 mmt/year.

There are four main onshore oil and gas regions in Russia: the Volga-Urals, Western Siberia, Eastern Siberia and Timan-Pechora. The majority of Russia's oil production is concentrated in Western Siberia which, according to Russian Petroleum Investor, accounts for approximately 60% of production and also contains much of Russia's proven oil reserve base. Future growth in oil production, however, is expected to come from Eastern Siberia and Timan-Pechora.

Oil Production by Major Russian Producers

	2001	2002	2003	2004	2005
(mmt/year)					
Lukoil	74.2	75.0	77.4	84.1	87.3
Rosneft	14.1	14.5	19.2	20.7	72.8
Surgutneftegas	44.0	49.2	54.0	59.6	63.9
TNK-BP	49.6	52.7	61.2	70.7	76.7
Total Production	**348.1**	**379.6**	**421.4**	**459.0**	**470.0**
Major Producers as a % of Total Production	52%	50%	50%	51%	64%

Source: CDU-TEK 2006

The Russian Oilfield Services Market

The Market

For purposes of the study, the core oilfield services ("OFS") include drilling, workover, IPM, formation evaluation and certain technology services.

- Drilling includes operations and processes necessary to produce a subterranean well that can be used to explore and/or produce hydrocarbon reserves.
- Workover processes involve performing major maintenance or treatments on an oil and gas well.
- IPM is a service that provides active management of the entire well implementation process.
- Formation evaluation includes the exploration of hydrocarbon deposits through acquisition, interpretation and sale of seismic data as well as collecting, analyzing and recording the solids, fluids and gases brought to the surface by the drilling fluid, a process known as "mud logging", or the measurement of down-hole properties and characteristics during drilling or workovers employed for reservoir management or well diagnostics, a process known as "production logging", and perforation, the process of creating channels of various points inside the wellbore to enable the oil to flow into the production string and onto the surface.
- Technology services include tubing, fishing, milling, drilling fluids, completion fluids, cementing, remedial cementing, drilling logging, directional drilling, completion, casing and drill bit management.

Market Size

In 2006, the Russian OFS market (including services performed by in-house OFS providers) is estimated to be US$11.4 billion and is forecast to rise to US$22 billion by 2011, representing a CAGR of 4.4%. In the same period, drilling, workovers and IPM services are expected to show a 5% CAGR, formation evaluation services a 4% CAGR and technology services a 4% CAGR, all in real terms. The OFS market in Western Siberia and the Volga-Urals is expected to decline by an average CAGR of 1.7% and 1.9%, respectively, compared to an increase by an average CAGR of 30% for Eastern Siberia, all in real terms. Expected growth is driven primarily by increased rates for drilling and workovers as oil companies start to produce from regions including Eastern Siberia and Timan-Pechora where infrastructure and increased drilling depths cause development and production costs to rise.

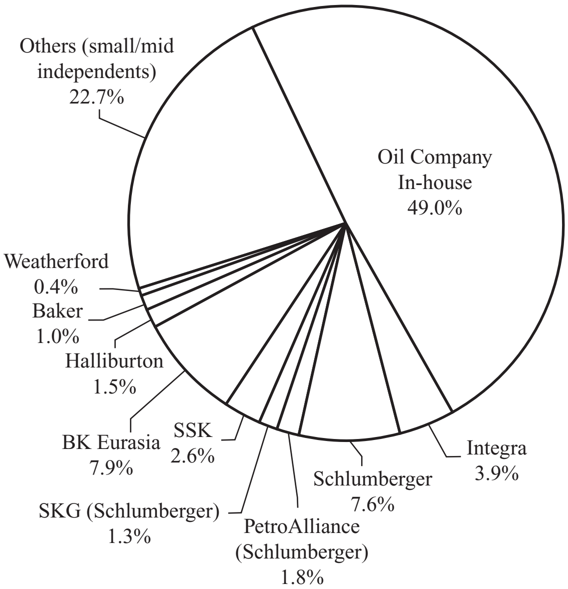
Market Participants

Historically, Russian oil exploration and production companies have maintained their own in-house OFS providers. In the late 1990s, in order to focus their attention on reserves growth and production like their Western contemporaries, Russian exploration and production companies began to divest their in-house OFS capabilities and hire third-party OFS providers. As a result, market opportunities presented themselves for both Russian independent and international OFS providers. Currently, the Russian OFS market comprises primarily of in-house, Russian independent and international providers. The following provides a brief description of the types of OFS providers in Russia.

In-House OFS Providers. In-house OFS providers are subsidiaries or affiliates of major Russian oil companies that perform oilfield services for that oil company. Given the historical structure of the Russian oil service markets, most Russian oil companies had their own in-house service capability, although companies have been divesting their in-house oil service capability to focus on reserves growth and production. Recent divestitures have been seen in drilling as Russian oil companies seek to source services from the external market. Nevertheless, in-house oil services still dominate Russian oil service activity today and are estimated to account for 49% of the total OFS market by revenue in 2006. Among the larger in-house companies are RNGS (Rosneft), Burgaz (Gazprom), NvBN (TNK-BP), LNGS (Lukoil) and Surgutneftegas.

Russian Independent OFS Providers. There are numerous small, independent providers in the market that primarily serve localized areas or regions. A few of these independent providers have formed larger, integrated companies that have evolved from smaller companies or result from the divestiture of an in-house OFS business by a Russian oil company. Among the larger, independent, integrated companies are: BK Eurasia (7.9%); Integra (3.9%) and SSK (2.6%), as well as, SGK (1.3%) and PetroAlliance (1.8%). SGK and Petro Alliance are owned by Schlumberger but operate independently. The larger, integrated independent companies offer services in the mid-range of price to quality, are capable of handing a high volume of core services and are generally regarded as having a good record in terms of service delivery and health, safety and environmental standards. Small independent providers represent around 22.7% of the total OFS market by revenue in 2006. These providers operate on a small scale and generally perform basic services at lower prices.

International OFS Providers. International OFS providers such as Schlumberger and Halliburton have been active in the Russian market for over a decade and are generally focused on a relatively small number of applications that require specialist technology and skills that are priced accordingly. Some western providers, in particular, Schlumberger, have acquired Russian OFS providers to gradually move into the core services business. In 2006, around 16.0% of the total Russian OFS market by revenues was contracted to Western companies, including Schlumberger (7.6%) (excluding its Russian holdings SGK and PetroAlliance), Halliburton (1.5 %), Baker Hughes (1.0%) and Weatherford (0.4%).



Estimates of % Share of Overall OFS Revenues 2006
US $11.4 billion (excl. manufacturing)

Source: Douglas-Westwood

OFS Market by Region

Reservoir characteristics, environmental conditions and geology play a significant role in determining the nature, complexity and type of OFS services provided within each major onshore oil and gas region in Russia.

Western Siberia. Western Siberia is becoming increasingly mature and production in the region is peaking. Easy to recover oil reserves have been developed and enhanced recovery techniques applied in recent years are depleting reservoirs quickly. Among the onshore oil and gas regions, Western Siberia is characterized by relatively "soft" geology that is easier to drill, well developed with good infrastructure in place, concentrated activity levels and few surface barriers on the tundra. The average cost per meter drilled in December 2006 was US$350 and the average workover cost was US$58,000 per well. In 2006, Western Siberia accounted for 70% of Russia's total onshore OFS expenditures but it is expected to account for only 51% of Russia's total onshore OFS expenditures by 2011.

Eastern Siberia. Eastern Siberia is in the early stages of development. The region suffers from a lack of transportation infrastructure, is rocky and heavily forested and has generally deeper, more complicated reservoirs compared to other onshore oil and gas regions. Logistics and mobilization of rigs and crews significantly affect costs in the region accounting for over 54% of the cost of a well. The average cost per meter drilled in December 2006 was US$1,860, the most expensive in Russia as helicopters are required for transportation and extensive site preparation. The average workover cost in 2006 was US$460,000 per well. Production in the region is expected to begin as new major oil and gas fields, including Vankor, Verhnechonsk and Kovykta are developed. Total OFS expenditure in Eastern Siberia is expected to be US$3.5 billion per year by 2011 in real terms, a CAGR of 30% at 2006 price levels. In five years, Eastern Siberia is expected to account for as much as 25% of total OFS expenditure in Russia, a significant increase over its 8% share of this market in 2006.

Volga-Urals. The Volga-Urals is the most mature of the Russian basins with few new developments anticipated. The largest field is in decline and major operators in this basin are employing enhanced recovery techniques to maximize production. Total OFS expenditure in 2006 is estimated to have been US$1.5 billion and is expected to decrease by 8% to US$1.4 billion by 2011 in real terms. Overall the region shows a 1.9%. CAGR, from 2006 to 2011 based on 2006 prices. Costs are expected to remain flat or slightly decline. The average cost per meter drilled in December 2006 was US$500 and the average workover cost in December 2006 was US$73,000 per well.

Timan-Pechora. Timan-Pechora is located in the far north of Russia and delivery of OFS services is challenging, both technically and logistically. Approximately 8% of Russia's reserves are held in this basin. The eastern part of the basin is in the Nenetsk Autonomous Oblast and its full potential is unknown. The average cost per meter drilled in December 2006 was US$650 and the average workover cost was US$73,000 per well. Timan-Pechora is forecast to account for approximately 5% of total OFS expenditure in Russia over the next five years. Timan-Pechora is expected to show steady growth throughout the 2006 to 2011 period with a CAGR of 3% in real terms. A large proportion of this growth is from drilling, workover and IPM services. Increasing rig rates and deeper wells in the region are a natural catalyst, comprising 45% of total forecast expenditure in 2011, compared to 42% for technology services and the remainder for formation evaluation services.

Outside the main four oil regions in Russia, additional onshore production is located in the Northern Caucasus and Sakhalin, as well as other minor points of activity throughout the country. Over the next five years, these regions are expected to see growth, particularly approaching 2011 as expenditure in Western Siberia begins to show decline and Sakhalin production increases. By 2011, these regions are forecast to account for 9% of the country's total OFS expenditure compared to 4% in 2006. By 2011, almost US$2 billion is expected to be spent per year in comparison to spending of US$403 million in 2006. This projected increase in expenditure by 2011 is premised upon an increase in seismic activity resulting in the discovery of accessible hydrocarbon resources which were previously seen as uneconomic.

OFS Market by Service

Drilling, Workover and IPM

Drilling includes operations and processes necessary to construct a subterranean well that can be used to explore and produce hydrocarbon reserves. Exploration wells are drilled in locations where seismic studies have identified potential for hydrocarbon-bearing geological structures and an exploration license has been obtained. On average, only around 10% of exploration wells drilled globally yield commercial hydrocarbon production, although many more flow at sub-commercial rates. Development wells produce commercial quantities of hydrocarbons from subterranean reservoirs and are drilled after volumes sufficient to justify development have been proven and a production license has been obtained. Wells can be vertical, horizontal or deviated (drilled at an angle), configured in a grid or on a pad (in a marshy region all well-heads are drilled from one common, artificially created platform), require extraction or injection (where water or gas are injected back into the reservoir to keep production pressure constant), depending on the reservoir and field development plan, and involve varying degrees of drilling complexity.

Workover processes involve performing major maintenance or treatments on an oil or gas well. This includes current and capital repair of the well that involves the removal, repair, and replacement of the production tubing string after a workover rig has been placed on location.

IPM is a service that provides active management of the entire well-implementation process. IPM encompasses contracting, supervising, and engineering of the drilling and related logistics processes to deliver a turn-key solution for the client. IPM services fall into the categories of field development, field rehabilitation, production management, well construction, and produced water management. IPM provides the expertise and processes needed to improve performance and increase efficiency by integrating various services and technologies a project may require on a joint or outsourced basis.

For the purposes of the report, the drilling, workover and IPM services market is essentially the summation of drilling and workover rig costs (including crew costs) as well as mobilization, demobilization and associated equipment transport and logistics. A fairly constant increase in expenditures is expected with the market growing from US$5.3 billion in 2006 to US$6.7 billion by 2011, representing a 5% CAGR in real terms.

Regionally, Eastern Siberia is expected to comprise an increasingly larger share of the market each year accounting for around 29% of expenditures per year by 2011 compared to a current value of just over 10%. Timan-Pechora is also expected to comprise an increasingly larger share of the drilling, workover and IPM services market. Increases in expenditures are largely driven by the shift to these more costly regions rather than a general increase in industry prices.

The total volume of exploration and production drilling in Russia between 2007 and 2011 is expected to be approximately 56 million meters, an increase of around 17% over the approximately 48 million meters drilled between 2002 and 2006. These growth projections are consistent with an expected 15% increase in Russian oil and gas production from 16.1 billion barrels between 2002 and 2006 to 18.5 billion barrels between 2007 and 2011. Drilling volumes may peak in 2008 and reduce somewhat toward 2011, however, they are expected to remain historically high and due to the shift in the volume of exploration and production drilling between regions, the total size of the market is expected to be maintained.

The number of workovers is projected to slowly decrease between 2006 and 2011 primarily as a result of technological improvements and new business strategies. For example, the adoption of Western field development strategies increases the efficiency and run life of downhole tools. Also, the presence of Western technology in the market brings electric submersible pumps with longer lifespans, more accurate logging capabilities and the knowledge and experience of ensuring a workover is carried out to a high standard. Currently, over 91,000 workover operations are estimated to be carried out per year in Russia and this number is expected to decrease to around 86,000 by 2011, assuming a fairly stable production well stock increasing by a CAGR of 1% between 2006 and 2011. For purposes of this study, workovers encompass all major well interventions to the active well stock from the pulling of an electric submersible pump to a complete re-perforation and re-completion of a well. Each workover can last from a few days to a few weeks depending on its complexity.

The majority of cost growth is expected to come from increased costs for drilling and workover rigs and crews. These costs are estimated to grow at a 5% CAGR between 2006 and 2011 based on 2006 prices. Deeper wells and more extreme environments as a result of increased drilling activity in regions such as Eastern Siberia are expected to lead to increased rig specifications. New-build rigs equipped with Western technologies will command higher rates. Likewise, wells will take longer to drill. Other costs associated with drilling, workover and IPM services including the cost of equipment transport and logistics, are expected to increase by a 2% CAGR between 2006 and 2011, similar to rig and crew costs. These increased costs relate to the lack of infrastructure as equipment often has to be air-lifted to and from the job site resulting in additional time and expense.

Of the US$10.1 billion drilling, workover, IPM and technology services market, Integra is estimated to have an approximately 2.3% share at the end of 2006. BK Eurasia is the largest participant in the market and SSK and PetroAlliance are also believed to be of a significant size. Hydro-fracturing specialist, Catoil is also generating good revenues operating within its market a niche. Beyond these larger companies, the market appears fragmented, with many smaller market participants, largely servicing individual regions.

Formation Evaluation

Formation evaluations services comprise a combination of seismic and logging services, including production logging and mud logging, and perforation services.

Seismic Services. Seismic services are the primary method used to explore for hydrocarbon deposits. Seismic activities include data acquisition, data processing and interpretation and sales of archived data. Geological data is gathered by installing geophones linked to digital recorders that are used to receive the signals from reflected acoustical waves generated by mechanical vibrators or explosives. Single lines of sources and geophones can create a two-dimensional image of the underlying geological formation. By laying sources and geophones over pre-determined two-dimensional areas, detailed three-dimensional seismic images of the rock formations below can be produced by a computer. Acquired data may be processed with the use of customized software and interpreted so as to identify rock structures and formations indicating the presence of hydrocarbons. Some services companies in Russia have collected a database of geological studies conducted during the Soviet era and sell these oil companies.

Logging Services. Logging is the primary method for collecting, analyzing and recording data from wells and includes mud logging, the process of collecting, analyzing and recording the solids, fluids, and gasses brought to the surface by the drilling fluid (mud) and production logging, which uses high technology sensors and software to acquire down-hole data from producing and injecting wells as an input for reservoir management or for well diagnostics.

Perforation Services. Perforation involves the puncturing of holes inside the well to enable the flow of oil into the production string. Perforation allows production of oil from specific depths predetermined from logging data. Perforations are made at selected intervals along the well-bore so as to generate the greatest production from the well.

The formation evaluation services markets is forecast to increase by 73% from US$1.3 billion in 2006 to US$2.5 billion in 2011. Like drilling, workover and IPM services, a large proportion of this growth will come from Eastern Siberia where projected expenditure is expected to grow to US$346 million by 2011 in real terms.

Formation evaluation services are increasingly considered an important part of the Russian OFS sector. Activities such as seismic data acquisition, processing and interpretation are regarded as significantly increasing the productivity of a well by ensuring it is drilled in the best location for extraction from the profiled reservoir beneath. Logging services, while less prominent than seismic services, are expected to comprise 22% of the total formation evaluation market by 2011. Strong growth is expected throughout the oil and gas regions with improved logging in Western Siberia possibly leading to an increase in production. Perforation activities are also expected to see demand as a result of increased demand for production. Perforation services are expected to comprise 18% of the formation evaluation services market by 2011.

Seismic activity is usually charged on per kilometer or square kilometer basis. Average seismic costs are around US$4,500 per kilometer for two-dimensional work and US$22,000 per square kilometer for three dimensional work. There can be fairly wide variation in cost depending on the methods used and logistics. Seismic acquisition can be performed using vibrator trucks or dynamite. Vibra-seismic is cheaper than dynamite but not suitable for areas where the area near the surface is inconsistent. Consequently, swampy areas such as Western Siberia tend to favor dynamite while in the north and in areas such as the Volga-Urals it is possible to use vibrators. Mobilization and demobilization costs also vary substantially by region and in Western Siberia may comprise as little as 10-20% of total seismic costs compared to as much as 50% in Eastern Siberia. Acquisition costs are also sensitive to data resolution which is usually measured in traces per square kilometer with some operators acquiring high quality surveys at 115,000 traces per square kilometer, although the average in Russia appears to be 40,000 traces per square kilometer.

In many areas of Russia seismic acquisition is a winter activity, with a window of opportunity of around 3 to 5 months. Western Siberian crews operate for approximately 90 days and in northern areas crews operate for approximately 100 days. In a few but rare exceptions, crews may operate for as much as eight to nine months. There are currently estimated to be approximately 340 seismic crews operating in Russia a 74% increase from the approximately 200 crews operating in 2002. The total number of crews is expected to rise to approximately 385 by 2011.

There is a perceived difference in quality among suppliers of seismic services, with Integra, Tyumengeophysica, Bashneftgeophysica, Tatneftgeophysica and Petroalliance regarded highly in terms of organization, resources, HSE and business practice. The Chinese company BGP is beginning to enter the Russian market and is reportedly comparable in price and using well-resourced crews to acquire data. The extent to which foreign operators can penetrate the Russian seismic market is expected to be limited due to pricing.

Integra's market share in formation evaluation services based on 2006 revenues is estimated at 15.9%. The other main participants in this part of the OFS market are Schlumberger, Tatneftegeophysics and Bashneftegephysics.

Technology Services

The market for technology services is expected to increase from its present estimated value of US$4.8 billion in 2006 to US$5.7 billion by 2011, a 3.7% CAGR from 2006 to 2011 in real prices. Approximately US$26.6 billion is expected to be spent on technology services between 2007 and 2011 as compared with US$21.2 billion between 2002 and 2006.

The majority of technology services spending will be on completion for both new wells and the re-completion of existing wells. This accounts for around 34% of total spending followed by casing. Directional drilling is also expected to show significant growth of 5% CAGR from 2006 to 2011 in real prices as this technology has become increasingly more popular.

The majority of growth is expected to occur in Eastern Siberia as well infrastructure begins to develop to visible levels. Within Eastern Siberia, the market is expected to grow substantially with spending increasing by a 30% CAGR at current prices. With well numbers increasing in the regions, more workovers will be required to maintain production.

The Russian Oil and Gas Equipment Manufacturing Market

The oil and gas equipment manufacturing market is defined as the design and assembly of drilling rigs with heavy lifting capacity, including maintenance, service and upgrade of such rigs, the manufacture of cementing fleets, spare parts, turbines and motors. Other miscellaneous drilling tools are not included. Consumables such as drilling bits are also not included in manufacturing. As these tools are required for every operation, they have been included in the drilling market as a cost of drilling a well.

Market Size

The oil and gas equipment manufacturing market in Russia is expected to grow from its present value of US$451 million to reach US$2.3 billion by 2011, a 35% CAGR in real terms. The majority of this growth is expected to come from drilling rig manufacturing where revenues are expected to grow by a CAGR of 47% reaching US$1.8 billion by 2011. Growth in drilling rig manufacturing results from increased rig construction activity required to maintain an active rig count as Soviet rig assets approach replacement age.

Cementing fleet construction is expected to peak around 2008 to compensate for the replacement of high cement fleet construction at the start of the millennium.

Strong growth is also expected in the turbines and downhole motors driven by increased drilling activity.

Market by Equipment Type

Drilling Rigs

The number of active drilling rigs is a subject of much debate. Of the more than 900 rigs constructed at the end of Soviet era, Douglas—Westwood estimates indicate that around 568 drilling rigs remain active. According to the Union of Manufacturers of Oil and Gas Equipment of Russia, approximately 32% of the active drilling rig fleet or 491 rigs were produced more than 15 years ago. These ageing assets have been subject to a great deal of use and are reaching the end of their useful life. Many older units are cannibalized to repair and maintain existing assets. The result of this is an anticipated surge in rig construction, with growth in the industry throughout the period.

By 2011 it is estimated that 92 rigs, or a total of 289 rigs between 2007 and 2011, will need to be constructed per year to meet increased demand from exploration and production drilling activity. This rate of construction is required to sustain drilling activity. Shortfalls in domestic construction capacity, however, may result in operators being forced to purchase rigs from abroad or rely on older, less suitable rigs.

Given the vast territory of Russia and its diverse geological features, drilling conditions vary significantly from region to region. As a result, there is demand for varying types of products and technologies which differ significantly in terms of functionality and price. Drilling rigs with heavy lifting capacity, in particular, vary in price depending on weight, lifting capacity, storage capacity and the amount of associated specialized equipment. In 2006, the average cost of a drilling rig with heavy lifting capacity, was US$12 million.

The Russian drilling rigs market is dominated by URBO and the Volgograd Plant of Drilling Equipment or "VZBT". International drilling rigs producers represented on the Russian market include National Oil Varco (USA), CPTDC (China), Bentec (Germany) and Upetrom (Romania).

Cementing Fleet Construction

Production of cementing fleet units used for construction of wells and workovers totaled US$57 million in 2005. Increased drilling and workovers are expected to further increase demand for cementing fleet units in the near term.

The average price for cementing units in Russia is estimated at approximately $120,000 and approximately US$1.9 million for a complex unit.

The market leaders in this segment are JCS "Izhneftemash", JSC "Pervomayskkhimmash", JSC "Strom mashina", LCC "Sinergiya" with respective market shares of approximately 40%, 20%, 20% and 10% as of the end of 2005. The remaining 10% of the market is divided between several international companies, including Halliburton, Schlumberger and number of Chinese producers.

Turbines and Downhole Motors

Turbines and downhole motors are relatively low-cost units to produce. Around 1,000 motors and 200 turbines are built every year to service the active rig fleet. Each unit is similar in cost. Motors are approximately US$26,000 and turbines are slightly more expensive.

Market Trends and Factors Influencing the OFS and Equipment Manufacturing Market

The following represent key market trends and factors that are expected to influence the growth of the Russian OFS and equipment manufacturing market in the foreseeable future:

Sustained Oil Prices. The high oil prices of recent years both domestically and internationally have positively influenced investment in the drilling market and expansion to undeveloped areas of the country.

Increase in capital expenditures. The favorable oil price environment is causing an increase in industry capital expenditures, a portion of which flows down to OFS companies. Between 2001 and 2005 the top four oil and gas companies increased expenditure in exploration and production to an estimated US$6.0 billion, a 51% increase over 2004 levels.

Large Oil and Gas Resources. Russia is one of the largest holders of oil and gas resources and over one-half of Russia's total resources are prospective developments. Eastern Siberia holds around 7% of both explored oil and gas resources in Russia and Timan Pechora holds approximately 7% of explored oil resources in Russia.

Transition to Western Practices. Russian oil and gas companies are changing their business practices focusing on quality-oriented approaches, more carefully controlling assets and using Western practices to improve reservoir management to increase production.

New Prospective Regions. The era of production growth from traditional Russian oil regions such as Western Siberia, which possessed well-understood geology and developed infrastructure is ending and oil companies require service providers to focus on Eastern Siberia and Timan-Pechora where specialized techniques and equipment are required because of the more challenging geology and harsh topography and climatic conditions.

Increase in onshore maturity. Russian onshore oil and gas fields are becoming more mature. Levels of water-cut are increasing and new techniques must be employed to keep production at the required level. Technologies such as deviated drilling and logging-while-drilling are becoming more common in well operations. Likewise, improvements in cementing and casing further improve well conditions.

Modernization of Existing Assets. Overall rig stock is in decline due to the age of many rigs or their state of disrepair. Growth in drilling activity is expected to lead to an increase in new rig construction to maintain an active rig fleet.

Harsher operating conditions. The movement towards Eastern Siberia will require improved technologies to cope with the region's extreme conditions. Investment in improved cementing and casing services, further seismic exploration services and improved completion techniques are all required to develop the region and are expected to be costly.

Increase in downhole completion technology capacity: The majority of Russia's onshore wells now utilize some form of artificial lift. There are currently around 60,000 electric submersible pump systems in operation and this figure is growing rapidly. The growth in artificial lift technologies ensures a sustained workover market, however, as technologies improve workovers are expected to be less frequent.

BUSINESS

Overview

We are a leading Russian independent provider of onshore oilfield services and are also a leading manufacturer in the Russian Federation of drilling rigs with heavy lifting capacity, cementing equipment and certain specialized equipment used in the exploration, development and production of oil and gas. We offer a diversified range of products and services to local and international oil and gas and other oilfield services companies, primarily in Russia and the other CIS countries.

We were formed in March 2004 by a group of Russian and western executives who saw an opportunity to build an independent oilfield services and equipment manufacturing business by acquiring existing assets in the growing and consolidating oilfield services and equipment manufacturing markets in the Russian Federation. Having completed 14 strategic acquisitions, our company has become one of the leading companies in the oilfield services and equipment manufacturing sectors of the Russian market. According to Douglas—Westwood, based on their estimate of 2006 revenue, we have an approximately 3.9% share of the oilfield services market in Russia and an approximately 67.8% share of the equipment manufacturing market among drilling rigs with heavy lifting capacity, performance downhole motors, turbines and cementing equipment.

For the nine months ended September 30, 2006, we had sales of US$324.9 million, operating profit of US$8.6 million and Adjusted EBITDA of US$54.5 million on an actual basis and sales of US$487.6 million and an operating loss of US$1.9 million on a pro forma basis, including all acquisitions completed during 2006. See "Selected Consolidated Historical Financial Information" and "Selected Unaudited Pro Forma Financial Information".

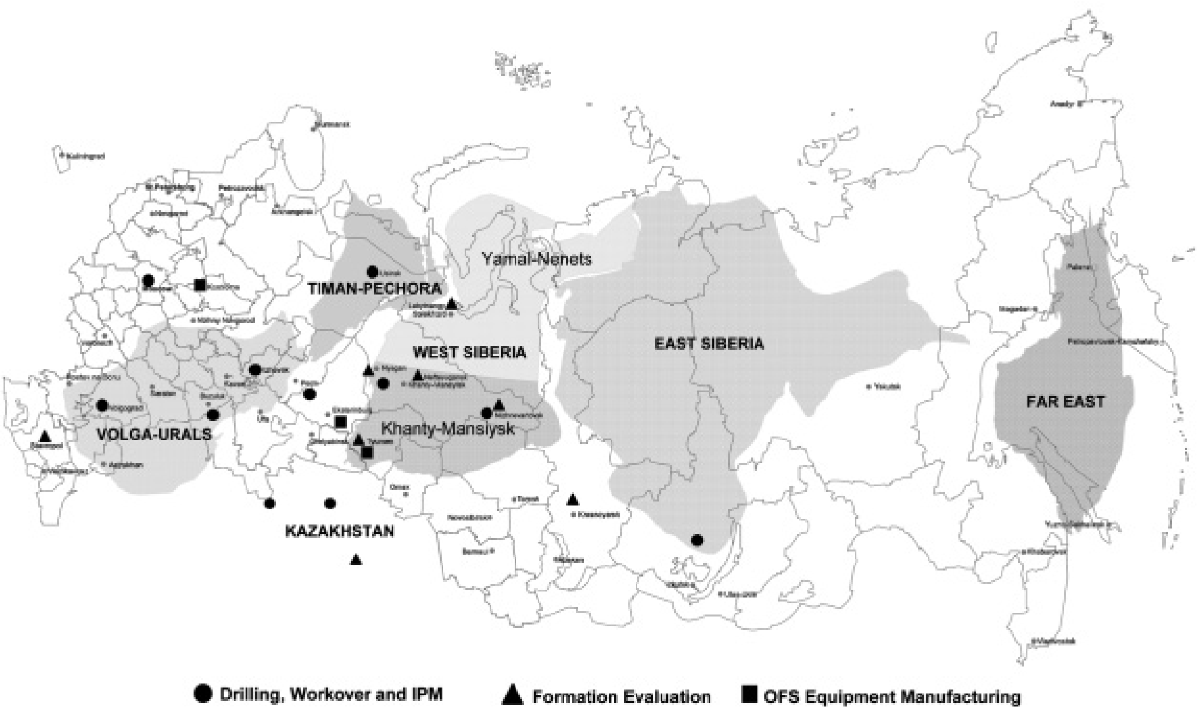
Our business is currently divided into two main divisions, oilfield services and oilfield equipment manufacturing, with the oilfield services division further divided into two primary lines of business: drilling, workover and IPM services and formation evaluation services. For the nine months ended September 30, 2006, we had sales of US$195.2 million, operating profit of US$16.9 million and Adjusted EBITDA of US$38.5 million in the drilling, workover and IPM services segment, sales of US$66.8 million, operating profit of US$1.4 million and Adjusted EBITDA of US$13.8 million in our formation evaluation services segment and sales of US$66.1 million, operating profit of US$11.6 million and Adjusted EBITDA of US$16.2 million in our oilfield equipment manufacturing division all on an actual basis. For reporting purposes, we include sales by BI of performance downhole motors and turbines in our drilling, workover and IPM services segment.

Our oilfield services business operates at each stage of the upstream oil and gas business—exploration, development and production. The drilling, workover and IPM services businesses provide a variety of services, including the drilling of vertical, deviated and horizontal exploration and development wells, nearly every form of workover service, a complete range of project management and technology services, and we also manufacture, sell and lease drilling and other types of oilfield tools. Our formation evaluation services businesses provide logging and seismic services. We have oilfield services operations in each major onshore oil and gas producing region in the Russian Federation—Timan-Pechora, the Volga-Urals, Western Siberia and Eastern Siberia—and have a presence in several other CIS countries. We have also recently started to offer IPM services and seismic services on a limited basis outside the CIS.

Our oilfield equipment manufacturing business designs, manufactures and supplies new and upgraded drilling rigs with heavy lifting capacity under the well-known Russian brand 'Uralmash', and also designs, manufactures and sells cementing equipment used to prepare and pump cement slurry into well bores. According to Douglas—Westwood, based on 2006 revenues, we are a leading manufacturer of drilling rigs with heavy lifting capacity and cementing equipment in Russia. Our main manufacturing and assembly plants are located in Ekaterinburg and Kostroma in the Volga-Urals region of Russia and Tyumen in the Western Siberia region of Russia where there is a developed industrial and transportation infrastructure and access to a skilled labor force.

In both our oilfield services and oilfield equipment manufacturing divisions, we count among our customers the major Russian and international oil and gas companies operating in Russia and other CIS countries including, among others, Rosneft, Gazprom, TNK-BP, Lukoil, Total and Shell, as well as many small and medium-sized independent oil and gas companies operating in Russia and other US countries.

Set forth below is a map showing the location by line of business of our oilfield services and oilfield equipment manufacturing companies in the Russian Federation and other CIS countries.



Recent Developments

- IG Holdings Limited acquired Azimuth, seismic companies, with operations in Kazakhstan and Western Siberia from International Energy Services, Inc., for total consideration of US$37.3 million and agreed to acquire NLK, a leasing company, for total consideration of US$3.7 million.
- Subsequent to September 30, 2006, we entered into several loan, guarantee and pledge agreements with lenders and other parties totaling US$229.9 million, including 10.7% ruble-denominated bonds with an aggregate principal amount equivalent to US$114.5 million due November 2011.
- We breached certain covenants in one of our debt agreements. To obtain a waiver of the breaches of covenants and the consequent events of default, in January 2007, we agreed to amend the terms of the agreement and make certain payments.

Competitive Strengths

- **Leading independent oilfield services provider and oilfield equipment manufacturer in the Russian Federation.**

Between December 2004 and December 2006, we completed 14 strategic acquisitions in the oilfield services and equipment manufacturing sectors, building one of the leading independent oilfield services providers and equipment manufacturers in the Russian Federation. According to Douglas—Westwood, based on their estimate of 2006 revenue, we have an approximately 3.9% share of the oilfield services market in Russia and an approximately 67.8% share of the oilfield services equipment manufacturing market consisting of drilling rigs with heavy lifting capacity, performance downhole motors, turbines and cementing equipment. See “Industry”.

- **Broad range of oilfield services and equipment.**

While many oilfield services companies operating in Russia operate in discrete segments of the market, we provide a broad range of oilfield services and equipment for each stage of oilfield exploration, development and production. Moreover, the acquisitions we made in 2006 have enabled us to further expand the breadth of our services and equipment offerings and to improve our technical knowledge and operational capacity to perform oilfield services and manufacture oilfield equipment. As a result of our acquisition of Smith Eurasia in August 2006, we now offer IPM services for drilling and workover operations. We also have access to over 200 experienced oilfield services engineers, which has enabled us to form a technology services department dedicated to offering specialized services, such as drill bit management services, packer services, drilling tool rental, side tracking services, completion services and coring services. Since September 2005, we have expanded our oilfield equipment manufacturing business to include the production of cementing equipment and have added an additional manufacturing facility to expand our production capacity, increase the share of drilling rig components manufactured by us (rather than outsourced) and produce new models of drilling rigs.

- **Presence in all major onshore oil and gas producing regions of the Russian Federation.**

Russia's major oil and gas regions are located in some of the most remote regions of the country, each covering vast territories, which span eight time zones. Marketing and providing services and equipment to these remote and geographically diverse areas without the benefit of a developed infrastructure poses significant challenges. As part of our acquisition and development strategy, we have sought to establish a presence in each of the major onshore oil and gas producing regions of the Russian Federation—Western Siberia, the Volga-Urals, Timan-Pechora and Eastern Siberia. We currently have operating bases in approximately 35 cities and/or areas of the Russian Federation. From our operating bases, we are able to deliver services and equipment to our customers in these regions more effectively. The bases also provide a platform from which we are able to market additional oilfield services and equipment to new and existing customers. As a result of our strong presence in each of these regions, we are able to work more closely with our customers and better understand their needs and requirements within each particular region.

- **Diversified customer base.**

Our current customer base includes nearly every major Russian oil and gas production company, most international oil and gas companies operating in Russia and various small- and medium-sized independent oil companies. For example, we provide oilfield services to Gazpromneft, Rosneft, TNK-BP, Lukoil, Surgutneftegaz, Gazprom, Tatneft, Shell and Total in the regions where they operate. Along with the nine major Russian and international oil and gas companies that comprise 50% of our sales for the nine months ended September 30, 2006, the remaining 50% of our sales of services and equipment were made to approximately 100 customers. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

- **Experienced management team.**

Our core management team has significant experience in the oilfield services business in the Russian Federation and other CIS countries. Felix V. Lubashevsky, our chief executive officer since July 2005, has been working in the Russian oilfield services market for the past ten years and, prior to joining our Group, he had been the executive vice president of oilfield services and supply chain management at TNK-BP. Mark Sadykhov, our executive vice president for oilfield services, has been working in the oil and gas services business in the CIS for the past 25 years and was the President of Smith Eurasia. Prior to joining Smith Eurasia, he had been the manager of CIS operations for Smith International, Inc. Viktor Tkachev, our executive vice president for equipment manufacturing, has been working in the Russian oil and gas industry market for the past 25 years and prior to joining us in 2005 he had been the head of downstream for the Tyumen Oil Company. See "Management".

Strategy

- **Grow our market share through value enhancing acquisitions.**

We have relied to date upon our acquisition strategy to grow our market share. Between December 2004 and December 2006, we completed 14 strategic acquisitions of oilfield services and oilfield equipment manufacturing businesses for an aggregate purchase price of US$432 million. The Russian oilfield services market remains fragmented. In the next three to five years, however, we expect that the vast majority of the Russian oilfield services market will be served by a small number of companies. We intend to continue to take advantage of this ongoing consolidation by acquiring assets in key segments of the oilfield services and equipment manufacturing sectors in which we expect demand to grow. We will look to acquire private oilfield service companies or subsidiaries of vertically integrated oil companies that have significant market penetration in a particular product, service or geographical market, quality management and/or a quality asset base.

- **Support organic growth of acquired operations by modernizing and/or upgrading equipment and improving integration to increase efficiencies and realize synergies.**

Our objective is to improve the operational and financial performance of each acquired business by integrating it into our consolidated management structure, providing a greater degree of financial control and transparency, and also to obtain the benefits of scale in employee and supply chain management, marketing and technology standardization. Through our current integration process, we introduce standardized operational and organizational processes to each acquired business to ensure more consistent and efficient execution of work performance in the areas of financial reporting, health, safety and the environment and technology practices. As part of the reorganization of our oilfield services business in late 2006, we introduced centralized marketing and business development teams in order to develop stronger customer relationships, gain market knowledge and engage in more cross-marketing of our services and products. We also plan to increase utilization of personnel and equipment through cross training.

We plan to continue to invest in our acquired businesses by modernizing and upgrading equipment required for contracted work. In the nine months ended September 30, 2006, we invested US$93.6 million in our property, plant and equipment, including the upgrade of certain of our drilling rigs and the purchase of state-of-the-art seismic equipment. We intend to invest a further US$190 million in 2007. We expect to target further investment at improving our capacity and the level of technical proficiency and, where warranted, to add new service and product offerings that complement our existing services and products.

- **Offer more value-added oilfield services through project management and engineering services and utilization of customized technologies.**

Oil and gas companies operating in Russia increasingly demand oilfield services and equipment that utilize improved technologies and techniques to increase production of hydrocarbons while minimizing production costs. At the same time, current fields are depleting and exploration activities, including drilling, have become more challenging, as new hydrocarbon deposits are sought in new, geologically more complex, regions. In such circumstances, we believe that the most successful companies in the oilfield services market in Russia will be those that can offer their customers engineering solutions that utilize customized technologies while balancing cost and quality. Through our newly formed technology services business, we will provide customers with access to specialized expertise and customer-driven engineered solutions on a stand alone basis or in connection with our other oilfield services. In 2007, we intend to expand our technology services offering with the addition of our own coiled tubing and directional drilling services. We also intend to use our capability in IPM as a basis for our differentiated value-added services offering, providing project consulting services, as well as acting as the primary general contractor or turnkey operator for our customers' entire drilling or workover projects.

- **Expand our manufacturing business by increasing the volume and type of equipment manufactured and offering repair and maintenance services.**

To capitalize on awareness of the "Uralmash" brand in drilling rigs and associated drilling equipment, we intend to expand our existing manufacturing lines and decrease the proportion of drilling rig components that we source from third party suppliers. We believe that additional in-house manufacturing of such components will also allow us to increase efficiencies in the manufacturing process and improve the quality of the drilling rigs and associated equipment that we produce. For example, we have started to produce rotors, hooks and most of the components of our pumps. Additionally, we intend to shift our marketing focus from pure direct sales to include the repair and maintenance of rigs that have been manufactured by URBO. We believe that the addition of quality repair and maintenance services will benefit customers by allowing them to utilize modern and continuously maintained oilfield services equipment while also having access to the expertise of our engineers, whose support services will form a part of our product offering and help us to develop brand loyalty.

- **Continue to diversify our oilfield services to ensure sustainable revenue.**

During 2006, we acquired companies and made investments with the goal of broadening our geographic presence and the diversity of our oilfield service and equipment offerings. We now offer IPM services and have formed a technology services business through which we have started to offer the services of specialists in certain core oilfield services technologies and equipment design and manufacturing. For example, we have expanded our packer services and our drill bit management services and, during 2007, we plan to introduce our own coiled tubing and directional drilling services. We have also expanded our formation evaluation services by acquiring seismic companies, such as TNGF and Azimuth, and by investing in new technologies such as three-dimensional seismic survey equipment and equipment for real-time data transfer. We plan to shift our focus at BI from equipment sales to a greater emphasis on equipment leasing. We intend to continue broadening the portfolio of services that we provide to our customers and to cross-sell more services to our core customers. The addition of these new and other complementary services and optimization of our existing services will allow us to expand our total service and product offering, thereby ensuring a full range of well site services and providing incremental sales opportunities throughout the entire life cycle of the well.

History

Set out below is a brief history of the development of our Group. See "Material Contracts" for a summary of the key terms relating to various acquisitions described below.

- **2004**

We were formed in March 2004 by a group of Russian and western executives who had previously managed an independent Russian exploration and production company. We acquired our first oilfield drilling service companies in December 2004 with the purchase of 100% of Alliance for US$3.4 million consisting of cash and 125,000 Class A common shares in our Company and 100% of BK Sever for US$625,000. Alliance had existing operations in Timan-Pechora and BK Sever had existing operations in Western Siberia.

- **2005**

In May 2005, we entered the workover business by acquiring a 51% interest in KomiQuest, a workover business with operations in Russia's Komi Republic, for US$3.0 million and a 100% interest in SRIPNO, a workover business with operations in Western Siberia, for US$300,000. In July 2005, we formed Integra KRS, and this entity now serves as one of the primary operating companies for all of our workover operations. Integra KRS is based in Nizhnevartovsk in Western Siberia. In April 2006, we transferred our assets in SRIPNO to Integra KRS and, in February 2006, we sold our interest in KomiQuest back to the original seller for its original purchase price.

We acquired our first formation evaluation services companies in May 2005 for US$4.9 million with the purchase of 19.17% of SNGF and 100% of each of GFS and RGK. RGK's holdings include a 57.17% interest in PGF and 25.4% and 6.22% interests in NNGF and SNGF, respectively. Additionally, through our ownership interests in NNGF and GFS, we own a 61.9% interest in NGT, a logging services business. In January 2006, we formed YPGF. These companies provide logging and perforation services in the Nizhnevartovsk and Nyagan regions of Western Siberia and in the Stavropol region of the Volga-Urals. RGK has entered into a management contract to operate NNGF.

In September 2005, we entered the equipment manufacturing business with the acquisition of a 100% interest in URBO, a well-known Russian drilling rigs manufacturer, and its former affiliate, the drilling tool manufacturer, BI, for a total of US$70.9 million. URBO and BI had existing manufacturing facilities in Ekaterinburg, Perm and Pavlovsk, and BI also owned a 55.9% interest in NPO Burovaya Technika, a research and development company based in Moscow.

In December 2005, we entered the seismic services business with the acquisition of a 75% interest in TNGF, a leading Russian provider of seismic services with operations in Western Siberia, for US$29.8 million.

- **2006**

We substantially expanded our drilling services business in three separate acquisitions between March and July 2006 with the purchase of PNBK, Argillit and PBN for a total of US$47.7 million. Together these companies provide drilling services in Eastern and Western Siberia and the Volga-Urals regions of the Russian Federation. PBN also has operating companies in Uzbekistan and Kazakhstan.

We further expanded our seismic services business in August 2006 by acquiring a 14.56% interest in YGF and entering into arrangements to obtain effective control of a further 36.18% for a total of US$78.0 million. We also entered into a management contract to operate YGF. YGF operates in Western and Eastern Siberia.

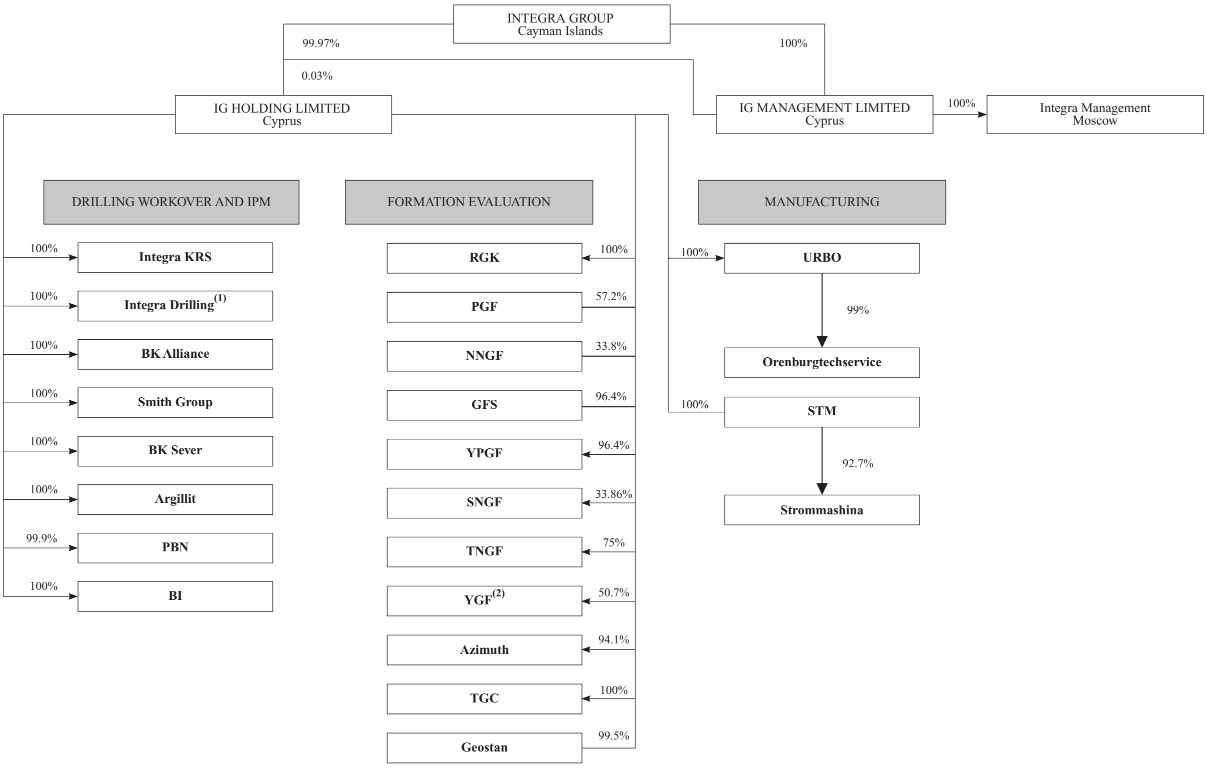
We acquired additional manufacturing capacity for drilling rigs through the purchase of a manufacturing plant in Tyumen in June 2006 for US$7.4 million. In July 2006, we added to our manufacturing capabilities with the acquisition of a 100% interest in STM, which holds a 92.7% interest in OJSC "Strommashina" for US$16.2 million. STM manufactures cementing equipment in Kostroma (approximately 340 kilometers northeast of Moscow).

In August 2006, we completed our largest acquisition to date with the purchase of Smith Eurasia, Inc., Smith Eurasia Ltd., Supply International and SE Management LLC, which we collectively refer to herein as Smith Eurasia, for US$139.5 million, partly financed through the issue of 266,666 Class A common shares in our Company valued at US$60 million. Smith Eurasia has operating companies in Russia, Kazakhstan and Ukraine and a representative office in Turkmenistan. With the acquisition of Smith Eurasia, we expanded our oilfield services capabilities to include technology services, engineering and IPM services. We also brought Smith Eurasia's management team into our company.

In December 2006, we acquired 100% of TGC, 99.5% of Geostan and 94.1% of Azimuth for a total of US$37.3 million. The three companies, which we refer to collectively herein as Azimuth, provide seismic and logging services and are located in Tomsk, Russia and Almaty, Kazakhstan.

Organizational Structure

The diagram below sets forth a simplified organizational structure showing our principal operating subsidiaries and associates by segment, as well as, the percentage of capital we own or control. For further information about our subsidiaries, see "General Information" included elsewhere in this Prospectus.



(1) PNBK was merged into Integra Drilling in December 2006.

(2) We own 14.56% of the share capital of YGF directly and control a further 36.18%.

In support of our strategy to improve integration and increase efficiencies and realize synergies, we have started to simplify our legal structure. In December 2006, we formed Integra Drilling and we merged PNBK into Integra Drilling. Over the course of 2007, we intend to continue to merge our most significant drilling, workover and IPM subsidiaries into Integra Drilling to form a single, integrated company. We also expect to take steps to combine our seismic assets and to voluntarily liquidate or sell, where possible, assets that are not material to our business and were included as part of our historic acquisitions. We believe these measures, combined with the changes to our operating structure that we have made in 2006, will help us to achieve our integration objectives.

Business

We are a leading Russian independent provider of onshore oilfield services and are also a leading manufacturer in the Russian Federation of drilling rigs with heavy lifting capacity, cementing equipment and specialized equipment used in the exploration, development and production of oil and gas. We offer a diversified range of products and services to local and international oil and gas companies, primarily in Russia and other CIS countries.

For the first nine months of 2006, we had sales of US$324.9 million, operating profit of US$8.6 million and Adjusted EBITDA of US$54.5 million on an actual basis and sales of US$487.6 million and an operating loss of US$1.9 million on a pro forma basis.

Our current business is divided into two main divisions, oilfield services and equipment manufacturing, with the oilfield services division further divided into two primary lines of business: drilling, workover and IPM services and formation evaluation services.

Between December 2004 and December 2006, we completed 14 strategic acquisitions, becoming one of the leading companies in the oilfield services and oilfield equipment manufacturing sectors of the Russian market. According to Douglas—Westwood, based on their estimates of 2006 revenue, we have an approximately 3.9% share of the oilfield services market in Russia and an approximately 67.8% share of the oilfield services equipment manufacturing market in Russia by revenue among drilling rigs with heavy lifting capacity, performance downhole motors, turbines and cementing equipment.

Oilfield Services

Our oilfield services division provides services and products for the drilling of oil and gas wells, workover services, logging and seismic services, engineering and technology services and IPM services. We also manufacture and sell drilling tools. For the first nine months of 2006, our oilfield services division had sales of US$262.0 million, operating profit of US$18.3 million and Adjusted EBITDA of US$52.3 million.

We operate at each stage of the upstream oil and gas business—exploration, development and production. We also manufacture, sell and lease drilling tools used by the oilfield services providers. At the exploration stage we offer seismic services, engineering, exploration drilling, open-hole logging, coring and formation testing. At the development stage, we offer development drilling, engineering, cementing, drilling fluids, drill bits, drill bit management, directional drilling, open-hole logging, mud logging, tubular services, fishing and fishing tools. At the production stage, we offer production drilling, workovers, side tracking, pump installation, well completion, packers, perforation, cased-hole logging, production logging and tubular services. We also offer IPM services for the comprehensive management of drilling and workover projects throughout the entire life cycle of the oilfield from design and engineering to subcontracting and performance analysis.

We maintain bases of operations in approximately 35 cities and/or areas in each of the major onshore oil and gas producing regions of the Russian Federation—Western Siberia, the Volga-Urals, Timan-Pechora and Eastern Siberia—and in certain other CIS countries such as Kazakhstan, Turkmenistan and Uzbekistan.

Drilling, Workover and IPM Services

Overview and History

Our drilling, workover and IPM businesses provide services and products for the drilling of oil and gas wells, workovers, engineering and technology services and IPM services. This business line also manufactures, sells and leases drilling tools used by oilfield services providers. In the nine months ended September 30, 2006, our drilling, workover and IPM services businesses had sales of US$195.2 million, operating profit of US$16.9 million and Adjusted EBITDA of US$38.5 million.

According to Douglas—Westwood, based on 2006 market revenues, we have an approximately 2.3% share of the drilling, workover, IPM and technology services market in Russia. This does not include sales and leases of our drilling tools, which Douglas—Westwood include as part of the manufacturing market.

In addition to acquiring companies in the core areas of oilfield services, we have sought to acquire companies that expand our presence into all of the major onshore oil and gas producing regions in Russia—Western Siberia, the Volga-Urals, Timan-Pechora and Eastern Siberia. Our acquisitions of PBN and Smith Eurasia in August 2006 provided us with access to operating bases in Eastern Siberia, an area that we expect to become an active region for oil and gas exploration and development in Russia as proven reserves and production in Western Siberia and the Volga-Urals diminish.

Our drilling, workover and IPM services business is carried out by (i) Integra Drilling, comprising three drilling companies and one workover company with operations in the Volga-Urals, Eastern and Western Siberia, (ii) Alliance, a drilling company that operates in Timan-Pechora, (iii) Smith Eurasia, a group of companies that perform IPM and other technology services and operate in the Volga-Urals, Eastern and Western Siberia, Kazakhstan, Ukraine, Uzbekistan and Turkmenistan, and (iv) BI, our drilling tools manufacturing and research and development companies operating in Perm and Moscow.

We formed Integra Drilling in late 2006 merged PNBK and plan to merge a number of our other existing drilling companies and our workover company in order to streamline the utilization of our equipment and personnel. As part of the restructuring of our oilfield services division in late 2006, we also transferred BI, our drilling tools business, from our equipment manufacturing division to our oilfield services division. We believe that the engineering and manufacturing capacity of BI complements our oilfield services businesses by providing closer alignment with our engineering services and technology services personnel.

Services Provided

Drilling. Our drilling services include the drilling of vertical, deviated and horizontal exploration and development wells from a standard depth of 1,600 to 3,000 meters to wells in excess of 6,000 meters. We are one of the few companies in Russia to offer a specialized drilling service known as sidetracking. Sidetracking is a form of deviated or horizontal drilling used to re-enter wells that have been abandoned and to drill around obstacles in the vertical well bore in order to enable enhanced oil recovery. Sidetracking requires the use of customized drilling rigs with lifting capacity of approximately 100 to 125 tons, of which there are currently few available in Russia. We consider ourselves to be one of the few experienced providers of sidetracking services in

Russia. Through our technology services operations we expect to become more active in providing directional drilling services. We currently provide directional drilling services by subcontracting with third parties. In the nine months ended September 30, 2006, we drilled 290,000 meters and 108 wells on a consolidated basis, and 343,000 meters and 123 wells on a pro forma basis, as presented in the table below.

Below we present the number of wells drilled and the number of meters drilled by each of our acquired drilling companies for the year ended December 31, 2005 and for the nine months ended September 30, 2005 and 2006. Other than Alliance and BKS, the table includes operating results from the available records of our acquired companies prior to the time that we acquired them.

	Wells Drilled			Meters Drilled		
Company	**Nine months ended September 30, 2006**	**Nine months ended September 30, 2005**	**Year ended December 31, 2005**	**Nine months ended September 30, 2006**	**Nine months ended September 30, 2005**	**Year ended December 31, 2005**
Alliance	14	12	17	63,953	37,589	53,818
Argillit	17	—	—	49,552	—	—
BKS	49	42	55	104,354	89,182	120,941
PBN(1)	2	6	6	21,686	8,403	11,214
Integra Drilling(2)	41	43	56	103,338	97,313	126,414

(1) Includes companies held directly or indirectly by PBN.

(2) PNBK was merged into Integra Drilling in December 2006.

Workovers. Workovers involve major maintenance or remedial treatment on an oil or natural gas well in order to increase productivity, or delay the decline, of a well or to bring an idle well back into production. Our workover services include nearly all of the services required to bring a well into operation such as perforation, cased-hole and production logging, cleaning well bores, well completion, pumping, preparation for fracturing treatment, fishing jobs, squeeze cementing and well restoration as well as, abandonment. We do not perform hydro-fracturing services.

Below we present the number of workovers performed by each of our workover companies and the total number of workover crew hours for the year ended December 31, 2005 and for the nine months ended September 30, 2005 and 2006. The table includes operating results based on the available records of our acquired companies prior to the time we acquired them.

	Number of Workovers Performed			Workover Crew Hours Billed		
Company	**Nine months ended September 30, 2006**	**Nine months ended September 30, 2005**	**Year ended December 31, 2005**	**Nine months ended September 30, 2006**	**Nine months ended September 30, 2005**	**Year ended December 31, 2005**
Integra KRS[1]	718	4	130	121,711	877	21,224
KomiQuest[2]	—	—	—	—	117,906	150,419
SRIPNO[3]	—	120	183	—	34,426	48,100

(1) Integra KRS was formed in July 2005.

(2) Our interest in KomiQuest was sold in February 2006.

(3) SRIPNO's assets were transferred to Integra KRS in April 2006

IPM. Through our acquisition of Smith Eurasia in August 2006, we expanded our drilling and workover capabilities to include IPM. Our IPM service consists of several different management models. For example, we may act as a general contractor with direct responsibility for the contracting, technology selection, site supervision, performance analysis and reporting of an entire drilling or workover project or we may act as a project advisor to the customer with the customer contracting directly with third parties for certain aspects of the project work. Depending on customer requirements, the service may also include supply chain management or early design, planning and engineering of a well project.

With more than 200 professionally trained engineers and specialists in nearly every drilling and workover discipline, we have the ability to manage complex drilling and workover projects. We currently have approximately 15 projects under management in all of the major oil and gas regions of Russia and in Ukraine.

Technology Services. We formed our technology services business in November 2006 as a result of our acquisition of Smith Eurasia and in response to what we perceived as the Russian oilfield services sector's growing demand for specialized technologies and the corresponding need to ensure that our oilfield services offering included expertise in certain technology-dependent products or services.

Through our technology services business we currently offer specialized expertise in drill bits, turbines and downhole motors, coring, primary and remedial cementing services, packer services, drilling tools rental services and completion services. While we previously offered limited cementing services as part of our drilling and workover services, we now plan to expand our cementing services capabilities and to offer cementing services through our technology services business. We plan to introduce our own directional drilling and coiled tubing services during 2007. We presently subcontract directional drilling services from both Russian and Western service providers. We believe that directional drilling technologies, such as measurement-while-drilling and logging-while-drilling, will form an increasing share of the market for drilling services. Likewise, we believe that coiled tubing technologies have broad application in the Russian market and may be utilized, for example, in drilling, perforating, logging, remedial activities, jetting and lifting operations.

Drilling Tools. BI, our drilling tools business, is primarily engaged in manufacturing, selling and/or leasing performance downhole motors and turbines. Because BI was originally established as an oilfield equipment manufacturing test facility, it is capable of manufacturing a wide variety of drilling tools, including whipstocks, mills, packers, drill collars, fishing tools, drilling jars, casing accessory equipment, core barrels and diamond core heads, although the current volume of such production is low. BI holds patents for various oilfield equipment and processes, including drilling rigs, drilling rig rotary drives, downhole piston pumps, a drill winch, special thread connections and a safety valve, among others. In first nine months of 2006, we sold 435 downhole motors and 13 turbines.

Below we present the number of downhole motors and turbines manufactured and sold by BI for 2005 and during the first nine months of 2005 and 2006. Operating data for the first nine months of 2005 is based on the available records of BI prior to the time we acquired the company.

	Number of Drilling Tools Manufactured		
Drilling Tool	**Nine months ended September 31, 2006**	**Nine months ended September 31, 2005**	**Year ended December 31, 2005**
Downhole Motors	527	342	422
Turbines	20	25	51

Equipment, Technologies and Employees

We have a total rig fleet consisting of 83 drilling rigs and 62 workover rigs in Russia and Kazakhstan, of which 46 drilling rigs and 46 workover rigs are currently operational. We also lease drilling and workover rigs from third parties when workflow requires. During the first nine months of 2006, we leased from third parties approximately 7 drilling rigs for varying periods. As of September 30, 2006, we had in service approximately 41 drilling rigs with lifting capacities of between 75 and 500 tons and a workforce of approximately 4,200 employees. As of September 30, 2006, our workover operations had in service approximately 47 workover rigs and a workforce of approximately 1,200 employees.

The majority of our drilling and workover equipment was manufactured in Russia, with the exception of some drilling rigs with heavy lifting capacity from Romania and some mobile workover rigs with heavy lifting capacity and drilling units from other countries in Europe. Approximately 10 of our drilling rigs have triplex pumps, 25 have Western manufactured solids control equipment and five have top drive motors.

We believe that we operate the newest workover fleet in Russia, equipped with best-in-class technology. Our workover crews utilize the latest technology hoist units with lifting capacities of 60 to 80 tons that are capable of servicing the majority of our work orders. For deeper wells or wells with more complex well trajectories, we also have available several heavy duty workover units with lifting capacities of 80 to 125 tons. Substantially all of our primary equipment and associated support equipment for performing workover services such as hot oilers, steam trucks, fluid storage tanks, pumping units and mobile housing were purchased new beginning in August 2005, following the formation of our workover company, Integra KRS.

We rely on our newly formed technology services business to provide cementing and coring services and we plan to introduce our own directional drilling and coiled tubing services during 2007. We currently subcontract directional drilling services. We anticipate that coiled tubing technologies will have broad application in the Russian market and will increasingly form a part of most drilling and workover jobs. Through our technology services business, we also have access to advanced drilling and workover technologies and equipment such as drill bits, jars, liner hangers, fishing tools and services for managing drill pipe, downhole motors and turbines. We also have access to specialized work teams that perform bottom-hole assembly. Bottom-hole assembly is an engineered solution to select and combine the appropriate drill bits, mud pump, drilling fluids, drill pipe, drill collars, jars and performance downhole motors to achieve the best performance in the drilling process.

Smith Eurasia was the first company in the Russian market to offer drill bit technology services and drill bit management services and it continues to be a market leader in this area. Smith Eurasia has access to drill bits made available through its exclusive relationship with Smith Technologies and Smith Services, business units of Smith International.

Drilling a competitively priced, quality well in the fastest possible time requires not only advanced equipment and technologies but also the synchronization of key parameters such as rig capabilities, mud properties, drill bits and performance downhole motors. Application engineering is used to continuously upgrade and fine tune these parameters to ensure optimum results. By applying engineered solutions and offering customized technologies from our technology services business into other aspects of our business, in particular our drilling, workover and IPM business, we believe that we are able to provide value to our customers at competitive prices.

We are the largest manufacturer of downhole motors and turbines in Russia. We offer a wide variety of downhole motors and turbines which service many different well configurations and meet other technical requirements. We are also the only manufacturer of diamond core heads. The diamond core head is used in coring to deepen the well bore by scraping industrial grade diamonds across the surface of the rock at the bottom of the well hole.

Capital Investment Program

In 2005, we invested US$16.2 million in our drilling and workover business, primarily to purchase downhole motors, solids control equipment, blow out preventers, drill pipe, steamer and hot oilers. In the first nine months of 2006, we invested US$65.5 million in our drilling and workover business. We have upgraded the technology of some of our drilling rigs with triplex pumps, Western manufactured solids control equipment and top drive motors. Over the next one to two years, we expect to have installed these technologies on a majority of the drilling rigs we operate in Eastern Siberia, Timan-Pechora and some Western Siberian regions where such technology is generally required.

We are continuing to make targeted upgrades of our technologies to introduce systems that will improve the speed and/or accuracy with which we are able to service a well. For example, in connection with our effort to introduce our own directional drilling services, we plan to purchase in 2007 Western style measurement-while-drilling systems that use pulsing technology to transmit formation data to the surface in real time. These systems provide better control of the correct well path and ensure more accurate and faster drilling than the electro-magnetic measurement-while-drilling systems often employed by Russian providers. We also intend to invest in our drilling, workover and IPM services segment, primarily in upgrades to our drilling and workover rigs.

Contracting

We generally contract to provide our drilling and workover services on a turnkey basis. However, in Eastern Siberia nearly all of our drilling contracts are negotiated on a day rate basis and from time to time we contract on a day rate basis in other Russian oil and gas regions where we operate. Under the terms of our turnkey contracts, we generally receive a fixed price for providing services such as delivering to our customer one or more wells drilled according to specifications or a seismic survey and accompanying report. Almost all turnkey contracts are for a period of one year.

Approximately 80% of our business is obtained through open tenders with the remaining 20% made through direct sales. Most tenders are conducted annually through a process that begins with requests for proposals in September and ends with signed contractual commitments generally between December and March. As a result, a portion of our business activity in the winter months is generally devoted to rig up and rig down operations and transportation of equipment and personnel required for drilling, workover, logging and certain other services.

Substantially all of our sales of IPM services are derived from contracts awarded through a tender process on a turnkey basis. Contract terms vary between one month and three years depending on the customers' requirements with the majority of contracts being for a term of one year. We also enter into day-rate contracts with our customers as a result of a direct negotiation and sale to the customer. While the terms of our contracts often vary by customer, most contracts with major customers provide for payment terms of 30 days from the date of acceptance of the work performed.

All of our technology services and products are contracted for or sold on a stand alone basis in relation to the specific service performed or product sold or as a part of the services provided under the turnkey contracts entered into by our drilling, workover and formation evaluation businesses.

Contracts for the supply of drilling tools are generally fulfilled within a month. The drilling tools are primarily manufactured according to standard industry specifications and are sold to a wide range of customers according to a price list. Payment structures vary from 100% advance payments to credit sales paid within 60 days of delivery to the customer.

Customers and Marketing

Business development and marketing was historically managed and conducted by the general director and chief engineer for each respective business. These individuals were also involved directly in the tender and contracting processes. As part of our restructuring in late 2006, we sought to create a more structured approach to our business development and marketing. We created the position of vice president of business development and marketing and appointed to our drilling, workover and IPM services business a manager dedicated to business development and marketing for this segment. The manager works with a small team dedicated to developing business with potential customers and maintaining business with existing customers. Additionally, the manager works together with the vice president of business development and marketing for the oilfield services division to consolidate market information, develop marketing strategies and ensure that we are maximizing our sales opportunities with each customer across the range of oilfield services that we provide.

Our major customers for drilling, workover and IPM services include Rosneft, Gazpromneft, Tatneft, Lukoil, TNK-BP, Russia Petroleum, Ritek, Russneft, Itera, Salym Petroleum Development, Total and Pechoraneft. In the first nine months of 2006, our top three customers, Rosneft, Lukoil, and TNK-BP, accounted for 41.5% of our revenues in the drilling, workover and IPM services business.

Suppliers

We rely on a number of Russian manufacturers, including our own manufacturing companies, to supply us with various drilling tools and equipment. We generally procure from third parties materials such as drill pipe, casing, tubing, cementing units, cleaning tanks, racks and hoists and associated support equipment such as trailers, compressors, generators and boilers. Our drilling, workover and IPM services subsidiaries regularly purchase performance downhole motors, turbines and some whipstocks and fishing tools from BI and also contract with URBO for rig upgrades.

From time to time, on complex well drilling projects, such as highly deviated or horizontal wells, we contract with third parties, such as Schlumberger, Baker Hughes and Halliburton or with certain Russian providers, to perform directional drilling services. We would expect this practice to decrease once we begin offering our own directional drilling services.

Operations, Customers and Competition by Region

The majority of our operations are conducted in the Russian Federation and as such we must operate in remote locations and often in harsh climatic conditions. Because drilling and workover rigs are generally difficult to transport in Russia, they ordinarily operate within the regions in which they are located. Our drilling and workover operations can be negatively affected by winter thawing since large volumes of drilling equipment and drilling rigs situated in certain regions can only be transported during winter when the ground is sufficiently frozen to create access roads. During the months when there is limited or no access to certain regions, transport of goods may only be undertaken by helicopter which is expensive and impractical for particularly heavy pieces of equipment. Failure to demobilize and transport a rig prior to the winter thaw may result in the rig being forced to remain in place on the oilfield until the following winter. We have attempted to address these limitations by managing the supply of goods to our drilling and workover operations in these remote regions to ensure uninterrupted service.

Below we present by each major oil and gas region in which we operate the number of wells drilled and the number of meters drilled by each of our drilling companies for 2005 and for the first nine months of 2005 and 2006. Other than Alliance and BKS, operating data is based on the records of our companies prior to the time that we acquired them. We also briefly discuss our drilling and workover operations, customers and competition within these regions.

Region	Number of Wells Drilled		
	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Year ended December 31, 2005
Timan-Pechora	14	12	17
Volga-Urals	6	15	21
Western Siberia	96	70	90
Eastern Siberia	2	5	5
Kazakhstan	5	1	1
Total	**123**	**103**	**134**

Region	Number of Meters Drilled		
	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Year ended December 31, 2005
Timan-Pechora	63,953	37,589	53,818
Volga-Urals	13,775	26,445	33,763
Western Siberia	242,545	161,522	215,408
Eastern Siberia	13,669	6,131	8,598
Kazakhstan	8,941	800	800
Total	**342,883**	**232,487**	**312,387**

- *Western Siberia*

We provide drilling and workover services in Western Siberia through PNBK. PNBK maintains operating bases in locations such as Nyagan, Tyumen and Nizhnevartovsk. As of September 30, 2006, PNBK operated 18 drilling rigs, including 2 leased rigs, and 34 workover rigs and had approximately 3,000 employees in Western Siberia.

We operate a broad spectrum of drilling rigs from 125 ton rigs used for side-tracking to F400 and BU 6500 rigs capable of drilling wells in excess of 5000 meters. We rely primarily on BU 3-D rigs that are capable of drilling wells between 1800 and 3200 meters and which we consider to be the most suitable drilling rigs for cluster drilling in Western Siberia.

Our primary customers in Western Siberia during 2006 by sales were TNK-BP, Ritek, Gazpromneft, Rosneft, Shell and Kan-Baikal.

We compete in most areas of Western Siberia with BK Eurasia, Siberian Service Company or SSK, Siberian Geophysics Company or SGK and Nizhnevartovskneftbureniye or NvNB, which generally provide the same technologies as us and also perform drilling and workover services, primarily on a turnkey basis. See "Industry".

- *Timan Pechora*

We provide drilling services in Timan-Pechora and the Komi Republic through our wholly owned subsidiary, Alliance which has its regional headquarters in Usinsk. Alliance also maintains operating bases in the Usinsk and Syktyvkar regions of Timan-Pechora. As of September 30, 2006, Alliance operated 10 drilling rigs and had approximately 1,160 employees in Timan-Pechora and the Komi Republic. We do not currently provide workover services in Timan-Pechora. We ceased providing workover services in the Komi Republic when we sold our 51% interest in KomiQuest during 2006. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

We primarily operate 3-D and 4-E type land based Russian manufactured rigs with lifting capacities of approximately 300 to 350 tons. Land based rigs of this capacity, as opposed to cluster rigs, are more suitable to this region where drilling depths approach 3600 to 4200 meters. We also offer directional drilling services and cementing services.

Approximately one-half of all drilling services work is performed in extremely undeveloped regions with poor transportation networks and as a result most deliveries of equipment and supplies occur during the winter months when drilling sites can be accessed by winter roads.

Our primary drilling services customers in Timan-Pechora and Komi by sales are Lukoil-Komi, Rosneft's Severnaya Neft, Gazprom's Severneftegeophizika, Pechoraneft, Enisey, Severnaya Siyaniye and Total.

BK Eurasia, Rosneft Drilling and Geoneft are our primary competitors in this region.

- *Volga-Urals*

We provide drilling services in the Volga-Urals through PNBK which has 6 operating bases in the areas of Izhevsk, Tatarstan, Bashkortostan and Volgograd. As of September 30, 2006, PNBK operated approximately 6 drilling rigs and had approximately 890 employees. We do not currently provide workover services in the Volga-Urals.

Our primary drilling services customers in the Volga-Urals by sales are Russneft, Tatneft and Ritek.

BK Eurasia, SSK, Urdmurtneftbureniye, Tatburneft, Bashkirskoye and UBR are our primary competitors in this region.

- *Eastern Siberia*

We provide drilling and workover services in Eastern Siberia through PBN, which maintains operating bases in Kovykta and Verchnechonsk. As of September 30, 2006, PBN operated 5 drilling rigs and one workover rig and had approximately 210 employees in Eastern Siberia. We began providing drilling, workover and IPM services in Eastern Siberia in the second half of 2006 following our acquisitions of PBN and Smith Eurasia.

We operate two different types of drilling rigs in this region, standard BU 3200 cluster rigs and two modified F-400 Romanian land rigs. The heavy duty Romanian rigs have been fully upgraded with state-of-the-art top-drive motors, solids control packages, rig monitoring devices and three high-end variable speed triplex pumps. We also provide mud and cementing services and through our IPM services we manage the contracts of other Russian and Western companies performing directional drilling, mud logging and drill bit services.

Our customers in Eastern Siberia are Rusia Petroleum and Verhnechonskneft, for which we have been contracted to provide drilling and workover services in Kovykta on a day rate basis and on a turnkey basis using cluster rigs. We also provide complete IPM services for Rosneft at its Vankor Project.

Our primary competitors in Eastern Siberia are local, independent providers.

Formation Evaluation Services

Overview and History

We provide formation evaluation services consisting of both on-shore logging and seismic services. Our formation evaluation services businesses operate in Eastern and Western Siberia, Timan-Pechora, Volga-Urals and Kazakhstan.

According to Douglas—Westwood estimates, based on 2006 market revenues, we have a 15.9% share of the Russian logging and seismic services market in Russia.

In the first nine months of 2006, our formation evaluation services businesses had sales of US$66.8 million, operating profit of US$1.4 million and Adjusted EBITDA of US$13.8 million.

We began offering logging services in Western Siberia following our acquisitions of RGK and GFS in May 2005. We began offering seismic services following our acquisition of TNGF in December 2005. Today we own majority and minority interests in 15 formation evaluation services businesses. We have entered into management contracts with each of the companies in which we do not own a 100% interest except SNGF, Geostan, and Azimuth. Under the terms of our contracts, we manage the day-to-day business of the company as well as carry out tax and financial planning. We receive management fees for our services that are calculated either as a specified percentage of monthly revenue and/or a specified percentage of quarterly income of the managed company or on the basis of hourly rates of our executives. All contracts are concluded for an indefinite period, although the shareholders of each company that we manage may terminate the contract at any time.

While logging activities may be performed throughout the year, there is a limited season for performing seismic activities in the Siberian regions of Russia as we are unable to gain access to these remote, undeveloped areas during summer due to the flood-like conditions of the marshy landscape caused by spring thawing. We are generally only able to perform seismic activities in Siberia from December to April. We are attempting to address these limitations by exploring the cross-usage of equipment for various types of work and increasing the utilization and retention of our work crews during periods of unseasonable weather in Russia by offering formation evaluation services in other geographic locations. We have started marketing our seismic services more actively in the southern regions of Russia and throughout the CIS countries, India and certain countries in Africa and South America. By offering our seismic services outside of Russia and in the south of Russia during the summer, we hope to be able to generate a more balanced revenue stream and maintain the employment of our seismic crews throughout the year. In 2006, we performed seismic operations in Azerbaijan and Mauritania.

Services Provided

Our logging services include carrying out surveys and operations at producing wells and at wells being drilled. We perform open-hole logging, offering a wide range of well data collection while drilling is in progress, including mud logging, cased-hole logging of all types and perforation services. Logging services include recording by depth or time or both of one or more physical quantities in or around the well site. Our seismic services include carrying out two-dimensional and three-dimensional seismic surveys and vertical seismic profile surveys. Our seismic data interpretation services include reviewing seismic data collected by us or provided by our customers and interpreting such data to provide recommendations to our customers for their oil and gas field development programs.

Below we present the number of two-dimensional and three-dimensional seismic surveys performed by our crews in 2005 and for the first nine months of 2005 and 2006. A substantial portion of the operating data is based on the available records of our acquired companies prior to the time that we acquired them.

	Logging Operations			Two-dimensional Seismic (Sq. Km)			Three-dimensional Seismic (Sq. Km)		
Subsidiary	**Nine months ended September 30, 2006**	**Nine months ended September 30, 2005**	**Year ended December 31, 2005**	**Nine months ended September 30, 2006**	**Nine months ended September 30, 2005**	**Year ended December 31, 2005**	**Nine months ended September 30, 2006**	**Nine months ended September 30, 2005**	**Year ended December 31, 2005**
Azimuth[1]									
PGF[2]	1,821	743	808						
TNGF[3]	—	—	—	4,655	4,219	4,255	2,173	1,885	1,929
YGF[4]	—	—	—	4,014	3,815	3,904	2,406	2,136	2,172
YPGF[5]	705	—	—	—	—	—		—	—
GFS[2]	2,521	1,686	2,293			—			
Associates									
NNGF[2]	11,812	8,949	11,631						
SNGF[2]				2,615	2,430	2,866	232	120	223

(1) We acquired interests in Azimuth in December 2006.
(2) We acquired interests in PGF, GFS, NNGF and SNGF in May 2005.
(3) We acquired interests in TNGF in December 2005.
(4) We obtained effective control of YGF in August 2006.
(5) We formed YPGF in January 2006.

Equipment, Technologies and Employees

We utilize state-of-the-art equipment, technologies and processing methods in our formation evaluation services businesses. In the first quarter of 2006, we purchased approximately 20 new logging complexes consisting of trucks, laboratories, downhole equipment and tools which are based on Western designs and data collection methods. We support our logging services businesses through a central headquarters in Nizhnevartovsk in Western Siberia. We plan to relocate this center to Tyumen during 2007.

We either own or lease all of the seismic equipment we utilize, including electronic channels, data acquisition systems, vibrators, geophones, molder machines, drilling units, explosives and telemetry systems. As at September 30, 2006, we owned approximately 80% of all of the seismic equipment we used. Our seismic support centers located in Tyumen, Yamal and Almaty perform data processing, maintain, repair, calibrate and certify all of our tools and conduct training for our engineers.

Each of TNGF, YGF, Azimuth and GFS maintains a library of previously conducted seismic surveys. We provide data on such surveys to our customers as a stand-alone service.

Acquisition of seismic data is a labor intensive process. We compete with other seismic companies for both permanent and seasonal employees. We believe that we offer our current and prospective employees competitive compensation packages and opportunities for professional growth that most other companies do not provide. We also believe that our ability to offer employees a less seasonal work pattern due to our growing participation in the seismic data acquisition markets outside of Russia will favorably distinguish us from our competition and will enable us to continue to attract a sufficient number of qualified employees. With respect to processing and interpretation, we compete for employees with such large international participants in the Russian data processing and interpretation market as Schlumberger.

We presently have 48 logging crews and approximately 400 employees in logging services. Our logging crews typically consist of three logging engineers. NNGF, our associate that we manage, has a further 95 logging crews and from time to time we contract with NNGF to perform logging services for one another. We presently have approximately 45 seismic crews and approximately 6,740 employees in seismic services. Our seismic crews typically consist of approximately 20 core employees as well as seasonal employees of approximately 60 to 100 persons for two-dimensional surveys and approximately 130 to 180 persons for three-dimensional surveys. Below we present the number of logging and seismic crews of each of our formation evaluation services companies for 2005 and for the first nine months of 2005 and 2006. A substantial portion of the data is based on the available records of our acquired companies.

Capital Investment Program

In 2005, we invested US$0.7 million in our formation evaluation businesses, primarily to purchase new logging complexes. During the first nine months of 2006, we invested US$21.5 million in our formation evaluation businesses to purchase seismic channels, vibrators and associated support equipment. We have also invested in our seismic operations center to purchase new computer work stations and specialized software. In 2007, we plan to invest approximately US$9.0 million in our logging services to acquire additional logging complexes and approximately US$34.0 million in our seismic services to acquire seismic acquisition systems and specific drilling rigs used for the installation of explosives charges. In addition, we plan to relocate our logging support center to Tyumen in 2007.

Contracting

We generally contract to provide our logging and seismic services on a turnkey basis. Under the terms of our turnkey contracts, we generally receive a lump sum payment following completion of our services such as delivering to our customers a seismic survey and accompanying report. Almost all turnkey contracts are for a period of one year.

Approximately 80% of our business is obtained through open tenders with the remaining 20% made through direct sales. Tenders for logging services are conducted annually through a process that begins with requests for proposals in September and ends with signed contractual commitments generally between December and January. As a result, in the winter months, a portion of our business activity for logging is generally devoted to transportation of equipment and personnel required for logging services. For seismic acquisition services, the tender process usually begins in July and participating service providers are generally required to pre-qualify. Contracts are concluded within one to two months of the tender and are either one or two years in duration. Contracts entered into with the Russian government may take as much as six months to negotiate.

Most seismic customers separate tenders into seismic data acquisition services and seismic data processing and interpretation services. Contracts for data processing and interpretation services are entered into throughout the year. A typical data processing and interpretation engagement takes approximately 6 months to complete and results in the preparation of a data processing report accompanied by geological maps indicating recommended exploration well locations. We compete for seismic data processing and interpretation services through YGF, Irtyshgeofizika, a subsidiary of TNGF, and Geostan.

Customers and Marketing

Business development and marketing was historically managed and conducted by the general director and chief engineer for each respective business. These individuals were also involved directly in the tender and contracting processes. As part of our restructuring in late 2006, we sought to create a more structured approach to our business development and marketing. We created the position of vice president of business development and marketing and appointed to our formation evaluation services business a manager dedicated to business development and marketing for this segment. The manager works with a small team dedicated to developing business with potential customers and maintaining business with existing customers. Additionally, the managers within each line of business work together with the vice president to consolidate market information, develop marketing strategies and ensure that we are maximizing our sales opportunities with each customer across the range of oilfield services that we provide.

Taking into account the services performed by our associates in which we hold minority interests, the major customers of our logging services include TNK-BP, Rosneft and Slavneft. The major customers of our seismic services include Gazprom, Gazpromneft and a number of affiliates of Gazprom, Rosneft, Gazpromneft, Surgutneftegaz, TNK-BP and Russneft. During the first nine months of 2006, the majority of the formation evaluation services we performed were carried out in Western Siberia. For the nine months ending September 30, 2006, TNK-BP represented 20% of our sales and the top four customers represented 55% of our sales.

Suppliers

We depend upon a variety of Russian and foreign suppliers for purchases of equipment and supplies used in our formation evaluation services work. We utilize both the US manufactured Input/Output and the French manufactured SERCEL seismic systems. Most equipment we purchase meets the standards developed by the American Petroleum Institute.

Competition

Logging services are highly competitive in the Russian market. The provision of services is dominated by OJSC "Tyumenpromgeophyzika", which is owned in part by Schlumberger, OJSC "Bashneftegeophyzika", NK "Paritet" and Noyabrskgeophyzika. Some large Russian oil and gas companies such as Gazprom perform these services in-house, limiting our ability to compete for their work.

The seismic services market in Russia is largely dominated by three companies. According to Douglas—Westwood, Integra is the largest provider of seismic services in the Russian market, followed by Khantymansiyskgeophyzika and Tatneftgeophyzika. Other seismic services providers are OJSC "Bashneftgeophyzika" and Sibneftgeophyzika, along with several other smaller companies.

Equipment Manufacturing

Overview and History

We believe we are the leading designer, manufacturer and supplier of heavy drilling rigs and cementing equipment in Russia. According to Douglas—Westwood, based on their estimate of 2006 revenues, we had a 67.8% share of the oilfield services equipment manufacturing market by revenue among drilling rigs with heavy lifting capacity (including maintenance, service and upgrade), cementing equipment (including spare parts), turbines and downhole motors. For the first nine months of 2006, our equipment manufacturing business had sales of US$66.1 million, operating profit of US$11.6 million and Adjusted EBITDA of US$16.2 million. This does not include sales and leases of drilling tools from BI, which Douglas—Westwood includes as part of the manufacturing market but that we report as part of our drilling, workover and IPM segment.

Our oilfield services equipment manufacturing business is carried out by URBO, whose manufacturing facilities are located in Ekaterinburg in the Volga-Urals region of Russia and in Tyumen, Western Siberia, and STM, whose manufacturing facilities are located in Kostroma, a city approximately 340 km northeast of Moscow. All of our manufacturing locations benefit from relatively developed industrial and transportation infrastructure and access to a qualified labor force.

We entered the drilling rigs manufacturing business by acquiring URBO in September 2005. In order to increase our rig manufacturing capacity and have the ability to manufacture certain of our rigs' components previously sourced from third parties, we acquired a manufacturing plant in Tyumen in June 2006. We entered the cementing equipment manufacturing business by acquiring STM in a series of transactions from March through July 2006.

Drilling Rigs

URBO's primary activities are the engineering, manufacture and supply of new and upgrading of used drilling rigs with lifting capacities in the range of 200 to 600 tons. URBO also produces assembly units, provides engineering services for drilling rigs, performs equipment maintenance and repair, assembles equipment and produces spare parts for drilling rigs.

New and Upgraded Drilling Rigs

Stationary Drilling Rigs. Our stationary drilling rigs are capable of drilling to a depth of up to 8,000 meters and have a lifting capacity of up to 600 tons. Such rigs have a non-moving base and require the use of special vehicles, if dismantled and transported as large units, or common trucks and railway platforms, if dismantled and transported as small units.

Cluster Drilling Rigs. Our cluster drilling rigs are capable of drilling to a depth of up to 6,500 meters and have a lifting capacity of up to 600 tons. The distinguishing characteristic of such rigs is the system of skids that allows the rig to be moved from one well to another within one drilling pad. Such rigs are uniquely designed for the drilling programmes commonly used by the majority of our customers operating in Western Siberia.

Mobile Drilling Rigs. Mobile drilling rigs are capable of drilling to a depth of up to 3,200 meters and have a lifting capacity from between 160 and 200 tons. Mobile drilling rigs are based on transportation trailers, and all such rigs' support equipment, such as solids control, transfer pumps, mud pumps, drilling fluid tanks, electrical supplies, is stored within protective housing. Mobile rigs can be easily and quickly relocated from one drilling site to another and are used for workover operations, remedial services, drilling through cement and sand plugs and drilling of lateral wells. We currently do not manufacture mobile drilling rigs. We hope to commence production of mobile rigs with a lifting capacity of 160 tons at our Tyumen manufacturing facility in late 2007. We are currently making investments in this facility to prepare for production.

Upgraded Drilling Rigs. Due to the extended useful life of the previously supplied "Uralmash" drilling rigs and the new requirements for more technologically advanced drilling systems, our customers sometimes choose to upgrade their existing rig fleets rather than to purchase new rigs. For example, an upgrade of a drilling rig may involve the installation of more powerful mud pumps and the switch of a rig's electricity system from the use of alternating current to direct current. The cost to our customers of an upgrade of a used rig performed by URBO is typically 60% of the price of a comparable new URBO rig.

Below we present historical production data for the production of stationary and cluster drilling rigs manufacturing by URBO in the periods indicated. Other than production for the first nine months of 2006, the data is based on the records of our acquired companies prior to the time of our acquisition.

	New Build Drilling Rigs	
Rig Type	**Nine months ended September 30, 2006**	**Year ended December 31, 2005**
Stationary	2	—
Cluster	3	2
Total	5	2

Drilling Rig Units and Spare Parts

URBO manufactures fully assembled units and spare parts that it supplies in connection with its upgrade and repair services such as, for example, mud pumps, rotary tables, swivels, hooks, crownblocks, mud tankage, masts, catwalks and emergency escape cabins.

URBO manufactures most of the key components of drilling rigs, including the substructures, masts, draw works, rotary tables, pipe racks, v-doors and catwalks, mud pumps, hooks, crownblocks, complete mud tankage and railing/skidding systems. Utilizing parts from other providers, URBO assembles, among other things, silicon-controlled rectifiers for electric rigs and transfer and booster pumps. All equipment supplied to our customers operating in Western and Eastern Siberia and the Timan-Pechora regions of Russia is manufactured for the harsh climate of those regions and, when fully assembled, the entire rig is winterized. URBO uses three-dimensional design programs and all of its engineering processes and designs are certified by Russian and relevant international governmental agencies and industry experts such as the American Petroleum Institute. The design and engineering of our drilling rigs is performed exclusively by URBO. While, we currently outsource manufacturing of approximately 51% of each drilling rig's components and purchase certain key components, such as top drive motors and generators, from third party suppliers, we intend to reduce our reliance on outsourced products going forward.

Repair and Diagnostic Services

URBO provides repair services for the new drilling rigs it manufactures as well as existing "Uralmash" drilling rigs. Repair involves the overhaul of existing rig components. Our customers also sometimes require us to perform various diagnostic tests on their "Uralmash" drilling rigs to determine whether the useful life of the drilling rig may be extended. Following a favorable opinion from our experts, our customers can obtain permits from the Russian authorities that enable them to continue to use the existing drilling rig. The diagnostic services are performed by our specialists on our customers' drilling sites. In order to expand our upgrade and repair services, we intend to acquire machine shops in two facilities that are adjacent to our existing manufacturing facilities in Ekaterinburg and which are equipped with the equipment required for such services, including a crane with the lifting capacity of 50 tons. As a part of the expansion, we also intend to open a number of service centers, including spare parts warehouses, in the regions of Russia that are in close proximity to the main areas of our customers' operations. One such center is currently operated by our subsidiary OOO "Orenburgtechservice", which provides repair and other rig maintenance services to our customers in the Volga-Urals region.

Production facilities

Our main manufacturing facility for URBO drilling rigs is located in Ekaterinburg. Our drilling equipment manufacturing facilities occupy an area of approximately 45,000 square meters and include two machine shops and an assembly shop. We employ over 200 pieces of equipment in the manufacturing process from lathes, to grinders to cutting machines. Our machinery is versatile enough to manufacture spare parts or optional equipment and to repair large equipment. The existence of a welding department, a paint spraying room and a place for conservation and packing makes it possible to establish a closed cycle for drilling equipment manufacturing. We also have a testing department where assembled equipment is tested against its performance specifications and assigned a certified equipment passport. If requested by customers, our drilling rigs can be fully assembled and tested on site prior to their delivery to customers. The manufacturing facility is connected to the Russian rail network through an intra-facility rail system, which enables us to deliver supplies to URBO efficiently and to deliver manufactured rigs to our customers. Substantially all of the manufacturing equipment located at our Ekaterinburg manufacturing facility has been in operation for more than 15 years. Approximately 50% of this equipment has been in operation for more than 40 years.

In May 2006, we acquired manufacturing facilities in Tyumen consisting of an approximately 46 hectare property with structures that will provide capacity for the welding, fabrication and cast building associated with the manufacture of drilling rigs. Approximately 80% of the manufacturing equipment located at our Tyumen manufacturing facility has been in operation for more than 15 years. Approximately 20% of such equipment has been in operation for more than 40 years. We presently do not possess licenses to operate some of the equipment located at our Tyumen facility. For instance, of the 28 heavy cranes located at the facility, 6 have been certified as being technically fit for their intended use. We are currently in the process of applying for the issuance of the required license and certificates. With respect to certain licenses, such as, for instance, our water use license, relevant licensing authorities have identified a number of conditions, including environmental clean-up obligations, that we are required to satisfy prior to the issuance of the relevant license.

Capital investment program

In 2005, we invested US$0.2 million in our manufacturing business to upgrade existing equipment. In the first nine months of 2006, we invested US$9.1 million in our drilling rig manufacturing business of which US$7.4 million was used to purchase the manufacturing plant in Tyumen.

Contracting

We obtain new business by participating in tenders organized by our clients or through direct negotiations. A typical tender consists of the following stages. Prior to the announcement of a tender, our clients ordinarily define the main technical parameters of the drilling rigs required for their drilling programs. Our participation in the tender commences upon receipt of such technical parameters as well as drafts of contractual documentation. At the initial stage of the tendering process, we attempt to identify the existing design solutions that we may offer to the prospective client. In the event a standard solution is not available, we prepare a custom design of the rig. Customers generally issue tenders for equipment providers between November and February.

The drilling rigs we manufacture are covered by a limited warranty for a term of 18 months from the date of the rig's delivery to the customer or 12 months from the date when the rig commences operations. URBO's service department is responsible for handling warranty claims and providing post-warranty service. Each warranty claim is investigated by a team comprised of a representative of URBO and the customer. In the event a defect covered by our warranty is identified, we dispatch our repair experts to the location of the drilling rig and generally perform repairs on site. We are currently in the process of forming Uralmash Service, a division of URBO that will be responsible for the provision of our rig diagnostics, upgrade and repair services. We expect Uralmash Service to establish a network of regional service centers in order to be in a position to offer our clients expeditious and efficient rig repair services. We presently operate one such center in Orenburg in the Volga-Urals region. Our planned expansion of the upgrade facilities in Ekaterinburg is expected to enable us to increase capacity of our on-site rig upgrade services.

Customers and Marketing

We count among our customers most major Russian oil and gas companies such as Rosneft, TNK-BP and Surgutneftegaz, as well as leading Russian and some international drilling contractors, such as BK Eurasia and

KCA Deutag. We also sell our equipment to other CIS countries, including Turkmenistan, Ukraine and Belarus, and in 2006 we also delivered spare parts for Uralmash rigs in Syria. For the nine months ended September 30, 2006, TNK-BP represented approximately 45%, Rosneft represented approximately 21% and Belarusneft represented approximately 9% of our drilling rig manufacturing sales.

Our marketing activities include direct marketing to large and existing customers and general advertising. Business development is carried out through industry research and market analysis. While most of our drilling rigs are designed to satisfy the specific requirements of particular clients, we also perform research on drilling projects to identify specific needs for a particular region and develop new product concepts which can be offered to potential clients operating in that region. We perform market and equipment analysis to identify medium- and long-term demand, and use this information for product development and to identify target customers for our upgrade services.

Suppliers

We currently outsource the manufacturing of approximately 51% of the components of our drilling rigs. All of our suppliers are located either in Ekaterinburg, in close proximity to our manufacturing facility, or in the Volga-Urals region of Russia. Some of the specialized components used by us in the manufacturing of our drilling rigs are purchased from other manufacturers. For example, our customers often determine the type and the manufacturer of the top drive motors to be installed on our drilling rigs, and we typically purchase these from foreign suppliers.

Competition

We compete against Russian and foreign manufacturers with respect to the various types of drillings rigs manufactured by URBO. In the former Soviet Union, the manufacturing of drilling rigs was performed by a number of state-owned entities, each of which specialized in a particular type of rig. “Uralmash”, the predecessor entity of URBO, was the designated manufacturer of heavy stationary drilling rigs with lifting capacities in excess of 200 tons. OOO “Volgogradskiy Zavod Burovoy Techniki”, or VZBT, has historically been the designated manufacturer of drilling rigs with a lifting capacity of up to 200 tons. VZBT currently manufactures heavy stationary drilling rigs as well as cluster drilling rigs with lifting capacities of up to 250 tons. We consider VZBT to be our main Russian competitor in the stationary and cluster rigs segment. In the mobile drilling rigs segment, we will compete against VZBT as well as a number of other Russian manufacturers, such as ZAO “Spetsmash”, OAO “Kungurskiy Mashinostroitel’niy Zavod” and OOO “Izhdrill”.

We face significant competition from Bentec, a manufacturer of onshore and offshore drilling rigs with operations in Germany. Bentec is currently the only non-Russian manufacturer that has produced and supplied to the Russian market a winterized version of a skiddable cluster drilling rig that satisfies the requirements of Russian oil and gas companies. While Bentec does not currently have service or assembly facilities in Russia, according to recent reports, it plans to acquire a facility in Tyumen. We also face competition from Chinese manufacturers and from certain US and Canadian manufacturers.

Unlike the drilling rig manufacturing market, the market for assembly units and spare parts is characterized by a large number of small- to medium-sized manufacturers. In the former Soviet Union, the technology and design of drilling rigs was often made available to and the parts were manufactured by several enterprises. We currently face competition from a number of manufacturers that are capable of producing spare parts for legacy “Uralmash” drilling rigs.

Cementing Equipment

Our cementing equipment is produced by STM’s subsidiary OJSC “Strommashina” or “Strommashina”. Formerly a part of the Soviet military industrial complex, Strommashina became a manufacturer of oilfield services and road construction equipment and is now a leading manufacturer of cement pumping and cementing support equipment in Russia.

Products and technologies

Cementing complexes and units. Strommashina’s main product is KTsS-40, a cementing complex that consists of high performance triplex pumps, mixing systems with various sensors to measure the characteristics of the cement slurry, as well as a modern data acquisition system that collects data in real time and functions as a design tool for adjusting the characteristics of cement during cementing. This product was introduced to the market three years ago. Strommashina also produces traditional single pump units, both with duplex or triplex pumps, which continue to be utilized in the Russian market.

Road construction equipment. Strommashina also manufactures rock crushing machines that are commonly used for the construction of roads. We currently intend to retain this product line, although it comprises a small portion of our business.

Foundry. Strommashina manufactures approximately 300 tons of 110G13L grade steel a month and is a leading Russian producer of steel spare parts for grinding equipment.

Production facilities

Strommashina's manufacturing facility is located in Kostroma in the Volga-Urals region of Russia. The facility consists of four shops covering approximately 61,300 square meters and includes a foundry, which comprises approximately 50% of the total area of our manufacturing facility, a stamping shop, a welding and assembly shop and a metalworks shop. Approximately 80% of Srommashina's manufacturing equipment has been in operation for more than 15 years. Approximately 50% of such equipment has been in operation for more than 40 years.

Below we present historical production data for the production of pumps and mixing systems for cementing equipment manufacturing by Strommashina in the periods indicated. The data is based on the records of the acquired company prior to the time of our acquisition.

	Number of Units Manufactured		
Equipment Type	**Nine months ended September 30, 2006**	**Nine months ended September 30, 2005**	**Year ended December 31, 2005**
Pump Stations	32	31	37
Cementing Complexes	4	2	2

We acquired Strommashina through our acquisition of STM in July 2006 for US$16.2 million plus the assumption of US$1.4 million of debt. At the time of our acquisition in July 2006, the manufacturing facilities had been idle for a period of approximately six months. See "Material Contracts". In 2007, we intend to invest approximately US$7.0 million in Strommashina to upgrade our foundry and metalworks preparation facilities, acquire a sandblasting machine and a painting chamber. The upgrade of our foundry facility is expected to increase production of steel from the current level of approximately 300 tons a month to approximately 400 tons a month and we intend to use this production to increase the number of in-house manufactured components for our drilling rigs.

Contracting

We obtain new business by participating in tenders organized by our clients or through direct negotiations. The tendering process is substantially similar to that utilized at URBO, the key differentiating factors being the shorter production periods for our cementing units. Our sales are typically subject to performance of several trial cementing jobs utilizing our new cementing units. We employ several cementing experts who participate in these trials and provide related training to our customers' employees. The cementing units we manufacture are covered by a limited warranty for the term of 18 months from the date of the unit's delivery to the customer or 12 months from the date when the unit commences operations.

Customers and Marketing

Strommashina counts among its customers a number of Russian oil and gas companies such as Gazprom, Rosneft, TNK-BP and a number of Russian oilfield services providers such as SSK, BK Eurasia and Burgaz.

As our acquisition of STM is fairly recent, our marketing activities to date include direct marketing to existing customers and general advertising. Consistent with our approach at URBO, we also expect to conduct business development through industry research and market analysis. For example, we perform market and equipment analysis to identify demand, and use this information for product development and to identify target customers for our products.

Suppliers

Strommashina manufactures most of the components of its cementing complexes and related equipment. The key parts of our cementing units that we do not manufacture are electronics components and the wheel-base on which our cementing units are mounted. The electronics components are supplied by OOO "BurGeoService" and include the computer system used to control the cementing process. Upon our customers' requests, we purchase the wheel-bases from OJSC "Avtomobilniy Zavod "Ural", KRAZ, KAMAZ and Ural—IVECO. We also purchase the electric sensors that are used for various measurements during the well cementing process from OOO "BurGeoService", CISC "Electrotech" and OOO "Oreol". We source other parts of our cementing units that we do not manufacture, such as wires and similar parts, from a number of suppliers.

Competition

Our primary competitors are Russian manufacturers of cementing equipment, such as OAO "Izhneftemash", OAO "Pervomaiskhimmash" and OOO "Sinergiya". The primary determinant for selecting an equipment provider is price.

Research and Development

Our research and development work is primarily performed by NPO Burovaya Technika, a subsidiary of BI, headquartered in Moscow. Traditionally, this company focused on two particular areas—improving the technical capabilities of equipment based on their existing designs and exploring the development of new technologies and equipment.

Our current research and development efforts are focused on developing new approaches to manufacturing cementing equipment and mid-sized mobile drilling units for which we believe there will be increased demand in the market. Through our research and development group we also perform engineering studies to address aspects of complex well design posed by multilateral and horizontal wells and perform environmental studies required by governmental authorities as a condition to final approval of a drilling project.

We do not specifically allocate investments to our research and development activities and we immediately expense such investments.

Intellectual Property

We have registered approximately 140 patents and 4 trademarks in Russia. We also have 12 pending applications to register patents and trademarks. Our patents for inventions, utility models and designs are related primarily to various types of drilling equipment such as downhole motors.

Following our purchase of URBO, in November 2005, IG Holdings Limited entered into a license agreement with OJSC "Uralmash Heavy Machinebuilding Plant" or "Uralmashzavod" pursuant to which it pays a fee of RUR 72,000 per year for the non-exclusive right to use the name "Uralmash" in English and Cyrillic in the Russian Federation for so long as Uralmashzavod holds the trademark. In May 2005, prior to our acquisition, URBO entered into a similar license agreement for the use of the name "Uralmash" in English for a fee of RUR 36,000 per year. The current trademark expires in 2010 but Uralmashzavod is obligated to take steps to maintain the trademark. Under the terms of our license agreements, we are entitled to one-time damages in the amount of US$1.0 million in the event Uralmashzavod assigns its exclusive rights to the trademark and fails to protect our rights and interests with respect thereto.

We have also registered a number of trademarks, including the names "Kontsern Stromneftemash" (Cyrillic), "Tyumenneftegeophysika" (Cyrillic) and "Pavlovsky Mashzavod" (Cyrillic). We have not registered in any jurisdiction and do not have a legally protected right to the trademark or name "Integra". See "Risk Factors—Risks Related to Our Business—We may be unable to secure or protect our rights to intellectual property".

Insurance

Currently, we are not insured against business interruption, environmental damage or third party liability except to the extent that third party liability insurance is required as a term of our licenses to conduct operations on industrial sites or by our customers as a condition of our contract with them. We believe that the level and types of our insurance coverages are within industry norms and practices within the Russian oilfield services and equipment manufacturing industries. See "Risk Factors—Our businesses may be subject to professional errors and omissions resulting in substantial property loss and other liability claims that may materially adversely affect our operations and profitability".

Health, Safety and Environment

Our operations are subject to a number of health, safety and environmental laws and regulations. These laws govern, among other things, the use, handling and disposal of hazardous substances, waste, soil and groundwater contamination, land reclamation, the composition of emissions into the atmosphere and employee health and safety. See "Regulatory Matters".

We believe that our operations are generally in compliance with applicable health, safety and environmental regulations. To date, we have not had any serious accidents that have had a significant environmental impact. We have not recorded any provision for environmental payments in our consolidated financial statements included herein.

Property

We own approximately 350 parcels of real property and lease approximately 32 further properties. While approximately 20 of our subsidiaries own real property, the most significant among these are URBO, YGF and NPO. Our principal administrative offices are located in Moscow.

Employees

We have approximately 18,500 employees as of the date of this Prospectus. Although the majority of our employees are located in Russia, we also have approximately 150 employees located outside of Russia in the United States, Kazakhstan, Turkmenistan, Ukraine and Uzbekistan. We have not experienced any strikes, work stoppages or material labor disputes, and we consider our relations with employees to be good.

The following table sets forth the number of our employees as of December 31, 2004, December 31, 2005 and September 30, 2006:

	December 31, 2004	December 31, 2005	September 30, 2006
Drilling, Workover and IPM	1,054	3,903	8,056
Formation Evaluation	—	2,336	4,544
Manufacturing	—	947	2,724
Holding (*including finance, servicing companies*)	25	86	268
TOTAL	**1,079**	**7,272**	**15,592**
NNGF	—	697	762
SNGF	—	608	672
TOTAL with associates	**1,079**	**8,577**	**17,026**

Trade unions

Approximately 28% of our employees are members of trade unions. We have trade unions in YGF, BI and STM. Our associates, SNGF and NNGF also have trade unions. See "Regulatory—Trade Unions".

Collective bargaining agreements

Approximately 65% of our employees are party to collective bargaining agreements. Most of the collective bargaining agreements are for periods of one to three years. Employees have concluded collective bargaining agreements with YGF, TNGF, BI (and its two subsidiaries NPO Burovaya Technika and Pavlovsky Mashzavod), PNBK, BKS, SNGF and PGF. Collective bargaining agreements, in addition to incorporating provisions of the labor code of the Russian Federation, usually provide employees with certain social benefits, such as vouchers for public holidays, subsidies for recreation for employees and their children and culture and sports activities. See "Regulatory Matters—Employment and Labor".

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) which, either individually or in the aggregate, are likely to have a material adverse effect on our business or our financial condition. On February 9, 2007, we received a notice from local tax authorities on the results of the tax audit for PBN primarily relating to the three years ended December 31, 2005. The notice indicated that PBN owed the equivalent of approximately US$2.2 million in back taxes, principally consisting of VAT. We are currently evaluating how to respond to the claim.

REGULATORY MATTERS

There is no specific regulatory regime relating to either the provision of oilfield services or the development and manufacturing of oilfield equipment under Russian law. However, certain federal laws and regulations contain general requirements applicable to these industries, key aspects of which are summarized below.

Licensing

The provision of oilfield services in the Russian Federation is subject to the receipt by us of numerous licenses from a number of Russian authorities. The key licensing requirements are summarized below.

The Federal Law "On Licensing of Certain Types of Activities", dated August 8, 2001 (the "Licensing Law") establishes a list of activities that can only be performed on the basis of licenses issued by the relevant Russian authorities. The activities relating to oilfield services that are subject to mandatory licensing requirements now include the use of explosives (the "Explosives License"), collection and transportation of hazardous waste (the "Hazardous Waste License") and use of radioactive substances (the "Radiation License").

Explosives Licenses

The procedure for the issue of Explosives Licenses is set forth in the Licensing Law, the Federal Law "On Industrial Safety of Hazardous Industrial Facilities", dated July 21, 1997 (the "Safety Law") and underlying regulations.

Explosives Licenses are issued by the Federal Service for Ecological, Technological and Atomic Inspection ("Rostekhnadzor"). Licenses are generally granted for a term up to five years and may be extended upon application by the licensee. Rostekhnadzor maintains a public register of such licenses. The licenses are granted on a non-competitive basis and are issued upon the relevant filing by an applicant, provided that (i) correct and complete documents have been filed and (ii) the applicant or facilities owned or used by it comply with applicable licensing terms, including, for example, reporting requirements, staff qualification and training requirements, proper maintenance of facilities, requirements for preventing accidents and remedying the consequences thereof.

Rostekhnadzor carries out regular monitoring to ensure the licensees' compliance with licensing terms and applicable laws and regulations. The frequency of announced inspections is established by Rostekhnadzor based on an analysis of industrial safety conditions relevant to the licensee's activity. Unannounced inspections may also be carried out.

Hazardous Waste Licenses

Hazardous Waste Licenses are issued by Rostekhnadzor pursuant to the Regulations of the Russian Government "On Approval of Regulations on Licensing of Hazardous Waste Collection, Use, Decontamination, Transportation and Disposal Activities", dated August 26, 2006. The procedures for the issue, monitoring compliance with the terms of, and revocation, of Hazardous Waste Licenses are similar to those applicable to Explosives Licenses.

Radiation Licenses

Radiation Licenses are issued by Rostekhnadzor pursuant to the Federal Law "On Atomic Energy Use", dated November 21, 1995 (the "Atomic Energy Use Law") and its underlying regulations. The licenses are granted for a period of not less than three years. One of the conditions for the issuance of Radiation Licenses is documentary proof that the applicant has reserved finances for potential third party liability in the case of radiation exposure. A decision to grant or refuse to grant a Radiation License is taken by Rostekhnadzor on a non-competitive basis following a review of the documents explaining the radiation safety arrangements for the planned activity. Generally, Radiation Licenses are not issued if (i) documents filed by the license applicant contain inaccurate or misleading information, (ii) the explanation of radiation safety arrangements for the planned activity is not sufficient or (iii) the planned activity does not comply with atomic and radiation safety requirements. The applicant may appeal if a license is refused.

Rostekhnadzor may undertake periodic reviews for ensuring compliance by licensees with the terms of their licenses and applicable legislation. The licensee should keep Rostekhnadzor informed on an ongoing basis about changes relating to the safety of the licensed activity. A license can be suspended or terminated by Rostekhnadzor in certain circumstances, including, inter alia, any breach of applicable regulatory requirements or terms of the license, failure to comply with the instructions of Rostekhnadzor or other authorities, including those concerning the suspension of the licensee's operations. If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a license termination, the licensee may appeal through administrative or judicial proceedings.

Standardization

Production processes are generally regulated by the Federal Law "On Technical Regulation", dated December 27, 2002. This law contains provisions on technical regulations, standardization, certification, accreditation of certification agencies and test laboratories, state control over compliance with the requirements of technical regulations, penalties for violations of technical regulations, product withdrawals and other related issues.

Certification

The oilfield equipment manufactured by our Manufacturing Division is certified in accordance with the Rules of Certification in the Russian Federation, dated May 10, 2000, which establishes the procedure for certification, the basis for the issue of compliance certificates and other related rules.

Legal Protection of Intellectual Property

Generally, industrial intellectual property is governed by the Patent Law of the Russian Federation dated September 23, 1992 or (the "Patent Law"). This law addresses issues which may arise in connection with the legal protection and use of inventions, useful models and industrial designs.

The Federal Law on the Legal Protection of Topologies of Integrated Microcircuits dated September 23, 1992 (the "IMC Law"), regulates relations arising in connection with the creation, legal protection and use of topologies of integrated microcircuits. The IMC Law protects the right of authorship as an inalienable personal right for an indefinite period of time. The author (or, as the case may be, other right-holder) enjoys the exclusive right to the protected topology. The IMC Law also sets forth the procedure for registering the right of authorship to topology, the time limit of the exclusive right to a protected topology and rules concerning infringement of the exclusive right to the protected topology.

Under the Law of the Russian Federation on Copyright and Neighboring Rights dated July 9, 1993 (the "Copyright Law") and the Law of the Russian Federation on Legal Protection of Computer Programs and Databases dated September 23, 1992 (the "Computer Program Law") copyright protection is extended to software products. The Copyright Law sets forth general provisions applicable to all copyrightable works providing for the exclusivity of an author's rights with respect to the use of its work for a term consisting of the life of the author and 70 years after the author's death. The right of authorship is deemed to be a personal right that cannot be alienated. Other copyrights may be transferred by the original author to third parties on the basis of a license agreement. The Computer Program Law provides for additional regulation specific to the creation and use of software products. In particular, this law specifies that in the case of a work created by an employee for hire, the employer retains the copyright to the work, unless the parties have expressly agreed otherwise. The Computer Program Law also provides for the optional right of an author of a computer program to deposit and register the program with the Federal Service on Intellectual Property, Patents and Trademarks.

Environmental

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law "On Environmental Protection", dated January 10, 2002, (the "Environmental Protection Law") as well as by a number of other federal and local legal acts.

Pay-to-Pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The Ministry of Natural Resources has established standards relating to the permissible impact of pollution on the environment and, in particular, has established limits for emissions, waste disposal and resource extraction. A company may obtain approval to exceed these statutory limits from the federal or regional authorities, depending on the type and scale of the potential environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. We are not subject to the pay-to-pollute regime as we are contractors to oil and gas companies, which are responsible for ensuring environmental compliance.

Ecological Approval

Any activities that may affect the environment are subject to ecological approval by the federal authorities in accordance with the Federal Law on Ecological Expert Examination. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described in "—Environmental Liability" below.

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control and the implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organizations, also have the right to initiate lawsuits seeking compensation for damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental Liability

If the operations of a company violate environmental requirements or cause harm to the environment, a court action may be brought to limit or ban those operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Health and Safety

Due to the nature of our business, most of our activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating the safety of employees at industrial workplaces and to which the company is subject is the Safety Law. The Safety Law also contains regulations relating to the use and storage of dangerous substances and which apply to our facilities and sites. Our oilfield services are also subject to the Rules of Safety in the Oil and Gas Industry, dated June 5, 2003.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by Rostekhnadzor.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labor Code of Russia (the "Labor Code"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or to create their own wrecking services in certain cases, conduct personnel training programs, create systems to respond to and inform Rostekhnadzor of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarize the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declarations must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a license permitting the operation of a dangerous industrial facility.

Rostekhnadzor has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of this investigation. The officials of Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. Rostekhnadzor may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Employment and Labor

Labor matters in Russia are primarily governed by the Labor Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws, such as the Federal Law on Employment in the Russian Federation, and other acts adopted in accordance with these laws.

Employment Contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labor legislation expressly limits the possibility of entering into fixed term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labor relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds set out in the Labor Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with his or her duties due to incompetence;
- repeated failure of the employee to fulfill his or her duties;
- any single gross violation by the employee of his or her duties; and
- provision by the employee of false documents or misleading information prior to becoming employed.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labor Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of fourteen or other persons caring for a child under the age of 14 without a mother.

Any termination of an employment contract by an employer that is inconsistent with the Labor Code requirements may be challenged by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work Time and Salary

The Labor Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid leave under the law is generally four weeks. The retirement age in the Russian Federation is 60 for males and 55 for females.

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is currently 1,100 rubles. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements for strikes to be considered legal. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

Trade Unions

Although recent Russian labor regulations have curtailed the influence of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, our management routinely interacts with trade unions in order to ensure the appropriate treatment of our employees and the stability of our business.

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guarantees of Their Activity (the “Trade Union Law”). Other applicable legal acts include the Labor Code, which provides for more detailed regulations relating to the activities of trade unions.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labor laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labor issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labor disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to making employees elected or appointed to the management of trade unions redundant;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;

- retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labor inspectors and prosecutors to ensure that an employer does not violate Russian labor laws. Trade unions may also initiate collective labor disputes, which may lead to strikes.

To initiate a collective labor dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labor disputes are generally referred to mediation or labor arbitration.

The Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Code of the Russian Federation on Administrative Misdemeanors nor the Criminal Code of the Russian Federation currently has provisions specifically relating to these violations, general provisions and sanctions may be applicable.

Antimonopoly Restrictions

Effective October 26, 2006, the main Russian law in the area of competition has been the Federal Law "On Protection of Competition" No. 135-FZ (the "New Antimonopoly Law"). Some or all of our future activities, including acquisitions that we may carry out in the future, may be subject to compliance with the provisions of the New Antimonopoly Law, including the requirement that a prior approval be obtained from the FAS. Prior to October 26, 2006, the applicable law had been the Law of the RSFSR "On Competition and Restriction of Monopoly Activities on Commodity Markets" No. 948-1, dated March 22, 1991 (the "Prior Antimonopoly Law"). The key provisions of the New Antimonopoly Law and the Prior Antimonopoly Law are summarized below.

Prior Antimonopoly Law

Among other matters, under the Prior Antimonopoly Law, the FAS was authorized to approve acquisitions of more than 20% of the voting shares or participation interests in, acquisitions of more than 10% of the production assets of, and acquisitions of control over, Russian entities.

If the combined assets of the target and the acquirer's group of entities and/or individuals exceeded RUR 3 billion or if the target, the acquirer or a company in the acquirer's group of entities and/or individuals was registered as having more than a 35% share of a particular commodity market, then prior consent of the FAS for the acquisition was required. As a condition to issuing such approvals, the FAS had the authority to impose certain conditions designed to promote competition, including restrictions on conducting business, such as price limitations, geographical expansion, associations and agreements with competitors.

The Prior Antimonopoly Law expressly provided for its extraterritorial application to transactions that were consummated outside of the Russian Federation but led, or could lead, to the restriction of competition in Russia, or could give rise to other negative consequences on the Russian markets. Russian antimonopoly authorities, therefore, tended to apply Russian merger control rules to offshore acquisitions if the non-Russian target company had a market presence in Russia.

As no court guidance as to the meaning of "acquisition of control" under the Prior Antimonopoly Law had been developed and due to the broad possible interpretation of the terms "group of entities and/or individuals" and "acquisition of control", application of the relevant antimonopoly laws and regulation largely depended on interpretation of such concepts and terms at any particular time by the FAS and/or the Russian courts. See "Risk Factors—Risks Related to Our Business".

Under the Prior Antimonopoly Law, failure to obtain consent from the FAS for an acquisition subject to such approval could result in:

- a Russian court challenging the relevant acquisition, provided the FAS met the burden of proving that the transaction resulted in the restriction of competition;
- the imposition of an administrative fine of up to RUR 500,000;
- the issue by the FAS of certain orders in relation to the Russian subsidiaries of the parties to the acquisition (for example, orders imposing restrictions on their activities or establishing additional reporting requirements); and
- increased scrutiny of any further dealings with, or investigations by, the FAS, including in relation to any future restructuring or acquisition involving the Russian subsidiaries of the parties to such transaction.

New Antimonopoly Law

Although certain elements of the Prior Antimonopoly Law have been retained by the New Antimonopoly Law, the latter represents an attempt by the Russian legislators to create a more market-friendly, anti trust regime, which would also be more in line with the methods and approaches to antitrust law developed in the United States and the European Union.

The New Antimonopoly Law requires that prior approval of the FAS be obtained for (i) acquisitions of more than 25%, 50%, and 75% of the voting shares in a Russian joint stock company and more than 1/3, 1/2 and 2/3 of the interests in a Russian limited liability company, (ii) acquisitions of the production assets and/or intangible assets of a business entity if such assets represent more than 20% of the balance sheet value of the vendor's production assets and intangible assets, and (iii) acquisitions of control over business entities. Approval by the FAS would be required if, in relation to the acquisition discussed in the foregoing section (i) the combined assets of the target's and the acquirer's group of entities and/or individuals exceed RUR 3 billion, (ii) the combined revenues of the target's and the acquirer's group of entities and/or individuals from the sale of goods for the proceeding year exceed RUR 6 billion and the combined value of the assets of the target's group of entities exceed RUR 150 million, or (iii) the target, the acquirer or a company in the target's or acquirer's group of entities and/or individuals is registered as having more than a 35% share of a particular commodity market.

The acquisitions would require subsequent notification to the FAS if (i) the parties are entities of the same group, (ii) the list of the group's entities was provided to the FAS at least one month prior to the consummation of the transaction, and (iii) the list of the group's entities has not changed as at the date of the consummation of the transaction.

Acquisitions do not require any FAS filing if they are authorized by acts of the President or the government.

The New Antimonopoly Law retains the extraterritorial approach of Russian anti trust rules. However, as a general rule, for such rules to apply to an offshore transaction, the relevant transactions must be related to either production assets and/or shares of a Russian entity and result or be capable of resulting in restriction of competition in the Russian Federation. Furthermore, the New Antimonopoly Law expressly allows the FAS to consider foreign goods and services in defining markets for the purposes of enforcement and other actions, thereby potentially easing restrictions on Russian providers of goods and services.

MANAGEMENT

Board of Directors

As of the date of this document, our Board of Directors comprises:

Name	Age	Position	Expiry of Term
John B. Fitzgibbons	37	Non-Executive Chairman	Indefinite
Felix V. Lubashevsky	33	Executive Director and Chief Executive Officer	Indefinite
Iosif Bakaleynik	55	Non-Executive Director	Indefinite
R. Neil Gaskell	58	Non-Executive Director	Indefinite
John W. Kennedy	56	Non-Executive Director	Indefinite

All of the members of our Board of Directors were elected on the dates set forth below for indefinite terms. The business address of each of the members of our Board of Directors is Walker House, Mary Street, P.O. Box KY1-9002, George Town, Grand Cayman, Cayman Islands.

John B. Fitzgibbons. Mr. Fitzgibbons has served as chairman of our Board of Directors since September 2004 and has been a member of our Board of Directors since we were founded in March 2004. Mr. Fitzgibbons also serves as a director of IG Holdings Limited, the primary holding company of our operating subsidiaries, and a director of IG Management Limited, the primary holding company of our management subsidiaries. Mr. Fitzgibbons is the owner and managing member of J Fitzgibbons LLC and Brookline Partners LLC. From 1996 to 2003, Mr. Fitzgibbons served as president and chief executive officer of the Khanty Mansiysk Oil Corporation, an oil producing company operating in the Khanty Mansisyk region of the Russian Federation. He is also a director of several other corporations and a trustee of numerous philanthropic organizations. Mr. Fitzgibbons holds a bachelor of arts degree from Harvard University.

Felix V. Lubashevsky. Mr. Lubashevsky has been a member of our Board of Directors since July 2005 and has also served as our chief executive officer since July 2005. Mr. Lubashevsky is also a director of IG Holdings Limited, IG Management Limited and the general director of our Russian management subsidiary CJSC "Integra Management". From 2003 to 2005, Mr. Lubashevsky was the executive vice president of oilfield services and supply chain management at TNK-BP. From 1998 to 2003, Mr. Lubashevksy held various management positions at the Tyumen Oil Company, including vice president of oilfield services and director of corporate contract development. Mr. Lubashevsky holds a degree in economical cybernetics from the Plekhanov Russian Academy of Economics.

Iosif A. Bakaleynik. Mr. Bakaleynik has served as a member of our Board of Directors since November 2006 and was recently appointed as the chairman of our compensation committee. Mr. Bakaleynik has been a member of the board of directors of Orekhovo-Zuevo Glass Company since 2005 and was chairman of the board of directors of OJSC Vladimir Tractor Plant from 1997 to 2002. Since 2003, Mr. Bakaleynik has been senior vice president and chief financial officer and a member of the management board for OJSC "SUAL-Holding". From 1997 to 2003, Mr. Bakaleynik served as the senior vice president and chief financial officer and as a member of the management board of OJSC "Tyumen Oil Company". From 1994 to 1997, Mr. Bakaleynik served as General Director of OJSC "Vladimir Tractor Factory". From 1992 to 1994, Mr. Bakaleynik served as a special advisor to the government of the Russian Federation for direct foreign investment. Mr. Bakaleynik holds a degree in economics from Moscow State University and a masters degree in business administration from Harvard University.

R. Neil Gaskell. Mr. Gaskell has served as a member of our Board of Directors since November 2005 and is also the chairman of our audit committee. Mr. Gaskell has also served as a member of the board of directors of Aberdeen All Asia Investment Trust Plc (formerly Gartmore Asia Pacific Trust Plc) since 2004. From 2000 to 2003, Mr. Gaskell served as treasurer and from, 1997 to 2000, as deputy treasurer of the Royal Dutch Shell Group. In connection with his position at Royal Dutch Shell Group, from 2001 to 2003, Mr. Gaskell also served as a director of numerous subsidiaries of the Royal Dutch Shell Group including Shell International Ltd, Shell Capital Ltd, Shell Trading International Ltd, Shell Pensions Trust Ltd and Enterprise Oil Plc. From 1996 to 1997, he served as representative director and deputy chief executive officer of Showa Shell Sekiyu K.K. Mr. Gaskell holds a bachelor of arts degree in philosophy and economics from the London School of Economics and is a fellow of the Association of Chartered Certified Accountants.

John W. Kennedy. Mr. Kennedy has served as a member of our Board of Directors since April 2005 and a member of the audit committee since November 2005. Since 2003, Mr. Kennedy has served as chairman of the board of directors of Wellstream International Ltd. and since 2005, he has been a director of the United Kingdom

Atomic Energy Authority. Mr. Kennedy previously served as chairman of the board of directors of Vetco International. From 2003 to 2005, he served as a director of Sub Sea 7 and, from 1999 to 2002, he served as an executive vice president for the Halliburton Company and, in connection with this role also served as a director of a number of subsidiary companies. Mr. Kennedy holds a degree in electrical engineering from University College Dublin and a masters degree in science from the London Business School. He is also a Sloan fellow, a fellow of the Institute of Electrical Engineers and a chartered engineer.

Management

As of the date of this document, the members of our senior management team (the "Management"[1]) are as follows:

Name	Age	Position	Expiry of Term
Felix V. Lubashevksy	33	Chief Executive Officer	Indefinite
Alex Polevoy	36	Chief Financial Officer	December 31, 2008
Mark Sadykhov	46	Executive Vice President—Oilfield Services	December 31, 2009
Elena K. Shevchenko	41	Executive Vice President—Strategy and Business Development	Indefinite
Dmitry Shulman	49	Executive Vice President—Business Assurance	December 31, 2007
Viktor Tkachev	48	Executive Vice President—Equipment Manufacturing	December 31, 2007

(1) All members of our Management are employed by our wholly owned subsidiary in Russia, CJSC "Integra Management".

The business address of our Management is the Group's principal administrative offices at 27-29/1Bldg 6, Smolenskaya-Sennaya, 119121 Moscow, Russian Federation.

Felix V. Lubashevsky. Mr. Lubashevsky has served as our chief executive officer since July 2005. For additional information, see "—Board of Directors" above.

Alex Polevoy. Mr. Polevoy has been our chief financial officer since June 2006. Mr. Polevoy has been a member of the board of directors of OJSC "Mechel" since June 2006 where he served as the chief financial officer from 2005 to 2006. From 2004 to 2005, Mr. Polevoy was the director of corporate audit of TNK-BP Management and from 2001 to 2004 was the head of the monitoring and control group of the audit committee of the board of directors of TNK-BP (and its predecessor TNK Industrial). During 2001, Mr. Polevoy was the head of corporate procedures for Yukos—Moscow Corporate Holding and, from 1999 to 2001, was vice president of finance for Yukos EP. From 1997 to 1998, Mr. Polevoy was the vice president of finance and administration for International Energy Services, Inc., chief financial officer of its Kazakhstan operations and a member of the board of directors of Geotex Project. Mr. Polevoy holds a degree in business administration and accounting from the Northern Alberta Institute of Technology.

Mark Sadykhov. Mr. Sadykhov has been our executive vice president for oilfield services since November 2006. Mr. Sadykhov is a director of Vostok Energy Limited, an oil exploration and production company operating in Russia. Mr. Sadykhov is also a director of Wilson Eurasia LLC, a company that he co-founded in 2004 and which provides supply chain management, procurement and warehousing services to the Russian oil and gas industry. In June 1993, Mr. Sadykhov founded and became president of Smith Eurasia, a group of four companies and their subsidiaries purchased by us in August 2006. From 1992 to 1993, he was the manager of international business development for Smith International, Inc. Mr. Sadykhov holds a bachelor of science in petroleum engineering from, and has completed post graduate studies in petroleum engineering at, the Azerbaijan Oil and Gas Institute.

Elena K. Shevchenko. Ms. Shevchenko has been our executive vice president for strategy and business development since 2005. Ms. Shevchenko is also a director of IG Holdings Limited and IG Management Limited. From 2004 to 2005, she served as the head of the representative office of IG Holdings Ltd. From 1998 to 2003, Ms. Shevchenko was the executive vice president for business services for the Khanty-Mansiysk Oil Company. From 1997 to 1998, Ms. Shevchenko was the director of the representative office of Ural Petroleum Management Ltd. Ms. Shevchenko holds a degree in geology and geophysics from the Gubkin Russian State University of Oil and Gas.

Dmitry Shulman. Mr. Shulman has been our executive vice president for business assurance since April 2006 and was our vice president of security from April 2005 to April 2006. Mr. Shulman served as the deputy of the management board of Commercial Bank "Stroycredit" from February 2003 to April 2005. From 1998 to 2003, Mr. Shulman was director of the department of security for OJSC NK "Rosneft" and was manager of security services for OJSC "Rosneft—Sakhalinmorneftegaz" from 1995 to 1998. Mr. Shulman holds a degree in law from the Khabarovsk High School of the Ministry of Internal Affairs and a degree in zoology from the Moscow Veterinary Academy.

Viktor Tkachev. Mr. Tkachev has been our executive vice president for manufacturing since October 2005 and also serves as president of CJSC "Uralmash-VNIIBT", the management company for our manufacturing enterprises. Prior to being appointed executive vice president, he served as the vice president of manufacturing from August 2005 to October 2005. Mr. Tkachev served as the deputy general director of OJSC "Iletsksol" from November 2004 to August 2005 and a member of its management board from April 2003 to December 2004. Mr. Tkachev was also president of OJSC "ONAKO" from February 2001 to December 2002 and general director of OJSC "Orenburgneft" from November 2000 to December 2002. From February 1998 to November 2000, he held the positions of first vice president of marketing and refining and director of the department of wholesale sales and transportation successively at OJSC "Tyumen Oil Company". Mr. Tkachev holds a degree in mechanical engineering from the Kiev Institute of Civil Aviation Engineers.

General

As at the date of this document, none of the members of the Board of Directors or Management has at any time within the last five years:

(i) had any convictions (whether spent or unspent) in relation to offences involving fraud or dishonesty;

(ii) been adjudged bankrupt or been the subject of any individual voluntary arrangement;

(iii) been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies);

(iv) been disqualified by a court from acting as a director or other officer of any company or from acting in the management or conduct of the affairs of any company;

(v) been a partner in a partnership which, while he was a partner or within 12 months of his ceasing to be a partner, was put into compulsory liquidation or administration or which entered into any partnership voluntary arrangement, or had a receiver appointed over any partnership asset;

(vi) had a receiver appointed with respect to any assets belonging to him; or

(vii) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or which entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors, at any time during which he was a director of that company or within 12 months after his ceasing to be a director.

In addition to their directorships in our Company and certain of our subsidiaries, members of the Board of Directors and members of Management hold, or have held within the past five years, the following directorships or partnerships:

Name	Directorships/Partnerships	Position Still Held
John B. Fitzgibbons	Managing Member, J Fitzgibbons LLC	Yes
	Managing Member, J Fitzgibbons Investments LLC	Yes
	Managing Member, Brookline Partners LLC	Yes
	Chairman, Noodlesoup Productions, Inc.	Yes
	Director, Misa Investments	Yes
	Director, Well Data Partners LLC	Yes
	President, CEO and Director, Khanty Mansiysk Oil Corporation	No
	Chairman, Atticus Publishing Limited	No
	Chairman, Redgrave Holdings Limited	No
	Director, Microdrug AB	No
	Director, Brunswick Partners One Limited	No
	Director, Brunswick Partners Two Limited	No
	Director, Brunswick Partners Three Limited	No
	Director, Brunswick Partners Four Limited	No
	Director, Brunswick Partners Five Limited	No
	Director, Brunswick Partners Six Limited	No
	Director, Brunswick Partners Seven Limited	No
	Director, Brunswick Partners Eight Limited	No
Felix V. Lubashevsky	Director, Starway LDC	Yes
	Director, OJSC "Nizhnervartovskneftegaz"	No
Iosif A. Bakaleynik	Director, Orekhovo-Zuevo Glass Company.	Yes
	Chairman of the Board of Directors, OJSC Vladimir Tractor Plant	No
R. Neil Gaskell	Director, Aberdeen All Asia Investment Trust Plc	Yes
	Director, Shell International Ltd	No
	Director, Shell Capital Ltd	No
	Director, Shell Trading International Ltd	No
	Director, Shell Pensions Trust Ltd	No
	Director, Enterprise Oil Plc	No
John Kennedy	Director, United Kingdom Atomic Energy Authority	Yes
	Director, Well Stream International Ltd	Yes
	Director, Vetco International Director, Well Stream International Ltd.	No
	Director, SubSea 7	No
Alex Polevoy	Director, Mechel Group	Yes
Mark Sadykhov	Director, Vostok Energy Limited	Yes
	Director, Wilson Eurasia	Yes
Elena K. Shevchenko	Director, Misa Investments	Yes
	Director, Largone Management Limited (Cyprus)	Yes
	Director, Atticus Publishing Limited	No
	Director, Redgrave Holdings Limited	No

Save as set out above, none of the members of the Board of Directors or Management has any business interests, nor performs any activities, outside our Group which are significant with respect to our Group.

None of the members of the Board of Directors or Management have any relevant family relationships for the purposes of the Prospectus Rules.

Other than as disclosed in "Risk Factors—Our executive vice-president for oilfield services and certain of his deputies hold interests in other companies within the oilfield services industry which may give rise to potential conflicts of interest between their duties to us and their private interests", there are:

(i) no actual or potential conflicts of interest between any duties owed to us by the members of the Board of Directors and Management and their private interests and/or other duties; and

(ii) no arrangements or understandings with major shareholders, members, customers, suppliers or others, pursuant to which any of the members of the Board of Directors and Management were selected.

Corporate Governance and Internal Controls

As a company incorporated in the Cayman Islands, we are not subject to formal corporate governance requirements. Nevertheless, we are aiming to follow high standards of corporate governance and to manage the Company in a manner that will result in transparency, effective risk management and strong internal controls. As a group operating primarily in Russia and other CIS countries, we are also committed to observing the principles of corporate governance applicable to companies listed on the Moscow Stock Exchange. These principles include, among others, a requirement (i) to have at least one independent director, (ii) to maintain an audit committee within the Board of Directors, (iii) to adopt a bylaw on insider trading, and (iv) to implement internal control procedures.

Our management team has to date been focused primarily on completing a large number of acquisitions and related financings, and has had limited time to implement certain management processes and the internal controls required by a company of our size and diversity. As a result, we have experienced failures in various aspects of our management processes, including oversight, reporting and control functions. In addition, our auditors have identified material weaknesses in our internal controls and identified deficiencies that include, among others, insufficient resources in our reporting function leading to errors and inconsistencies, insufficient monitoring of compliance with debt covenants, problems with timeliness, accuracy and quality of information, and insufficient documentation, accountability and internal review. See "Risk Factors—Risks Related to Our Business—Certain of our management processes and internal controls have been deficient and failed to ensure proper oversight, reporting and control of our business" and "—Risks Related to Financial Matters". We are, however, committed to strengthening our management processes and internal control functions. We set out below a description of the corporate governance principles and internal control processes that we have been operating to date, and those that we plan to implement.

Existing Corporate Governance and Internal Control Processes

Our Board of Directors is responsible for the proper management and oversight of the Company, and meets regularly. We have a strong non-executive element on our Board, with four out of the five members of our Board serving in a non-executive capacity.

We have established an audit committee at the level of our Board of Directors. Additionally, at the Management level, we rely on our Executive Committee, Operating Committee, Financial Committee, Investment Committee and Contract Control Committee with regard to our day-to-day operations.

Audit Committee

The role of the audit committee of our Board of Directors is to conduct oversight of any financial information relating to our results. In doing so, the audit committee monitors our financial, accounting and legal practices against relevant standards; oversees the performance of our independent auditors and internal auditor; reviews any changes in accounting methods and the principal judgments made by management at the close of the half-year and annual consolidated financial statements; and supervises our compliance with accounting and financial internal control processes. The audit committee holds four regularly scheduled meetings each year, but also convenes such other meetings on an ad hoc basis as it deems necessary. Members of the audit committee are appointed by the Board of Directors for a three year term and may be appointed for up to two subsequent terms. The current members of the audit committee are three of our non-executive directors, Neil Gaskell, who is a qualified accountant and has extensive financial experience including responsibility for IFRS accounting, John W. Kennedy and Iosif Bakaleynik, and Gail Coleman, who is Assistant Secretary to the Board of Directors of the Company and chief financial officer of Brookline Partners LLC. See "Related Party Transactions".

Compensation Committee

The Compensation Committee, which is chaired by Iosif Bakaleynik, is responsible for establishing and implementing a policy for the compensation of directors, consultants and members of senior management, which may take the form of cash, stock options granted pursuant to stock option plans and other benefits.

Executive Committee

Our Executive Committee, consisting of Felix Lubashevsky, Alex Polevoy, Mark Sadykhov, Elena Shevchenko, Dmitry Shulman and Viktor Tkachev, reports directly to the Board of Directors and is responsible for decisions relating to the corporate and management structure of the Group below the level of the Board, as well as for approval of segmental business plans and financing transactions with a value between US$15 million and US$50 million.

Operating Committee

The Operating Committee is chaired by Felix Lubashevsky and is chiefly responsible for the day-to-day management of the Group's commercial contracts and acquisition projects. The Operating Committee is also responsible for analysing and reviewing business performance and setting forecasts. The Operating Committee carries out HSE statistics and analysis, and decides on any actions that need to be taken to improve administration and general support matters.

Financial Committee

The Financial Committee, which is chaired by Alex Polevoy, is chiefly responsible for financial strategy and the approval of procedures related to internal controls. The Financial Committee reviews and approves the monthly cashflow plan, intercompany financings, and quarterly and annual financial reporting. The Financial Committee is also responsible for working capital management and credit risk approval, and for making decisions on any financing transactions with a value below US$15.0 million.

Investment Committee

The Investment Committee, which is chaired by Elena Shevchenko, is chiefly responsible for the Group's long term and annual investment plans and for the approval and monitoring of investment projects.

Contract Control Committee

The Contract Control Committee, which is chaired by Dmitry Shulman, is responsible for all aspects of our procurement strategy, including developing procedures and policies for approving new contracts and monitoring compliance with those procedures and policies.

Proposed Enhancements to our Corporate Governance and Internal Control Processes

Our Board of Directors and Management are aware that weaknesses exist in our management processes, including oversight, reporting and control functions. In order to strengthen these management processes and corporate governance generally, our Board and Management are committed to implementing changes to our existing management structure and processes.

We describe below certain key measures that we have recently taken or plan to take in the short to medium term:

Delegations of Authority. We have established a set of guidelines to delineate those actions that may be taken only with the approval of our Board of Directors and those actions that may be taken by members of Management. We will review these guidelines on a continuing basis in order to ensure that all decisions are being taken at the appropriate level.

Internal Audit Function. At the start of December 2006, we hired Sergey Utkin, a former partner at KPMG, to head a new internal audit function. Mr. Utkin has commenced a process of reviewing our internal controls and past deficiencies in them, with a view to putting in place a strong internal audit function capable of exercising the level of internal control appropriate for a public company of our size.

Appointment of General Counsel. While we currently have a number of legal personnel that manage our internal legal function, we are planning to strengthen our legal controls. We have recently recruited an experienced General Counsel, who will commence work at the end of February 2007 and will report directly to our chief executive officer.

Appointment of Financial Controller and Enhanced Financial Controls. We plan to appoint a financial controller responsible for oversight of our cash management, accounting and reporting functions. We plan to establish an independent team under the financial controller, which will report directly to the chief financial officer. The primary function of the team will be to ensure internal compliance with agreed control requirements. In addition, we plan to introduce process changes in our treasury department to ensure that all payments above certain thresholds are required to be authenticated by multiple signatures and reviewed by the independent back office team.

Improved Regional Financial Function. We have recently hired, and plan to hire additional, experienced finance directors for each of our business segments and for our key subsidiaries in order to improve management and integration of the finance functions across our business. We are aiming to build a single, cohesive financial structure to support our regional business operations across the Russian Federation.

Debt Incurrence and Covenant Compliance. We have developed a plan to ensure more effective oversight of the incurrence of additional debt by the group and proper monitoring of our covenants and other obligations under our financing agreements. As we have done in the past, our Board will agree on a regular basis with our Management an appropriate financing plan for the development of our business. We have commenced a process of defining fixed procedures and approval processes that must be followed in order to incur any borrowings. To ensure appropriate checks and balances, we plan to separate the function of negotiating the terms of our future financing agreements from the function of providing final approval. In addition, we are establishing a formal system and team responsible for ensuring, among other things, that debt is incurred in compliance with the agreed framework and that covenants and other obligations in our financing agreements are properly monitored and fully complied with.

Policy on Acquisitions. We are in the process of developing and implementing a consistent policy governing our approach to acquisitions and investment opportunities, which will be designed to ensure due process is followed in the negotiation and completion of future transactions.

Investment Governance. We have recently developed and implemented a governance process in relation to new investments, which ensures that no material capital investments can be undertaken anywhere within the organization without a thorough initial review by our Board and the Investment Committee and subsequent ongoing reviews of the results of the relevant project.

We recently established a working group to consider further improvements to internal controls in all major business areas. This working group will be under the supervision of the head of our internal audit function, who reports to our chief financial officer. In addition, it will report to our audit committee on a regular basis. In February 2007, this working group appointed an external expert to perform a review of our internal control environment and to advise us on developing a medium and long-term detailed strategy for identifying our control weaknesses and implementing solutions.

Although it is intended that these measures will be implemented following the Offering, there can be no assurance that these measures will be implemented fully, or at all, or that such measures, if implemented, will be effective in countering the deficiencies we have identified in our management processes and internal control functions, nor can there be any assurance that we will not encounter further serious problems as a result of other deficiencies or failures which have not yet been identified. Our success in enhancing our management processes and internal controls will depend in part on being able to hire appropriate additional qualified personnel, who can implement the measures outlined above. There can be no assurance that we will be able to hire such personnel on a timely basis or at all.

Election of Executive Officers and Directors

Our officers are elected by the Board of Directors and serve at the discretion of the Board of Directors.

Appointment and Removal of Directors

Subject to the Articles of Association, the shareholders may appoint any person to be a director by ordinary resolution. The directors may also appoint directors either to fill a casual vacancy or as an additional director provided that such appointment is put to shareholders at the next general meeting.

The shareholders may remove a director from the Board of Directors by ordinary resolution.

Directors Duties

The Board of Directors is responsible for the management of the overall affairs of the Company. To assist it in carrying out its duties the Board of Directors may delegate certain of its powers to executive officers.

The Companies Law (2004 Revision) of the Cayman Islands does not set out the duties of directors. However, the Cayman Islands' Court has held that the fiduciary obligations of a senior manager with major responsibilities are the same as those of a director or trustee. These duties were listed as "the observance of general standards of loyalty, good faith, and the avoidance of a conflict of duty and self-interest".

The Cayman Islands Court would also view as highly persuasive the United Kingdom common law principles relating to directors' duties. By application of the common law principles, the duties of our directors can be summarized as follows:

(a) a duty to act in what the directors bona fide consider to be the best interests of the company (and in this regard it should be noted that what is in the best interests of the group of companies to which Integra Group belongs is not necessarily in the best interests of Integra Group);

(b) a duty to exercise their powers for the purposes for which they are conferred;

(c) a duty of trusteeship of our assets;

(d) the duty to avoid conflicts of interest and of duty;

(e) a duty to disclose personal interest in contracts involving us;

(f) a duty not to make secret profits from the directors' office; and

(g) a duty to act with skill and care.

Liability and Indemnification of Directors and Officers

The directors are not personally liable to us or our shareholders for damages for breach of fiduciary duty as a director, except for a liability (a) for any breach of the director's duty of loyalty to us or our shareholders, (b) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of the law, or (c) for any transaction from which the director receives an improper personal benefit.

Generally speaking, our Articles of Association oblige us to indemnify directors and officers and to advance expenses to defend claims against directors and officers to the fullest extent allowed by law, except in respect of the willful default or fraud of such director or officer.

We plan to obtain indemnity insurance for our directors and officers in the near future.

Remuneration of Members of Board of Directors and Management

The aggregate amount of compensation paid and benefits in kind granted by us to members of our Board of Directors and Management as a group for services in all capacities provided to us during the nine months ended September 30, 2006 was approximately US$7.9 million, including share option compensation expense, salary and bonuses.

Effective January 1, 2007, each non-executive member of our Board of Directors will receive US$90,000 per annum for their service as directors. Additional fees of US$10,000 annum will be paid to each member of a committee of our Board of Directors and a further US$5,000 per annum will be paid to each chairman of a committee of our Board of Directors. The chairman of our Board of Directors will receive supplemental fees in the amount of US$500,000 per annum for his service as chairman. All fees are paid quarterly in arrears. Following completion of the audited financial statements for the year 2007, and conditional on their continued service as a member of our Audit Committee to that date, each of John Kennedy, Iosif Bakaleynik and Gail Coleman will be awarded 1,000 of our Class A common shares. Following completion of the audited financial statements for the year 2007, and conditional on his continued service as a director and as chairman of our Audit Committee to that date, Neil Gaskell will be awarded 2,000 of our Class A common shares. All members of our Board of Directors are reimbursed for their reasonable, documented out-of-pocket expenses incurred in attending meetings of the Board of Directors and its committees. Any of these provisions may be amended by our Board of Directors.

In 2007, we expect the aggregate annual amount of compensation and benefits in kind granted to our Board of Directors and Management to increase to approximately US$16 million, including share option compensation expense.

None of the members of our Board of Directors or Management are entitled to any benefit upon termination of their employment or duties.

Interests of Members of Board of Directors and Management in the Company

The table below sets out the beneficial interests of the members of our Board of Directors and Management, both directly and indirectly, in our share capital held as common shares, preferred shares, options or warrants exercisable for or convertible into Class A common shares (whether vested or not) (a) immediately prior to the Closing Date, and (b) immediately following the Closing Date. The table assumes that immediately prior to the Closing Date (i) each issued and outstanding Class B common share has been exchanged for an equal number of Class A common shares (although such exchange will not occur on the Closing Date), (ii) each issued and outstanding preferred share has been exchanged for an equal number of Class A common shares (which exchange will automatically occur on the Closing Date), (iii) the 12,400 warrants issued in connection with our 18% Senior Notes have been exercised on a cashless basis for an aggregate of 97,164 Class A common shares, (iv) the 90,000 warrants issued in connection with the September 2005 Facility Agreement have been exercised for an aggregate of 62,687 Class A common shares, and (v) each option (including options granted after September 30, 2006), whether vested or not, has been exercised for Class A common shares. In each case, we have expressed such interests as a percentage of our fully diluted share capital (subject to the assumptions above) which, immediately prior to the Closing Date, was 6,085,562 Class A common shares and which, immediately following the Closing Date (assuming exercise of the Over-Allotment Option in full), will be 7,877,238 Class A common shares.

		Immediately prior to the Closing Date	Immediately following the Closing Date
	Number of common shares or options on common shares	As a percentage of fully diluted share capital	As a percentage of fully diluted share capital
John B. Fitzgibbons[1]	456,314	7.50%	5.79%
Felix V. Lubashevsky[2]	940,000	15.45%	11.93%
R. Neil Gaskell[3]	27,000	0.44%	0.34%
John Kennedy[4]	77,777	1.28%	0.99%
Iosif Bakaleynik[5]	25,000	0.41%	0.32%
Alex Polevoy[6]	120,000	1.97%	1.52%
Mark Sadykhov[7]	233,308	3.83%	2.96%
Elena Shevchenko[8]	189,547	3.11%	2.41%
Dmitry Shulman[9]	40,000	0.66%	0.51%
Viktor Tkachev[10]	150,000	2.46%	1.90%

(1) Mr. Fitzgibbons indirectly owns Class A common shares and preferred shares through Brookline Partners LLC, has an affiliate interest in the John B. Fitzgibbons 2004 Family Trust, the Fitzgibbons 2006 Annuity Trust and the JBF 2006 Annuity Trust. Brookline Partners LLC is the general partner of Integra Partners I, L.P. and Integra Partners II, L.P. (but has no economic interest therein). Mr. Fitzgibbons as the managing member of Brookline Partners LLC exercises voting control over the shareholdings of Integra Partners I, L.P. and Integra Partners II, L.P. in our Company. See "Principal and Selling Shareholders".

(2) Mr. Lubashevsky indirectly owns Class B common shares through Starway LDC. For a discussion of the terms of exchange of the Class B common shares, see "Share Capital and Corporate Structure". In addition, see "Principal and Selling Shareholders".

(3) Mr. Gaskell owns directly 2,000 Class A common shares and has a notifiable interest in 25,000 options for Class A common shares (with an exercise price of US$34 per share and an expiry date of November 14, 2015), of which 12,500 options have vested to date. He will also be the beneficiary of an award of 2,000 Class A common shares to be issued in 2008 subject to certain conditions including Mr. Gaskell's continued service as a director of our Company and chairman of our Audit Committee. See "Principal and Selling Shareholders".

(4) Mr. Kennedy has a notifiable interest in 52,777 Class A common shares and 25,000 options for Class A common shares (with an exercise price of US$34 per share and an expiry date of November 14, 2015), of which 12,500 options have vested to date. He will also be the beneficiary of an award of 1,000 Class A common shares to be issued in 2008 subject to certain conditions including Mr. Kennedy's continued service as a director of our Company and a member of our Audit Committee. See "Principal and Selling Shareholders".

(5) Mr. Bakaleynik owns 25,000 options for Class A common shares (with an exercise price of US$275 per share and an expiry date of November 10, 2016), of which 12,500 options have vested to date. He will also be the beneficiary of an award of 1,000 Class A common shares to be issued in 2008 subject to certain conditions including Mr. Bakaleynik's continued service as a director of our Company and a member of our Audit Committee.

(6) Mr. Polevoy indirectly owns 120,000 options (with an exercise price of US$34 per share and an expiry date of June 1, 2016), of which 40,000 options have vested to date.

(7) Mr. Sadykhov owns directly 113,308 Class A common shares and 120,000 options for Class A common shares (with an exercise price of US$225 per share and an expiry date of September 15, 2016), of which none have vested to date. See "Principal and Selling Shareholders".

(8) Ms. Shevchenko indirectly owns 64,023 Class A common shares through Misa Investments and 5,524 Series A preferred shares through Integra Partners I L.P. and owns directly 120,000 options (with exercise prices ranging from US$4 to US$30 and expiry dates ranging from July 1, 2014 to September 15, 2015), of which 69,167 options have vested to date. See "Principal and Selling Shareholders".

(9) Mr. Shulman owns directly 40,000 options for Class A common shares (with exercise prices ranging from US$15 to US$17 per share and an expiry date of September 15, 2015), of which 13,334 options have vested to date.

(10) Mr. Tkachev owns directly 150,000 options for Class A common shares (with an exercise price of US$34 per share and an expiry date of October 7, 2015), of which 50,000 options have vested to date.

Share Bonus and Option Plans

On July 27, 2005, the Board of Directors considered and approved the 2005 Stock Option Plan. The 2005 Stock Option Plan allows the Company to award options for Class A common shares to all directors, including non-executive directors, of the Company and all executive officers, other employees, consultants and advisers of the Company and its subsidiaries who, in the opinion of the Directors, are in a position to make a significant contribution to our success. Options may be granted over a maximum of 1,200,000 Class A common shares under the 2005 Stock Option Plan. The options become exercisable at such time or times and upon such conditions, including price, as the Directors may specify. The latest date on which an option may be exercised is the date that is ten years from the date on which the option was granted, or such earlier date as the members of the Board of Directors may specify at the time the option is granted. No option may be transferred other than by will or by the laws of descent and distribution and, during the optionholder's lifetime, an option may be exercised only by the optionholder.

Options over 109,200 Class A common shares had been awarded by us prior to the adoption of the 2005 Stock Option Plan. These awards were ratified at the time of the adoption of the 2005 Stock Option Plan and are treated as options granted under the 2005 Stock Option Plan.

Out of the total of 1,200,000 options available under the 2005 Stock Option Plan, we have granted 1,144,421 options of which 321,040 have vested to date. The weighted average exercise price is US$112.03.

Recent Share Sales by our Directors and Management

The following table sets forth certain information with respect to sales of our securities by Directors and Management for the last three years and up to the date of this Prospectus. See "Principal and Selling Shareholders".

Selling Shareholder	Type of Security Sold
John B. Fitzgibbons[1]	
June 2004	25,000 Class A common shares
March 2006	43,918 Class A common shares
April 2006	81,082 Class A common shares
October 2006[2]	163,667 Class A common shares
December 2006	31,558 Class A common shares
January 2007	48,548 Class A common shares
Felix V. Lubashevsky[3]	
March 2006	36,082 Class A common shares
December 2006	20,000 Class A common shares
Elena Shevchenko[4]	
March 2006	11,000 Class A common shares
October 2006	18,977 Class A common shares
January 2007	10,000 Class A common shares
Neil Gaskell[5]	
December 2006	778 Class A common shares
Gerard De Geer[6]	
March 2006	11,842 Series A preferred shares
July 2006	11,355 Series A and Series B preferred shares
October 2006	41,248 Class A common shares
December 2006	8,925 Class A common shares
January 2007	4,785 Class A common shares

(1) The shares were sold by Brookline Partners LLC and the John B. Fitzgibbons 2004 Family Trust.

(2) These shares were sold by Brookline Partners LLC to Ashmore Global Special Situations Fund 3 Limited Partnership, under an arrangement pursuant to which a portion of the consideration for such sale was deferred to the time of a listing or other sale of the Company, with the amount of such consideration being calculated by reference to the listing price set upon such a listing or the sale price paid upon such a sale. As a result of these arrangements, Ashmore Global Special Situations Fund 3 Limited Partnership will make a payment of such deferred consideration to Brookline Partners LLC on or around the Closing Date.

(3) The shares were sold on behalf of Felix Lubashevsky by Starway Partners LDC.

(4) The shares were sold on behalf of Elena Shevchenko by Misa Investments and Integra Partners II L.P.

(5) The shares were sold by Neil Gaskell directly.

(6) The shares were sold by Sarastro Limited in which Mr. Gerard De Geer, a director of our Company until January 2007, holds an affiliate interest.

RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties for the periods ended December 31, 2004 and 2005, the nine months ended September 30, 2006 and the period to the date of this Prospectus. For further details of these transactions, see note 21 to our Audited Consolidated Financial Statements and note 21 to our Unaudited Condensed Consolidated Interim Financial Information.

Administration Agreement

Pursuant to an administration agreement effective January 1, 2007 between J Fitzgibbons LLC and us, J Fitzgibbons LLC was appointed to administer our Company and was authorized to perform all duties necessary to administer our Company and act on behalf of the Company so long as such actions are in accordance with the relevant provisions of the Articles of Association and all applicable laws and regulations. In return for such services, J Fitzgibbons LLC receives a monthly fee in advance and reimbursement of expenses incurred in the course of providing the services. J Fitzgibbons LLC is an affiliate of John B. Fitzgibbons, the chairman of our Board of Directors. Excluding reimbursable expenses, under our prior contracts, we paid J Fitzgibbons LLC and its predecessors, Brookline Management LLC and Brookline Partners LLC, fees totaling US$484,000 during the nine months ended September 30, 2006 and US$589,000 and US$240,000 during the years ended December 31, 2005 and 2004, respectively.

Acquisition of Smith Eurasia

Pursuant to a share purchase agreement, dated August 4, 2006, among Mark Sadykhov, Marat Mouftakhov, Sergey Malygin, Valery Bessel and Lev Goldenberg, referred to herein as the "seller individuals", IG Holdings Limited and us, IG Holdings Limited acquired 100% of the issued and outstanding share capital of Smith Eurasia. Under the terms of the acquisition, each of the seller individuals entered into an employment agreement and non-competition agreement with certain of our companies for a period of three years and entered into an employee stock option agreement pursuant to which a total of 220,000 options over our Class A common shares may be granted to them, of which approximately 33% may be granted on each of December 31, 2007, 2008 and 2009 conditional upon the relevant seller individual's continued employment with us. For a further description of the terms of this transaction see "Material Contracts—Acquisition Agreements—Acquisition of Smith Eurasia".

Issuance of Class B Common Shares

Pursuant to a subscription agreement dated July 27, 2005 between us and Starway Partners LDC ("Starway"), and in consideration, among other things, of the entry by Felix Lubashevsky into an employment agreement with one of our affiliates, we agreed to issue and Starway agreed to subscribe for and purchase 1,000,000 Class B common shares having the rights set out in "Description of Share Capital and Corporate Structure—Common Shares". Starway Partners LDC is owned by Felix Lubashevsky, our chief executive officer and a member of our Board. For a further description of the terms of this transaction see "Material Contracts—Agreements in connection with the Issue of our Securities—Issuance of Class B Common Shares".

NNGF Management Agreement

RGK and NNGF entered into a management agreement dated June 1, 2004 which we assumed upon our purchase of RGK in May 2005. Pursuant to the terms of the management agreement, RGK is responsible for executing the decisions of the general shareholders and managing the day-to-day activities of NNGF, including executing documents on behalf of NNGF. RGK also has authority to approve contracts representing less than 10% of the balance sheet value of the assets of NNGF. For its services, RGK receives 1% of revenue for the current quarter and 5% of profit from the previous quarter, however, it is obligated to maintain the level of profitability achieved during 2003 for the term of the contract. RGK is also liable for the sufficiency of the information contained in the annual accounts. The contract may be terminated sixty days after a vote of NNGF. In the event of an immediate termination of the contract by NNGF, RGK is entitled to 10% of the annual revenues up to the date of termination.

Contracts between Subsidiaries of the Group and NNGF

From time to time members of our Group have entered into contracts with NNGF, primarily to lease equipment to or perform services for NNGF or to have NNGF lease equipment to or perform services for them. In 2006, GFS, PGF, YPGF, Argillit, Alliance, PNBK and TNGF each leased equipment or purchased services from NNGF. The total amount of all payments made to NNGF by members of our Group in the first nine months of 2006 and the year 2005 was equivalent to US$5.4 million and US$0.4 million, respectively. In 2006, NNGF purchased goods or services from GFS, PGF, YPGF and BI. The total amount of all payments made by NNGF to members of our Group in the first nine months of 2006 and the year 2005 was equivalent to US$1.6 million and US$0.2 million, respectively.

Loans to Employees

During 2006, we made small loans to certain of our employees. These loans total US$0.9 million, the most significant of which are due to be repaid within one year. The loans bear interest of 0% to 10% per annum.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the company or any member of the Group within the two years immediately preceding the date of this document and are, or may be, material or have been entered into at any time by the company or any member of the Group and contain provisions under which any the company or member of the Group has an obligation or entitlement which is, or may be, material to the Group as at the date of this document:

Agreements for the Offering

Underwriting Agreement

The Underwriting Agreement dated February 22, 2007, among us, the Over-Allotment Shareholders and the Managers, providing for, among other things, the underwriting of the Offering, as described in "Subscription and Sale".

Deposit Agreement

The Deposit Agreement to be dated on or around February 27, 2007, among us and the Depositary, as described in "Terms and Conditions of the Global Depositary Receipts".

Agreements in Connection with the Issue of our Securities

2006 Issuance of Class A Common Shares

Pursuant to a series of share purchase agreements entered into on or about August 2, 2006 between us on the one hand and certain private institutional investors on the other hand, referred to herein as the August 2006 Placees, we agreed to issue and the August 2006 Placees agreed to subscribe for and purchase 444,445 Class A common shares having a nominal value of US$0.0001 each in our capital, each ranking pari passu with the existing Class A common shares and having the rights set out in "Description of Share Capital and Corporate Structure—Common Shares". The share purchase agreements each contain certain representations and warranties between us and the August 2006 Placees which are customary for a transaction of this nature and which survive termination of the share purchase agreements and closing of the subscription and purchase by the August 2006 Placees of the Class A common shares that are the subject of the agreements. We have no further commitments outstanding thereunder.

Under the terms of the share purchase agreements, each August 2006 Placee agreed not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any Class A common shares or securities convertible or exchangeable into such shares during the period of one year after the date on which the subscription and purchase of the shares was completed or such other earlier date as may be notified in writing by us except pursuant to the sale in an underwritten initial public offering of equity securities or depositary receipts representing equity securities in which the gross proceeds to us equal or exceed US$10.0 million and which results in the admission to listing of those equity securities or depositary receipts representing the same on an internationally recognized securities exchange.

Placement Agent Agreement

On August 2, 2006, we entered into an amended and restated placement agent agreement with Renaissance Securities Trading Limited, as placement agent, and Renaissance Securities (Cyprus) Limited pursuant to which the placement agent agreed to use its reasonable efforts to solicit and receive offers to purchase the Class A common shares the subject of the share purchase agreements described above under "—2006 Issuance of Class A Common Shares".

The placement agent agreement contains certain representations and warranties between us and the placement agent which are customary for a transaction of this nature. As is customary, we also agreed to indemnify the placement agent and its affiliates from and against any and all claims, losses, damages, charges or liabilities (including reasonable legal and other expenses) arising out of (i) the placement and sale of the Class A common shares and the placement agent's engagement under the agreement and (ii) any breach of the representations and warranties given by us in the agreement save for such of those claims, losses, damages, charges or liabilities as result primarily from the fraud, gross negligence or willful default of the placement agent and/or its affiliates. Other than the customary representations and warranties and the indemnity described above, which survive the placement of the Class A common shares and termination of the agreement, we have no further commitments outstanding thereunder.

Issuance of Series B Preferred Shares

Pursuant to subscription agreements dated October 11, 2005 between us and certain institutional investors, we agreed to issue and the institutional investors agreed to subscribe for and purchase a total of 1,176,471 Series B convertible preferred shares with a nominal value of US$0.0001 each in our capital, each ranking pari passu and having the rights (including as to conversion) set out in "Description of Share Capital and Corporate Structure—Preferred Shares". Each of the subscription agreements contains certain representations and warranties between us and the subscribers which are customary for a transaction of this nature. We have no further commitments outstanding thereunder.

Shareholders' Agreement

On October 11, 2005, we entered into an agreement with Brunswick Private Equity Limited, Integra Partners I, L.P., Brookline Partners LLC, Starway Partners LDC and the holders of the Series B convertible preferred shares for the purpose of governing certain aspects of the shareholders' relationship with each other and the Company and for the purpose of amending and restating an earlier shareholders' agreement dated July 27, 2005. The agreement provides that it and the rights and obligations of the parties to it shall be automatically terminated on Admission.

Registration Rights Agreement

On October 11, 2005, we entered into a registration rights agreement with Brookline Partners LLC, Starway Partners LDC, the holders of the Series B preferred shares and certain of our other shareholders, pursuant to which the parties agreed to provide certain information to each other and to procure the occurrence of certain things in order to effect a registration of our Class A common shares by means of a registration statement filed with the SEC in accordance with Rule 415 under the Securities Act should this become necessary or mandatory as a result of actions undertaken by us or any of the other parties to the registration rights agreement. We also agreed to indemnify the other parties, in terms customary in agreements of this nature, against all losses, claims, damages, liabilities and expenses (including reasonable expenses of investigation and reasonable attorneys fees and expenses) arising out of or based on any untrue or alleged untrue statement of material fact contained in any such registration statement or any omission or alleged omission of a material fact required to be stated therein.

Issuance of Warrants in connection with the September 2005 Facility Agreement

Pursuant to a warrant instrument dated September 21, 2005 executed by us in connection with the September 2005 Facility Agreement, we issued to the lenders under such facility an aggregate of 90,000 warrants to subscribe for our Class A common shares. Each warrant entitles the holder thereof to purchase a variable number of our Class A common shares in the event that we complete an initial public offering of our Class A common shares, at a purchase price equal to a 25% discount to the listing price. The number of shares each warrant entitles the holder to purchase is equal to US$233.33 divided by the listing price of our shares. In addition, under the terms of the warrants, we have the option to repurchase all (but not some only) of the warrants at any time on or prior to Admission (including following an election by the holders to exercise their warrants) on the payment to each holder of an amount equal to US$58 ⅓ in respect of each warrant, or US$5.25 million in the aggregate. We have not exercised this option.

Issuance of Class B Common Shares

Pursuant to a subscription agreement dated July 27, 2005 between us and Starway Partners LDC ("Starway"), and in consideration of (i) the entry by Felix Lubashevsky into an employment agreement with an affiliate of us, (ii) the execution by Felix Lubashevsky of the shareholders' agreement described above under "Shareholders' Agreement" and (iii) the payment by Starway to us of US$164.08, being the aggregate amount of the par value of the shares to be so subscribed and purchased, we agreed to issue and Starway agreed to subscribe for and purchase 1,000,000 Class B common shares of US$0.0001 each in our capital, each ranking pari passu and having the rights set out in "Description of Share Capital and Corporate Structure—Common Shares". The subscription agreement contains certain representations and warranties between us and Starway which are customary for a transaction of this nature. Other than the customary representations and warranties described above, we have no further commitments outstanding thereunder.

Issuance of Warrants in connection with the 18% Senior Notes

In May 2005, in connection with the issuance of our 18% Senior Notes, we issued 14,500 warrants to the holders, exercisable for 120,833 of our Class A common shares (or 8.3333 Class A common shares per warrant) at an exercise price of US$20.00 per share. The warrants may be exercised at any time upon the payment of the exercise price and delivery of the warrants. In the event of a qualifying initial public offering of our common shares for gross proceeds of at least US$10.0 million where the offering price is more than US$25.00 per common share, all unexercised warrants will automatically be exercised on completion of the offering on a cashless net exercise basis through the delivery of common shares. If the offering price is less than US$25.00 per share, there is no automatic exercise of the warrants on completion of the offering and all unexercised warrants will expire one year following the offering. In April 2006, 2,100 of the warrants were exercised by the holders and exchanged for 17,500 common shares. 12,400 warrants remain outstanding, exercisable for 103,333 of our Class A common shares (or 8.3333 Class A common shares per warrant) at an exercise price of US$20.00 per share.

Issuance of Series A Preferred Shares

Pursuant to subscription agreements dated May 4, 2005 between us, Integra Partners I, L.P. and Brunswick Private Equity Limited, we agreed to issue and each of Integra Partners I, L.P. and Brunswick Private Equity Limited agreed to subscribe for and purchase a total of 750,000 Series A convertible preferred shares with a nominal value of US$0.0001 each in our capital, each ranking pari passu and having the rights (including as to conversion) set out in "Description of Share Capital and Corporate Structure—Preferred Shares". Each of the subscription agreements contains certain representations and warranties between us and the subscribers which are customary for a transaction of this nature. We have no further commitments outstanding thereunder.

Acquisition Agreements

Acquisition of Smith Eurasia

Pursuant to a share purchase agreement, dated August 4, 2006, among Mark Sadykhov, Marat Mouftakhov, Sergey Malygin, Valery Bessel and Lev Goldenberg, referred to herein as the seller individuals, IG Holdings Limited and us, IG Holdings Limited acquired 100% of the issued and outstanding share capital of Smith Eurasia. IG Holdings Limited paid US$79.4 million in cash to the seller individuals and we issued 266,666 shares to the seller individuals representing in aggregate 4.95% of our fully diluted ordinary share capital at that time. Deferred consideration in the amount of US$9.5 million is due by no later than February 28, 2007.

Under the terms of the share purchase agreement, each of the seller individuals entered into an employment agreement and non-competition agreement with certain of our companies for a period of three years and entered into an employee stock option agreement pursuant to which a total of 220,000 options over our Class A common shares may be granted, of which approximately 33% may be granted on each of December 31, 2007, 2008 and 2009, conditional upon the relevant seller individual's continued employment with us. All of the options granted may be exercised at a price of US$225 per share. Prior to exercise, each option share accrues dividends and all other distributions that become payable upon exercise. The options expire on September 25, 2016. The share purchase was completed on August 24, 2006 and the agreement contains representations and indemnities in favor of IG Holdings and us customary for a transaction of this nature. Other than the option grants and the deferred consideration due on February 28, 2007, we have no further commitments outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of and Controlling Interest in YGF

Acquisition of 29.74% of the share capital of YGF. Pursuant to a share purchase agreement, dated July 14, 2006, between Darila Limited and IG Holdings Limited and a share purchase agreement, dated July 14, 2006, between Santiver Trading Limited and IG Holdings Limited, IG Holdings Limited acquired a total of 29.74% of the issued and outstanding shares of OJSC "Yamalgeofizika". IG Holdings Limited paid US$36.5 million to each of Darila Limited and Santiver trading Limited in cash. The share purchase transaction was completed on August 3, 2006. The share purchase agreement contains representations and indemnities in favor of the Company customary for a transaction of this nature. There are no further commitments of IG Holdings outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Sale and pledge of 15.18% of the share capital of YGF. Pursuant to two share purchase agreements, each dated July 31, 2006 and amended on December 11 and 21, 2006, between IG Holdings Limited and S.L. Capital Services Limited, IG Holdings Limited sold a total of 15.18% of the issued and outstanding shares of YGF to S.L. Capital Services Limited for US$37.2 million. Pursuant to the terms of the share purchase agreements, payment was deferred until May 15, 2007 and secured by a pledge of the shares of YGF sold thereunder.

Loan and option agreement and grant of proxy with respect to 11% of the share capital of YGF. Pursuant to a loan agreement, dated July 10, 2006 and amended December 13, 2006, between IG Management Limited and Lobianco Co Limited, IG Management Limited provided a term loan of US$1.1 million to Lobianco Co Limited. The loan, accruing interest at the rate of 14% per annum, is payable on May 15, 2007. Lobianco Co Limited has the right to repay the loan at any time prior to its maturity date upon two business days' notice. The loan is secured by a pledge of shares in YGF owned by Lobianco Co Limited. During the term of the loan, IG Management has the right to acquire the pledged shares of YGF for a price equal to the outstanding amount of the loan. On September 29, 2006, the Lobianco Co Limited executed a proxy in favor of IG Holdings Limited whereby IG Holdings Limited was authorized to vote the pledged shares at general shareholders' meetings of YGF. The proxy expires on October 1, 2009.

Loan and option agreement and grant of proxy with respect to 10% of the share capital of YGF. Pursuant to a loan agreement, dated July 10, 2006 and amended December 13, 2006, between IG Management Limited and Scrigno Trading Co Ltd, IG Management Limited provided a loan of US$1.0 million to Scrigno Trading Co Ltd. The loan, accruing interest at a rate of 14% per annum, is payable on May 15, 2007. Scrigno Trading Co Ltd. has the right to repay the loan at any time prior to the maturity date upon two business days' notice. The loan is secured by a pledge of shares in YGF owned by Scrigno Co Ltd. During the term of the loan, IG Management has the right to acquire the pledged shares of YGF for a price equal to the outstanding amount of the loan. On September 20, 2006, Scrigno Trading Co Ltd. executed a proxy in favor of IG Holdings Limited whereby IG Holdings Limited was authorized to vote the pledged shares at general shareholders' meetings of YGF. The proxy expires on October 1, 2009.

Acquisition of PBN

Pursuant to a membership interests purchase agreement, dated July 14 2006, among Arkadiy Motelevich Barak, Leonid Valentinovich Yalimov, together referred to herein as the sellers, and IG Holdings Limited, IG Holdings Limited acquired 99.98% of the membership interests in the charter capital of PBN, a company engaged in drilling and also holding interests ranging from 100% to 9.7% in 23 Russian, Kazakh and Uzbek drilling and support services entities. IG Holdings Limited paid US$0.5 million to the sellers in cash at closing and, on July 31, 2006, in furtherance of the membership interests purchase agreement and partial payment for the membership interests, the sellers, PBN and IG Holdings Limited entered into a debt transfer agreement whereby PBN assigned its outstanding debt in the amount of US$14.5 million to the sellers which were then paid by IG Holdings Limited. Under the terms of the membership interests purchase agreements, IG Holdings Limited is required to pay additional consideration in an amount up to US$15.0 million determined upon finalization of PBN's 2006 and 2007 annual accounts. Additional consideration, if any, is payable by March 31, 2008. The membership interests purchase transaction was completed on July 31, 2006. The membership interests purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition, sale and reacquisition of STM

Pursuant to a share purchase agreement, dated March 30, 2006, among Vladimir Dubovik, Magomed Halilov referred to herein as the principal sellers, Mikhail Gumenniy, Aleksei Lobachev, Andrei Rizhov, Natalia Agafonova, referred to herein as the secondary sellers, and IG Holdings Limited and an additional agreement, dated March 30, 2006, among the principal sellers and IG Holdings Limited, IG Holdings Limited acquired 100% of the issued and outstanding shares of STM, a company holding a 92.69% interest in OJSC "Strommashina", a company engaged in the manufacturing of cementing equipment for the oil and gas industry and rock crushing equipment for the road construction industry. IG Holdings Limited paid RUR 4,500 to the secondary sellers in cash and agreed to pay a further RUR 143.9 million to the principal sellers in cash or, at the option of principal sellers, by delivery of promissory note at any time prior to April 1, 2007. The share purchase transaction was completed April 2006. The share purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature in the Russian Federation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Pursuant to a share sale agreement, dated April 24, 2006, between IG Holdings Limited and LLC "Capital Invest", the IG Holdings Limited sold 100% of the issued and outstanding charter capital of STM. Pursuant to the share sale agreement, LLC "Capital Invest" was obligated to pay RUR 10,000 to IG Holdings Limited within one year of receipt of an extract from the shareholder register of STM confirming LLC "Capital Invest's" ownership of the shares. Pursuant to a share pledge agreement, dated April 24, 2006, between IG Holdings Limited and LLC "Capital Invest", the obligation to pay the purchase price was secured by a pledge of the shares of STM in favor of IG Holdings Limited. Pursuant to the terms of the share pledge agreement, LLC "Capital Invest", among other things, agreed to not to sell the shares to any third parties, not to pledge or otherwise encumber the shares and to conduct the business of OJSC "Stromneftemash" subject to a number of significant restrictions set forth therein.

Pursuant to an amicable settlement agreement, dated June 15, 2006, among the creditors of OJSC "Strommashina", STM and CJSC "Integra Management", we agreed to pay certain debts of OJSC "Strommashina" in the amount of RUR 286.5 million in full and final satisfaction of all claims previously filed against OJSC "Strommashina" by Russian tax authorities and other creditors. The amicable settlement agreement was approved by the Arbitrazh Court of Kostroma Oblast on June 27, 2006, and resulted in the termination of bankruptcy proceedings against OJSC "Strommashina". Pursuant to a guarantee agreement, dated June 15, 2006, among the creditors of OJSC "Strommashina" and CJSC "Uralmash-VNIIBT", the payment of the settlement amount by CJSC "Integra Management" was guaranteed by CJSC "Uralmash-VNIIBT". CJSC "Integra Management" paid the settlement amount in cash between July 14, 2006 and July 20, 2006. There are no further obligations of members of our Group outstanding under the settlement agreement or guarantee.

Pursuant to a share purchase agreement, dated July 26, 2006, between LLC "Capital Invest" and IG Holdings Limited, IG Holdings Limited reacquired 51.22% of the issued and outstanding charter capital of STM for RUR 6,010. The share purchase was completed on July 30, 2006. The share purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature in the Russian Federation. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Pursuant to a share purchase agreement, dated July 28, 2006, between CP Venture Projects Limited and IG Holdings Limited, IG Holdings Limited reacquired 48.78% of the issued and outstanding charter capital of STM for US$7.5 million. The share purchase transaction was completed on July 30, 2006. The share purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature in the Russian Federation. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of Argillit

We acquired 100% of the issued and outstanding charter capital of LLC "Argillit", a company engaged in drilling, pursuant to membership interests' purchase agreements, each dated May 3, 2006, between IG Holdings Limited and each of Alexey Haralgin, Alexandr Podshibyakin, Victor Glotov, Pavel Belakov and Sergey Urtaev. IG Holdings Limited paid a total of US$2.3 million in cash. The transaction was completed on May 12, 2006. The membership interests' purchase agreements contain representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature in the Russian Federation. IG Holdings Limited has no further commitments outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of PNBK

Pursuant to a share purchase agreement, dated February 21, 2006, among OJSC "Ritek", Westem LLC collectively referred to herein as the sellers and IG Holdings Limited, IG Holdings Limited acquired 100% of the issued and outstanding charter capital of PNBK, a company engaged in drilling. IG Holdings Limited paid US$17.0 million in cash to the sellers and issued an interest bearing promissory note in the amount of US$5.9 million that was paid on June 29, 2006. The share purchase transaction was completed on March 7, 2006. The share purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of TNGF

Pursuant to share purchase agreements between (i) Wipper Co Limited and Notifico Trading Limited, (ii) Sunarak Limited and Juplin Trading Limited, (iii) Morea Investments Limited and Almeya Trading Limited,

(iv) OOO "IK VELES Capital" and Roskelena Limited and (v) "IK VELES Capital" and Bocimar Trading Limited (collectively, "the share purchase agreements"), each dated December 29, 2005, IG Holdings Limited acquired 75% of the issued and outstanding share capital of TNGF, a company engaged in providing seismic services and also holding a 75% interest in OOO "Irtyshgeofizika" and a 100% interest in TOO "IshimGeofizika". On December 29, 2005, each of Notifico Trading Limited, Juplin Trading Limited, Almeya Trading Limited, Roskelena Limited and Bocimar Trading Limited (collectively, the "agents") entered into an agency agreement with, and acquired the shares on behalf and for the benefit of, IG Holdings Limited. IG Holdings Limited paid a total of US$29.8 million to the agents consisting of an aggregate cash consideration of US$29.4 million paid to the counterparty under the share purchase agreements and an agency fee of US$0.4 million. The share purchase transaction was completed on December 30, 2005. Each of the share purchase agreements contain identical representations and indemnities in favor of the agents customary for transactions of this nature. There are no further commitments of the agents or IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Pursuant to an agency agreement, dated May 15, 2006, between IG Holdings Limited and OAO Finansovaya Kompaniya "Prioritet", IG Holdings Limited acquired 0.89% of the issued and outstanding share capital of TNGF. IG Holdings Limited paid US$0.1 million to the agent in cash. The share purchase transaction was completed on July 30, 2006. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Pursuant to a share sale agreement, dated June 14, 2006, between S.L. Capital Services Limited and IG Holdings Limited, IG Holdings Limited sold 0.82% of the issued and outstanding share capital of TNGF. S.L. Capital Services' obligation to pay the purchase price of US$0.13 million to IG Holdings Limited is deferred until June 1, 2007. The share sale transaction was completed on July 17, 2006. The share purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature in the Russian Federation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Pursuant to a share purchase agreement, dated June 27, 2006, between S.L. Capital Services Limited and IG Holdings Limited, IG Holdings Limited agreed to acquire an additional 3.65% of the issued and outstanding charter capital of TNGF for RUR 21.6 million in cash. The share purchase transaction is due to be completed on June 1, 2007. The share purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature in the Russian Federation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of URBO and BI

Pursuant to two share purchase agreements, dated August 25, 2005, between, in the first case, Grapeland Trading Limited and IG Holdings Limited, and in the second case, Limited Liability Company "MNP—Onshore and Offshore" and IG Holdings Limited, IG Holdings Limited acquired 100% of the issued and outstanding share capital of URBO, a company engaged in the manufacture and repair of drilling rigs with heavy lifting capacity and also holding a 99% interest in LLC "Orenburgtechservice" and 100% of the membership interests of BI, a company engaged in the manufacture of drilling tools. IG Holdings Limited paid US$64.0 million to Grapeland Trading Limited and "MNP—Onshore and Offshore" in cash and repaid a US$6.0 million promissory note of URBO. The share purchase transaction was completed on September 22, 2005. The share purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of RGK

Pursuant to a share purchase agreement, dated May 31, 2005, between Nebot Holdings Limited and IG Holdings Limited, IG Holdings Limited acquired 100% of the issued and outstanding charter capital of RGK, a management company holding a 57.17% interest in PGF, a 6.22% interest in SNGF and a 25.4% interest in NNGF, companies engaged in logging services, for US$4.1 million in cash. The share purchase transaction was completed on May 31, 2005. The share purchase agreement contains representations in favor of IG Holdings Limited customary for a transaction of this nature in the Russia Federation. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of GFS

Pursuant to separate agreements for the acquisition of membership interests, dated May 31, 2005, among LLC "Nauchno-proizvodstvennaya kommercheskaya firma SIGURD", Alexander Sokol, Vladimir Pereginets, Vladimir Poligalov and Alexander Kopiltsov, respectively, and IG Holdings Limited, IG Holdings Limited acquired 100% of the membership interests of GFS, a company engaged in logging services, for US$1.0 million in cash. The acquisition of the participation interests was completed on May 31, 2005. The agreements contain representations in favor of IG Holdings Limited customary for a transaction of this nature in the Russian Federation. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of SNGF

Pursuant to a share purchase agreement, dated May 31, 2005, between OOO "FinMaster" and IG Holdings Limited, IG Holdings Limited acquired 19.17% of the issued and outstanding charter capital of SNGF, a company engaged in logging services, for a total of US$0.3 million in cash. The share purchase transaction was completed in June 2005. The share purchase agreement contains representations in favor of IG Holdings Limited customary for a transaction of this nature in the Russian Federation. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of SRIPNO

Pursuant to a membership interests purchase agreement, dated May 13, 2005, between LLC "Tsenturions" and IG Holdings Limited, IG Holdings Limited acquired 100% of the issued and outstanding charter capital of SRIPNO, a company engaged in workover services, for US$0.3 million in cash. The membership interests purchase transaction was completed on May 13, 2005. The membership interests purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature in the Russian Federation. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of Quest

Pursuant to a share purchase agreement, dated March 24, 2005, among Marsea Co Limited and IG Holdings Limited, IG Holdings Limited acquired 100% of the issued and outstanding charter capital of LLC Quest Petroleum Exploration Limited, a company engaged in workover services, for US$1.8 million in cash. The share purchase transaction was completed on May 11, 2005. The share purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature in the Russian Federation. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of BK Sever

Pursuant to a membership interests purchase agreement, dated December 24, 2004, between OAO "Geosat Petroleum" and IG Holdings Limited, IG Holdings acquired 100% of the issued and outstanding charter capital of BKS, a company engaged in drilling services, for US$0.6 million in cash. The membership interests purchase transaction was completed on December 24, 2004. The membership interests purchase agreement contains representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature. There are no further commitments of IG Holdings Limited outstanding thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions".

Acquisition of Alliance

Pursuant to separate agreements for the acquisition of membership interests, dated September 22, 2004, among Yuri Deryagin, Evgeni Leskin and Valeriy Feoktistov, respectively, and IG Holdings Limited, IG Holdings Limited acquired 100% of the membership interests of each of LLC Tarpan and LLC Paritet, which together held 100% of the interests in LLC Alliance 5, LLC Alliance and LLC Alliance 3, companies engaged in drilling, workovers and forestry, for US$3.4 million in cash and 125,000 of our Class A common shares. The acquisition of the membership interests was completed in December 2004. The agreements contain representations and indemnities in favor of IG Holdings Limited customary for a transaction of this nature. There are no further commitments of IG Holdings Limited outstanding thereunder. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Company Acquisitions”.

Financing Agreements

For a description of our financing agreements please refer to the section of this Prospectus entitled “Management’s Discussion and Analysis—Liquidity and Capital Resources”.

Other Agreements

Uralmash License Agreements

Pursuant to a Licensing Agreement entered into on November 1, 2005, between OJSC “Uralmash Heavy Machinebuilding Plant” (“Licensor”) and IG Holdings Limited, which became effective on September 21, 2006, IG Holdings Limited acquired a non-exclusive right to use the trademark “Uralmash” in English and Cyrillic in connection with the manufacturing, marketing and sales in the Russian Federation of Uralmash branded drilling rigs and drilling equipment for the duration of the Licensor’s exclusive rights to such trademark. The use of the trademark by IG Holdings Limited is subject to the payment of an annual licensing fee of RUR 72,000. The Licensing Agreement is valid through the end of the term of Licensor’s exclusive rights to the trademark, which is currently February 1, 2010.

Pursuant to two Licensing Agreements, each entered into on May 12, 2005, between the Licensor and URBO, which became effective on January 24, 2006, URBO acquired a non-exclusive right to use the trademark “Uralmash” in English and Cyrillic in connection with the manufacturing, marketing and sales in the Russian Federation of Uralmash branded drilling rigs and drilling equipment for the duration of the Licensor’s exclusive rights to such trademark. The use of the trademark by URBO is subject to the payment of the aggregate annual licensing fee of RUR 72,000. Both agreements are valid through the end of the term of Licensor’s exclusive rights to the trademark, which is currently February 1, 2010.

Smith Agreements

2007 Distribution Agreement for Smith Technologies’ Products. Pursuant to the Distribution Agreement for Smith Technologies’ Products entered into on January 4, 2007, by and between Smith Technologies, a business unit of Smith International Inc. (“ST”) and Smith Eurasia, Ltd., ST (i) appointed Smith Eurasia Ltd. as its non-exclusive distributor in the countries of the former Soviet Union of Tungsten Carbide Insert Bits, Milled Tooth Bits, PDC Bits, Impregnated Bits and accessories to such products and (ii) granted to Smith Eurasia, Ltd. the right to be an exclusive distributor of such products to certain companies operating in the countries of the former Soviet Union, including Gazprom, Tatneft, DC Eurasia and Turkmenistan national state companies. The Distribution Agreement is valid through January 4, 2010, unless earlier terminated by either ST or Smith Eurasia Ltd. in accordance with its termination provisions.

2004 Technical Partnership Agreement. Pursuant to the Technical Partnership Agreement entered into as of June 1, 2004, by and between Smith Services, a business unit of Smith International (North Sea), Ltd (“SINS”) and Smith Eurasia, Ltd, SINS and Smith Eurasia, Ltd agreed to collaborate in the submission of bid proposals to various clients for the provision of various oilfield products and services, such as, for instance, multi-lateral equipment, whipstocks, hotforge explosives, inspection services and technology training services, in the countries of the former Soviet Union. The Technical Partnership Agreement is valid through June 1, 2009, and, according to its terms, is subject to an automatic extension for an additional two years or the duration of any client contract then in force, unless terminated earlier by either SINS or Smith Eurasia Ltd in accordance with the relevant termination provisions.

2003 Smith International, Inc. Sales Representation Agreement. Pursuant to the Smith International, Inc. Sales Representation Agreement entered into as of January 24, 2003, by and between Smith Bits, a business unit of Smith International, Inc. (“SII”) and Smith Eurasia Limited, as amended, SII appointed Smith Eurasia Limited as SII’s exclusive sales representative in the countries of the former Soviet Union for the sale of premium drill bits and all parts therefore manufactured or offered by SII as of the date thereof. Smith Eurasia, Limited agreed to buy from SII the various tools and equipment at the prices and the margins set forth in the agreement. SII agreed to pay Smith Eurasia Limited commissions in the event SII makes directs sales of its tools and equipment in the countries of the former Soviet Union. The Agreement has no term of expiration but can be terminated by either SII or Smith Eurasia Limited upon 90 days’ prior written notice to the other party.

2002 Technical Services Agreement. Pursuant to the Technical Services Agreement, entered into as of January 10, 2002, by and between Smith International (North Sea) Ltd ("SINS") and Smith Eurasia Limited, (i) Smith Eurasia Limited appointed SINS as the sole provider of the various enumerated technical products and equipment, such as, for instance, fishing, packer milling or retrieving equipment and sidetracking services, on a rental basis, (ii) SINS appointed Smith Eurasia Limited as its exclusive rental representative in Russia, Uzbekistan, Ukraine, Belorussia and Georgia and as its non-exclusive rental representative in Azerbaijan, Kazakhstan and Turkmenistan. The agreement remains in effect for the duration of the contracts awarded to the parties but can be terminated earlier by either SINS or Smith Eurasia Limited upon 90 days' written notice to the other party or with immediate effect if, among other things, the other party is in breach of the agreement or a change in ownership.

PRINCIPAL SHAREHOLDERS

Immediately prior to this Offering, our authorized share capital was 900,000,000 common shares and 100,000,000 preferred shares, comprising (i) 2,109,113 issued and outstanding Class A common shares with a nominal value of US$0.0001 per share, (ii) 940,000 issued and outstanding Class B common shares with a nominal value of US$0.0001 per share, (iii) 584,632 issued and outstanding Series A convertible preferred shares with a nominal value of US$0.0001 per share, and (iv) 1,147,546 issued and outstanding Series B convertible preferred shares with a nominal value of US$0.0001 per share. In addition, we have issued and outstanding (i) 12,400 warrants issued in connection with our 18% Senior Notes and 90,000 warrants issued in connection with the September 2005 Facility Agreement, and (ii) 1,144,421 share options, of which 321,041 have vested to date.

The following table sets forth information regarding the beneficial ownership of our Class A common shares immediately prior to this Offering, assuming that (i) each issued and outstanding Class B common share has been exchanged for an equal number of Class A common shares (although such exchange will not occur on the Closing Date), (ii) each issued and outstanding preferred share has been exchanged for an equal number of Class A common shares (which exchange will automatically occur on the Closing Date), (iii) the 12,400 outstanding warrants issued in connection with our 18% Senior Notes have been exercised on a cashless basis for an aggregate of 97,164 Class A common shares, (iv) the 90,000 warrants issued in connection with the September 2005 Facility Agreement have been exercised for an aggregate of 62,686 Class A common shares, and (v) any vested options (but not unvested options) have been exercised for Class A common shares. In addition, on the basis of the assumptions described in the previous sentence, the following table also sets forth information regarding beneficial ownership of our Class A common shares immediately following this Offering, both assuming no exercise of the Over-Allotment Option and assuming exercise of the Over-Allotment Option in full.

None of the shareholders detailed below have voting rights which differ in any way from those of our Company's other shareholders.

	Beneficial Ownership Prior to the Offering		Shares to be Sold in the Offering	Beneficial Ownership After the Offering Assuming no Exercise of the Over-Allotment Option		Beneficial Ownership After the Offering Assuming the Over-Allotment Option is Exercised in Full	
Shareholder Name and Principal Address	**Number**	**Percent**	**Number**	**Number**	**Percent**	**Number**	**Percent**
Starway Partners LDC[1] 112 Bonadie Street Kingstown, St. Vincent & The Grenadines	940,000	17.86%	—	940,000	13.92%	940,000	13.33%
Brookline Partners LLC[2] 489 Fifth Avenue, 26th Floor New York, New York 10017 USA	293,586	5.58%	—	293,586	4.35%	293,586	4.16%
John B. Fitzgibbons 2004 Family Trust[2] 489 Fifth Avenue, 26th Floor New York, New York 10017 USA	62,728	1.19%	—	62,728	0.93%	62,728	0.89%
The Fitzgibbons 2006 Annuity Trust[2] 489 Fifth Avenue, 26th Floor New York, New York 10017 USA	50,000	0.95%	—	50,000	0.74%	50,000	0.71%
The JBF 2006 Annuity Trust[2] 489 Fifth Avenue, 26th Floor New York, New York 10017 USA	50,000	0.95%	—	50,000	0.74%	50,000	0.71%
Integra Partners I, LP[2,3,4,6] Walker House 87 Mary Street George Town, Grand Cayman KY-9002 Cayman Islands	9,191	0.17%	9,191	—	0.00%	—	0.00%
Integra Partners II, L.P.[2,3] Walker House 87 Mary Street George Town, Grand Cayman KY-9002 Cayman Islands	13,728	0.26%	13,728	—	0.00%	—	0.00%
Mark Sadykhov[5] 15030 Turkey Trail Court Houston, Texas 77079, USA	113,308	2.15%	—	113,308	1.68%	113,308	1.61%
Misa Investments Limited[6] P.O. Box HM2958 HM MX, Bermuda	138,714	2.64%	—	138,714	2.05%	138,714	1.97%
Dhow Capital SA[7] Akara Building 24 De Castro Street Wickhams Cay I Road Town, Tortola, B.V.I.	65,277	1.24%	—	65,277	0.97%	65,277	0.93%
Neil Gaskell[8] 11 Courtfield Mews London SW5 0NH, England	14,500	0.28%	—	14,500	0.21%	27,000	0.21%
The 734 2003 GRAT[9,10] Steward & Kissell LLP Attention: Hume Steyer 21st Floor, One Battery Park Plaza New York, NY 10004, USA	176,471	3.35%	300	176,171	2.61%	176,171	2.50%

Shareholder Name and Principal Address	Beneficial Ownership Prior to the Offering		Shares to be Sold in the Offering	Beneficial Ownership After the Offering Assuming no Exercise of the Over-Allotment Option		Beneficial Ownership After the Offering Assuming the Over-Allotment Option is Exercised in Full	
	Number	Percent	Number	Number	Percent	Number	Percent
Svarog Funding, LLC[10,11] c/o Farallon Capital Management LLC One Maritime Plaza, Suite 1325 San Francisco, CA 94111, USA	371,400	7.06%	—	371,400	5.50%	371,400	5.27%
Farallon Capital Offshore Investors II, L.P.[11] Walker House 87 Mary Street George Town, Grand Cayman KY-9002, Cayman Islands	76,767	1.46%	—	76,767	1.14%	76,767	1.09%
Nortrust Nominees Limited[12] Northern Trust Company, London Branch 50 Bank Street, Canary Wharf London E14 5NT, England	165,156	3.14%	—	165,156	2.45%	165,156	2.34%
Ashmore Global Special Situations Fund 3 Limited Partnership[13] c/o Northern Trust (Guernsey) Limited Trafalgar Court, Les Banques St. Peter Port, GY1 3QL, Guernsey, Channel Islands	222,222	4.22%	222,222	—	0.00%	—	0.00%
Troon Management Services Limited[4] Suite One, No. 2 Reid Street Hamilton HM 11, Bermuda	165,264	3.14%	47,000	118,264	1.75%	118,264	1.68%
Sarastro Limited[4,14] Suite One, No. 2 Reid Street Hamilton HM 11, Bermuda	160,777	3.06%	—	160,777	2.38%	160,777	2.28%
Black River Eastern Europe/Middle East/Africa Fund[10,15] Knowle Hill Park, Fairmile Lane Cobham KT11 2PD, Surrey United Kingdom	18,537	0.35%	7,553	10,984	0.16%	10,984	0.16%
Black River ROST Fund, Ltd[10,15] Knowle Hill Park, Fairmile Lane Cobham KT11 2PD, Surrey United Kingdom	14,706	0.28%	7,553	7,153	0.11%	7,153	0.10%
Whitewater EMCF LLC[10,15] 423 Fifth Avenue, 27th Floor New York, New York 10022, USA	14,706	0.28%	7,553	7,153	0.11%	7,153	0.10%
Whitewater EMCO LLC[10,15] 423 Fifth Avenue, 27th Floor New York, New York 10022, USA	14,706	0.28%	7,553	7,153	0.11%	7,153	0.10%
Mark Bilsland 2 Calloways Cottages Graffham GU280NJ, West Sussex United Kingdom	50,000	0.95%	15,000	35,000	0.52%	35,000	0.50%
Hillside Apex Fund Ltd.[10,16] c/o Thames River Capital LLP 51 Berkeley Square London W1J 5BB, England United Kingdom	128,056	2.43%	66,292	61,764	0.91%	61,764	0.88%
Debello Investors LLC[10,17] 411 West Putnam Ave. Suite 125 Greenwich, CT 06830 USA	25,982	0.49%	12,991	12,991	0.19%	12,991	0.18%
Theta Investors LLC[10,17] 411 West Putnam Ave. Suite 125 Greenwich, CT 06830 USA	35,856	0.68%	17,928	17,928	0.27%	17,928	0.25%
Wexford-MIT Energy II L.P[10,17] 411 West Putnam Ave. Suite 125 Greenwich, CT 06830 USA	3,118	0.06%	1,559	1,559	0.02%	1,559	0.02%
Troika Dialog (Bermuda) Limited, L.P.[4] Walker House 87 Mary Street George Town, Grand Cayman KY-9002 Cayman Islands	65,306	1.24%	65,306	—	0.00%	—	0.00%
Renaissance Direct Investment Limited[18] Canon's Court 22 Victoria Street Hamilton HM12, Bermuda	122,000	2.32%	—	122,000	1.81%	122,000	1.73%
Other employees	358,009	6.80%	—	358,009	5.30%	358,009	5.08%
Other investors[4,10]	1,332,110	25.12%	—	1,322,110	19.57%	1,322,110	18.74%
Shares acquired in the Offering	—	—	—	1,994,266	29.52%	2,293,405	27.34%
Total	5,262,182	100.00%	501,729	6,252,990	100.00%	6,552,129	100.00%

(1) Mr. Felix Lubashevsky, our chief executive officer and a member of our Board of Directors and management executive committee, is a beneficial owner of 17.86% of our shares through his ownership interest in Starway LDC. Starway LDC holds directly 100% of the issued and outstanding Class B common shares of the Company. See "Description of Share Capital and Corporate Structure—Common Shares" and "Management—Interests of Members of Board of Directors and Management in the Company".
(2) Mr. John B. Fitzgibbons, the chairman of our Board of Directors, has an interest in 8.67% of our shares through his ownership interest in Brookline Partners LLC and his affiliate interest in the John B. Fitzgibbons 2004 Family Trust, the Fitzgibbons 2006 Annuity Trust and the JBF 2006 Annuity Trust. In addition, Brookline Partners LLC is the general partner of Integra Partners I, LP and Integra Partners II, LP and, as a result, Mr. Fitzgibbons, as the managing member of Brookline Partners LLC, exercises voting control over the 0.17% shareholding of Integra Partners I, LP and the 0.26% shareholding of Integra Partners II, LP in our Company, giving Mr. Fitzgibbons voting control of 9.10% of our shares. Prior to February 21, 2007, Brookline Partners LLC held 87 shares of Integra Partners II, LP. As of February 21, 2007, these 87 shares were transferred from Integra Partners II, LP to Brookline Partners LLC. Mr. Fitzgibbons holds no beneficial or other economic interest in Integra Partner I, LP or Integra Partner II, LP. See "Management—Interests of Members of Board of Directors and Management in the Company" and Note 3 below.
(3) Prior to February 21, 2007, Integra Partners I, LP and Integra Partners II, LP held 184,724 and 47,775 of our shares, respectively. As of February 21, 2007, neither entity was comprised of individuals or entities that were Managers or Directors of our Company.
(4) Some or all of the shares are held as Series A convertible preferred shares. Upon closing of the Offering, each issued and outstanding Series A preferred share automatically converts to an equal number of Class A common shares of the Company. See "Description of Share Capital and Corporate Structure—Series A and Series B Convertible Preferred Shares".
(5) Mr. Mark Sadykhov is our executive vice president for oilfield services and a member of our management executive committee. See "Management—Interests of Members of Board of Directors and Management in the Company" and "Material Contracts".
(6) Ms. Elena Shevchenko, our executive vice president for strategy and business development and a member of our management executive committee, is the beneficial owner of 2.64% of our shares through her ownership interest in Misa Investments and 69,167 vested options. Until February 21, 2007, Ms. Shevchenko held 5,524 shares through Integra Partners I, LP, which have since been transferred to Misa Investments. See "Management—Interests of Members of Board of Directors and Management in the Company" and Note 3 above.
(7) Includes 52,777 Class A common shares and 12,500 vested options. The shares and options are held in a family trust and are attributed to Mr. John Kennedy, a member of our Board of Directors, who is deemed to have a notifiable interest.
(8) Mr. Neil Gaskell is a member of our Board of Directors. Mr. Gaskell's holding shown includes 2,000 Class A common shares and 12,500 vested options. The options are held in a trust and are attributed to Mr. Gaskell, who is deemed to have a notifiable interest. See "Management—Interests of Members of Board of Directors and Management in the Company".
(9) The 734 2003 GRAT has a notifiable interest in Trafelet & Company LLC and together they hold 205,042 of our Class A common shares.
(10) Some or all of the shares are held as Series B convertible preferred shares. Upon closing of the Offering, each issued and outstanding Series B convertible preferred share automatically converts to an equal number of Class A common shares of the Company. See "Description of Share Capital and Corporate Structure—Series A and Series B Convertible Preferred Shares".
(11) Svarog Funding, LLC and Farallon Capital Offshore Investors II, L.P. are affiliated entities. Includes 13,770 Class A common shares that will be issued if Svarog Funding, LLC exercises in full its 18,000 warrants issued in connection with the September 2005 Facility Agreement. If Svarog Funding, LLC exercises its warrants in full, these entities would together hold an aggregate of 449,400 Class A common shares. Svarog Funding, LLC is also a lender under the September 2005 Facility Agreement.
(12) Nortrust Nominees Limited holds shares on behalf of several investment funds, each of which is managed by Ashmore Investment Management Limited (a company within the Ashmore Group PLC group of companies ("Ashmore")). These funds include Ashmore Global Special Situations Fund Limited, Ashmore Global Special Situations Fund 2 Limited and EMDCD Ltd, which hold 7,400, 12,700 and 5,900 warrants, respectively, issued in connection with the September 2005 Facility Agreement. Accordingly, the shareholding shown for Nortrust Nominees Limited includes 18,109 Class A common shares that will be issued if such entities exercise in full these warrants. See Note 13 below. Certain Ashmore entities are also lenders under the September 2005 Facility Agreement.
(13) Ashmore Global Special Situations Fund 3 Limited Partnership is a fund managed by Ashmore. Together with the holding of Nortrust Nominees Limited (described in Note 12 above), Ashmore manages and controls 7.36% of our common shares immediately prior to the Offering and will manage 2.45% of our shares following the Offering (assuming no exercise of the over-allotment option). Pursuant to a share purchase agreement dated October 6, 2006, between Brookline Partners LLC and Ashmore Global Special Situations Fund 3 Limited Partnership, Ashmore Global Special Situations Fund 3 Limited Partnership will pay Brookline Partners LLC deferred consideration determined by reference to the Offering Price. See "Management—Interests of Members of Board of Directors and Management in the Company".
(14) Mr. Gerard De Geer, a member of our Board of Directors until January 2007, has a notifable interest in 3.06% of our shares as a result of his affiliate interest in Sarastro Limited.
(15) Black River Eastern Europe/Middle East/Africa Fund ("Black River EEMA"), Black River ROST Fund Ltd., Whitewater EMCF LLC and Whitewater EMCO LLC are affiliated entities. Black River EEMA holds 5,500 warrants issued in connection with the September 2005 Facility Agreement, which if exercised in full would entitle it to 3,831 Class A common shares as reflected in the table above. In addition, affiliates of these entities hold an additional 3,000 warrants issued in connection with the September 2005 Facility Agreement. If these entities and Black River EEMA were to exercise their respective warrants in full, Black River EEMA and its affiliates would together hold an aggregate of 64,744 Class A common shares immediately prior to the Offering and will hold 34,532 Class A common shares following the Offering. Certain of these entities are also lenders under the September 2005 Facility Agreement.
(16) Hillside Apex is affiliated with Thames River Traditional Fund Plc and these funds respectively hold 6,500 and 9,000 warrants issued in connection with the September 2005 Facility Agreement. If these entities were to exercise their respective warrants in full, Hillside Apex and its affiliate would together hold an aggregate of 138,852 Class A common shares immediately prior to the Offering and will hold 72,560 Class A common shares following the Offering. Both these entities are also lenders under the September 2005 Facility Agreement.
(17) Debello Investors LLC, Theta Investors LLC and Wexford-MIT Energy II L.P. are affiliates.
(18) Renaissance Direct Investment Limited is an affiliate of Renaissance Capital, one of the Managers.

DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE

Set out below is a summary of material information concerning our share capital, including a description of certain rights of the holders thereof, and related material provisions of our Articles of Association. This information is not exhaustive and reference should be made to our Articles of Association and to the laws of the Cayman Islands.

The holders of GDRs will be able to exercise their rights with respect to the Class A common shares underlying the GDRs only in accordance with the provisions of the Deposit Agreement and the relevant requirements of applicable law. See "Terms and Conditions of the Global Depositary Receipts" for more information.

Objects

The objects for which we were established are unrestricted and we have the full power and authority to carry out any object not prohibited by the Companies Law. Our objects are set out in Section 3 of our Memorandum of Association.

Share Capital

Our authorized share capital is US$100,000, consisting of (i) 900,000,000 common shares with a nominal value of US$0.0001 per share and (ii) 100,000,000 preferred shares with a nominal value of US$0.0001 per share.

Immediately prior to the Offering, our share capital consisted of (i) 2,109,113 issued and outstanding Class A common shares with a nominal value of US$0.0001 per share, all of which are fully paid; (ii) 940,000 issued and outstanding Class B common shares with a nominal value of US$0.0001 per share; (iii) 584,632 issued and outstanding Series A convertible preferred shares with a nominal value of US$0.0001 per share; and (iv) 1,147,546 issued and outstanding Series B convertible preferred shares with a nominal value of US$0.0001 per share. As of the date hereof, there are no other authorized or issued classes of shares in issue.

Series A and Series B Convertible Preferred Shares

The Series A convertible preferred shares will automatically convert into fully paid Class A common shares, ranking pari passu in all respects with the existing Class A common shares, on Admission. The number of Class A common shares to which a holder of Series A convertible preferred shares shall be entitled upon such conversion is determined by dividing the payment amount of the shares to be converted, being US$4.00 per share, plus the amount of any accrued and unpaid dividends thereon, by the conversion price of US$4.00 per Series A convertible preferred share. Since no dividends have accrued and been left unpaid, the Series A convertible preferred shares will convert into Class A common shares on a 1:1 basis.

The Series B convertible preferred shares will automatically convert into fully paid Class A common shares, ranking pari passu in all respects with the existing Class A common shares, on Admission. The number of common shares to which a holder of Series B convertible preferred shares shall be entitled upon such conversion is determined by dividing the payment amount of the shares to be converted, being US$34.00 per share, plus the amount of any accrued and unpaid dividends thereon, by the conversion price of US$34.00 per Series B convertible preferred share. Since no dividends have accrued and been left unpaid, the Series B convertible preferred shares will convert into Class A common shares on a 1:1 basis.

Undesignated Preferred Shares

Pursuant to the Articles of Association and prior to the automatic conversion of our issued and outstanding preferred shares, our Board of Directors has the authority, without further action by the shareholders, to issue up to a total of 98,267,822 preferred shares in one or more series and to fix the designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the common shares.

Our Board of Directors, without shareholder approval, may issue preferred shares with voting, conversion or other rights that could adversely affect the voting power and other rights of holders of our common shares. Subject to the directors' duty to act in our best interest, preferred shares can be issued quickly with terms calculated to delay or prevent a change in our control or make removal of management more difficult. Additionally, the issuance of preferred shares may have the effect of decreasing the market price of the common shares and ultimately the GDRs, and may adversely affect the voting and other rights of the holders of common shares and ultimately the GDRs. All of our existing preferred shares in issue will be automatically converted on a 1:1 basis into Class A common shares ranking pari passu in all respects with our existing Class A common shares upon consummation of the Offering and we do not currently plan to issue any preferred shares.

Common Shares

General

We are a Cayman Islands company and our affairs are governed by our Memorandum of Association and our Articles of Association, the Companies Law and the common law of the Cayman Islands. The following are summaries of material provisions of our Memorandum of Association, our Articles of Association and the Companies Law insofar as they relate to the material terms of our common shares.

All the outstanding common shares are fully paid and non-assessable. If issued, certificates representing the common shares will be issued in registered form. The common shares are issued when registered in the register of shareholders of the Company.

Mr. Felix Lubashevsky, our chief executive officer and member of our board of directors, beneficially owns a class of our common shares that are designated as “Class B” common shares. Although the Class B common shares are exchangeable for an equal number of Class A common shares upon the payment of US$12.00 per Class A common share or pursuant to a cashless net exercise in accordance with the terms of the Class B common shares, there is no obligation on the part of our chief executive officer to undertake any such exchange. See “Material Contracts”.

Other than as disclosed in this document under “Management—Management Share Bonus and Option Plans”, there are no options, acquisition rights and/or obligations over authorized but unissued capital and we have not given any undertakings to further increase the capital.

Voting Rights

Each common share is entitled to one vote on all matters upon which the common shares are entitled to vote, including the election of directors. The Deposit Agreement does not allow for the voting of fractional entitlements. Thus, holders of GDRs will need 20 GDRs to be entitled to one vote.

Adjustment of voting power

Under the Articles of Association, the voting power of all shares is automatically adjusted so that any individual US Person (as such term is defined in Section 957(c) of the United States Internal Revenue Code of 1986 as amended from time to time) which acquires control of more than 9.5% of the voting power of all our issued and outstanding shares will be disenfranchised as regards voting rights only with regard to the relevant amount of shares by which the voting power attributable to such holding exceeds 9.5% of the voting power of all issued and outstanding shares. This disenfranchisement is in respect of voting rights only and is without prejudice to a shareholder’s other rights under the Articles of Association.

In addition, the Articles of Association provide that the shares shall not carry any right to vote to the extent that the Board of Directors determines, in its sole and absolute discretion, that it is necessary in order to avoid adverse tax, legal or regulatory consequences for the Company, any subsidiary of the Company or any other direct or indirect holder of shares or its affiliates.

According to the terms of the Articles of Association, this provision applies to all US Persons other than John B. Fitzgibbons, the chairman of the Board of Directors. See “Principal and Selling Shareholders” and “Management—Interests of Members of Board of Directors and Management in the Company”.

Provision of information

The Board of Directors has the authority to request from any direct or indirect holder of shares, and the holder is required to provide, such information as the Board of Directors may reasonably request to determine whether any holders voting rights are to be adjusted as described immediately above in “Adjustment of voting power”. If the holder fails to respond to such a request or to provide complete and accurate information in response to such a request, the Board of Directors is authorized in its sole and absolute discretion to determine that such holder’s shares carry no voting rights until otherwise determined by the Board of Directors.

Any direct or indirect holder of shares must give us notice within ten days following the date that such holder acquires actual knowledge that it is the owner of shares controlling more than 9.5% of the voting power of all the issued and outstanding shares in the Company.

Any information provided by any shareholder to us pursuant these provisions of the Articles of Association is deemed to be confidential and may not be disclosed by us except (i) to the US Internal Revenue Service, if and to the extent that it requires such information, (ii) to any outside legal counsel or accounting firm employed by us to make determinations in accordance with the Articles of Association, (iii) to our officers, employees and outside advisors to assist in making such determinations, and (iv) as otherwise required by applicable law or regulation.

Meetings of Shareholders

We shall, if required by the Companies Law, other applicable law or the relevant code, rules or regulations applicable to any exchange on which our shares are listed, hold a general meeting of shareholders at such time and place as the Board of Directors may appoint.

The required quorum for a meeting of our shareholders generally consists of a number of shareholders present in person or by proxy and entitled to vote that represents the holders of at least a majority of our issued voting share capital. Shareholders’ meetings may only be convened by our Board of Directors. At least ten days’ advance notice is required to convene a shareholders’ meeting.

Any ordinary resolution to be made by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the common shares cast in a general meeting of shareholders of the Company, while a special resolution requires the affirmative vote of two-thirds of the votes cast attaching to the common shares. A special resolution is required for matters such as a change of name, amending our Memorandum of Association or our Articles of Association and placing us into voluntary liquidation. Holders of common shares, which are currently the only shares carrying the right to vote at our general meetings, have the power, among other things, to elect directors, appoint auditors and make changes in the amount of our authorized share capital.

Dividends

The holders of our common shares are entitled to receive such dividends as may be declared by our Board of Directors subject to any dividend rights and preferences attaching the relevant class of shares. Dividends may be paid only out of profits, which include net earnings and retained earnings undistributed in prior years, and out of share premium reserve.

Liquidation

If we are to be liquidated, the liquidator may, with the approval of the shareholders, divide among the shareholders in cash or in kind the whole or any part of our assets, determine (subject to any liquidation preferences attaching to the classes of shares) how such division shall be carried out as between the shareholders or different classes of shareholders, and may vest the whole or any part of such assets in trustees upon such trusts for the benefit of the shareholders as the liquidator, with the approval of the shareholders, sees fit, provided that a shareholder shall not be compelled to accept any shares or other assets which would subject the shareholder to liability.

Reduction of our Share Capital

At a general meeting of the shareholders, our shareholders may, by special resolution, resolve to reduce our share capital, any capital redemption reserve and any share premium account in any manner authorized by the laws of the Cayman Islands. However, we shall not increase, reduce or alter the share capital, if such action, in the sole and absolute discretion of the Board of Directors, would cause a non de minimis adverse tax, legal or regulatory consequence to us, any of our subsidiaries or any shareholder or affiliate.

Transfer

Any transfer of our common shares shall be in any usual or common form or such other form as the Board of Directors may, in its sole and absolute discretion, approve and be executed by or on behalf of the transferor and, if so required by the Board of Directors, shall also be executed on behalf of the transferee. Legal title will not pass until the transferee is entered into our register.

The Board of Directors may decline to approve or register any transfer of common shares if it appears to the Board of Directors, in its sole and absolute discretion, that any non de minimis adverse tax, regulatory or legal consequence to us, any subsidiary or any of our direct or indirect shareholders or affiliates would result from such a transfer. The Board of Directors may also, subject to any applicable requirements of any exchange upon which the common shares are listed or traded, decline to approve or register a transfer where a written opinion has not been obtained from counsel acceptable to us that registration of such a transfer is not required under the Securities Act and shall decline to approve or to register any transfer of any common shares if the transferee has not been approved by applicable governmental authorities if such approval is required.

Redemption and Repurchase of our Share Capital

Subject to the provisions of the Companies Law and our Articles of Association, we may:

- issue shares on terms providing that such shares are to be redeemed or are liable to be redeemed at our option or option of the shareholder on such terms and in such manner as the Board of Directors may determine;
- purchase our own shares (including any redeemable shares) provided that the shareholders shall have approved the manner of purchase by ordinary resolution or otherwise as provided by the Companies Law; and
- make a payment in respect of the redemption or purchase of our own shares otherwise than out of profits or the proceeds of a fresh issue of shares or through the establishment of a capital redemption reserve,

provided that such issuance, repurchase or redemption shall not be made if, in the Board of Directors' sole and absolute discretion, it would result in a non de minimis adverse tax, regulatory or legal consequence to us, any subsidiary or any of our direct or indirect shareholders or affiliates.

The Company may repurchase any common share listed on an exchange at such time, at such price and on such terms as determined and agreed by the Board of Directors in its sole and absolute discretion; provided that the maximum number of common shares that may be repurchased shall be equal to the number of issued and outstanding common shares less one common share; provided, further that: (a) such repurchase transactions shall be in accordance with the relevant code, rules and regulations applicable to the listing of such shares on the relevant exchange; (b) at the time of, and giving effect to, the repurchase the Company is able to pay its debts as they fall due in the ordinary course of business; and (c) such repurchase shall not result, in the Board of Directors' sole and absolute discretion, in a non de minimis adverse tax, legal or regulatory consequence to the Company, any of its subsidiaries or any shareholder or its affiliates.

The Company may repurchase any common share not listed on an exchange at any price agreed between the Board of Directors and the applicable shareholder by serving a repurchase notice in a form approved by the Board of Directors on the shareholder from which the common shares are to be repurchased; provided that: (a) at the time of, and giving effect to, the repurchase the Company is able to pay its debts as they fall due in the ordinary course of business; and (b) such repurchase shall not result, in the Board of Directors' sole and absolute discretion, in a non de minimis adverse tax, legal or regulatory consequence to the Company, any of its subsidiaries or any shareholder or its affiliates.

Redemption Pursuant to the terms of a Business Combination

The common shares may be redeemed by the Company upon approval by the Board of Directors of, and an ordinary resolution of the shareholders adopting, any agreement entered into by the Company relating to a Business Combination Transaction (as defined in the Articles) involving the Company.

The manner and terms of such redemption, including the consideration to be received by the holders of common shares in such redemption or repurchase, which consideration may consist of cash, securities or other property, shall be set forth in the agreement relating to a Business Combination Transaction approved by the Board of Directors and an ordinary resolution of shareholders.

The consideration to be received by all holders of common shares shall be identical regardless of the class of common shares held by such holders.

Required Sale of Shares

If the Board of Directors reasonably determines that any shareholder's ownership of shares (after giving effect to any voting limitations as described in "Adjustment of Voting Power" above) will result in a non de minimis adverse tax, legal or regulatory consequence to the Company, any of its subsidiaries or any other direct or indirect holder of shares or its affiliates, the Company shall have the option but not the obligation to repurchase or assign to a third party the right to purchase the minimum number of shares held by such person that is necessary to eliminate such non de minimis adverse tax, legal or regulatory consequence at a price equal to the Fair Market Value (as defined in the Articles) of such shares.

Notwithstanding the above provisions, no person shall be permitted to purchase shares in a required sale to the extent that such purchase would (after giving effect to any voting limitations as described in "Adjustment of Voting Power" above) cause a non de minimis adverse tax, legal or regulatory consequences to the Company, any of its subsidiaries, any other shareholder or its affiliates.

Alteration of Share Capital

We may from time to time by ordinary resolution increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution may provide. We may also, by ordinary resolution, (i) consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares, (ii) convert all or any of our paid up shares into stock and reconvert that stock into paid up shares of any denomination, (iii) subdivide our existing shares, or any of them, into shares of a smaller amount, provided that the proportion between the amount paid and the amount (if any) left unpaid on a share shall remain the same, and (iv) cancel any shares that, at the date of passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

Variation of Rights Attaching to Shares

If at any time our share capital is divided into different classes of shares, the rights attaching to any such class of shares may only be materially adversely varied or abrogated with the consent in writing of, or with the sanction of a resolution passed by, the holders of 50% (in the case of common shares) and two-thirds (in the case of preferred shares) of the voting power of the issued shares of the relevant class.

The rights conferred on the holders of our shares of any class shall not be deemed to be varied or abrogated by the creation or issue of further shares ranking senior thereto, pari passu therewith or junior thereto, or which by their terms as convertible into shares of the relevant class or by the redemption or purchase of shares of any class by us or the conversion (whether at the option of the company or of the relevant shareholder) of any shares into shares of the relevant class.

Amendment to the Articles of Association

Subject to the Companies Law, any amendment to our Articles of Association may be effected if a special resolution is passed at a general meeting of shareholders requiring a majority of not less than two-thirds of the entitled votes present and voting at the relevant meeting.

Winding Up

In the event of our winding up, an appointed liquidator may, pursuant to an ordinary resolution by our shareholders, divide amongst the shareholders, in kind or in specie, all or part of our assets (whether such assets shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders.

Board of Directors

Our Board of Directors manages us and consists of five members, with the Articles of Association fixing the maximum number of members at 12. The policy governing both our day-to-day and our general affairs will be determined by our Board of Directors or any such committee so authorized by our Board of Directors. Our shareholders may at any time by a plurality of votes appoint any person to be a Director or remove any director by ordinary resolution. Our directors have the power at any time to appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing directors, provided that the appointment of such a director shall be approved or terminated by a resolution of the shareholders at the next general meeting.

The quorum necessary for the transaction of business of the directors may be fixed by the Board of Directors and, unless so fixed, is a majority of the directors entitled to attend and vote. Decisions shall be made by a majority vote of the directors present at a meeting at which there is a quorum.

A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with us shall declare the nature of his interest at a meeting of the Board of Directors. Provided that he has disclosed the nature of any such interest, a director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the Board of Directors where any such contract, proposed contract or arrangement is considered.

Remuneration of Directors

The remuneration of the directors shall be determined by the Board of Directors.

Directors Powers

Subject to the Companies Law and our Articles of Association, our business shall be managed by the Board of Directors in such manner as they see fit. The Board of Directors may delegate any of the powers vested in it to any committee consisting of such director or directors as it thinks fit.

Anti-takeover Provisions

We are not subject to any anti-takeover provisions under the laws of the Cayman Islands. However our Articles of Association permit our Board of Directors to issue preferred shares from time to time, with such rights and preferences as they consider appropriate. Our Board of Directors could authorize the issuance of preferred shares with terms and conditions and under circumstances that could have an effect of discouraging a takeover or other transaction.

Miscellaneous

Our common shares are held in registered form and are issued under and governed by the laws of the Cayman Islands.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt Certificate.

The Global Depositary Receipts ("**GDRs**") represented by this certificate are issued in respect of Class A Common Shares of nominal value US$0.0001 each (the "**Shares**") in Integra Group, a Cayman Islands exempted company (the "**Company**"), with 20 GDRs issued in respect of one Share, pursuant to and subject to an agreement dated February , 2007 and made between the Company and JPMorgan Chase Bank, N.A. as depositary (the "**Depositary**") for the "Regulation S Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed The Hongkong and Shanghai Banking Corporation Limited as Custodian (as defined below) to receive and hold on its behalf, as nominee, the Shares, and any certificates issued in respect of such Shares (the "**Deposited Shares**") and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to the number of Shares in respect of which the GDRs held by such Holder are issued. In these terms and conditions (the "**Conditions**"), references to the "**Depositary**" are to JPMorgan Chase Bank, N.A. and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the "**Custodian**" are to The Hongkong and Shanghai Banking Corporation Limited or any other Custodian from time to time appointed under the Deposit Agreement and references to the "**Main Office**" mean, in relation to the Custodian, its office in Kowloon, Hong Kong (or such other office as from time to time may be designated by the Custodian with the approval of the Depositary).

References in these Conditions to the "Holder" of any GDR shall mean the person registered as Holder on the books of the Depositary maintained for such purpose (the "**Register**"). These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the form of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement, and shall become bound by these Conditions and the Deposit Agreement upon becoming a Holder of GDRs. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and as if it were the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate.

1. Deposit of Shares and Other Securities

1.1 After the initial deposit of Shares in connection with the Initial Offering, unless otherwise agreed by the Depositary and the Company and permitted by applicable law, only the following may be deposited under the Deposit Agreement in respect of such GDR:

(i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;

(ii) Shares subscribed for or acquired by Holders from the Company through the exercise of rights distributed by the Company to such persons in respect of Deposited Shares pursuant to Condition 7;

(iii) securities issued by the Company to the Holders in respect of Deposited Shares as a result of any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to "Deposited Shares" or "Shares" shall include any such securities, where the context permits; and

(iv) (to the extent permitted by applicable law and regulation) any other Shares in issue from time to time.

1.2 The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, the Company must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.

1.3 The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable Cayman Islands law or that such deposit would result in any violation of any applicable Cayman Islands laws or governmental or stock exchange regulations. The Depositary may also refuse to accept Shares for deposit in certain other circumstances as set out in the Deposit Agreement.

1.4 In its capacity as Depositary, the Depositary shall not lend Shares or other Deposited Property held hereunder or GDRs, *provided that*, the Depositary reserves the right subject to applicable law and without prejudice to its obligations under the Deposit Agreement, to (i) execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares by the Custodian or the Depositary, as the case may be, and (ii) deliver Deposited Property prior to the receipt and cancellation of GDRs in accordance with the Conditions, including GDRs which were issued under (i) above but for which Shares may not have been received (in each case a "**Pre-Release**"). The Depositary may receive GDRs in lieu of Shares in satisfaction of a pre-release. Each pre-release shall be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the "**Pre-Releasee**") that at the time of such transaction, such person, or its customer (i) legally and beneficially owns the corresponding Shares or GDRs, as the case may be, to be delivered to the Depositary, (ii) assigns all beneficial right, title and interest in and to such Shares or GDRs, as the case may be, to the Depositary in its capacity as such for the benefit of the Holders and will hold such Shares or GDRs, as the case may be, in trust for the Depositary until those shares or GDRs are delivered to the Depositary or Custodian, (iii) will reflect the Depositary as the owner of such Shares or GDRs, as the case may be, on its records, (iv) will deliver such Shares or GDRs, as the case may be, to the Depositary or Custodian upon the Depositary's request and (v) will not take any action with respect to such Shares or GDRs, as the case may be, that is inconsistent with the transfer of legal and beneficial ownership (including without the consent of the Depositary, disposing of such Shares or GDRs, as the case may be), other than to deliver such Shares or GDRs, as the case may be, to the Depositary in its capacity as such, (b) at all times fully collateralised marked to market daily with cash, US government securities, or other collateral held by the Depositary for the benefit of the Holders as the Depositary reasonably determines will provide substantially similar security and liquidity, (c) terminable by the Depositary on not more than five business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The Depositary may also set limits with respect to the number of Shares and GDRs involved in pre-releases to be effected hereunder with any one person on a case-by-case basis as it deems appropriate. The collateral referred to in Condition 1.2 above shall be held by the Depositary for the benefit of the Holders as security for the performance of the obligations of the Pre-Releasees to deliver the relevant Shares or GDRs, as the case may be, set forth in Condition 1.2 above (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

1.5 The Depositary may retain for its own account any compensation received by it in connection with the foregoing, including without limitation earnings on any collateral. Save as set out in the Deposit Agreement where, in particular, the Company specifically confirms its agreement that the Depositary will be entitled to make a Pre-Release pursuant to Condition 1.4, the Company will have no liability whatsoever to the Depositary or any Holder or to any person to whom the GDR or Deposited Property may be delivered by the Depositary or any other holder in due course of such GDRs or Deposited Property with respect to any representations, actions or omissions by the Depositary or any Holder pursuant to Condition 1.4.

2. Withdrawal of Deposited Property

2.1 Subject as set out in this Condition 2, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Office of the Custodian, or (at the request, risk and expense of the Holder and only if permitted by applicable law from time to time) at the specified office from time to time of the Depositary or any Agent to, or to the order in writing of, the person or persons designated in such order, if Deposited Property is to be withdrawn or delivered in respect of surrendered GDRs;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable.

2.2 Certificates and the Company's Register of Members with respect to withdrawn Deposited Shares will contain such legends, including the legends described under "Selling and Transfer Restrictions—Transfer Restrictions", and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.

2.3 Upon production of such documentation and the making of such payment as aforesaid in accordance with Condition 2.1, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate for, or other appropriate instrument of title to, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraph (i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),

in each case to the specified office from time to time of the Depositary or, if any, any Agent as designated by the surrendering Holder in such accompanying order as aforesaid.

2.4 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

2.5 Subject as set out above, upon request by any Holder in accordance with this Condition 2 for withdrawal of Deposited Property and upon compliance therewith, the Depositary shall make (and forthwith notify the Custodian and the Company of) such arrangements for delivery or collection thereof as soon as practicable to, or to the order in writing of, the person or persons specified in the order for withdrawal, provided that the Depositary shall not (except on the instruction of the Company) make arrangements for such delivery or collection (i) during any period when the transfer of Shares has been blocked on the account due to participation in any shareholders' meeting of the Company when notified by the Company in writing that such suspension is necessary, or (ii) the Depositary is notified by the Company in writing that delivery of Deposited Property will not comply generally, or in one or more localities, with any applicable law or governmental or stock exchange regulations, or (iii) the Depositary is notified by the Company in writing that delivery of Deposited Property will result in ownership of such Shares exceeding any limit under applicable Cayman Islands law or government resolution or the constitutive documents, or for any other reason as agreed with the Depositary, as notified to the Depositary by the Company from time to time. For the avoidance of doubt, in the absence of any such notification from the Company, the Depositary is not under any obligation to ascertain or determine whether or not any such delivery should be refused (including monitoring ownership levels amongst beneficial owners) and the Depositary shall not be liable for any loss, damage or other consequences arising from any such delivery. Also, for the avoidance of doubt, provided that it is complying with a written notification from the Company pursuant to this Condition 2.5, the Depositary shall not be liable for any loss, damage or other consequences arising from its refusal or delivery. The Depositary shall only be obliged to deliver Shares or other Deposited Property to the extent that Shares or such other Deposited Property are then held by the Custodian or the Depositary or by their respective agents pursuant to the provisions of this Agreement.

Neither the Depositary nor the Custodian shall deliver Shares, by physical delivery, book entry or otherwise (other than to the Company or its agent as contemplated by Condition 1), or otherwise permit Shares to be withdrawn from the Regulation S Facility, except upon the receipt and cancellation of GDRs or as set out in Condition 1.4 above.

2.6 The Depositary may refuse to deliver Deposited Property generally, or in one or more localities, if such refusal is deemed necessary or desirable by the Depositary, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body or commission, or under any provision of this Agreement or for any other reason, and will ensure that the Deposited Property comprises at least one Share until such time as all the GDRs are cancelled.

3. Transfer and Ownership

The GDRs are in registered form, with 20 GDRs issued in respect of one Share. Title to the GDRs passes by registration in the Register and, accordingly, transfer of title to a GDR is effective only upon such registration in the records of the Depositary. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company or otherwise in connection with the Deposited Property) in a currency other than United States dollars, the Depositary, its Agent or Custodian shall as soon as practicable convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11, provided that:

(i) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(ii) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions Other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 23 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or

(iii) if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in (i), (ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

The Company has agreed in the Deposit Agreement that it will, unless prohibited by any applicable law or regulation, give its consent to, and, if requested, use its reasonable endeavours (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 5, 6, 7 or 10.

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 5, 6, 7 or 10 or the securities to which such rights relate, in order for the Depositary to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities represented by such rights, the Depositary will not offer such rights or distribute such securities or other property to Holders or sell such rights unless and until the Company procures at the Company's expense, the receipt by the Depositary of an opinion from counsel satisfactory to the Depositary that the necessary registration has been effected or that the offer and sale of such rights, securities or property to Holders or beneficial owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Depositary nor the Company shall be liable for any losses, damages or expenses resulting from any failure to do so.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or financial institution, by sale or in any other manner that it may determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary, with the assistance of the Company, shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may consider desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may in its absolute discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Conditions 5, 6, 7 or 10 will be made by the Depositary to those Holders who are Holders of record on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date set by the Company or as near as practicable to any record date set by the Company) for that purpose and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), or Euroclear Bank S.A./N.V. ("**Euroclear**"), as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relevant Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the entitled Holder on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record dates set by the Company or as near as practicable thereto), subject to any laws or regulations applicable thereto.

10. Capital Reorganization

Upon any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital or upon any takeover reorganization, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 23 and, at its discretion, may treat such event as a distribution and comply with the relevant provisions of Conditions 5, 6 and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

11. Taxation and Applicable Laws

11.1 Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Shares will be subject to deduction of Cayman Islands and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in the Cayman Islands in order for the Depositary to receive from the Company Shares or other rights, securities, property and cash to be deposited under the Conditions or in order for Shares, other securities or other property and cash to be distributed or otherwise dealt with under Conditions 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company, to the extent permitted by applicable law, shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of the Company, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably requested by the Company and such assistance does not require the Depositary to take any action in conflict with market practice or in a capacity other than its capacity as Depositary, at the expense of the Company, make reasonable endeavours to assist the Company to obtain) any such authorisation, consent or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary without, in the opinion of the Depositary, unreasonable burden or expense.

12. Voting Rights

12.1 As soon as practicable after receipt from the Company of notice of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by the Company in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have been timely received by the Depositary prior to the date of such vote or meeting) and at the Company's expense and provided no US legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Cayman Islands legal prohibitions, exist, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the constitutive documents and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Upon the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions in the manner specified by the Depositary, the Depositary shall endeavour, insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreement, the constitutive documents and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.

12.2 Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian shall vote or attempt to exercise the right to vote the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. Notwithstanding the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions, if such voting instructions fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depositary is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depositary from the Holder shall not be voted. The Company agrees to provide timely notice to the Depositary which will enable the timely notification of Holders as to any change in its constitutive documents resulting in limitations on the ability of the Depositary to vote a particular GDR according to the voting instructions received in regard to such GDR.

12.3 Notwithstanding anything else contained in the Deposit Agreement, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate US legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange). The Company agrees that it shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may, for the account of the Holder, discharge the same out of the proceeds of sale on any stock exchange on which the shares may from time to time be listed and subject to Cayman Islands law and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the owners of GDRs except that any funds received by the Depositary for the payment of any amount due, in accordance with these Conditions, on the GDRs shall be held by it in trust for the relevant Holder until duly paid thereto.

14.2 None of the Depositary, the Custodian, the Company, nor any of their agents, officers, directors or employees nor any Agent shall incur any liability to any other of them or to any Holder or owner of a GDR if, by reason of any provision of any present or future law or regulation of the Cayman Islands or any other country or of any relevant governmental authority or by reason of the interpretation or application of any such present or future law or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depositary, the Custodian, any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of wilful default, negligence or bad faith) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay in performance of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 None of the Depositary, the Custodian nor any Agent shall be liable (except by reason of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.

14.4 The Depositary and each of its Agents and their respective affiliates, may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commission and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or beneficial owners of GDRs, or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or beneficial owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.

14.11 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by any member of the Board of Directors of the Company or by a person duly authorised by the Board of Directors of the Company or such other certificate from persons specified in Condition 14.10 which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence of or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.12 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees.

14.13 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.

14.14 The Depositary may, in the performance of its obligations hereunder instead of acting personally, employ and pay an agent, whether a lawyer or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. The Depositary will not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.

14.15 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of this Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by this Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interest of the Holders think fit provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depository's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default n the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate, arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under the Deposit Agreement, which includes the power to sub-delegate, shall provide that the delegate or sub-delegate, as the case may be, shall be required to provide the services delegated or sub-delegated in substantially the same manner as such services are required to be provided under the Deposit Agreement and the delegate or the sub-delegate, as the case may be, shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice to the Company and the Depositary.

The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute and the Depositary shall not (in the case of deposit with itself, in the absence of negligence, bad faith or wilful default) be responsible for any losses, liabilities or expenses incurred in connection with any such deposit.

14.16 The Depositary shall not under any circumstances have any liability arising from the Conditions or from any obligations which relate to the Conditions, whether as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.

14.17 Nothing in the Conditions shall exclude any liability for loss or damage caused by fraud on the part of the Depositary, or for death or personal injury arising from any failure on the part of the Depositary to take reasonable care or exercise reasonable skill.

14.18 For the purposes of Condition 14.16:

(i) "consequential loss or damage" means loss or damage of a kind or extent which was not reasonably foreseeable at the time this Agreement was entered into as a serious possibility in the event of the breach of obligation in question; and

(ii) "special loss or damage" means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary either at the time this Agreement was entered into or later.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Initial Offering) or for the cancellation of GDRs upon the withdrawal of Deposited Property US$0.05 or less per GDR issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares, for operation and maintenance costs associated with the administration of the GDRs and in connection with inspections of the relevant share register maintained by the Cayman Islands registrar, if applicable: a combined fee of US$0.03 or less per GDR per annum;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): US$0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution; and

(vi) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depositary for such issuance: a fee of US$0.05 or less per GDR (or portion thereof),

together with all expenses, transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian in connection with any of the above including, but not limited to charges imposed by a central depositary and such customary expenses as are incurred by the Depositary in the conversion of currencies other than US dollars into US dollars and fees imposed by any relevant regulatory authority.

16.2 The Depositary is entitled to receive from the Company such fees, taxes, duties, charges, costs, expenses and other payments as agreed between them in the Deposit Agreement or as specified in a separate agreement between the Company and the Depositary concerning such fees, taxes, duties, charges, costs, expenses and other payments.

17. Agents

17.1 The Depositary shall be entitled, with the approval of the Company, to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent providing services outside of the ordinary course of business or of any change in the specified office of the Depositary will be duly given by the Depositary to the Company.

18. Listing

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the regulated market for listed securities of the London Stock Exchange. For that purpose the Company will pay all fees and sign and deliver all undertakings required by the UK Listing Authority and the London Stock Exchange in connection therewith. In the event that a listing on the Official List of the UK Listing Authority and admission to trading on the regulated market for listed securities of the London Stock Exchange are not maintained, the Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and maintain a listing of the GDRs on any such other EEA Regulated Market as it may decide.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property other than cash for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depositary; provided that, if at any time the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 30 calendar days' notice in writing upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor custodian (approved by the Company, such approval not to be unreasonably withheld or delayed), which shall, upon acceptance of such appointment and the expiry of any applicable notice period, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may, after prior consultation with the Company, if practicable, terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved by the Company, such approval not to be unreasonably withheld or delayed), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depositary, of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 Unless otherwise agreed to in writing between the Company and Depositary from time to time, the Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 calendar days' notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving 90 calendar days' notice in writing to the Company and the Custodian. In addition, the Depositary and the Company agree to consult and attempt to resolve in good faith any matters in relation to the services to be provided by the Depositary to the Company under the Deposit Agreement. Within 30 calendar days after the giving of such either notice, notice thereof shall be duly given by the Depositary to the Holders and to the UK Listing Authority and the London Stock Exchange. The Depositary may resign as Depositary and appoint one of its affiliates as its successor Depositary hereunder by giving written notice to the Company and notice to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect other than in the case of an appointment by the Depositary of one of its affiliates as its successor depositary, until (a) the appointment by the Company of a successor depositary, (b) the grant of such approvals as may be necessary to comply with applicable laws and with the constitutive documents for the transfer of the Deposited Property to such successor depositary, and (c) the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions by the successor depositary and the payment to the Depositary of all fees, taxes, duties, charges, costs, expenses and other payments as agreed by the Depositary and the Company in any agreement concerning such fees, taxes, duties, charges, costs, expenses and other payments. The Company has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 23 and to the UK Listing Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary, the Depositary shall, against payment of all fees, expenses and charges owing to it by the Company under the Deposit Agreement, deliver to its successor depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all Deposited Property held by it under the Deposit Agreement. Upon the date when such termination of appointment or resignation takes effect, the Deposit Agreement provides that the Custodian shall be deemed to be the Custodian thereunder for such successor depositary and shall hold the Deposited Property for such successor depositary and the resigning Depositary shall thereafter have no obligation thereunder. For the avoidance of doubt, this Condition will be without prejudice to any liabilities of the Depositary which have accrued prior to the date of the termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations which accrued prior to such date.

21. Termination of Deposit Agreement

21.1 Subject as set out below, either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 calendar days of the date on which the Depositary has given notice pursuant to Condition 20 and clause 14 of the Deposit Agreement that it wishes to resign, may terminate the Deposit Agreement by giving 90 calendar days' notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

If the Company terminates the Deposit Agreement, it will (unless the termination is due to the wilful default, negligence or fraud of the Depositary) be obligated, prior to such termination, to reimburse to the Depositary all amounts owed to the Depositary as set out in the Deposit Agreement and in any agreement between the Depositary and the Company.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 2.4 and upon compliance with Condition 2, and further upon payment by the Holder of any sums payable by the Depositary to the Custodian in connection therewith for such delivery and surrender but otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

21.4 The Company has agreed not to appoint any other depositary for the issue of depositary receipts so long as JPMorgan Chase Bank, N.A. is acting as Depositary under the Deposit Agreement.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22 and Clause 12 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 2, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, free of the charge specified in sub-paragraph (i) of Condition 16.1 for such delivery and surrender but otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or beneficial owners if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between the Company and the Depositary and, so long as the GDRs are listed on the Official List of the UK Listing Authority and admitted to trading on the market for listed securities of the London Stock Exchange and if and to the extent that the rules of the UK Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK. Any such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed.

All notices required to be given by the Company to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by the Company to the Depositary and upon receipt of any such notices, the Depositary shall forward such notices to the Holders. The Depositary shall not be liable for any notices required to be given by the Company which the Depositary has not received from the Company, nor shall the Depositary be liable to monitor the obligations of the Company to provide such notices to the Holders.

All formal complaints to the Depositary should be made in writing to the compliance officer of the Depositary at the address set out in Clause 17 of the Deposit Agreement.

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language by mail, or one copy by facsimile or electronic transmission as agreed between the Company and the Depositary (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange, or another stock exchange, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.

24.2 The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of any notice to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, and any other material (which in the opinion of the Company contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys Held by the Depositary

The Depositary shall be entitled to deal with moneys received by it, in respect of or in connection with the Deposited Property in the same manner as other moneys paid to it as a banker to its customers and shall not be liable to account to the Company or any holder or any other person for any interest on any moneys paid to it by the Company for the purposes of the Deposit Agreement, except as otherwise agreed.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Disclosure of Beneficial Ownership, Other Information and Ownership Restrictions

28.1 The Depositary may from time to time request Holders or former Holders to provide information as to the capacity in which they hold or held GDRs and regarding the identity of any other persons then or previously interested in such GDRs and the nature of such interest and various other matters. Each such Holder agrees to provide any such information reasonably requested by the Depositary pursuant to the Deposit Agreement whether or not still a Holder at the time of such request.

28.2 To the extent that provisions of or governing any Deposited Property, the constitutive documents, or applicable law may require the disclosure of, or limitations in relation to, beneficial or other ownership of Deposited Property and other securities of the Company, the Holders, owners of GDRs and beneficial owners, as the case may be, shall comply with the Depositary's instructions to Holders, owners and beneficial owners, as the case may be, of GDRs in respect of such disclosure or limitation, as may be forwarded to them from time to time by the Depositary, to the extent they have knowledge of the identity of such owners or beneficial owners.

29. Governing Law

29.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by Cayman Islands law. The Company has submitted in respect of the Deposit Agreement and these Conditions to the jurisdiction of the English courts.

29.2 The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not.)

29.3 The Depositary irrevocably appoints the Managing Director for the time being of JPMorgan Chase Bank, N.A., currently situated at 60 Victoria Embankment, Floor 3, London EC4Y OJP as its authorised agent for service of process in England. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Company of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

30. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

The GDRs will initially be evidenced by a single Master GDR in registered form. The Master GDR will be deposited with BNP Paribas Securities Services, Luxembourg branch, as common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of BNP Paribas Securities Services, Luxembourg branch. The Master GDR contains provisions which apply to the GDRs while they are in master form, some of which modify the effect of the "Terms and Conditions of the Global Depositary Receipts" set out in this Prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the "Terms and Conditions of the Global Depositary Receipts" shall have the same meaning herein.

The Master GDR will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii) or (iii) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

(i) either of Euroclear or Clearstream, Luxembourg notifies the Depositary that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or

(ii) either of Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or

(iii) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the relevant GDR holder.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear or Clearstream, Luxembourg.

Upon any exchange of the Master GDR for certificates in definitive registered form, or any distribution of GDRs pursuant to Conditions 5, 7 or 10, or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that, if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the Company's obligations under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, be made by the Depositary through Euroclear and Clearstream, Luxembourg, on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the Master GDR.

Holders of GDRs will have voting rights as set out in the Terms and Conditions of the GDRs.

Surrender of GDRs

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master GDR is registered in the name of a common depositary (or its nominee) for Euroclear and Clearstream, Luxembourg, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23. So long as GDRs are listed on the Official List maintained by the Financial Services Authority and admitted for trading on the London Stock Exchange's Main Market, and the Financial Services Authority or the London Stock Exchange so requires, notices shall also be published in a leading newspaper having general circulation in the United Kingdom (which is expected to be the Financial Times).

The Master GDR shall be governed by and construed in accordance with English law.

MATERIAL TAX CONSIDERATIONS

The following summary of material Cayman Islands and United Kingdom tax consequences of ownership of Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations after the date of this Prospectus may alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Shares and holders of GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Shares or GDRs. Each prospective holder is urged to consult his or her own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Cayman Islands Tax Considerations

We were incorporated under the laws of the Cayman Islands as an exempted company and, as such, obtained an undertaking on March 30, 2004 from the Governor in Cabinet of the Cayman Islands substantially that, for a period of twenty years, no law which is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to us and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on its common shares. This undertaking would not, however, prevent the imposition of taxes on any person ordinarily resident in the Cayman Islands or any company in respect of its ownership of real property or leasehold interests in the Cayman Islands.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling our common shares under the laws of their country of citizenship, residence or domicile.

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current UK law and our understanding of HM Revenue & Customs' published practice at the date of this document. Except as otherwise stated, the summary only discusses certain UK tax consequences of holding the Shares or the GDRs for the absolute beneficial owners of the Shares or the GDRs who are resident (or, in the case of individuals only, ordinarily resident) in the UK and not in any other jurisdiction for tax purposes ("UK Holders"). In addition, the summary (1) only addresses the tax consequences for UK Holders who hold the Shares or the GDRs as capital assets, and does not address the tax consequences which may be relevant to certain other categories of UK Holders, for example, dealers, banks, financial institutions, insurance companies, collective investment schemes, tax-exempt organizations, or persons connected with the Company or who hold, acquire or have the right to acquire Shares or GDRs by reason of an employment; (2) assumes that the UK Holder, either alone or together with one or more associated or connected persons, does not directly or indirectly control or hold 10% or more of our shares and/or voting power; (3) assumes that a holder of the GDRs is beneficially entitled to the underlying Shares and to the dividends on those Shares; (4) assumes that there will be no register in the UK in respect of the Shares or GDRs; (5) assumes that the Shares will not be held by, and that the GDRs will not be issued by, a depositary incorporated in the UK; (6) assumes that neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the UK; and (7) assumes that the Company is not managed and controlled in the UK (see "Risk Factors—Risks Related to Our Business").

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular UK Holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and HM Revenue & Customs practice, of the acquisition, ownership and disposal of the Shares or the GDRs in their own particular circumstances, by consulting their own tax advisors.

Withholding Tax

Assuming that the income received under the GDRs does not have a UK source, there should be no UK withholding tax on payments under the GDRs. Dividend payments in respect of the Shares will not be subject to UK withholding tax.

Taxation of Dividends

A UK Holder who is an individual resident, ordinarily resident and domiciled in the UK will generally be subject to UK income tax on the dividend paid on the Shares or the GDRs. A UK Holder who is an individual resident but not domiciled or not ordinarily resident in the UK will generally be subject to UK income tax on the dividend paid on the Shares or the GDRs to the extent that the dividend is remitted, or treated as remitted, to the UK.

A corporate UK Holder will generally be subject to UK corporation tax on the dividend paid on the Shares or the GDRs. A corporate holder of the Shares or the GDRs that is not resident in the UK will generally be subject to UK corporation tax on the dividend paid on the Shares or the GDRs where the Shares or the GDRs in question are attributable to a trade carried on by the holder in the UK through a permanent establishment in the UK.

Taxation of Disposals

The disposal by a UK Holder of interests in the Shares or the GDRs may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK Holder's circumstances and subject to any available exemption or relief.

A UK Holder who is an individual and domiciled in the UK will generally be liable to UK capital gains tax on chargeable gains made on the disposal of an interest in the Shares or the GDRs. A UK Holder who is an individual but not domiciled in the UK will generally be liable to UK capital gains tax to the extent that the chargeable gains made on the disposal of an interest in the Shares or the GDRs are remitted or treated as remitted to the UK. In particular, dealings in the GDRs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to UK capital gains tax liability.

An individual holder of the Shares or the GDRs who is neither resident nor ordinarily resident in the UK for UK tax purposes for a period of less than five years, but who was previously resident or ordinarily resident in the UK, and who disposes of such Shares or GDRs during the period of non-residence may also be liable on returning to the UK for UK tax on capital gains despite the fact that the individual was not resident or ordinarily resident in the UK for UK tax purposes at the time of the disposal.

A corporate UK Holder will generally be subject to UK corporation tax on any chargeable gain arising from a disposal of the Shares or the GDRs.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No UK stamp duty should be payable on the issue of Shares or GDRs. Assuming that any document effecting a transfer of, or containing an agreement to transfer an equitable interest in, one or more of the Shares or the GDRs is neither (i) executed in the UK nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK (which may include involvement of UK bank accounts in payment mechanics), then no UK ad valorem stamp duty should be payable on such a document.

No SDRT should be payable in respect of the issue of, or any agreement to transfer, the Shares or the GDRs.

SUBSCRIPTION AND SALE

Under the terms of, and subject to the conditions contained in, an underwriting agreement, dated February 22, 2007 (the "Underwriting Agreement"), among the Company, the Selling Shareholders and each Manager, the Managers have severally agreed to procure purchasers for, or failing which, themselves to purchase from the Company and the Selling Shareholders, at the Offer Price, the number of Shares in the form of GDRs indicated in the first column below. The Managers have severally agreed to procure purchasers for, or failing which themselves to purchase, 1,492,537 Shares in the form of 29,850,740 GDRs from the Company and 501,729 Shares in the form of 10,034,580 GDRs from the Selling Shareholders. Pursuant to the Over-Allotment Option, if exercised, the Company has agreed to sell to the Managers, at the Offer Price, the number of Shares in the form of GDRs indicated in the second column below.

Manager	Number of GDRs	Number of GDRs in respect of the Over-Allotment Option
Morgan Stanley & Co. International Limited	15,607,300	2,341,080
Renaissance Securities (Cyprus) Limited	15,607,300	2,341,080
Alfa Capital Holdings (Cyprus) Limited, London Branch	8,670,720	1,300,620
Total	39,885,320	5,982,780

The Offer Price will be determined on the basis of a bookbuilding process.

The Underwriting Agreement contains the following further provisions, among others:

- The Company has granted to Morgan Stanley & Co. International Limited and Renaissance Securities (Cyprus) Limited, on behalf of the Managers, the Over-Allotment Option to acquire up to 299,139 additional Shares in the form of up to 5,982,780 GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering and to cover short positions resulting from stabilizing transactions. The Over-Allotment Option is exercisable upon written notice to the Company by Morgan Stanley & Co. International Limited and Renaissance Securities (Cyprus) Limited, on behalf of the Managers, given at any time from the date hereof up to 30 days following the Closing Date.

- The Managers will deduct from the proceeds of the Offering, (a) certain costs and expenses incurred by the Managers in connection with the Offering, (b) underwriting commissions payable by the Company and the Selling Shareholders in respect of the Offering (assuming no exercise of the Over-Allotment Option), and (c) underwriting commissions payable by the Company in respect of any additional Shares in the form of GDRs offered as a result of the exercise of the Over-Allotment Option.

- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, among others, the accuracy of the representations and warranties given in the Underwriting Agreement and the application for Admission having been approved on or prior to the Closing Date. The Managers may terminate the Underwriting Agreement prior to admission in certain specified circumstances that are typical for an agreement of this nature. If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, Admission, then the Offering will lapse.

- The Company has given customary representations and warranties to the Managers, including in relation to the business, the accounting records and the legal compliance of the Company, in relation to the Shares and GDRs and in relation to the contents of the Prospectus. The Selling Shareholders have given customary representations and warranties to the Managers, including in relation to their title to the Shares that they have agreed to sell to the Managers.

- The Company has given customary indemnities to the Managers against certain liabilities in connection with the Offering, or to contribute to payments that the Managers may be required to make because of any of those liabilities. Each Selling Shareholder has given customary indemnities to the Managers against certain liabilities in connection with any breach of such Selling Shareholder's representations, warranties or undertakings in the Underwriting Agreement.

Each of the Company, Directors, members of our senior management and certain of our other shareholders who enter into lock-up agreements may not, for a period commencing on the date of the Underwriting Agreement and ending 180 days after the Closing Date:

(i) issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any of the foregoing), directly or indirectly, any Shares, GDRs or certain other securities whose value is derivative of the Shares or GDRs (in each case, which are legally or beneficially owned or otherwise held or controlled by them); or

(ii) enter into transactions with a similar effect to any of the foregoing,

subject to certain exceptions or without the prior written consent of the Joint Bookrunners. One of the exceptions to the Company's lock-up is that the Company may issue Shares or GDRs during the 180 day lock-up period, without the consent of the Joint Bookrunners, in connection with the acquisition of a company or business to the vendor of such company or business, provided that such issues of Shares or GDRs do not exceed in the aggregate 20% of the fully diluted share capital of the Company immediately following the Offering and provided further that the recipient of such Shares or GDRs agrees to enter into a lock-up agreement on the same terms for the remainder of the 180 day lock-up period.

In connection with the Offering, the Stabilizing Manager, or persons acting on its behalf, may, on behalf of the Managers, over-allot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. However, the Stabilizing Manager, or such agents, have no obligation to do so. Such stabilization, if commenced, may begin on the date of adequate public disclosure of the Offer Price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 days after the date of such adequate disclosure of the Offer Price. The Managers do not intend to disclose the extent of any such stabilization transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Managers and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Company and its affiliates, for which they received customary fees and commissions. In particular, affiliates of Renaissance Securities (Cyprus) Limited and Alfa Capital Holdings (Cyprus) Limited, London Branch are lenders under certain of our debt facilities and certain of these facilities will be repaid with the proceeds of this Offering. See "Use of Proceeds". Additionally, upon completion of this Offering, an affiliate of Renaissance Securities (Cyprus) Limited will receive an exit fee related to the restructuring of one of such affiliate's loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations". The Managers and their respective affiliates may provide such services for the Company and its affiliates in the future.

In connection with the Offering, each of the Managers and any of their respective affiliates acting as an investor for its own account may take up the Shares and in that capacity may retain, purchase or sell the Shares, in each case in the form of GDRs (or related investments), for its own account and may offer or sell such securities (or other investments) otherwise than in connection with the Offering. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company does not believe that any of its major shareholders or members of its administrative, management or supervisory boards intends to subscribe in the Offering. The Company is not aware of whether any person intends to subscribe for more than 5% of the Offering.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

Cayman Islands

No offer or invitation to subscribe for the GDRs may be made to the public in the Cayman Islands.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") an offer to the public of any GDRs which are the subject of the Offering may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any GDRs may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(iii) by the Managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Managers for any such offer; or

(iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDRs shall result in a requirement for the publication by the Company or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Manager has represented and agreed that it has:

- only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

United States

The Shares and the GDRs have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction and may not be offered or sold within the United States except pursuant to Regulation S under the Securities Act and in compliance with any applicable state securities laws. The GDRs are being offered and sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S.

In addition, until 40 days after the commencement of the Offering, an offer or sale of GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

Russia

Each Manager has represented and agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law, it being understood and agreed that the Managers may distribute this Prospectus to persons in the Russian Federation in a manner that does not constitute advertisement (as defined in Russian law) of GDRs and may sell GDRs to Russian persons in a manner that does not constitute a "placement" or "public circulation" of the GDRs in the Russian Federation (as defined in Russian law). Since neither the issuance of the Shares and/or the GDRs nor a Russian securities prospectus in respect of the Shares and/or the GDRs has been registered, or is intended to be registered, with the FSFM, at no time should any person carry out any activities in breach of these restrictions.

Kazakhstan

Each Manager has represented, warranted and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell GDRs or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan except in compliance with the laws of Kazakhstan.

Transfer Restrictions

None of the GDRs or the Shares represented thereby has been or will be registered under the Securities Act and the GDRs may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the GDRs are being offered and sold only in offshore transactions in compliance with Regulation S under the Securities Act. As used in this document, the term "offshore transaction" has the meaning given to it in Regulation S.

Each purchaser of GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. The purchaser (i) is, and the person, if any, for whose account it is acquiring the GDRs is, outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not a securities dealer or, if it is a securities dealer, it did not acquire the GDRs or the Shares represented thereby from the Company or an affiliate thereof in the initial distribution of GDRs.
2. The purchaser is aware that the GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act, are being offered outside the United States in reliance on Regulation S and are subject to significant restrictions on transfer.
3. The purchaser will not offer, resell, pledge or otherwise transfer such GDRs, except in accordance with the Securities Act and all applicable securities laws of each relevant state of the United States.
4. If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such GDRs or the Shares represented thereby, such GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law.

   THIS GLOBAL DEPOSITARY RECEIPT AND THE COMMON SHARES OF THE COMPANY REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.
5. The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of GDRs will be deemed to have acknowledged that the Company, the Managers, their respective affiliates and others will rely upon the truth an accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of the GDRs are no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring the GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master GDR registered in the name of, and deposited with, BNP Paribas Securities Services, Luxembourg Branch , as common depositary for Euroclear and Clearstream, Luxembourg. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear and Clearstream, Luxembourg, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the GDRs in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg and certain fees and expenses are payable to the Depositary in accordance with the terms of the Deposit Agreement and the GDR Conditions. See "Terms and Conditions of the Global Depositary Receipts".

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the Master GDR. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see "Terms and Conditions of the Global Depositary Receipts—Transfer Restrictions" and "Selling and Transfer Restrictions".

Trading between Euroclear and Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

General

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the GDRs among participants of Euroclear and Clearstream, Luxembourg, none of Euroclear or Clearstream, Luxembourg are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is JPMorgan Chase Bank, National Association, a national banking association, organized under the laws of the United States and with its main office in Columbus, United States of America. JPMorgan Chase Bank, National Association is the principal banking subsidiary of JPMorgan Chase & Co. The Depositary was organized as a national banking association under the National Bank Act on November 13, 2004. Previously, it had been a banking corporation incorporated under the Banking Law of New York. The Depositary is subject to the regulation of, and supervision by, the Office of the Comptroller of the Currency. The registered office of the Depositary is located at 1111 Polaris Parkway, Columbus, Ohio, United States of America. A copy of JPMorgan Chase & Co.'s by-laws, as amended, together with copies of the most recent consolidated reports of condition and income—FFIEC 031 (call reports) will be available for inspection at the Office of the Secretary, JPMorgan Chase & Co., located at 270 Park Avenue, New York, New York 10017, United States of America.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us with respect to US and English law by Skadden, Arps, Slate, Meagher & Flom (UK) LLP. Certain legal matters with respect to Cayman Island law will be passed upon for us by Walkers Global. Certain legal matters in connection with the Offering will be passed upon for the Managers with respect to US and English law by Linklaters.

INDEPENDENT AUDITORS

The consolidated financial statements of Integra Group and its subsidiaries as of and for the year ended December 31, 2005 and as of and for the period from inception to December 31, 2004, included in this Prospectus, have been audited by ZAO PricewaterhouseCoopers Audit ("PwC"), independent auditors, Kosmodamianskaya Nab. 52, Bldg. 5, Moscow 115054, Russian Federation, as stated in their report appearing herein.

The consolidated financial statements of BI, TNGF, and YGF as of December 31, 2005, 2004 and 2003 and for each of the three years in the period ended December 31, 2005, and the consolidated financial statements of URBO and Smith Eurasia as of December 31, 2005, and 2004 and for each of the two years in the period ended December 31, 2005, included in this Prospectus, have been audited by PwC as stated in their reports appearing herein.

PwC is a member of the Russian Chamber of Auditors (*Auditorskaya Palata Rossii*) and the Institute of Professional Accountants of Russia (*Institut Professionalnih Buhgalterov Rossii*).

The consolidated financial statements of AES, Geostan and TGC as of December 31, 2005 and 2004 and for each of the two years in the period ended December 31, 2005 included in this Prospectus, have been audited by BDO Unicon ("BDO"), independent auditors, 125/1 Warshavskoye Shosse, Moscow 117545, Russian Federation, as stated in their report appearing herein.

BDO is a member of the Institute of Professional Accountants of Russia (*Institut Professionalnih Buhgalterov Rossii*).

GENERAL INFORMATION

1. The Company was incorporated on March 15, 2004 as Integra Group, an exempted company incorporated in the Cayman Islands with limited liability with registered number 133843. The Company's registered office is Walkers SPV Limited, Walker House, Mary Street, PO Box KY1-9002, George Town, Grand Cayman, Cayman Islands. The Company's principal place of business is 27-29/1 Bldg. 6, Smolenskaya-Sennaya, 119121 Moscow, Russian Federation and the telephone number of such principal place of business is +7 495 933 0621.

2. The following is a list of the Company's direct and indirect subsidiaries, showing their date of establishment, registered addresses, and principal business activities, together with the Company's ownership interest, as the case may be.

Name	Date Established	Registered Office Address	Principal Business	Country of Incorporation	Ownership
Holding companies					
Integra Group	March 15, 2004	Walkers SPV Limited, Walker House, Mary Street, PO Box KY1-9002, George Town, Grand Cayman, Cayman Island	Holding company	Cayman Islands	N/A
IG Holdings Limited	April 21, 2004	Arch. Makariou III, 2-4, Capital Center, 9th Floor P.C. 1505 Nicosia, Cyprus	Holding company	Cyprus	100%
IG Management Limited	October 13, 2004	Arch. Makariou III, 2-4, Capital Center, 9th Floor P.C. 1505 Nicosia, Cyprus	Holding company	Cyprus	100%
Conception Services Limited	September 1, 2004	Arch. Makariou III, 2-4, Capital Center, 9th Floor P.C. 1505 Nicosia, Cyprus	Holding company	Cyprus	100%
Management companies					
CJSC "Integra Management"	March 25, 2005	101100 Russia, Moscow, 17 Chistoprudny Boulevard, Building 1, 5th Floor	Management company	Russia	100%
CJSC "Uralmash-VNIIBT"	October 14, 2005	113114 Russia, Moscow, 9 Letnikovskaya Street	Management company	Russia	100%
OJSC "Russia Geophysical Company"	December 23, 1999	101000 Russia, Moscow, 17 Chistoprudny Boulevard, Building 1, 5th Floor	Management company	Russia	100%

Name	Date Established	Registered Office Address	Principal Business	Country of Incorporation	Ownership
Drilling, Workover and IPM Services					
LLC "Burovaya Kompaniya Sever"	April 17, 2001	Russia, Tyumen Region, Khanty-Mansiysk Autonomous Region-Yugra, Oktyabrsky District, 42nd kilometer of Nyagan-Talinka Road	Drilling and workover	Russia	100%
LLC "Integra-Drilling"	December 22, 2006	426039 Russia, Udmurtskaya Republic, Izhevsk City, 37 Novosmirnovskaya Street	Drilling	Russia	100%
LLC "Argillit"	November 19, 2001	628606 Russia, Tyumen Region, Khanty-Mansiysk Autonomous Region, Nizhnevartovsk, 2P Street	Drilling	Russia	100%
LLC "Alliance-5"	March 21, 2000	169706 Russia, Komi Republic, Usinsk, 1 Mail Box 20 Promishlennaya Street	Construction, services and research	Russia	100%
LLC "Burovaya Kompaniya Alliance"	May 23, 1994	169710 Russia, Komi Republic, Usinsk City, 4 Kooperativnaya Street	Drilling	Russia	100%
LLC "PBN-Group"	August 31, 1995	400075 Russia, Volgograd Region. Volgograd, 14 Proezd Neftyanikov	Logging	Russia	99.98%
LLC "Prikaspiyburneft-Irkutsk"	December 3, 1998	664011 Russia, Irkutsk Region, Irkutsk, 14 Nizhnyaya Naberezhnaya Street	Logging	Russia	85.75%
TOO "Prikaspiyburneft-Kazakhstan"	August 25, 1997	465027 Kazakhstan, Atyrau, 6 Kurmangazy	Drilling	Kazakhstan	99.95%
OJSC "Prikaspyburneft"	January 12, 1995	400075 Volgograd, 14 Proezd Neftyanikov	Drilling and workover	Russia	76.27%
LLC "Prikaspiyburneft-Halmg"	May 23, 2003	359410 Russia, Kalmykia Republic, Sarpinsky District, Sadovoe Village, 12 Komsomolsky Pereulok	Drilling	Russia	76.29%
LLC "Burovaya Kompaniya Prikaspiyburneft"	November 17, 2005	400075 Russia, Volgograd Region, 14 Proezd Neftyanikov	Drilling	Russia	76.29%

Name	Date Established	Registered Office Address	Principal Business	Country of Incorporation	Ownership
LLC "Prikaspiyburneft-Kovykta"	April 24, 2006	664003 Russia, Irkutsk Region, Irkutsk, 20 Krasnogo Vosstaniya Street	Drilling	Russia	76.29%
LLC "Integra KRS"	July 19, 2005	628616 Russia, Tyumen Region, Khanty-Mansiysk Autonomous Region, Nizhnevartovsk City, Zapadny Promishlenny Uzel, 11P Street, Panel 9	Workover	Russia	100%
LLC "SRiPNO"	July 23, 2001	628000 Russia, Tyumen Region, Khanty-Mansiysk Autonomous District, Nizhnevartovsk, 13 Mira Street, Apartment 162	Workover	Russia	100%
Supply International, Inc.	December 4, 2000	37 Regent Street Belize, Belize City,	Service company	Belize	100%
Smith Eurasia, Inc.		11969 Katy Freeway Suite L45 Houston, Texas 11099	Service company	Texas, USA	100%
SE Management, LLC	August 3, 2004	615 South Dupont Highway Dover, Delaware 19901	Service company	Delaware, USA	100%
Smith Eurasia Limited	June 18, 1996	Cayman Management Services Ltd., P. O. Box 1569, George Town, Grand Cayman, Cayman Islands,	Investment company, broker, trader, dealer, agent	Cayman Islands	100%
LLC Smith Overseas Services	July 23, 2004	119311 Russia, Moscow, 19 Lomonosovsky Prospect	Drilling services	Russia	100%
DP Smith Ukraine	April 18, 2005	38751 Ukraine, Poltavskaya Region, Poltavsky District, Rozsoshentsi Village, 6 Frunze Street	Drilling services	Ukraine	100%
LLC Smith Production Technology	January 26, 2004	117042 Russia, Moscow, 21 Akademika Semenova Street	Service company	Russia	100%
LLC Smith Siberian Services	November 25, 2004	Russia, Moscow, 19 Lomonosovsky Prospect	Drilling services	Russia	100%
LLC Smith Drilling Services	October 27, 2003	117042 Russia, Moscow, 21 Akademika Semenova Street	Trading and leasing	Russia	100%

Name	Date Established	Registered Office Address	Principal Business	Country of Incorporation	Ownership
Smith Eurasia-KZ LLP		Kazakhstan, Atyrau, 48 Azattyk	Supply of oil and gas equipment	Kazakhstan	99.0%
Formation Evaluation					
OJSC “Purgeofizika”	July 13, 2001	629830 Russia, Yamalo-Nenetz Autonomous Region, Gubkinsky, District 6, Building 5	Logging	Russia	57.2%
OJSC “Nizhnevartovskneftegeofizika”	July 7, 1994	628600 Russia, Khanty-Mansiysk Autonomous Region-Yugra, Nizhnevartovsk, 4 Aviatorov Street	Logging	Russia	25.4%
LLC “Geofizservis”	March 28, 1997	Russia, Tyumen Region, Khanty-Mansiysk Autonomous Region-Yugra, Nyagan, 38 Sibirskaya Street	Logging	Russia	96.37%
LLC “Yuganskpromgeofizika”	January 19, 2006	628300 Russia, Khanty-Mansiysk Autonomous Region-Yugra, Nefteyugansk, Industrial Zone Pionernaya, 12 Zhilaya Street	Logging	Russia	96.37%
OJSC “Tyumenneftegeophysika”	June 25, 1996	625023 Russia, Tyumen, 173 Respubliki Street	Seismics	Russia	75.09%
LLC “Irtyshgeophysika”	August 9, 2005		Seismic	Russia	56.31%
TOO “Ishimgeofizika”	May 18, 2004	050060 Kazakhstan, Almaty, Bostandyksky District, 45 Line 22 Street, Office 308	Logging	Kazakhstan	75.09%
OJSC “Yamalgeofizika”	June 6, 1994	629400 Russia, Tyumen Region, Yamalo-Nenetskiy Autonomous Region, City of Labytnangi, 31-A Bovanenko Street	Seismic	Russia	14.56% (50.74%)*
JSC “Azimut Energy Services”	1996	050057, Kazakhstan, Almaty, Timiryazev Street, Bld 42, Suite 15/1	Seismics	Kazakhstan	94.11%
JSC “Geostan”	April 5, 2004	050057, Kazakhstan, Almaty, Timiryazev Street, Bld 42, Suite 15/1	Seismics	Kazakhstan	99.5%

* We own 14.56% of the Shares directly and control a further 36.18%. See “Material Contracts—Acquisition Agreements—Acquisition of and Controlling Interest in YGF”.

Name	Date Established	Registered Office Address	Principal Business	Country of Incorporation	Ownership
LLC "Tomskaya Geofizicheskaya Kompaniya"	January 21, 2005	634041, Russia, Tomskaya Region, Tomsk, Krasnoarmeyskaya Street, 96	Seismics	Russia	100%
CJSC "Tomskiy Geofizicheskiy Trest"	August 4, 2003	636462, Russia, Tomskaya Oblast, Kolpashevo, Chapaeva Street, 21	Seismics	Russia	100%
Manufacturing					
CJSC "Uralmash-Drilling Equipment"	October 15, 2004	620012, Russia, Ekaterinburg, Plosehad Pervoi Pyatiletki	Equipment manufacturing	Russia	100%
LLC "VNIIBT-Burovoy Instrument"	August 29, 2003	617143 Russia, Perm Region, Ochersky District, Pavlovsky Village, 1 Truda Street	Equipment manufacturing	Russia	100%
OJSC NPO "Burovaya Technika"	June 3, 1996	117957 Russia, Moscow, 6 Leninsky Prospect	Machinery	Russia	55.91%
Joint Stock Research Development Company Neftegaztekhnika	January 25, 1994	Russia, Perm, 24 Karpinskogo Street	Research and development	Russia	42.49%
OJSC "Concern Stromneftemash"	June 29, 2004	156001 Russia, Kostroma, 54 Vokzalnaya Street	Equipment manufacturing	Russia	100%
OJSC "Strommashina"	February 25, 1993	156000 Russia, Kostroma, 54 Vokzalnaya Street	Equipment manufacturing	Russia	92.68%
LLC "Orenburgtechservice"	June 19, 2003	460006 Russia, Orenburg, 108 Sovetskaya Street	Equipment manufacturing	Russia	100%
OJSC "Pavlovsky Mashzavod"	June 19, 1998	617143, Russia, Pemskaya Region, Ochersky District, Pavlovsky Village, 1 Truda Street	Equipment manufacturing	Russia	90.80%
Servicing and asset holding companies					
LLC "Integra Finance"	December 22, 2005	101100 Russia, Moscow, 17 Chistoprudny Boulevard, Building 1, 5th Floor	Financing	Russia	100%
CJSC "NLK"	5 May 2006	140100, Russia, Moscow Region, Ramensky District, Popovka Village, 15 Tsentralnaya Street	Leasing	Russia	19.90%
LLC "BI-Trans"	February 4, 2004	614022 Russia, Perm, 11 Tankistov Street	Transportation	Russia	90.80%

Name	Date Established	Registered Office Address	Principal Business	Country of Incorporation	Ownership
LLC "Stromneftemash"	May 29, 2006	156001 Russia, Kostroma Region, Kostroma, 54 Vokzalnaya Street	Equipment manufacturing	Russia	100%
LLC "VolgogradNIPIneft"	November 20, 2000	400005 Russia, Volgograd, Krasnooktyabrsky District, 98 Proezd Lenina	Logging	Russia	50.9%
OJSC "Prikaspiynefteservice"	June 10, 1994	40005 Russia, Volgograd, 98 Prospect Lenina, 3rd Floor	Intermediary services	Russia	50.58%
LLC "Avtogruzservice"	December 15, 2003	664011 Russia, Irkutsk, 14 Nizhnyaya Naberezhnaya Street	Transportation	Russia	85.75%
LLC "PBN-Spetsmontazhservis"	July 5, 2000	628400 Tyumen Region, Surgut, 11 Promishlennaya Street	Construction and service	Russia	76.29%
LLC "Finans-servis"	February 7, 2005	400075 Russia, Volgograd Region, Volgograd, 14 Proezd Neftyanikov	Consulting (law, accounting, audit)	Russia	76.29%
LLC "YORUG'YO'L-BIZNES"	December 11, 2001	Uzbekistan, Tashkent, Mirzo-Ulugbeksky District, 1A Pushkina Salar Street, Apartment 65	Service and drilling	Uzbekistan	99.95%
TOO "Zhanaru"	July 26, 2001	Kazakhstan, Almaty, Almalinsky District, 142 Bogenbay Batyra Street	Drilling	Kazakhstan	88.13%
TOO "Senoman"	October 16, 2001	Kazakhstan, Almaty, 142 Bogenbay Batyra, Office 619	Drilling	Kazakhstan	88.13%
LLC "TransServis"	February 14, 2005	403003 Russia, Volgograd Region, Gorodishe, 7 40th Anniversary of Stalingradskaya Battle Square	Trading with equipment and machinery	Russia	99.98%
LLC "BK Alliance-3"	June 10, 1998	169706 Usinsk, Komi Republic, 1 Mail Box 20 Promishlennaya Street	Drilling services	Russia	100%
CJSC "Neftegeotechnologia"	December 25, 1995	628606 Russia, Khanty-Mansiysk Autonomous Region, Nizhnevartovsk, Zapadny Promishlenniy Uzel, 11P Street, Panel 9	Logging	Russia	61.9%
LLC "Tarpan"	October 19, 2000	167000 Russia, Syktyvkar, Mail Box 790	Construction and service	Russia	100%

Name	Date Established	Registered Office Address	Principal Business	Country of Incorporation	Ownership
LLC firma Paritet	June 9, 1998	169710 Russia, Usinsk, Komi Republic, 4 Kooperativnaya Street	Service and repair	Russia	100%
Smith Overseas Services, LLC	August 3, 2004	11969 Katy Freeway, Suite L45, Houston, Texas 11099	Assets holding company	Delaware, US	100%
Smith Siberian Services, LLC	August 3, 2004	615 South Dupont Highway Dover, Delaware 19901	Assets holding company	Delaware, US	100%
Security					
LLC N(Ch)OP "Element-I"	March 15, 2006	115114 Russia, Moscow, 9 Letnikovskaya Street	Security services	Russia	100%
LLC N(Ch)OP "Element-T"	July 26, 2006	625923 Russia, Tyumen Region, Tyumen City, 173 Respubliki Street	Security services	Russia	95.01%
LLC (Ch)OP "Element-E"	December 12, 2006	6200120 Russia, Ekaterinburg, Ploshchad' Pervoy Pyatiletki	Security services	Russia	100%

3. The issue of the Company's shares was authorized by a Committee of the Board of Directors at a meeting held on February 21, 2007.

4. On February 8, 2007, the Board of Directors resolved to enter into the Underwriting Agreement and the Deposit Agreement and to make an application to the Financial Services Authority for approval of this Prospectus and for publication thereof and for the admission of the GDRs to the Official List of the Financial Services Authority and for such GDRs to be admitted to trading on the International Order Book of the London Stock Exchange.

5. Admission of the GDRs to the Official List of the Financial Services Authority and to trading on the London Stock Exchange's regulated market is expected to take place on February 27, 2007 following closing and settlement on February 27, 2007.

6. There has been no significant change in the financial or trading position of the Company or the Group since September 30, 2006, the date to which the historical financial information set out in this Prospectus has been prepared.

7. Other than as disclosed in "Business—Litigation", the Group is not, and has not been, involved in any governmental, legal or arbitration proceedings that may have or have had in the twelve months before the date of this Prospectus, a significant effect on the financial position or profitability of the Group. The Company is not aware that any such proceedings are pending or threatened.

8. Copies of the following will be available for inspection, and may be obtained free of charge, during normal business hours on any weekday, at the registered office of the Company from the date of this Prospectus until twelve months after the date of this Prospectus:

    - the Company's memorandum and articles of association;
    - the Company's consolidated financial statements for the periods ended December 31, 2005 and 2004 and the nine month period ended September 30, 2006;
    - a copy of this Prospectus; and
    - a copy of the Douglas—Westwood market report dated December 2006.

9. ZAO PricewaterhouseCoopers Audit is licensed by the Ministry of Finance of the Russian Federation under audit licence no. E000376 and has given and not withdrawn its consent to the inclusion in this document of its audit reports in respect of Integra Group and Smith Eurasia as set out on pages F-38 and F-164,

respectively, of this document and of the references thereto and to its name, in the form and context in which they appear, and has authorised the contents of those parts of the document which comprise its audit reports in respect of Integra Group and Smith Eurasia for the purposes of paragraph 5.5.4(2)(f) of the Prospectus Rules.

10. The Company prepares annual and interim consolidated financial statements in accordance with IFRS and IAS 34, respectively. Copies of the Company's future annual audited consolidated financial statements and reviewed interim consolidated financial statements required to be provided to holders of GDRs will be available for inspection and may be obtained free of charge at the registered office of the Company.

11. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Offering. The Offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the Managers. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the date of this Prospectus.

12. If definitive certificates are issued in exchange for the Master GDR, the Company will appoint an agent in the United Kingdom for so long as the GDRs are admitted to trading on the London Stock Exchange.

13. The GDRs have no nominal or par value. The offer price was determined based on the results of the book building exercise conducted by the Managers.

14. Assuming that the Over-Allotment Option is exercised in full, the total fees and expenses of the Company in connection with the Offering are estimated to be $43 million.

15. The ISIN for the GDRs is US45822B2051, the Common Code for the GDRs is 028661835, the CUSIP number for the GDRs is 45822B205 and the SEDOL for the GDRs is B1R14X3.

16. The London Stock Exchange trading symbol for the GDRs is INTE.

UNAUDITED CONDENSED PRO FORMA FINANCIAL INFORMATION

The following tables set forth summary unaudited condensed pro forma financial information for the year ended December 31, 2005 and as of and for the nine months ended September 30, 2006. Such information is presented to give effect to the following transactions:

- acquisitions of certain of our subsidiaries (collectively referred to as the “Acquired Entities”) included in Table 1 below;
- the associated borrowings or issuances of our shares related to the Acquired Entities; and
- the use of proceeds of the proposed offering.

The unaudited condensed pro forma financial information for the year ended December 31, 2005 and the nine months ended September 30, 2006 is prepared as if the above transactions had occurred on January 1, 2005. The unaudited condensed pro forma financial information as of September 30, 2006 is prepared as if the acquisitions of NLK and Azimuth Energy Services, Geostan, and Tomsk Geophysical Company had occurred on September 30, 2006. Additionally the summary unaudited condensed pro forma financial information as of September 30, 2006 is presented as though the estimated proceeds of the offering were received and specified borrowings repaid on September 30, 2006. All of the pro forma adjustments in this unaudited condensed pro forma financial information relate to items that are expected to have a continuing impact on our operations.

The unaudited condensed pro forma financial information should be read in conjunction with the notes thereto, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, our audited consolidated financial statements, our unaudited consolidated interim condensed financial information for the nine months ended September 30, 2006, and the financial statements and unaudited interim condensed financial information of certain of the Acquired Entities, in each case together with the accompanying notes, included elsewhere in this prospectus.

The unaudited condensed pro forma financial information is based on estimates and assumptions deemed appropriate by us. The unaudited condensed pro forma financial information, which is presented for illustrative purposes only, by its nature addresses a hypothetical situation and therefore does not represent the actual financial position or results of our operations. If the acquisitions and proposed offering had occurred on January 1, 2005 or September 30, 2006, as appropriate, our operating results and financial position might have been different from those presented in the following tables. The unaudited condensed pro forma financial information should not be relied upon as an indication of the operating results or financial position that we would have achieved if the acquisitions and proposed offering had occurred on January 1, 2005 or September 30, 2006, as appropriate, nor should it be used as an indication of the results that we will achieve following the acquisitions.

Pro forma information presented below does not include the effect of approximately US$12 million of expenses that we are required to pay to Renaissance Capital in relation to our agreement in January 2007 related to certain events of default due to our failure to obtain consent from Renaissance Capital prior to entering into additional borrowing agreements.

Following is a table providing details of all of our acquisitions since January 1, 2005. Note that all purchase accounting adjustments, including estimation of goodwill or of the excess of net assets acquired over purchase cost, for acquisitions occurring on or after January 1, 2006, are based upon management's preliminary estimates. Such amounts are subject to change when purchase accounting is finalized.

Table 1. —Acquisitions of the Acquired Entities

Acquired Entity	Date of acquisition	percentage acquired	Cost of acquisition	Goodwill (if applicable)	Excess of net assets acquired over purchase cost
Entities acquired between January 1, 2005 and December 31, 2005 (the "2005 Acquired Entities")					
SRIPNO	April, 2005	100 percent	300	926	—
RGK & GFS	May, 2005	100 percent	4,919	—	9,038
URBO	September, 2005	100 percent	28,759	7,604	—
BI	September, 2005	100 percent	42,169	9,546	—
TNGF	December, 2005	75.0 percent	29,780	—	7,554
Total for 2005 Acquired Entities			**105,927**	**18,076**	**16,592**
Entities acquired after January 1, 2006 (the "2006 Acquired Entities")					
PNBK	March, 2006	100 percent	22,763	258	—
Argillit	May, 2006	100 percent	4,874	208	—
Strommashina ("STM")	July, 2006	100 percent	16,177	5,613	—
PBN	July, 2006	99.98 percent	20,015	19,472	—
Smith Eurasia	August, 2006	100 percent	139,520	69,908	—
YGF	August, 2006	50.7 percent	78,048	23,248	—
NLK	February, 2007	100 percent	3,675	186	—
Azimuth Energy Services	December, 2006	94.1 percent	27,667	—	—
Geostan	December, 2006	99.5 percent	5,007	—	—
Tomsk Geophysical Company	December, 2006	100 percent	4,627	—	—
Total Azimuth*			37,301		
Total for 2006 Acquired Entities			**322,373**	**118,893**	

* Azimuth Energy Services, Geostan and Tomsk Geophysical Company are collectively called "Azimuth".

All amounts are in thousands of US dollars except as otherwise indicated

Table 2.—Purchase Accounting Details

Acquired entity	Cost of acquisition	Net assets acquired before purchase price allocation adjustments	PPE			Intangible assets			Other adjustments	Deferred tax adjustment	Minority interest not acquired	Goodwill	Excess of net assets acquired over purchase cost
			Fair value	NBV on acquisition	Revaluation	Fair value	NBV on acquisition	Revaluation					
The 2005 Acquired Entities													
SRIPNO	300	(626)	799	799	—	—	—	—	—	—	—	926	—
RGK & GFS	4,919	9,921	6,210	899	5,311	1	1	—	—	(1,275)	—	—	9,038
URBO	28,759	11,407	8,764	4,295	4,469	8,360	2	8,358	—	(3,079)	—	7,604	—
BI	42,169	20,825	29,255	18,141	11,114	5,612	1,202	4,410	—	(3,726)	—	9,546	—
TNGF	29,780	31,018	62,798	38,044	24,754	1,668	1,668	—	—	(5,941)	(12,497)	—	7,554
Total for 2005 Acquired Entities	**105,927**	**72,545**	**107,826**	**62,178**	**45,648**	**15,641**	**2,873**	**12,768**	**—**	**(14,021)**	**(12,497)**	**18,076**	**16,592**
The 2006 Acquired Entities													
PNBK	22,763	4,647	22,866	13,244	9,622	12,648	—	12,648	—	(5,640)	—	258	—
Argillit	4,874	503	6,568	1,090	5,478	—	—	—	—	(1,315)	—	208	—
STM	16,177	(3,410)	667	3,789	(3,122)	21,623	—	21,623	—	(4,413)	—	5,613	—
PBN	20,015	(13,665)	31,342	12,309	19,033	3	3	—	—	(4,568)	(257)	19,472	—
Smith Eurasia	139,520	10,174	1,130	1,130	—	78,234	26	78,208	—	(18,770)		69,908	—
YGF	78,048	36,636	57,473	27,670	29,803	67,555	369	67,186	(3,092)	(22,535)	(53,197)	23,248	—
NLK	3,675	3,489	249	249	—	—	—	—	—	—	—	186	—
Azimuth	37,301	13,194	45,451	10,881	34,570	—	—	—	619	(10,371)	(711)	—	—
Total for 2006 Acquired Entities	**322,373**	**51,568**	**165,746**	**70,362**	**95,384**	**180,063**	**398**	**179,665**	**(2,473)**	**(67,612)**	**(54,165)**	**118,893**	**—**

The table above reconciles the purchase cost for each of the Acquired Entities to the sum of:

- the amount of net assets per each Acquired Entity's standalone financial information;
- the purchase price allocation adjustments (preliminary for 2006 acquisitions) such as property, plant and equipment and intangible assets revaluation and other adjustments, net of associated taxes;
- and goodwill recognized on acquisition based upon our preliminary purchase accounting.

With the exception of NLK and Azimuth, both of which were acquired subsequent to September 30, 2006, we have consolidated the operations of the Acquired Entities from their respective acquisition dates in our Consolidated financial statements and unaudited consolidated interim condensed financial information, as appropriate.

Our acquisitions have been accounted for using the purchase method of accounting under IFRS. Under this method, assets and liabilities are recorded at their respective fair values on the date of acquisition, with any excess of purchase price over the fair value of net assets acquired being recorded as goodwill. Any excess of our 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. For entities acquired subsequent to January 1, 2006, our unaudited condensed pro forma financial information reflects our preliminary assessments of the fair value of acquired assets and liabilities. Such assessments may change when finalized based upon further refinements of our understanding of intangible assets, final conclusions on contingent liabilities or other matters. We expect to finalize our purchase accounting within one year of each respective acquisition.

Borrowings attributable to the Acquired Entities. We have financed our acquisitions using funds from operations, proceeds from borrowings, proceeds from offerings of our shares and by issuing our shares as purchase consideration. In this unaudited condensed pro forma financial information, we have assumed that the financing for each of the Acquired Entities occurred on January 1, 2005, using the actual rates of such borrowings. For the unaudited condensed pro forma financial information as of September 30, 2006, entities acquired subsequent to September 30, 2006 were assumed to have been acquired on September 30, 2006.

Below is a table showing the source of financing for each of the Acquired Entities that were financed through specific borrowings and the incremental interest recorded in this unaudited condensed pro forma information as a result of assuming the acquisitions and related borrowings occurred on January 1, 2005. Where the amount of consideration financed by specific loans is less than the total cost of acquisition, the difference is assumed to have been financed through cash from operations or other general purpose funds. All other acquisitions were assumed to have been financed through a combination of proceeds from issuing our shares in private placements, issuing our shares as considerations for the acquisition and cash from operations or other general purpose funds.

Table 3.—Funding of Acquisitions

		Source of funding for acquisition:			
Acquired Entity	**Cost of acquisition**	**Specific borrowings**	**Shares issued as purchase consideration**	**Private placement of shares**	**General purpose funding**
SRIPNO	300	—	—	—	300
RGK & GFS	4,919	4,919	—	—	—
URBO	28,759	28,759	—	—	—
BI	42,169	42,169	—	—	—
TNGF	29,780	—	—	29,780	—
PNBK	22,763	19,158	—	2,888	717
Argillit	4,874	4,874	—	—	—
Strommashina	16,177	9,677	—	6,500	—
PBN	20,015	4,015	—	16,000	—
Smith Eurasia	139,520	9,520	60,000	70,000	—
YGF	78,048	67,215	—	—	10,833
NLK	3,675	—	—	—	3,675
Total Azimuth	37,301	37,301	—	—	—
	428,300	**227,607**	**60,000**	**125,168**	**15,525**

Table 4.—Additional Interest Expense

Acquired company	Source of finance	Consideration financed by specific sources of finance	Effective interest rate	Days between 1 January and the earlier of acquisition date or December 31, 2005	Days between 1 January and the earlier of acquisition date or September 30, 2006	Additional interest expense in thousands of US dollars—year ended December 31, 2005	Additional interest expense in thousands of US dollars—nine months ended September 30, 2006
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(3)*(4)/365*(5)	(8)=(3)*(4)/365*(6)
YGF	Alfa bank bridge loan	67,215	9.25%	365	240	6,217	4,088
BI	Facility agreement	42,169	19.48%	265	—	5,964	—
URBO	Facility agreement	28,759	19.48%	265	—	4,067	—
PNBK	Alfa bank	13,500	10.17%	365	62	1,373	233
PNBK	First RR denominated Bonds	5,658	10.50%	365	62	594	101
Azimuth	Second RR denominated Bonds	37,301	10.70%	365	272	3,991	2,974
Smith Eurasia	IMB bridge loan	9,520	9.25%	365	236	881	569
RGK	Senior notes	4,919	18.55%	154	—	385	—
Argillit	First RR denominated Bonds	4,874	10.50%	365	177	512	248
STM	First RR denominated Bonds	9,677	10.50%	365	177	1,016	493
PBN	IMB bridge loan	4,015	9.25%	365	228	371	232
Total acquisitions financed by borrowings		**227,607**				**25,371**	**8,938**
Acquisitions financed by share issuances		185,168					
Acquisitions financed by general funds		15,525					
Total acquisitions		**428,300**					

Table 5.—Private Placement Shares issued as purchase consideration

Acquired entity	2005 private placement of shares, US dollar thousand	% of total	2005 private placement of shares, number of shares	2006 private placement of shares, US dollar thousand	% of total	2006 private placement of shares, number of shares
(1)	(2)	(3)	(4)	(5)	(6)	(7)
The 2005 Acquired Entities						
TNGF	29,780	75.5%	888,567	—	—	—
Unallocated shares issued	9,649	24.5%	287,904			
Total	**39,429**		**1,176,471**	—	—	—
The 2006 Acquired Entities						
PNBK	—	—	—	2,888	3%	13,451
STM	—	—	—	6,500	7%	30,286
PBN	—	—	—	16,000	17%	74,550
Smith Eurasia	—	—		70,000	73%	326,158
Total	—	—	—	**95,388**	—	**444,445**

* Smith Eurasia number of shares used for earnings per share calculation differs from the table above for 266,666 of shares specifically issued as part of the purchase consideration

UNAUDITED PRO FORMA INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2005

The following table sets forth summary unaudited condensed pro forma financial information for the year ended December 31, 2005. Such information is presented to give effect to the acquisitions of the Acquired Entities, the associated borrowings or issuances of our shares and the proceeds from the proposed offerings as if they had occurred on January 1, 2005.

For purposes of this unaudited condensed pro forma financial information, we have concluded that Argillit, GFS, RGK, SRIPNO, STM, NLK and PBN are not significant, individually or in aggregate. Accordingly, they have been combined in the column "other" in this unaudited condensed pro forma financial information.

All amounts are in thousand of US dollar except as otherwise indicated

The unaudited condensed pro forma information for the year ended December 31, 2005 is presented below:

	Integra Group historic information	The 2005 acquired entities historic information	Pro forma adjustments	Pro forma before use of proceeds from proposed offering	Use of proceeds from proposed offering	Pro forma after use of proceeds from proposed offering
	(A)	*(I)*	*(J) − (Z)*		*(AA)*	
Sales	97,921	366,858	(43,751)	421,028	—	421,028
Cost of sales	(76,688)	(278,533)	(40,550)	(395,771)	—	(395,771)
Gross profit (loss)	**21,233**	**88,325**	**(84,301)**	**25,257**	**—**	**25,257**
Selling, general and administrative expenses	(23,829)	(65,273)	3,848	(85,254)	—	(85,254)
Gain on acquisition of subsidiaries	16,592	—	—	16,592	—	16,592
Impairment of goodwill	(926)	—	—	(926)	—	(926)
Gain (loss) on disposal of PP&E	(112)	2,372	0	2,260	—	2,260
Operating profit (loss)	**12,958**	**25,424**	**(80,453)**	**(42,071)**	**—**	**(42,071)**
Interest income (expense), net	(7,342)	(6,369)	(24,565)	(38,276)	8,548	(29,728)
Extinguishment of restructured tax liabilities	—	539	—	539	—	539
Exchange gain (loss)	(1,439)	(621)	7	(2,053)	—	(2,053)
Share of results of associates	2,056	2,366	(699)	3,723	—	3,723
Profit (loss) before taxation	**6,233**	**21,339**	**(105,710)**	**(78,138)**	**8,548**	**(69,590)**
Total tax benefit (expense)	(2,884)	(10,830)	23,814	10,100	—	10,100
Profit (loss) for the period	**3,349**	**10,509**	**(81,896)**	**(68,038)**	**8,548**	**(59,490)**
Profit (loss) attributable to:						
—Minority interest	(540)	(374)	(5,703)	(6,617)	—	(6,617)
—Shareholders of Integra Group	**3,889**	**10,883**	**(76,193)**	**(61,421)**	**8,548**	**(52,873)**
Earnings (loss) per share (in US Dollars per share):						
—Basic	1.81					(9.55)
—Diluted	1.69					(9.29)
Weighted average shares outstanding:						
—Basic	2,146,493	1,599,678**			1,791,676	5,537,847
—Diluted	2,297,339	1,599,678**			1,791,676	5,688,693

* Ordinary shares issued as part of the consideration paid for the acquisition of Smith Eurasia and shares attributable to the associated proceeds from a private placement of our shares

** Shares attributable to the associated proceeds from a private placement of our shares

All amounts are in thousand of US dollar except as otherwise indicated

The 2005 acquired entities historic information:

	YGF	URBO	Azimuth Energy Services	Geostan	Tomsk Geophysical Company	BI	PNBK	TNGF	Smith Eurasia	Other	Total the 2005 acquired entities historic information
	(B)	*(C)*	*(D)*	*(D)*	*(D)*	*(E)*	*(F)*	*(G)*	*(H)*	*(I)*	
Sales	58,735	45,365	31,702	2,412	7,955	42,449	40,444	39,246	37,091	61,459	366,858
Cost of sales	(44,641)	(31,239)	(24,825)	(1,415)	(7,241)	(24,049)	(31,255)	(37,412)	(25,048)	(51,408)	(278,533)
Gross profit (loss)	**14,094**	**14,126**	**6,877**	**997**	**714**	**18,400**	**9,189**	**1,834**	**12,043**	**10,051**	88,325
Selling, general and administrative expenses	(10,596)	(4,988)	(6,728)	(385)	(949)	(7,539)	(3,428)	(4,504)	(11,685)	(14,471)	(65,273)
Gain (loss) on disposal of PP&E	59	—	1,449	(19)	—	(151)	57	977	—	—	2,372
Operating profit (loss)	**3,557**	**9,138**	**1,598**	**593**	**(235)**	**10,710**	**5,818**	**(1,693)**	**358**	**(4,420)**	**25,424**
Interest income (expense), net	(1,777)	(496)	(489)	—	(26)	(106)	(2,559)	(945)	380	(351)	(6,369)
Extinguishment of restructured tax liabilities	539	—	—	—	—	—	—	—	—	—	539
Exchange gain (loss)	—	(25)	(31)	—	(60)	—	(170)	(170)	(165)	—	(621)
Share of results of associates	309	—	—	—	—	—	—	(40)	—	2,097	2,366
Profit (loss) before taxation	**2,628**	**8,617**	**1,078**	**593**	**(321)**	**10,604**	**3,089**	**(2,848)**	**573**	**(2,674)**	**21,339**
Total tax benefit (expense)	(1,081)	(2,119)	(2,195)	(158)	78	(2,936)	(1,047)	473	(1,553)	(292)	(10,830)
Profit (loss) for the period	**1,547**	**6,498**	**(1,117)**	**435**	**(243)**	**7,668**	**2,042**	**(2,375)**	**(980)**	**(2,966)**	**10,509**
Profit (loss) attributable to:											
—Minority interest	—	—	—	—	—	370	—	40	—	(784)	(374)
—Shareholders of Integra Group	**1,547**	**6,498**	**(1,117)**	**435**	**(243)**	**7,298**	**2,042**	**(2,415)**	**(980)**	**(2,182)**	**10,883**
Earnings (loss) per share (in US Dollars per share):											
—Basic	—	—			—	—	—	—	—	—	—
—Diluted	—	—			—	—	—	—	—	—	—
Weighted average shares outstanding:											
—Basic	—	—			—	—	13,451**	888,567**	592,824*	104,836**	1,599,678**
—Diluted	—	—			—	—	13,451**	888,567**	592,824*	104,836**	1,599,678**

* Ordinary shares issued as part of the consideration paid for the acquisition of Smith Eurasia and shares attributable to the associated proceeds from a private placement of our shares

** Shares attributable to the associated proceeds from a private placements of our shares

All amounts are in thousand of US dollar except as otherwise indicated

Pro forma adjustments for the year ended December 31, 2005 are presented below:

	Elimination of operations recognized after the acquisition	**Notes**	**Additional depreciation expense**	**Additional interest expense**	**Additional amortization expense**	**Minority interest of TNGF**	**Minority interest of YGF**	**Minority interest of Azimuth**	**Elimination of intercompany transactions of Azimuth**	**Fair value adjustment on Azimuth Group transactions under common control**	**Azimuth Group inventory adjustment**	**Pro forma adjustments**
			(R)	***(S)***	***(T)***	***(U)***	***(V)***	***(W)***	***(X)***	***(Y)***	***(Z)***	
Sales	(43,269)	***(J)***	—	—	—	—	—	—	(482)	—	—	(43,751)
Cost of sales	28,919	***(K)***	(30,001)	—	(39,738)	—	—	—	482	—	(212)	(40,550)
Gross profit	**(14,350)**		**(30,001)**	—	**(39,738)**	—	—	—	—	—	**(212)**	**(84,301)**
Selling, general and administrative expenses	6,544	***(L)***	(2,696)	—	—	—	—	—	—	—	—	3,848
Operating profit	**(7,806)**		**(32,697)**	—	**(39,738)**	—	—	—	—	—	**(212)**	**(80,453)**
Net interest income (expense)	355	***(M)***	—	(25,371)	—	—	—	—	—	451	—	(24,565)
Exchange gain (loss)	7	***(N)***	—	—	—	—	—	—	—	—	—	7
Share of results of associates	(699)	***(O)***	—	—	—	—	—	—	—	—	—	(699)
Profit before taxation	**(8,143)**		**(32,697)**	**(25,371)**	**(39,738)**	—	—	—	—	**451**	**(212)**	**(105,710)**
Total tax expense	1,948	***(P)***	8,552	3,821	9,537	—	—	—	—	(107)	63	23,814
Profit for the period	**(6,195)**		**(24,145)**	**(21,550)**	**(30,201)**	—	—	—	—	**344**	**(149)**	**(81,896)**
Profit (loss) attributable to:												
—Minority interest	204	***(Q)***	—	—	—	(1,102)	(4,293)	(512)	—	—	—	(5,703)
—Integra Group shareholders	**(6,399)**		**(24,145)**	**(21,550)**	**(30,201)**	**1,102**	**4,293**	**512**	—	**344**	**(149)**	**(76,193)**

UNAUDITED PRO FORMA INFORMATION AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

The following tables set forth summary unaudited condensed pro forma financial information as of and for the nine months ended September 30, 2006. For summary unaudited condensed pro forma income statement information, such information is presented to give effect to the acquisitions of the Group's subsidiaries acquired after January 1, 2006 as if they had occurred on January 1, 2005 and to the associated borrowings or issuances of our shares and the proceeds from the proposed offering as if they had occurred on January 1, 2005. For summary unaudited condensed balance sheet information, such information is presented to give effect to the acquisitions of Azimuth Energy Services, Geostan and Tomsk Geophysical Company, which we acquired in December 2006, and NLK, for which we have entered into an agreement to purchase in February 2007, as if they had occurred on September 30, 2006. Such information is also presented to give effect to the borrowings associated with the acquisitions and to the proposed offering as if they had occurred on January 1, 205. Where we intend to use the estimated proceeds of this Offering to repay certain borrowings, this unaudited condensed pro forma financial information is presented as though such borrowings were not taken.

For purposes of this unaudited condensed pro forma financial information, we have concluded that STM, Argillit, NLK and PBN are not significant, individually or in aggregate. Accordingly, they have been combined in the column "other" in this unaudited condensed pro forma financial information.

All amounts are in thousands of US dollar except as otherwise indicated

The unaudited condensed pro forma balance sheet information as of September 30, 2006 is presented below:

	Integra Group historic information	**Azimuth Group**	**NLK**	**Fair value adjustment on Azimuth Group**	**Azimuth Group inventory adjustment**	**Purchase accounting adjustments for Azimuth**	**Purchase accounting adjustments for NLK**	**Pro forma before use of proceeds from proposed offering**	**Use of proceeds from proposed offering**	**Pro forma after use of proceeds from proposed offering**
	(A)	*(D)*	*(BB)*	*(Y)*	*(Z)*	*(CC)*	*(DD)*		*(AA)*	
Cash and cash equivalents	67,326	1,909	74			(16,578)	(3,675)	49,056	425,200	474,256
Trade and other receivables	182,108	6,329	3,786					192,223		192,223
Inventories	89,361	2,810			(164)			92,006		92,007
Total current assets	**338,795**	**11,048**	**3,860**		**(164)**	**(16,578)**	**(3,675)**	**333,285**	**425,200**	**758,485**
Goodwill and other intangible assets	325,001						186	325,187		325,187
Property, plant and equipment	334,916	10,881	249			34,570		380,617		380,617
Investments in associates	15,133							15,133		15,133
Deferred tax assets	1,838							1,838		1,838
Loans provided and other assets	35,160	984						36,144		36,144
Total non current assets	**712,048**	**11,865**	**249**			**34,570**	**186**	**758,919**		**758,919**
Total assets	**1,050,843**	**22,913**	**4,109**		**(164)**	**17,992**	**(3,489)**	**1,092,204**	**425,200**	**1,517,404**
Accounts payable and accrued liabilities	184,576	5,720	148					190,444		190,444
Income tax payable	19,080							19,080		19,080
Other taxes payable	21,486	731						22,217		22,217
Short term borrowings and current portion of long term borrowings	244,860	851	37			20,260		266,008	(75,999)	190,009
Total current liabilities	**470,002**	**7,302**	**185**			**20,260**		**497,749**	**(75,999)**	**421,750**
Long-term financial liabilities	217,897	1,933		(358)				219,472	(55,710)	163,762
Deferred tax liability	73,118	485	435	86	(49)	10,371		84,446		84,446
Other non current liabilities	1,644							1,644		1,644
Total non current liabilities	**292,659**	**2,418**	**435**	**(272)**	**(49)**	**10,371**		**305,562**	**(55,710)**	**249,852**
Total liabilities	**762,661**	**9,720**	**620**	**(272)**	**(49)**	**30,631**		**803,311**	**(131,709)**	**671,602**
Equity attributable to shareholders of Integra Group	208,100	13,193	3,489	272	(115)	(13,350)	(3,489)	208,100	556,909	765,009
Minority interest	80,082					711		80,793		80,793
Total equity	**288,182**	**13,193**	**3,489**	**272**	**(115)**	**(12,639)**	**(3,489)**	**288,893**	**556,909**	**845,802**
Total liabilities and equity	**1,050,843**	**22,913**	**4,109**		**(164)**	**17,992**	**(3,489)**	**1,092,204**	**425,200**	**1,517,404**

All amounts are in thousands of US dollar except as otherwise indicated

The unaudited condensed pro forma information for the nine months ended September 30, 2006 is presented below:

	Integra Group historic information	**YGF**	**Azimuth Group**	**PNBK**	**Smith Eurasia**	**Other**	**Pro forma adjustments**	**Pro forma before use of proceeds from proposed offering**	**Use of proceeds from proposed offering**	**Pro forma after used of proceeds from proposed offering**
	(A)	*(B)*	*(D)*	*(F)*	*(H)*	*(EE)*			*(AA)*	
Sales	324,941	65,367	33,967	31,339	47,641	54,102	(69,716)	487,641		487,641
Cost of sales	(253,736)	(37,209)	(24,198)	(27,117)	(27,103)	(45,737)	17,135	(397,965)		(397,965)
Gross profit	**71,205**	**28,158**	**9,769**	**4,222**	**20,538**	**8,365**	**(52,581)**	**89,676**		**89,676**
Selling, general and administrative expenses	(62,848)	(9,205)	(5,168)	(3,497)	(10,429)	(6,182)	5,877	(91,452)		(91,452)
Gain on disposal of subsidiaries	225							225		225
Gain (loss) on disposal of PPE		(679)	36	3			298	(342)		(342)
Operating profit (loss)	**8,582**	**18,274**	**4,637**	**728**	**10,109**	**2,183**	**(46,406)**	**(1,893)**		**(1,893)**
Interest income (expense), net	(26,733)	(1,846)	(300)	(1,196)	772	(1,076)	(7,302)	(37,681)	7,081	(30,600)
Exchange gain (loss)	8,707	(99)	344	136	657		(190)	9,555		9,555
Share of results of associates	708	178					45	931		931
Profit (loss) before taxation	**(8,736)**	**16,507**	**4,681**	**(332)**	**11,538**	**1,107**	**(53,853)**	**(29,088)**	**7,081**	**(22,007)**
Total tax benefit (expense)	(6,833)	(4,497)	(1,841)	34	(2,862)	(324)	14,206	(2,117)		(2,117)
Profit (loss) for the period	**(15,569)**	**12,010**	**2,840**	**(298)**	**8,676**	**783**	**(39,647)**	**(31,205)**	**7,081**	**(24,124)**
Profit (loss) attributable to:										
—Minority interest	1,501					57	1,602	3,160		3,160
—Shareholders of Integra Group	**(17,070)**	**12,010**	**2,840**	**(298)**	**8,676**	**726**	**(41,249)**	**(34,365)**	**7,081**	**(27,284)**
Earnings per share (in US Dollars per share):										
—Basic	(5.28)									(4.76)
—Diluted	(5.28)									(4.76)
Weighted average shares outstanding:										
—Basic	3,232,762			13,451**	592,824*	104,836**			1,791,676	5,735,549
—Diluted	3,232,762			13,451**	592,824*	104,836**			1,791,676	5,735,549

* Ordinary shares issued as part of the consideration paid for the acquisition of Smith Eurasia and shares attributable to the associated proceeds from a private placement of our shares

** Shares attributable to the associated proceeds from a private placement of our shares

All amounts are in thousands of US dollar except as otherwise indicated

Pro forma adjustments for the nine months ended September 30, 2006 are presented below:

	Elimination of operations recognized after the acquisitions	Notes	Additional depreciation expense	Additional interest expense	Additional amortization expense	Minority interest of YGF	Minority interest of Azimuth	Elimination of intercompany transactions with NLK	Fair value adjustment on Azimuth Group transactions	Azimuth Group inventory adjustment	Pro forma adjustments
			(OO)	*(PP)*	*(QQ)*	*(RR)*	*(SS)*	*(TT)*	*(Y)*	*(Z)*	
Sales	(69,694)	***(FF)***						(22)			(69,716)
Cost of sales	53,585	***(GG)***	(21,299)		(15,008)			22		(165)	17,135
Gross profit	**(16,109)**		**(21,299)**		**(15,008)**					**(165)**	**(52,581)**
Selling, general and administrative expenses	8,066	***(HH)***	(2,189)								5,877
Gain on disposal of PPE	298	***(II)***									298
Operating profit	**(7,745)**		**(23,488)**		**(15,008)**					**(165)**	**(46,406)**
Net interest expense	1,750	***(JJ)***		(8,938)					(114)		(7,302)
Exchange gain (loss)	(190)	***(KK)***									(190)
Share of results of associates	45	***(LL)***									45
Profit before taxation	**(6,140)**		**(23,488)**	**(8,938)**	**(15,008)**				**(114)**	**(165)**	**(53,853)**
Total tax expense	2,105	***(MM)***	6,165	2,318	3,602				(34)	50	14,204
Profit for the period	**(4,035)**		**(17,323)**	**(6,620)**	**(11,406)**				**(148)**	**(115)**	**(39,647)**
Profit (loss) attributable to:											
—Minority interest	61	***(NN)***				1,596	(55)				1,602
—Integra Group shareholders	**(4,096)**		**(17,323)**	**(6,620)**	**(11,406)**	**(1,596)**	**55**		**(148)**	**(115)**	**(41,249)**

NOTES

(A) Integra Group historical financial data. Integra Group historical financial data for the year ended December 31, 2005 is derived from our audited consolidated financial statements, presented elsewhere in this prospectus. Integra Group historical financial data as of and for the nine months ended September 30, 2006 is derived from our unaudited interim condensed consolidated financial information, presented elsewhere in this Prospectus.

(B) YGF historical financial data. During the nine months ended September 30, 2006, we obtained a controlling 50.74 percent stake in YGF. YGF historical financial data for the year ended December 31, 2005 is derived from its audited consolidated financial statements, prepared in accordance with IFRS and presented elsewhere in this Prospectus. YGF historical financial data for the nine months ended September 30, 2006 is derived from its unaudited interim condensed consolidated financial information, presented elsewhere in this Prospectus. YGF's consolidated financial statements and its unaudited interim condensed consolidated financial information are presented in Russian rubles. For purposes of this unaudited condensed pro forma financial information, YGF's historical financial data for the year and nine months ended December 31, 2005 and September 30, 2006, were translated to US dollars using average exchange rates of 28.27 and 27.40 Russian rubles to one US dollar, respectively.

(C) URBO historical financial data. In September 2005, we acquired 100 percent of URBO. URBO's historical financial data for the year ended December 31, 2005 is derived from its audited consolidated financial statements, presented elsewhere in this Prospectus. URBO's historical financial data for the nine months ended September 30, 2006 is fully consolidated into our unaudited interim condensed consolidated financial information, prepared in accordance with IFRS and presented elsewhere in this prospectus. URBO's consolidated financial statements are presented in Russian rubles. For purposes of this unaudited condensed pro forma financial information, URBO's 2005 income statement information has been translated to US Dollars using an average exchange rate for the year of 28.27 Russian rubles to one US Dollar.

(D) Azimuth historical financial data. In December 2006, we acquired 100 percent of Tomsk Geophysical Company, 99.5 percent of JSC Geostan and 94.1 percent of JSC Azimuth Energy Services (collectively "Azimuth") from International Energy Company for US$37 million. Transaction costs incurred associated with the acquisition totalled US$ 0.3 million. Azimuth performs seismic services in Kazakhstan and in the Russian Federation. For the year ended December 31, 2005, historic information for Tomsk Geophysical Company, JSC Geostan and JSC Energy Azimuth Services is derived from the respective standalone financial statements, prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). For the nine months ended September 30, 2006, historic information is derived from combined unaudited financial statements prepared in accordance with US GAAP for the same group of entities. We believe that the use of combined financial statements is appropriate for this unaudited condensed pro forma financial information as the three combined entities operate as one business and as we acquired them together in one transaction. Additionally, we believe that the combined financial statements are comparable to the aggregation of the constituent standalone financial statements as the level of intercompany transactions is not significant. Adjustments to correct for differences between IFRS and US GAAP are described in adjustments (Y) and (Z).

(E) BI historical financial data. In September 2005, we acquired 100 percent of BI. BI's historical financial data for the year ended December 31, 2005 is derived from its audited consolidated financial statements, presented elsewhere in this prospectus. BI's historical financial data for the nine months ended September 30, 2006 is fully consolidated into our unaudited interim condensed consolidated financial information, prepared in accordance with IFRS and presented elsewhere in this prospectus. BI's financial statements are presented in Russian rubles. For purposes of this unaudited condensed pro forma financial information, BI's 2005 income statement information has been translated to US Dollars using an average exchange rate for the year of 28.27 Russian rubles to one US dollar.

(F) PNBK historical financial data. In March 2006, we acquired 100 percent of PNBK. PNBK's historical associated with the financial data for the year ended December 31, 2005 is derived from its audited consolidated financial statements, prepared in accordance with IFRS and presented elsewhere in this prospectus. PNBK's historical financial data for the nine months ended September 30, 2006 is derived from its unaudited interim condensed consolidated financial information, presented elsewhere in this prospectus. PNBK's consolidated financial statements and its unaudited interim condensed consolidated financial information are prepared in Russian rubles. For purposes of this unaudited condensed pro forma financial information, PNBK's historical financial data for the year and nine months ended December 31, 2005 and September 30, 2006, were translated to US dollars using average exchange rates of 28.27 and 27.40 Russian rubles to one US dollar, respectively. For the calculations of the number of Shares issued as purchase considerations refer to Table 5.

(G) TNGF historical financial data. In December 2005, we acquired 75 percent of TNGF. TNGF's historical financial data for the year ended December 31, 2005 is derived from its audited consolidated financial statements, presented elsewhere in this prospectus. TNGF's historical financial data for the nine months ended September 30, 2006 is fully consolidated into our unaudited interim condensed consolidated financial information, prepared in accordance with IFRS and presented elsewhere in this prospectus. TNGF's consolidated financial statements are presented in Russian rubles. For purposes of this unaudited condensed pro forma financial information, TNGF's 2005 income statement information has been translated to US Dollars using an average exchange rate for the year of 28.27 Russian rubles to one US Dollar. For the calculations of the number of Shares issued as purchase considerations refer to Table 5.

(H) Smith Eurasia historical financial data. In August 2006, we acquired 100 percent of Smith Eurasia ("Smith Eurasia"), a combined group of entities operating as a single business. Smith Eurasia's historical financial data for the year ended December 31, 2005 is derived from its audited combined financial statements, presented elsewhere in this prospectus. Smith Eurasia's historical financial data as of and for the nine months ended September 30, 2006 is derived from its unaudited interim condensed combined financial information, presented elsewhere in this prospectus. Smith Eurasia's combined financial statements and its unaudited interim combined consolidated financial information were prepared solely for the purposes of inclusion into a prospectus for the initial public offering of depositary receipts of Integra's shares on the London Stock Exchange. The accounting policies used in preparing these combined financial statements were based on International Financial Reporting Standards ("IFRS"), except for the policies used to account for the combination of entities acquired by Integra Group. The reporting currency of Smith Eurasia's combined financial statements is the Russian Ruble. For purposes of this unaudited condensed pro forma financial information, Smith Eurasia's historical financial data for the year and nine months ended December 31, 2005 and September 30, 2006, were translated to US dollars using average exchange rates of 28.27 and 27.40 Russian rubles to one US dollar, respectively. For the calculations of the number of Shares issued as purchase considerations refer to Table 5.

(I) Other historical financial data. Other historical financial data comprises information from acquisitions that we consider not significant, either individually or in aggregate, for separate presentation as part of this unaudited condensed pro forma financial information. In the unaudited condensed pro forma financial information for the year ended December 31, 2005, other historical financial data comprises the results of Argillit, GFS, RGK, SRIPNO, Strommashina, NLK and PBN (collectively the "2005 Other Entities") for the year ended December 31, 2005. The 2005 Other Entities maintain their accounting records in Russian rubles. For purposes of this unaudited condensed pro forma financial information, the 2005 Other Entities' 2005 income statement information has been translated to US Dollars using an average exchange rate for the year of 28.27 Russian rubles to one US Dollar. For the calculation of the number of Shares issued as purchase considerations on the acquisition of STM and PBN refer to Table 5.

(J) Sales. This adjustment eliminates sales recognized after our acquisition of the 2005 Acquired Entities that are included both in our consolidated financial statements for the year ended December 31, 2005 and in the financial results of the 2005 Acquired Entities. Set forth below is some detail on the components of this adjustment by entity (amounts in thousands of US dollars).

URBO	(22,854)
BI	(12,650)
Others (SRIPNO, RGK & GFS, TNGF)	(7,765)
Total sales eliminated	**(43,269)**

(K) Cost of sales. This adjustment eliminates cost of sales recognized after our acquisition of the 2005 Acquired Entities that are included both in our consolidated financial statements for the year ended December 31, 2005 and in the financial results of the 2005 Acquired Entities. Set forth below is some detail on the components of this adjustment by entity (amounts in thousands of US dollars).

URBO	14,858
BI	7,778
Others (SRIPNO, RGK & GFS, TNGF)	6,283
Total cost of sales eliminated	**28,919**

(L) Selling, general and administrative expenses. This adjustment eliminates selling, general and administrative expenses recognized after our acquisition of the 2005 Acquired Entities that are included both in our consolidated financial statements for the year ended December 31, 2005 and in the financial results of the 2005 Acquired Entities. Set forth below is some detail on the components of this adjustment by entity (amounts in thousands of US dollars).

URBO	2,260
BI	2,307
Others (SRIPNO, RGK & GFS, TNGF)	1,977
Total selling, general and administrative expenses eliminated	**6,544**

(M) Net interest expense. This adjustment eliminates net interest expense or income recognized in the separate financial statements of the 2005 Acquired Entities that are included both in our consolidated financial statements for the year ended December 31, 2005 and in the financial results of the 2005 Acquired Entities. Set forth below is some detail on the components of this adjustment by entity (amounts in thousands of US dollars).

URBO	200
BI	(22)
Others (SRIPNO, RGK & GFS, TNGF)	177
Total interest expense eliminated	**355**

(N) Exchange loss. This adjustment eliminates exchange loss recognized after our acquisition of URBO that is included both in our consolidated financial statements for the year ended December 31, 2005 and in the financial results of URBO.

(O) Share of result of associates. This adjustment eliminates results of associates recognized after our acquisition of the 2005 Acquired Entities that are included both in our consolidated financial statements for the year ended December 31, 2005 and in the financial results of the 2005 Acquired Entities. This adjustment is wholly attributable to "Other".

(P) Total tax benefit (expense). This adjustment eliminates income taxes recognized after our acquisition of the 2005 Acquired Entities that are included both in our consolidated financial statements for the year ended December 31, 2005 and in the financial results of the 2005 Acquired Entities.

—URBO	1,337
—BI	485
—Others (SRIPNO, RGK & GFS, TNGF)	126
Total adjustments to total tax benefit (expense)	**1,948**

(Q) Minority interest. This adjustment eliminates minority interest adjustments recognized after our acquisition of the 2005 Acquired Entities that are included both in our consolidated financial statements for the year ended December 31, 2005 and in the financial results of the 2005 Acquired Entities.

—BI	170
—Others (RGK & GFS, TNGF)	34
Total adjustments to minority interest	**204**

(R) Additional depreciation expense. Adjustments to cost of sales include the effect of fair value adjustments to property, plant and equipment. The change in carrying values of these assets resulting from the fair value adjustments resulting from purchase accounting results in changes to the associated depreciation charge in the unaudited combined pro forma information as detailed in the following table (amounts in thousands of US dollars).

Acquired entity	Estimated fair value of PPE on acquisition in USD	Depreciation charged in standalone accounts	Weighted average useful life in years	Pro forma depreciation	Additional depreciation	Additional depreciation in cost of sales	Additional depreciation in selling, general and administrative expenses
(1)	(2)	(3)	(4)	(5) = (2)/(4)	(6) =(5)-(3)	(7)	(8) = (6)-(7)
YGF	57,473	(7,516)	4.7	(12,198)	(4,681)	(4,460)	(221)
URBO	8,764	(652)	29.4	(298)	353	326	27
BI	29,255	(3,426)	5.6	(5,215)	(1,789)	(1,729)	(60)
PNBK	22,866	(3,446)	5.3	(4,319)	(874)	(862)	(12)
TNGF	62,798	(9,097)	5.5	(11,383)	(2,287)	(2,180)	(107)
Azimuth	45,451	(3,994)	2.8	(16,140)	(12,146)	(10,931)	(1,215)
Others	37,552	(3,366)	2.6	(14,640)	(11,273)	(10,165)	(1,108)
Total additional depreciation	**264,159**	**(31,497)**		**64,193**	**(32,697)**	**(30,001)**	**(2,696)**

* SRIPNO, RGK & GFS, Argillit, STM, PBN, NLK

Acquired company	Total of additional depreciation	Applicable effective tax rate	Tax effect
(1)	(2)	(3)	(4)=(2)*(3)
YGF	(4,681)	24%	1,123
URBO	353	24%	(85)
BI	(1,789)	24%	429
PNBK	(874)	24%	210
TNGF	(2,287)	24%	549
Azimuth	(12,146)	29.8%**	3,619
Others	(11,273)	24%	2,707
Subtotal of additional depreciation	**(32,697)**		**8,552**

* SRIPNO, RGK & GFS, Argillit, STM, PBN, NLK

** Applicable effective tax rate for Azimuth was calculated as the weighted average tax rates for the jurisdictions in which it operates.

(S) Additional interest expense. As discussed above, adjustments to interest expense also include additional interest expense associated with borrowings attributed to our acquisitions of the Acquired Entities, assuming they were acquired on January 1, 2005. Such additional interest expense comprises the following (amounts in thousands of US dollars):

Acquired company	Interest expense	Effective tax rate*	Tax effect
YGF	(6,217)	24%	1,492
BI	(5,964)	0%	0
URBO	(4,067)	0%	0
PNBK	(1,967)	24%	472
Azimuth	(3,991)	29.8%**	1,189
Smith Eurasia	(881)	24%	211
RGK	(385)	0%	0
Others (PBN, RGK & GFS, Argillit, STM)	(1,899)	24%	457
Total	**(25,371)**		**3,821**

* Applied effective tax rate is dependent on the jurisdiction of the entity which attracted the specific loan. It is zero for borrowings incurred in jurisdictions where we do not benefit from deductions of interest expense.

** Applicable effective tax rate for Azimuth was calculated as the weighted average tax rates for the jurisdictions in which it operates.

(T) Additional amortization expense. Adjustments to cost of sales include the effect of fair value adjustments to intangibles. The change in carrying values of these assets resulting from the fair value adjustments resulting from purchase accounting results in changes to the associated amortization charge in the unaudited combined pro forma information as detailed in the following table (amounts in thousands of US dollars):

	Estimated fair value of long term customers and supplier relationships recognized on acquisition in ths USD	**Weighted average useful life in years**	**Days between 1 January 2005 and acquisition date—2005**	**Additional amortization expense for 2005**
(1)	**(2)**	**(3)**	**(4)**	**(5)=(2)/(3)/365*(4)**
Smith Eurasia	69,919	6.3	365	(11,041)
YGF	61,979	10.6	365	(5,872)
STM	15,968	4.2	365	(3,782)
PNBK	11,568	6.3	365	(1,827)
Total additional amortization expense	**159,434**			**(22,522)**

	Estimated fair value of other intangible assets recognized on acquisition in ths USD	**Weighted average useful life in years**	**Days between 1 January 2005 and acquisition date—2005**	**Additional amortization expense for 2005**
(1)	**(2)**	**(3)**	**(4)**	**(5)=(2)/(3)/365*(4)**
Smith Eurasia	8,315	2.4	365	(3,402)
YGF	5,576	1.9	365	(2,947)
STM	5,655	0.9	329*	(5,655)
PNBK	1,080	0.6	219*	(1,080)
URBO	8,371	2.3	265	(2,674)
BI	6,473	4.2	265	(1,121)
TNGF	1,687	5.0	362	(337)
Total additional amortization expense	**37,157**			**(17,216)**

* These intangible assets of STM and PNBK are depreciated over their respective useful lives, which are less than one year.

Adjustment to account for the tax effect of additional amortization expense was made (amounts in thousands of US dollars):

Acquired company	**Additional amortization for 2005**	**Effective tax rate**	**Tax effect**
(1)	**(2)**	**(3)**	**(4)=(2)*(3)**
Smith Eurasia	(14,443)	24%	3,466
STM	(9,437)	24%	2,265
YGF	(8,819)	24%	2,117
PNBK	(2,907)	24%	698
URBO	(2,674)	24%	642
BI	(1,121)	24%	269
TNGF	(337)	24%	80
Total additional amortization expense	**(39,738)**		**9,537**

(U) Minority interest of TNGF. This adjustment serves to bring the level of minority interest to the level it would have been had we completed our acquisitions of the 2005 Acquired Entities on January 1, 2005. For TNGF, we calculated pro forma minority interest assuming we had purchased 75.00 percent, the amount which we have acquired as of the date of preparation of this unaudited combined pro forma financial information, of TNGF at January 1, 2005. Minority interest of 25.00 percent was calculated as share of pre acquisition results of TNGF after effect of fair value adjustments to property, plant and equipment and intangibles.

	Reference	Amount
Loss for 12 months of 2005 recorded in standalone financial statements		(2,415)
Additional depreciation adjustment net of tax benefit	***(S)***	(1,738)
Additional amortization adjustment net of tax benefit	***(T)***	(257)
Adjusted loss		(4,410)
Minority interest percentage		25.0%
Minority interest		**(1,102)**

(V) Minority interest of YGF. This adjustment serves to bring the level of minority interest to the level it would have been had we completed our acquisitions of the 2005 Acquired Entities on January 1, 2005. For YGF, we calculated pro forma minority interest assuming we had purchased 50.74 percent, the amount which we have acquired as of the date of preparation of this unaudited combined pro forma financial information, of YGF at January 1, 2005. Minority interest of 49.26 percent was calculated as share of pre acquisition results of YGF after effect of fair value adjustments to property, plant and equipment and intangible assets.

	Reference	Amount
Profit for 12 months of 2005 recorded in standalone financial statements		1,546
Additional depreciation adjustment net of tax benefit	***(R)***	(3,558)
Additional amortization adjustment net of tax benefit	***(T)***	(6,703)
Adjusted loss		(8,715)
Minority interest percentage		49.26%
Minority interest		**(4,293)**

(W) Minority interest of Azimuth.

Acquired company	Profit (loss) for 12 months of 2005 recorded in standalone financial statements	Additional depreciation adjustment	Tax benefit on additional depreciation	Minority interest	Loss attributable to minorities in thousands of US dollars
(1)	(2)	(3)	(4)	(5)	(6)=((2)+(3)+(4))*(5)
Azimuth Energy Services	(1,117)	(10,455)	3,115	6.06%	(512)
Geostan	435	(516)	154	0.29%	0
Total	**(682)**	**(10,971)**	**3,269**		**(512)**

(X) Elimination of intercompany transaction of Azimuth. This adjustment eliminates operations between companies of the Azimuth Group (Azimuth Energy Services, Geostan and Tomsk Geophysical Company).

(Y) Fair value adjustment on Azimuth transactions under common control. This adjustment records interest expense on related party zero interest borrowings. Under US GAAP, no interest expense was recorded on these loans, while under IFRS, such loans must be recorded at their fair values at inception and then interest expense recorded over the life of the loans. The associated tax expense was calculated using a tax rate of 24 percent, as the non interest-bearing borrowings were associated with Tomsk Geophysical Company, which is incorporated in the Russian Federation.

(Z) Azimuth inventory valuation adjustment. Azimuth Energy Services accounts for its inventory using the FIFO method of inventory valuation. Integra Group historic information has been prepared using the weighted average inventory valuation method. This adjustment brings cost of materials of Azimuth Energy Services in line with the Integra Group accounting policies.

(AA) Use of proceeds adjustment. This adjustment adjusts for the estimated net proceeds of the proposed offering and for the use of such proceeds as though the offering had occurred on January 1, 2005 or September 30, 2006, as appropriate. Where we plan to use the proceeds to repay borrowings incurred subsequent to September 30, 2006, no adjustment was made in this summary unaudited condensed pro forma financial information. Where we plan to repay borrowings which were attributed to our acquisitions of the Acquired Entities, this adjustment reverses the interest expense associated with such borrowings. Additionally, where shares were issued in connection with an acquisition, such shears are considered outstanding for this pro forma information.

Below are tables demonstrating out expectations on proceeds to be received and loans to be settled using these proceeds.

IPO proceeds expected to be received (US dollar thousand)*	Expected price (US dollar per share)	Number of shares expected to be issued
(1)	(2)	(3)=(1)/(2)*1000
600,212	335	1,791,676

Net proceeds from proposed offering	ST loans to be repaid	LT loans to be repaid	Cash
(1) = column (1) per table above	(2)	(3)	(4) = (1)+(2)+(3)
556,908	(75,999)	(55,710)	425,200

* Note that this amount represents our estimate of proceeds from the Offering. Actual proceeds may differ from our estimates.

2005 Adjustment.

Facility A interest expense to be eliminated	2,184
Pro forma interest expense to be eliminated	6,364
Total interest expense to be eliminated for the year ended December 31, 2005	**8,548**

Type of the loan	Source of finance	Amount of the loan including capitalized interest, warrants as at 30 September 2006	Amount of the loan on inception	Interest expense	Days from inception date and 31 December 2005	Interest expense to be eliminated
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (4)*(5)/365*(6)
Long term financial liabilities	Facility A	48,687	41,283	19.48%	99	2,184

Acquired company	Bank	Consideration to be repaid	Effective interest rate	Days to eliminate interest expense	Pushed back interest expense to be eliminated
(1)	(2)	(3)	(4)	(5)	(6) = (3)*(4)/365*(5)
BI	Facility agreement	42,169	19.48%	265	5,964
URBO	Facility agreement	2,831	19.48%	265	400
		45,000			**6,364**

2006 Adjustment.

Facility A interest expense to be eliminated	6,082
Renaissance Capital interest expense to be eliminated	999
Total interest expense to be eliminated for the nine months ended September 30, 2006	**7,081**

(BB) NLK. We committed to acquire NLK in October 2006 for US$3.7 million in cash. We expect the acquisition to be completed in February 2007.

(CC) Purchase accounting adjustments for Azimuth. We acquired the Azimuth group of companies in December 2006 for US$16.6 million in cash and an obligation to pay an additional US$20.7 million in February of 2007. On acquisition we incurred costs of US$300 thousand. Pro forma acquisition adjustments at September 30, 2006 reflect a reduction in our cash and cash equivalents balance by US$16.6 million, increase of short term borrowings by US$20.7 million, and the elimination of equity associated with Azimuth Group.

(DD) Purchase accounting adjustments for NLK. Pro forma acquisition adjustments at September 30, 2006 reflect a reduction in our cash and cash equivalents balance by US$3.7 million and the elimination of equity associated with NLK.

(EE) Other historical financial data. Other historical financial data comprises information from acquisitions that we consider not significant, either individually or in aggregate, for separate presentation as part of this unaudited condensed pro forma financial information. In the unaudited condensed pro forma financial information for the nine months ended September 30, 2006, other historical financial data comprises the results of STM, Argillit, NLK and PBN (collectively the "2006 Other Entities") for the nine months ended September 30, 2006. The 2006 Other Entities maintain their accounting records in Russian rubles. For purposes of this unaudited condensed pro forma financial information, the 2006 Other Entities' 2006 interim income statement information has been translated to US Dollars using an average exchange rate for the year of 27.40 Russian rubles to one US Dollar.

(FF) Sales. This adjustment eliminates sales recognized after our acquisition of the 2006 Acquired Entities that are included both in our interim condensed consolidated financial information for the nine months ended September 30, 2006 and in the financial results of the 2006 Acquired Entities. Following is detail on the components of this adjustment by entity (amounts in thousands of US dollars).

YGF	(5,916)
PNBK	(26,922)
Smith Eurasia	(9,709)
Others (Argillit, STM, PBN)	(27,147)
Total sales eliminated	**(69,694)**

(GG) Cost of sales. This adjustment eliminates cost of sales recognized after our acquisition of the 2006 Acquired Entities that are included both in our interim condensed consolidated financial information for the nine months ended September 30, 2006 and in the financial results of the 2006 Acquired Entities. Following is detail on the components of this adjustment by entity (amounts in thousands of US dollars).

YGF	3,117
PNBK	23,625
Smith Eurasia	3,768
Others (Argillit, STM, PBN)	23,075
Total cost of sales eliminated	**53,585**

(HH) Selling, general and administrative expenses. This adjustment eliminates selling, general and administrative expenses recognized after our acquisition of the 2006 Acquired Entities that are included both in our consolidated financial statements for the nine months ended September 30, 2006 and in the financial results of the 2006 Acquired Entities. Following is detail on the components of this adjustment by entity (amounts in thousands of US dollars).

YGF	1,429
PNBK	2,523
Smith Eurasia	3,004
Others (Argillit, STM, PBN)	1,110
Total selling, general and administrative expenses eliminated	**8,066**

(II) Loss on disposal of property, plant and equipment. This adjustment eliminates losses on disposal of property, plant and equipment recognized after our acquisition of the 2006 Acquired Entities that are included both in our interim condensed consolidated financial information for the nine months ended September 30, 2006 and in the financial results of the 2006 Acquired Entities.

PNBK	44
Others (Argillit, STM, PBN)	254
Total loss on disposal of property, plant and equipment eliminated	**298**

(JJ) Net interest expense. This adjustment eliminates net interest expense or income recognized during the period but after our acquisition of the 2006 Acquired Entities that are included both in our interim condensed consolidated financial information for the nine months ended September 30, 2006 and in the financial results of the 2006 Acquired Entities. Set forth below is detail on the components of this adjustment by entity (amounts in thousands of US dollars).

PNBK	1,044
YGF	317
Smith Eurasia	(38)
Others (Argillit, STM, PBN)	427
Total interest expense eliminated	**1,750**

(KK) Exchange gain. This adjustment eliminates exchange gain recognized after our acquisition of PNBK that is included both in our interim condensed consolidated financial information for the nine months ended September 30, 2006 and in the financial results of the 2006 Acquired Entities.

PNBK	(117)
Smith Eurasia	(73)
Total exchange gain/loss eliminated	**(190)**

(LL) Share of result of associates. This adjustment eliminates results of associates recognized after our acquisition of YGF that are included both in our interim condensed consolidated financial information for the nine months ended September 30, 2006 and in the financial results of YGF.

(MM) Total tax benefit (expense). This adjustment eliminates income taxes recognized after our acquisition of the 2006 Acquired Entities that are included both in our interim condensed consolidated financial information for the nine months ended September 30, 2006 and in the financial results of the 2006 Acquired Entities.

—YGF	634
—PNBK	(6)
—Smith Eurasia	911
—Others (Argillit, STM, PBN)	566
Total adjustments to total tax benefit (expense)	**2,105**

(NN) Minority interest. This adjustment eliminates minority interest adjustments recognized after our acquisition of Others that are included both in our consolidated financial statements for the year ended December 31, 2006 and in the financial results of the 2006 Acquired Entities

(OO) Additional depreciation expense. Adjustments to cost of sales include the effect of fair value adjustments to property, plant and equipment. The change in carrying values of these assets resulting from preliminary fair value adjustments resulting from purchase accounting results in changes to the associated depreciation charge in the unaudited combined pro forma information as detailed in the following table (amounts in thousands of US dollars).

Acquired entity	**Estimated fair value of PPE on acquisition in ths USD**	**Depreciation charged in standalone accounts**	**Weighted average useful life in years**	**Pro forma depreciation**	**Additional depreciation**	**Additional depreciation in cost of sales**	**Additional depreciation in selling, general and administrative expenses**
(1)	**(2)**	**(3)**	**(4)**	**(5) = (2)/(4)**	**(6) =(5)-(3)**	**(7)**	**(8) = (6)-(7)**
YGF	57,473	(5,307)	4.0	(10,862)	(5,556)	(5,191)	(365)
PNBK	22,866	(3,561)	4.4	(3,856)	(295)	(276)	(19)
Azimuth	45,451	(1,798)	3.1	(10,908)	(9,110)	(8,198)	(911)
Others	31,342	(2,792)	2.1	(11,320)	(8,528)	(7,634)	(894)
Total additional depreciation	**157,132**	**(13,458)**		**36,946**	**(23,488)**	**(21,299)**	**(2,189)**

Acquired company	Total of additional depreciation	Effective tax rate	Tax effect
(1)	(2)	(3)	(4)=(2)*(3)
YGF	(5,555)	24%	1,333
PNBK	(295)	24%	71
Azimuth	(9,110)	29.8%*	2,714
Others (Argillit, STM, PBN)	(8,528)	24%	2,047
Subtotal of additional depreciation expense in cost of sales	**(23,488)**		**6,165**

* Applicable tax rate for Azimuth was calculated as the weighted average tax rates for the jurisdictions in which it operates.

(PP) Additional interest expense. As discussed above, adjustments to interest expense also include additional interest expense associated with borrowings attributed to our acquisition of the 2005 Acquired Entities, assuming they were acquired on January 1, 2005. Such additional interest expense comprises the following (amounts in thousands of US dollars):

Acquired company	Interest expense	Tax rate*	Tax effect
YGF	(4,088)	24%	981
PNBK	(334)	24%	80
Azimuth	(2,974)	29.8**	886
Smith Eurasia	(569)	24%	137
Others (Argillit, STM, PBN)	(973)	24%	234
Total	**(8,938)**		**2,318**

* Applied tax rate is dependent on the jurisdiction of the entity which attracted the specific loan. It is zero for borrowings incurred in jurisdictions where we do not benefit from deductions of interest expense.

** Applicable tax rate for Azimuth was calculated as the weighted average tax rates for the jurisdictions in which it operates.

(QQ) Additional amortization expense. Adjustments to cost of sales include the effect of fair value adjustments to intangibles. The change in carrying values of these assets resulting from the fair value adjustments resulting from purchase accounting results in changes to the associated amortization charge in the unaudited combined pro forma information as detailed in the following tables (amounts in thousands of US dollars):

	Estimated fair value of long term customers and supplier relationships recognized on acquisition in ths USD	Weighted average useful life in years	Days between 1 January and acquisition date—2006	Additional amortization expense for 2006
(1)	(2)	(3)	(4)	(5)=(2)/(3)/365*(4)
Smith Eurasia	69,919	6.3	236	(7,366)
YGF	61,979	10.6	240	(3,984)
STM	15,968	4.2	203	(2,171)
PNBK	11,568	6.3	62	(320)
Total additional amortization expense	**159,434**			**(13,841)**

(1)	Estimated fair value of other intangible assets recognized on acquisition in ths USD (2)	Weighted average useful life in years (3)	Days between 1 January and acquisition date—2006 (4)	Additional amortization expense for 2006 (5)=(2)/(3)/365*(4)
Smith Eurasia	8,315	2.4	236	(2,270)
YGF	5,576	1.9	240	(2,000)
STM*	5,655	0.9		1,846
PNBK*	1,080	0.6		1,256
Total additional amortization expense	**20,626**			**(1,168)**

* Other intangible assets of STM and PNBK have useful lives of 0.9 and 0.6 years respectively. These assets were fully amortized in this pro forma financial information during the year ended December 31, 2005. Accordingly, there is no associated amortization in the pro forma financial information for the nine months ended September 30, 2006. This adjustment removes amortization of such intangibles that was recognized in Integra Group's consolidated financial information from the acquisition date to 30 September 2006.

The tax effect of adjustments to amortization expense was calculated as outlined below (amounts in thousands of US dollars):

Acquired company (1)	Additional amortization expense for 2006 (2)	Applicable tax rate (3)	Tax effect (4)=(2)*(3)
Smith Eurasia	(9,636)	24%	2,313
YGF	(5,984)	24%	1,436
STM	(324)	24%	78
PNBK	936	24%	(225)
Total (additional amortization expense)/tax benefit	**(15,008)**		**3,602**

(RR) Minority interest of YGF. This adjustment serves to bring the level of minority interest to the level it would have been had we completed our acquisitions of the 2006 Acquired Entities on January 1, 2005. For YGF, we calculated pro forma minority interest assuming we had purchased 50.74 percent, the amount which we have acquired as of the date of preparation of this unaudited combined pro forma financial information, of YGF at January 1, 2005. Minority interest of 49.26 percent was calculated as share of pre acquisition results of YGF after the effect of fair value adjustments to property, plant and equipment and intangibles.

	Reference	Amount
Profit for 9 months of 2006 recorded in standalone financial statements		12,010
Additional depreciation adjustment net of tax effect	***(OO)***	(4,222)
Additional amortization adjustment net of tax effect	***(QQ)***	(4,548)
Adjusted profit		3,240
Minority interest percentage		49.26%
Minority interest		**1,596**

(SS) Minority interest of Azimuth.

Acquired company (1)	Profit for 9 months of 2006 recorded in standalone financial information (2)	Additional depreciation adjustment (3)	Tax effect on additional depreciation (4)	Minority interest in percent (5)	Loss attributable to minorities in thousands of US dollars (6)=((2)+(3)+(4))*(5)
Azimuth Energy Services	4,572	(7,841)	2,337	5.9%	(54)
Geostan	171	(387)	115	0.5%	(1)
Total	**4,743**	**(8,228)**	**2,452**		**(55)**

(TT) Elimination of intercompany transactions with NLK. Transactions of NLK with our subsidiaries prior to the acquisition have been eliminated.

INDEX TO FINANCIAL STATEMENTS

INTEGRA GROUP

CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)
AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

CONTENTS

INTEGRA GROUP

CONSOLIDATED INTERIM CONDENSED BALANCE SHEETS (UNAUDITED)

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

	Notes	30 September 2006	31 December 2005
Assets			
Cash and cash equivalents		67,326	21,471
Receivables and other current assets	5	182,108	57,941
Inventories	6	89,361	27,221
Total current assets		**338,795**	**106,633**
Goodwill and other intangible assets	7	325,001	34,329
Property, plant and equipment	8	334,916	139,419
Investments in associates	9	15,133	13,913
Deferred tax assets		1,838	290
Loans provided and other assets	10	35,160	2,162
Total non-current assets		**712,048**	**190,113**
Total assets		**1,050,843**	**296,746**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	11	184,576	50,186
Income taxes payable		19,080	4,159
Other taxes payable		21,486	9,737
Short-term borrowings and current portion of long-term borrowings	13	244,860	11,684
Total current liabilities		**470,002**	**75,766**
Long-term financial liabilities	13	217,897	115,098
Deferred tax liability		73,118	21,067
Other non-current liabilities		1,644	1,790
Total non-current liabilities		**292,659**	**137,955**
Total liabilities		**762,661**	**213,721**
Shareholders' equity:			
Ordinary shares (1,902,793 and 1,125,000 shares issued and outstanding at 30 September 2006 and 31 December 2005, respectively; nominal value one ten thousandth of one US Dollar)	14	—	—
Convertible preferred shares (1,926,471 shares issued and outstanding at 30 September 2006 and 31 December 2005; nominal value one ten thousandth of one US Dollar)	14	—	—
Cumulative translation adjustment		6,806	637
Warrants	2, 14	116	136
Share premium		209,316	46,577
Treasury shares, at cost (7,100 and nil shares at 30 September 2005 and 31 December 2005, respectively)	14	(1,598)	—
Retained earnings (accumulated deficit)		(6,540)	10,530
Total equity attributable to Integra Group shareholders		**208,100**	**57,880**
Minority interest		80,082	25,145
Total equity		**288,182**	**83,025**
Total liabilities and equity		**1,050,843**	**296,746**

Approved and authorised for issue 22 February 2007

F. V. Lubashevsky
Chief Executive Officer

A. Polevoy
Chief Financial Officer

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

INTEGRA GROUP

CONSOLIDATED INTERIM CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(expressed in thousands of US Dollars, except as indicated)

	Notes	Nine months ended 30 September: 2006	2005
Sales	20	324,941	41,993
Cost of sales	15	(253,736)	(36,083)
Gross profit		**71,205**	**5,910**
Selling, general and administrative expenses	16	(62,848)	(10,132)
Gain on acquisition of subsidiaries		—	8,931
Gain from disposal of Quest	4	225	—
Impairment of goodwill		—	(921)
Operating profit		**8,582**	**3,788**
Interest income		1,194	152
Interest expense	13	(27,927)	(3,025)
Exchange gain (loss)		8,707	(345)
Share of results of associates, net of income tax	9	708	1,961
(Loss) profit before taxation		**(8,736)**	**2,531**
Current income tax (expense) benefit		(10,783)	159
Deferred income tax benefit (expense)		3,950	(261)
Total tax expense	12	**(6,833)**	**(102)**
(Loss) profit for the period		**(15,569)**	**2,429**
(Loss) profit attributable to:			
– Minority interest		1,501	(209)
– Shareholders of Integra Group		**(17,070)**	**2,638**
(Loss) earnings per share (in US Dollars per share)			
– Basic	18	(5.28)	1.41
– Diluted	18	(5.28)	1.40
Weighted average shares outstanding			
– Basic	18	3,232,762	1,875,000
– Diluted	18	3,232,762	1,878,125

The accompanying selected notes are an integral part of this consolidated interim condensed financial information.

CONSOLIDATED INTERIM CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

	Notes	Nine months ended 30 September: 2006	2005
Cash flows from operating activities			
(Loss) profit before taxation		(8,736)	2,531
Adjustments for:			
Gain from/on disposal/acquisition of subsidiaries		(225)	(8,931)
Depreciation and amortization		38,451	3,073
Interest income		(1,194)	(152)
Interest expense	13	27,927	3,025
Share-based compensation	17	7,015	1,116
Share of results of associates	9	(708)	(1,961)
Loss from disposal of assets	8	692	65
Other		3,003	826
Operating cash flows before working capital changes		**66,225**	**(408)**
Change in receivables and other current assets		(42,836)	(1,560)
Change in inventories		(33,699)	(1,108)
Change in accounts payable and accrued liabilities		21,863	(883)
Change in other taxes payable		(6,140)	(2,425)
Cash flows from (used in) operations before interest and income taxes		**5,413**	**(6,384)**
Income tax paid		(11,701)	(176)
Interest paid		(15,155)	(1,601)
Net cash used in operating activities		**(21,443)**	**(8,161)**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(91,459)	(6,618)
Proceeds from the disposal of property, plant and equipment		1,427	—
Cash paid for acquisitions, net of cash acquired	4	(206,188)	(68,351)
Disposal of subsidiary		1,727	—
Loans provided		(3,995)	—
Repayment of loans		1,697	—
Interest received		719	152
Dividends received from associates	9	325	—
Other		576	—
Net cash used in investing activities		**(295,171)**	**(74,817)**
Cash flows from financing activities:			
Proceeds from issuance of shares, net of associated costs	14	95,388	—
Proceeds from exercise of warrants, net transaction costs	14	336	—
Proceeds from borrowings		323,158	105,489
Repayment of borrowings		(50,898)	(903)
Purchases of treasury shares	14	(1,598)	—
Net cash provided by financing activities		**366,386**	**104,586**
Net increase in cash and cash equivalents		**49,772**	**21,608**
Cash and cash equivalents at the beginning of the period		21,471	730
Effect of exchange differences on cash balances		(3,917)	125
Cash and cash equivalents at the end of the period		**67,326**	**22,463**

The accompanying selected notes are an integral part of this consolidated interim condensed financial information.

INTEGRA GROUP

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

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

	Notes	Common shares	Preferred shares: Series A	Preferred shares: Series B	Treasury shares	Warrants	Share premium	Cumulative translation adjustment	Retained earnings (accumulated deficit)	Equity attributable to Integra Group shareholders	Minority interest	Total equity
Balance at 31 December 2004		—	—	—	—	—	4,125	—	6,641	10,766	—	10,766
Issuance of warrants	2, 13	—	—	—	—	136	—	—	—	136	—	136
Fair value of minority interests acquired		—	—	—	—	—	—	—	—	—	15,902	15,902
Share-based compensation	17	—	—	—	—	—	1,116			1,116	—	1,116
Recognized income												
Translation adjustment								85	—	85	—	85
Profit (loss) for the period								—	2,637	2,637	(209)	2,428
Total recognized income (loss)								85	2,637	2,722	(209)	2,513
Balance at 30 September 2005		**—**	**—**	**—**	**—**	**136**	**5,241**	**85**	**9,278**	**14,740**	**15,693**	**30,433**
Balance at 31 December 2005						136	46,577	637	10,530	57,880	25,145	83,025
Exercise of warrants	14	—	—	—	—	(20)	336	—	—	316	—	316
Acquisition of Smith Eurasia	4	—	—	—	—	—	60,000	—	—	60,000	—	60,000
Acquisition of Class A common shares as treasury shares	14	—	—	—	(1,598)	—	—	—	—	(1,598)	—	(1,598)
Issuance of shares in private placement	14	—	—	—	—	—	95,388	—	—	95,388	—	95,388
Acquisition of subsidiaries	4	—	—	—	—	—	—	—	—	—	53,454	53,454
Disposal of subsidiaries	4	—	—	—	—	—	—	—	—	—	(18)	(18)
Share-based compensation	17	—	—	—	—	—	7,015	—	—	7,015	—	7,015
Recognized income												
Translation adjustment								6,169	—	6,169	—	6,169
Profit (loss) for the period								—	(17,070)	(17,070)	1,501	(15,569)
Total recognized income (loss)								6,169	(17,070)	(10,901)	1,501	(9,400)
Balance at 30 September 2006		**—**	**—**	**—**	**(1,598)**	**116**	**209,316**	**6,806**	**(6,540)**	**208,100**	**80,082**	**288,182**

The accompanying selected notes are an integral part of this consolidated interim condensed financial information.

(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, Uzbekistan. The Group also has certain procurement and management activities in the United States of America.

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. Significant acquisitions are discussed in Note 4.

Following are the principal operating subsidiaries of the Group at 30 September 2006 and 31 December 2005. Certain subsidiaries that provide only administrative functions are not presented.

	Effective ownership at:	
	30 September 2006	**31 December 2005**
Drilling, workover and integrated project management		
Smith Eurasia Inc.	100.0%	—
SE Management LLC	100.0%	—
DP Smith Ukraine	100.0%	—
Smith Overseas Services LLC	100.0%	—
Smith Siberian Services LLC	100.0%	—
Smith Eurasia Limited	100.0%	—
Smith Eurasia-KZ LLP	100.0%	—
TOO Prikaspiyburneft-Kazakhstan	100.0%	—
Supply International Inc.	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 Neftegaztechnika ("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%
Formation Evaluation		
OAO Yamalgeophysika ("YGF")	50.7%	—
OOO Geophyzservice ("GFS“)	100.0%	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%
Manufacturing		
ZAO Uralmash VNIIBT	100.0%	100.0%
ZAO Uralmash Drilling Equipment ("URBO")	100.0%	100.0%
OAO Concern Stromneftemash	100.0%	—

Seasonality. The Group's drilling service revenues can be negatively affected by severe winter weather conditions in certain regions and by winter thawing since large volumes of drilling equipment and drilling rigs situated in certain regions can only be transported during winter 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 as due to flood-like conditions from winter thawing. Such conditions generally restrict the provision of seismic services in Siberia from December to April.

2 BASIS OF PRESENTATION

These consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). These financial statements should be read together with the consolidated financial statements for the year ended 31 December 2005 prepared in accordance with Financial Reporting Standards ("IFRS").

The United States Dollar ("$") is the functional currency for Integra Group, the parent company of the Group and the presentation currency for the Group's consolidated operations. Management have used the US Dollar to manage the Group's financial risks and exposures, agree terms for acquisitions, to arrange financing and to measure the Group's performance. Integra Group is a holding company that does not operate in any one jurisdiction. The primary economic environment in which it operates reflects the nature of its operations. In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the Group determines functional currency on an entity-by-entity basis. 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 26.78 and 28.78 as of 30 September 2006 and 31 December 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 the first half of 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.

Liquidity. For the nine months ended 30 September 2006, the Group reported a net cash outflow from operating activities and at 30 September 2006, the Group had a net working capital deficit, primarily attributable to short-term borrowings. The Group obtained further borrowings subsequent to 30 September 2006 to fund its operations and additional acquisitions as discussed in Note 23, a significant portion of which were short-term. Accordingly, to meet its operating and debt service requirements for the immediate future, the Group is dependent upon its ability to obtain additional equity or debt financing to repay or extend its borrowings and to fund this working capital shortfall. Additionally, as discussed in Note 23, 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 January 2007, the Group obtained a waiver from the lender after agreeing to pay an immediate fee of $2.0 million and certain other modifications to the agreement including a retroactive increase in the interest rate and a significant additional fee to be paid in the event of a change in control or an initial public offering of the Group's shares.

As discussed in Note 24, in December 2006, the Group issued long-term, Russian Rouble-denominated bonds with face values of approximately $114 million. A portion of these proceeds were used to repay $104.6 million of short-term borrowings.

Management believes that the Group is able to attract sufficient debt or equity financing to repay or restructure its existing borrowings and to meet its operational, financing and investment needs. This consolidated interim condensed financial information has been prepared for the purposes of inclusion in a prospectus for the initial public offering of Integra Group's shares on the London Stock Exchange. The Directors have concluded, after taking account of these proceeds and other existing committed borrowings, that the Group has sufficient working capital for the foreseeable future, and that it is therefore appropriate for these financial statements to have been prepared on a going concern basis.

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.

Functional currency determination. Management has concluded that the functional currency of the parent company of the Group is the US Dollar. In May 2005, Integra Group issued warrants with exercise prices denominated in US Dollars. 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 parent company of the Group, at 30 September 2006, liabilities would have been higher by $21.3 million, warrants would have been lower by $0.1 million, loss for the period would have been increased by $21.2 million and retained earnings would have been reduced by $22.9 million. At 31 December 2005, liabilities would have been higher by $1.8 million, warrants would have been lower by $0.1 million and retained earnings would have been reduced by $1.7 million.

Fair values of acquired assets and liabilities. Since its inception in March 2004, the Group has completed numerous significant acquisitions (Note 4). IFRS 3 requires that, at the date of acquisition, all assets and liabilities, including intangible assets, of an acquired entity be recorded at their respective fair values. The estimation of fair values requires significant management judgment.

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

Management also engaged independent experts to advise as to the fair values of acquired property, plant and equipment and intangible assets. Changes in any of the estimates subsequent to the finalization of acquisition accounting may result in losses in future periods.

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.

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.

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.

Deferred income tax asset recognition. Deferred tax assets represent income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded on 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.

Assessment of the percentage of completion on services or 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.

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.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Trade and other receivables, short-term borrowings, trade and other payables, taxes payable and advances from customers are carried at their face values adjusted for any provisions, as appropriate. At 30 September 2006 and 31 December 2005, the fair values did not materially differ from the respective carrying values.

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 30 September 2006 and 31 December 2005, the carrying values of total long-term borrowings approximated their fair values.

The fair values of warrants classified as long-term financial liabilities (Note 13) in the consolidated balance sheets approximate their carrying values.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2005.

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.

These new standards and interpretations are not expected to significantly affect the Company's financial statements when adopted: IFRS 7, *Financial Instruments: Disclosures* and a Complementary Amendment to IAS 1, *Presentation of Financial Statements—Capital Disclosures* (effective from 1 January 2007); 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); IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

New or amended standards and interpretations effective for the Group from 1 January 2006 are discussed below. None of the adoptions had a material impact on the Group's financial position or results of operations.

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, 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 decommission funds.

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.

IAS 21 (Amendment), *Net Investment in a Foreign Operation.* The amendment addresses the accounting for certain types of transactions with foreign operations.

4 BUSINESS COMBINATIONS

Acquisitions during the nine months ended 30 September 2006. Certain details of acquisitions of entities during the nine months ended 30 September 2006 are summarized in the table below. All amounts are based upon management's preliminary estimates of the fair values and, as applicable, contingent purchase consideration.

Acquired entity	Date of acquisition	Percentage acquired	Cost of acquisition	Goodwill (if applicable)	Profits (losses) contributed through 30 September 2006
PNBK	March 2006	100 percent	22,763	258	(191)
Argillit	May 2006	100 percent	4,874	208	548
STM	July 2006	100 percent	16,177	5,613	1,426
PBN	July 2006	99.98 percent	20,015	19,472	1,336
Smith Eurasia	August 2006	100 percent	139,520	69,908	2,138
YGF	August 2006	50.7 percent	78,048	23,248	691
			281,397	**118,707**	**5,948**

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. The Group recognized goodwill of $258,000 on its acquisition of PNBK based upon the difference between its cost of acquisition and management's preliminary 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 preliminary 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. The Group recognized goodwill of $5,613,000 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 the customer and supplier relationships of the business as well as to the synergies expected to be realized from combining it with the rest of 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 $20,015,000 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 $19,472,000 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. The purchase price is subject to a contingent payment of up to $15,000,000, which is payable based upon PBN's operating results for 2006 and 2007. At the date of issuing this interim condensed consolidated financial information, management believes that it is probable that the Group will pay an additional $3,838,000 in purchase consideration. An accrual for this amount has been recorded within accounts payable and accrued liabilities in the consolidated condensed balance sheet.

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 14). Smith Eurasia is included within the Group's drilling, workover and integrated project management segment. 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 $69,908,000 attributable to Smith Eurasia's strong customer and vendor relationships in the Russian Federation, the Ukraine, Kazakhstan and the United States of America. The Group also expects that Smith Eurasia's management team, five of whom collectively owned 100 percent of Smith Eurasia prior to Integra's acquisition (Note 21), will further integrate the entities in its drilling, workover and integrated project management segment into a more cohesive single business.

Acquisition of Yamalgeophysika. In August 2006, the Group acquired 29.74 percent of the outstanding shares of Yamalgeophysika ("YGF"), a company providing seismic services to the petroleum industry in the

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

Yamal-Nenets region of the Russian Federation. Subsequently, the Group signed agreements selling 15.17 percent of the shares for $37.2 million. Under the agreements, no payment is due until May 2007, through which time the shares are pledged to the Group. Additionally, the Group holds a power of attorney to vote the shares. Management has the unilateral ability to cancel the transaction and has an unwritten agreement with the counterparty to the agreements that such shares will be acquired by the Group before the due date. Additionally, the Group advanced funds to agents holding shares of YGF (the "Agents") in the form of short-term loans bearing a fixed interest rate of 14 percent per annum payable at maturity date. The loans are collateralized by 21.0 percent of the outstanding shares of YGF. The Agents issued a power of attorney to the Group that grants the Group the right to vote and to receive any dividends declared on the shares for a period of three years. Additionally, in December 2006, the Group obtained, for no consideration, a call option that allows it to purchase the collateral for the amount advanced to the Agents. As of 30 September 2006, all members of YGF's Board of Directors are representatives of the Group. Management believes that the rights and arrangements described above allow it to control 50.74 percent of YGF and provide it with all the risks and rewards of ownership related to the shares held by the Agents. Accordingly, the Group has consolidated YGF from the date of acquisition in August 2006. As management has the ability and intention to exercise its rights to acquire 36.17 percent of the shares of YGF, the advances described above were treated as part of the Group's purchase consideration for YGF, resulting in a total acquisition cost of $78,048,000, including transaction costs of $3,023,000 for the Group's control of 50.74 percent of YGF. Management's preliminary estimate of the fair value of YGF's identifiable assets, liabilities and contingent liabilities is disclosed in the table below. Such estimates are subject to change upon finalization. The Group recognized goodwill of $23,248,000 on its acquisition of YGF, based upon the difference between its cost of acquisition and on management's preliminary estimate of the fair value of YGF's identifiable assets, liabilities and contingent liabilities. Management attributes this goodwill to the customer and supplier relationships of the business as well as to the synergies expected to be realized from combining it with the rest of the Group. YGF is included within the Group's formation evaluation segment.

Fair values of subsidiaries acquired during nine months ended 30 September 2006. Below is a summary of the preliminary purchase accounting allocation for the acquisitions made during nine months ended 30 September 2006.

	PNBK	Argillit	STM	PBN	Smith Eurasia	YGF	Total
Cash and cash equivalents	686	315	42	305	14,219	9,381	24,948
Trade and other receivables	13,787	1,064	5,290	8,414	16,542	16,653	61,750
Inventories	2,561	1,960	5,218	5,802	4,669	6,687	26,897
Other current assets	318	—	132	256	530	210	1,446
Property, plant and equipment	22,866	6,568	667	31,342	1,130	57,473	120,046
Intangible assets	12,648	—	21,623	3	78,234	67,555	180,063
Deferred tax assets	—	—	775	—	—	—	775
Investments in associates	—	—	—	—	—	607	607
Short-term borrowings	(2,125)	—	(1,428)	(7,903)	—	(14,504)	(25,960)
Other current liabilities	(16,226)	(4,436)	(16,554)	(28,876)	(26,787)	(7,862)	(100,741)
Long-term borrowings	(6,517)	—	—	(7,811)	—	(5,928)	(20,256)
Deferred tax liability	(5,493)	(805)	(5,201)	(732)	(18,925)	(22,275)	(53,431)
Less: minority interest not acquired	—	—	—	(257)	—	(53,197)	(53,454)
Share in net assets (liabilities) acquired	22,505	4,666	10,564	543	69,612	54,800	162,690
Purchase consideration	22,763	4,874	16,177	20,015	139,520	78,048	281,397
Goodwill	**258**	**208**	**5,613**	**19,472**	**69,908**	**23,248**	**118,707**

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

Summary combined financial information. The following table sets forth summary combined financial information for the nine months ended 30 September 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 expense to reflect adjusted carrying values of property, plant and equipment following preliminary fair value adjustments and the associated income tax effects.

	Total revenues	Profit (loss)
Group	324,941	(15,570)
Subsidiaries acquired prior to 30 September 2006		
– PNBK	31,339	(297)
– Argillit	10,856	39
– STM	6,487	1,480
– PBN	36,482	(959)
– Smith Eurasia	47,641	8,676
– YGF	65,367	12,011
Subsidiaries acquired subsequent to 30 September 2006		
Azimut	33,967	2,840
NLK	277	224
Adjustments and eliminations	(69,716)	(38,146)
Summary combined	**487,641**	**(29,702)**

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 $38,146,000 represents elimination of post-acquisition results of $4,036,000 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 $17,322,000 and additional amortization expense net of associated income tax effect of $16,788,000. The adjustment decreasing revenues by $69,716,000 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 for the purchase amount of $1,800,000, 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 condensed income statement and had served to reduce the carrying value of it's investment in Quest.

5 TRADE AND OTHER RECEIVABLES

	30 September 2006	31 December 2005
Trade receivables (net of allowance for doubtful accounts of $0.6 million and nil at 30 September 2006 and 31 December 2005, respectively)	70,821	22,134
Amounts due from customers for contract work	38,235	4,847
VAT recoverable	22,241	9,440
Prepaid income taxes	5,567	1,052
Advances to suppliers	27,811	13,884
Deferred costs, prepaid expenses, and other receivables	17,433	6,584
Total trade and other receivables	**182,108**	**57,941**

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

Included within VAT is VAT related to purchases of property, plant and equipment and of raw materials and services used of $6,637,000 and of $5,578,000 at 30 September 2006 and 2005, respectively. At 30 September 2006 and 2005, the Group had outstanding amounts of VAT recoverable for advances received of $6,055,000 and $1,842,000, respectively, and VAT from export sales of $1,257,000 and $160,000, respectively. The remaining balances relate to VAT recoverable from the government.

6 INVENTORIES

	30 September 2006	31 December 2005
Materials and supplies (net of provisions of $0.2 million and $nil million at 30 September 2006 and 31 December 2005, respectively)	69,481	21,903
Work in progress	10,501	3,017
Finished goods	9,379	2,301
Total inventories	**89,361**	**27,221**

At 30 September 2006 and 31 December 2005, inventories with carrying values of $32,113,000 and of $747,000, respectively, were pledged as collateral for the Group's borrowings.

7 GOODWILL AND OTHER INTANGIBLE ASSETS

	30 September 2006	31 December 2005
Goodwill from acquisition of subsidiaries, including:		
– PNBK	268	—
– STM	5,633	—
– PBN	19,543	—
– Smith Eurasia	69,860	—
– YGF	23,284	—
– URBO	8,092	7,529
– BI	10,162	9,452
– Other	667	1,818
Other intangible assets, including:		
– Long-term customer/supplier relationships	155,923	—
– Trademarks	11,158	8,617
– Patents	4,619	4,556
– Software	1,876	1,741
– Order backlog	13,292	—
– Other	624	616
Total goodwill and other intangible assets	**325,001**	**34,329**

Goodwill. Goodwill is attributed to the cash-generating units expected to benefit from the acquisition as required by IAS 36. In most cases, the cash-generating units to which the goodwill is allocated is the segment to which the respective acquisition belongs. 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 based on financial budgets approved by management covering a five-year period for each of our acquisitions. Their cash flows were based on the 2007 approved budget and assumed 10 percent to 14 percent growth for subsequent years. All cash flow forecasts were discounted using a pre-tax discount rate of 15 percent per annum which is internal rate of return applied by the Group for yield calculations of capital projects.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

In accordance with IAS 36, impairment tests have not been performed on goodwill associated with newly acquired entities for which estimates of fair values of assets, liabilities and contingent liabilities are not yet finalized. For goodwill associated with entities for which such estimates have been finalized, the excess of recoverable amounts over the entities' carrying amount and the pre-tax discount rates at which carrying values would be equal to their value in use and which reflect specific risks relating to the relevant cash-generating units are as follows.

Entity	Excess of recoverable amount over the companies' carrying amount	Pre-tax discount rates, per annum
URBO	87,421	97.52%
BI	74,405	66.05%
Alliance	2,878	20.00%

Other intangible assets. All intangible assets are assessed as having finite useful lives. Trade marks and patents were acquired with the purchase of the URBO and BI. The intangible asset associated with order backlog is attributable to the Group's acquisition of Smith Eurasia and STM. At 30 September 2006, the remaining useful lives of the trade marks and patents were 3-4 years and 13-15 years, respectively. Order backlog is being amortized over the period in which the backlog will be delivered, which ranges from 1.7 years for equipment orders to 2.4 years for service orders.

The intangible asset associated with long-term customer/supplier relationship is attributable to the Group's acquisition of PNBK, Smith Eurasia, STM and YGF. Long-term customer/supplier relationship is being amortized over the period which the Group expects the assets will generate economical benefits.

Entity	Long-term customer/supplier relationship	Amortization period, years
PNBK	10,755	6
STM	15,039	4
Smith Eurasia	68,806	6
YGF	61,323	10
Total long-term customer/supplier relationship	155,923	

Amortization of intangible assets is included within cost of sales.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

8 PROPERTY, PLANT AND EQUIPMENT

	Rigs	Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost						
Balance at 31 December 2005	**13,271**	**43,111**	**78,363**	**4,172**	**6,697**	**145,614**
Additions	6,056	10,153	50,934	19,291	7,154	93,588
Acquisitions of subsidiaries	41,991	26,087	37,617	12,885	1,466	120,046
Disposals	(148)	(127)	(2,520)	(358)	(1,004)	(4,157)
Disposal of Quest	—	—	(1,078)	—	(43)	(1,121)
Exchange differences	1,550	3,715	7,320	874	653	14,112
Balance at 30 September 2006	**62,720**	**82,939**	**170,636**	**36,864**	**14,923**	**368,082**
Accumulated depreciation						
Balance at 31 December 2005	**(1,932)**	**(1,012)**	**(2,956)**	**(180)**	**(115)**	**(6,195)**
Depreciation	(5,669)	(2,517)	(16,202)	(2,202)	(1,655)	(28,245)
Disposals	17	16	1,710	156	140	2,039
Disposal of Quest	—	—	291	—	—	291
Exchange differences	(274)	(133)	(546)	(60)	(43)	(1,056)
Balance at 30 September 2006	**(7,858)**	**(3,646)**	**(17,703)**	**(2,286)**	**(1,673)**	**(33,166)**
Net book value						
Balance at 31 December 2005	11,339	42,099	75,407	3,992	6,582	139,419
Balance at 30 September 2006	54,862	79,293	152,933	34,578	13,250	334,916

The accounting for property, plant and equipment is maintained in the functional currency of each respective subsidiary and its amount is reflected in the consolidated condensed balance sheets at the appropriate exchange rate at each balance sheet date. Changes in the carrying value resulting from changes in exchange rates are recorded within cumulative translation adjustment within the consolidated condensed statement of changes in shareholders' equity.

At 30 September 2006 and 31 December 2005, certain property, plant and equipment with a net book value of $59,843,000 and $24,824,000, respectively, were pledged as collateral for the Group's borrowings.

9 INVESTMENTS IN ASSOCIATES

	30 September 2006	31 December 2005
NNGF	9,486	8,352
SNGF	2,618	2,530
NGT-G	2,470	3,031
Other	559	—
Total investments in associates	**15,133**	**13,913**

NNGF. The Group acquired its 33.8 percent interest in NNGF as part of its acquisition of RGK in May 2005.

SNGF. The Group acquired its 8.29 percent interest in SNGF as part of its acquisition of RGK in May 2005. In May 2005, the Group purchased an additional 25.57 percent for $598,000, bringing its total stake to 33.86 percent.

NGT-G. Group acquired its 17.24 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.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

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

	30 September 2006	30 September 2005
Carrying amount at the beginning of the period	13,913	—
Acquisitions	607	11,857
Share of results of associates, net of income tax	708	1,961
Distributions	(1,154)	—
Exchange difference	1,059	260
Carrying amount at the end of the period	**15,133**	**14,078**

	30 September 2006	
Summarised Balance Sheets	**NNGF/NGT-G**	**SNGF**
Total assets	38,274	12,173
Total liabilities	(7,528)	(4,354)

	31 December 2005	
Summarised Balance Sheets	**NNGF/NGT-G**	**SNGF**
Total assets	32,564	11,012
Total liabilities	(4,856)	(3,541)

	Nine months ended 30 September 2006	
Summarised Statements of Income	**NNGF/NGT-G**	**SNGF**
Total revenues	27,712	10,032
Total operating expenses	(24,664)	(9,786)
Operating profit/loss	3,048	246
Gain on acquisition of subsidiaries	—	—
Interest expense net	(89)	(109)
Income tax expense	(1,097)	(60)
Minority share	(46)	—
Profit for the period	**1,816**	**77**

10 LOANS PROVIDED AND OTHER ASSETS

	30 September 2006	31 December 2005
Advances to agents	32,896	—
Loans receivable (net of allowance for doubtful accounts of $0.9 million and nil at 30 September 2006 and 31 December 2005, respectively)	1,206	1,308
Other assets	1,058	854
Total loans provided and other assets	**35,160**	**2,162**

At 30 September 2006, the Group had advanced $30,000,000 to agents assisting in the identification and purchase of minority interests in YGF (Note 4). This advance is in the form of short-term loans maturing in May 2007 and bearing interest of 14 percent per annum. $7,915,000 were repaid in October 2006. Management expects to purchase any shares acquired by the agents 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 agents. Similarly, the agents are not legally obliged to deliver the shares to the Group if they choose to repay the balance forwarded. At 22 December 2006, the agents reported to the Group that they had purchased 26.04 percent of the remaining outstanding shares of YGF for $21,412,000.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

Included within loans receivables are loans issued to follows counteragents:

	30 September 2006	31 December 2005
ZAO Integra Management employees	732	—
Other	474	1,308
Total loans receivable	**1,206**	**1,308**

Loans issued to employees are disclosed in Note 21.

In connection with the acquisition of PNBK in March 2006, the Group loans issued balances included $323,000 comprising a non interest-bearing loan issued to TOO PNBK Kazakhstan. In June and September 2006, TOO PNBK Kazakhstan repaid $127,000 ahead of schedule, resulting in a gain on early redemption of $25,000, which was recorded within interest income in the condensed statement of income for the nine months ended 30 September 2006. At 30 September 2006, the remaining carrying balance of the loan was $251,000.

Other loans as of 30 September 2006 represented Russian Rouble-denominated loans issued by the Group subsidiaries to third parties at fixed rate 15 percent per annum and maturing in June 2007.

Other loans as of 31 December 2005 represented Russian Rouble-denominated loans issued by Quest to ex-owners' related parties at fixed market rates 16 percent per annum. The Group disposed of Quest in February 2006 (Note 4).

11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 September 2006	31 December 2005
Trade payables	86,304	15,846
Amounts due to customers for contract work	11,100	9,503
Accrued liabilities and other creditors	36,870	8,852
Advances from customers	50,302	15,985
Total accounts payable and accrued liabilities	**184,576**	**50,186**

12 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.

	Nine months ended 30 September:	
	2006	2005
(Loss) profit before taxation	(8,736)	2,531
Less share of results of associates, net of income tax	(708)	(1,961)
(Loss) profit before taxation and results of associates	(9,444)	570
Theoretical tax benefit (charge) at Russian statutory income tax rate of 24 percent	2,267	(137)
Gain on disposal/acquisition of subsidiaries	54	1,886
Effect of income (loss) taxed at rates lower than 24 percent	833	(224)
Effect of income (loss) taxed at rates higher than 24 percent	(307)	—
Tax losses not expected to be utilized against future profits—Cyprus and Cayman	(2,585)	(820)
Tax losses not expected to be utilized against future profits—other jurisdictions	(3,768)	(499)
Share-based compensation	(1,684)	(268)
Other non-tax deductible expenses	(1,751)	(28)
Other	108	(12)
Total income tax expense	**(6,833)**	**(102)**

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

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.

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 30 September 2006 and 31 December 2005, deferred tax assets related to such tax losses totalled $2,698,000 and $501,000, respectively. Such losses expire between 2012 and 2016. Additionally, deferred tax assets totalling $6,353,000 were not recognized including $3,768,000 relating to accumulated tax losses expiring between 2014 and 2016 and $2,585,000 relating to accumulated losses that do not have an expiration date. 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.

13 FINANCIAL LIABILITIES

Short-term borrowings. Below is a table detailing short-term borrowings and the current portion of long-term borrowings at 30 September 2006 and 31 December 2005:

	Weighted average interest rate at:		Balance at:	
	30 September 2006	**31 December 2005**	**30 September 2006**	**31 December 2005**
US Dollar-denominated borrowings	LIBOR + 4.7%	12 – 18 percent	75,000	4,600
Russian Rouble-denominated borrowings	9,25 – 10,5 percent	12.5 – 16 percent	131,998	2,769
Other	12 – 24 percent	12 – 24 percent	998	555
Current portion of long-term borrowings			36,864	3,760
Total short-term borrowings and current portion of long-term borrowings			**244,860**	**11,684**

Renaissance Securities Trading Limited. In August 2006, the Group obtained a loan in the amount of $75 million from Renaissance Securities Trading Limited (the "Lender") as a bridge loan that becomes immediately payable, together with accrued interest, on admittance of the Integra's or any of its subsidiaries' shares to trade on any investment exchange or automated dealer quotation system. The bridge loan bears floating interest of LIBOR plus 4.7 percent (10.2 percent at 30 September 2006) per annum payable on the loan repayment date. On provision of certain guaranties by Integra's subsidiaries, the interest rate will decrease to LIBOR plus 3.5 percent per annum. The loan matures in July 2007.

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 Note 23.

Alfa-bank and IMB. In July and August 2006, the Group obtained loans in the amounts equivalent to $67,214,000 and $37,341,000 from Alfa-bank and IMB, respectively, as bridge loans to be refinanced from the proceeds of the Second Russian Rouble-denominated bonds issued in December 2006. The loans from both of the banks bear fixed interest of 9.25 percent per annum, payable monthly. In December 2006, both loans were repaid from the proceeds of the Second Russian rouble-denominated bonds (Note 23).

Alfa-bank. During the period from February till July 2006 the Group entered into a series of Russian Rouble-denominated loan facility agreements with Alfa-bank for an equivalent of $22,432,000. Due to the change of the exchange rate between the date of transaction and the reporting date the value of the loan as of 30 September 2006 increased to $23,222,000. The loans bear fixed interest rates ranging from 9.5 percent to 10.5 percent per annum payable monthly. The loan facilities mature within the period from December 2006 to March 2007. The loan facilities are collateralized by certain of the Group's inventories and property, plant and equipment with carrying value equivalent to $3,178,000 and $6,250,000 respectively.

Bank Vozrozhdeniye and Rosbank. In connection with the acquisition of PBN in July 2006, the Group assumed a series of Russian Rouble-denominated loan agreements with Bank Vozrozhdeniye and Rosbank for an equivalent of approximately $4,132,000. The loans bear fixed interest rates ranging from 14.0 percent to 15.4 percent per annum payable monthly. Due to the change of the exchange rate between the date of transaction and the reporting date the value of the loan as of 30 September 2006 increased to $4,221,000. The loans mature between December 2006 and April 2007 and are collateralized by certain of the Group's inventory with carrying value equivalent to $739,000. At the date of acquisition of PBN, the fair values of the borrowings did not significantly differ from their carrying values.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

Long-term borrowings. The Group's long-term borrowings at 30 September 2006 and 31 December 2005 are outlined below.

	30 September 2006	31 December 2005
Facility Agreement (net of unamortized issuance costs of $3,198,000 and $3,743,000 and accretion of discount allowance of $1,409,000 and $47,000 at 30 September 2006 and 31 December 2005, respectively)	92,691	84,086
Senior Notes (face value of $2 million; coupon of 18 percent per annum)	1,989	14,364
Restructured Senior Notes (face value of $15 million; coupon of 11 percent per annum and 18 percent per annum at 30 September 2006 and 31 December 2005, respectively)	14,997	—
IMB	11,626	9,294
Sberbank	18,915	5,784
Alfa-bank	15,142	—
First Russian Rouble-denominated bonds	74,683	—
NOMOS-bank	7,000	—
Other	12,769	732
	249,812	114,260
Less: current portion of long-term borrowings	(36,864)	(3,760)
Total long-term borrowings	**212,948**	**110,500**
Warrants	4,949	4,598
Total long-term financial liabilities	**217,897**	**115,098**

Facility Agreement. The following table details the movement in balances associated with the Facility Agreement for the nine months ended 30 September 2006:

	Facility A	Facility B	Warrants
Balance at 31 December 2005	43,142	40,944	4,598
Interest expense:			
Added to loan balance	5,013	1,384	—
Accretion of discount	532	1,676	351
Balance at 30 September 2006	**48,687**	**44,004**	**4,949**

The par values of Facility A were $51,745,000 and $46,733,000 at 30 September 2006 and 31 December 2005, respectively. The par values of Facility B were $46,879,000 and $45,495,000 at 30 September 2006 and 31 December 2005, respectively. Both facilities mature on 30 September 2010.

In accordance with the terms of the agreement, the Group should comply with certain covenants, including restrictions on new borrowings if certain leverage ratios are not met. At 30 September 2006, the Group was in compliance with the covenants.

Senior Notes and Restructured Senior Notes. In April 2006, the Group refinanced its debt with one of the investment funds totalling $12,500,000 as of 31 December 2005. As a result of this refinancing, the interest rate was reduced from 18 percent per annum to 11 percent per annum, the maturity was extended from 31 May 2008 to 30 April 2010, the principal amount was increased from $12,500,000 to $15,000,000, and the early redemption fee schedule was modified as presented below. The new principal amount following the restructuring of the restructured notes (the "Restructured Senior Notes") is $15,000,000. This amount comprises the initial principal amount of $12,500,000, $1,250,000 of the 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 is payable semi-annually. However, through 30 April 2008, the Group has the right to settle interest by issuing new Restructured Senior Notes. In the event of a default, the coupon rate is increased by 2.0 percent per annum to 13.0 percent per annum.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

The restructuring described above comprises 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 $747,000, included within interest income in the consolidated condensed statement of income, by applying management's estimate of the Group's external borrowing rate for similar instruments, 13 percent. At 30 September 2006, the carrying value of the Restructured Senior Notes was $14,997,000. The difference between the carrying value and the face value of the Restructured Senior Notes is being accreted over the period to maturity at an effective interest rate of 13 percent.

Integra may prepay all or part of the notes after 30 April 2007 as follows:

Early repayment date	Redemption price
After 30 April 2007	105.00 percent
After 31 October 2007	104.00 percent
After 30 April 2008	103.00 percent
After 31 October 2008	102.00 percent
After 30 April 2009	101.00 percent
After 31 October 2009	100.00 percent

Under the Senior Notes and Restructured Senior Notes, the Group is subject to restrictions on borrowings if it does not maintain certain minimum financial leverage ratios. At 30 September 2006, the Group was in compliance with the covenants.

The remaining $2,000,000 Senior Notes held by the other investment fund remained outstanding as per the initial agreement.

In accordance with the terms of the agreement, the Group is subject to certain financial covenants, including restrictions on new borrowings if not compliance with certain financial ratios and restrictions on total outstanding indebtedness. At 30 September 2006, the Group was in compliance with the covenants.

IMB. In December 2005, the Group entered into a Euro-denominated loan facility with International Moscow Bank (IMB) for the equivalent of $9,294,000. As of 30 September 2006, an equivalent of $9,848,000 was outstanding The loan bears a floating interest rate of EURIBOR plus 5.5 percent per annum payable monthly (8.8 percent at 30 September 2006). Any outstanding loans mature 28 June 2007. The facility is secured by certain of an associate's property, plant, equipment.

In connection with its acquisition of PNBK in March 2006, the Group assumed a US Dollar-denominated loan agreement with International Moscow Bank (IMB) for $4,000,000. The loan bears a floating interest rate of LIBOR plus 6.5 percent per annum payable monthly (11.84 percent at 30 September 2006) and matures in September 2007. As of 30 September 2006, $1,778,000 was outstanding under the loan. The loan is collateralized by certain of the Group's property, plant, equipment with carrying values of $3,589,000.

In accordance with the terms of the agreement, the Group is subject to certain covenants, including restrictions of incurrence of new debt without consent of the lender and maintaining certain minimum balances in designated bank accounts. At 30 September 2006, the Group was in compliance with the covenants.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

Sberbank. In March 2006, the Group repaid the outstanding amount of loan as of 1 January 2006 in amount of $5,784,000 to Sberbank in full.

In connection with its acquisition of YGF in August 2006, the Group assumed a series of Russian Rouble-denominated loan agreements with Sberbank for an equivalent of approximately $27,000,000. The loans bear fixed interest rates ranging from 10.0 percent to 13.0 percent per annum, payable monthly. As of 30 September 2006, $18,915,000 (RR 506.5 million) was outstanding under the agreements. The loans mature between October 2006 and October 2008 and are collateralized by certain of the Group's inventory with carrying value equivalent to $20,480,000. At the date of acquisition of YGF, the fair values of the borrowings did not differ significantly from the carrying values.

Alfa-bank. In June 2006, the Group entered into a series of Russian Rouble-denominated loan facility agreements with Alfa-bank for an equivalent of $15,000,000. Due to the change of the exchange rate between the date of transaction and the reporting date the value of the loan as of 30 September 2006 increased to $15,142,000. The loan facilities bear a fixed interest rate of 10.5 percent per annum payable monthly. The loan facilities mature in December 2007. The loan facilities are collateralized by certain of the Group's property, plant and equipment with carrying value equivalent to $33,379,000.

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 in designated bank accounts. At 30 September 2006, the Group was in compliance with the covenants.

First Russian Rouble-denominated Bonds. In March 2006, the Group issued Russian Rouble-denominated bonds with a total nominal value equivalent to $72,025,000 (the "First Russian Rouble-denominated Bonds"). Due to the change of the exchange rate between the date of transaction and the reporting date the value of the loan as of 30 September 2006 increased to $74,683,000. The First Russian Rouble-denominated Bonds bear fixed interest of 10.5 percent per annum payable semi-annually. The bonds mature on 20 March 2009.

NOMOS-bank. In March 2006, the Group entered into a US Dollar-denominated loan agreement with NOMOS-bank for $7,000,000. The loan bears a fixed interest rate of 12 percent per annum payable monthly, matures in March 2009 and is collateralized by certain of the Group's property, plant and equipment with carrying value equivalent to $3,997,000. Under the terms of the loan, the Group is required to maintain certain balances in a designated account.

Debt maturities. Long-term borrowings outstanding at 30 September 2006 have scheduled maturities as follows:

Scheduled maturities during the twelve months ended 30 September:	
2008	26,985
2009	76,959
2010	109,004
Total long-term borrowings	**212,948**

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

Interest expense. Interest expense for the nine months ended 30 September 2006 and 2005 comprised the following:

	Nine months ended 30 September:	
	2006	**2005**
Short-term borrowings		
US Dollar-denominated borrowings	1,752	—
Russian Rouble-denominated borrowings	3,963	795
Other short-term borrowings	—	284
Total interest expense associated with short-term borrowings	5,715	1,079
Long-term borrowings		
Facility Agreement, including:		
interest at coupon rate of 14 percent per annum	9,789	482
accretion of issuance costs	2,208	—
Senior Notes	2,342	1,077
IMB	161	—
Sberbank	470	306
Alfa Bank	155	—
First Russian Rouble-denominated bonds	5,015	—
Nomos Bank	468	—
Accretion of discount associated with warrants on Senior Notes	52	—
Accretion of discount associated with warrants on Facility Agreement	351	—
Other	1,201	81
Total interest expense	**27,927**	**3,025**

14 SHAREHOLDERS' EQUITY

Change in the shares for the nine months ended is set out in the table below as follows:

	Number of Class A common shares	Par value of common shares	Share premium
Class A common shares			
Balance at 31 December 2005	1,125,000	—	1,125
Exercise of stock options	53,763	—	602
Shares cancelled through cash-less exercise of options	(4,582)	—	(53)
Issuance of shares for purchase of Smith Eurasia (Note 4)	266,666	—	60,000
Issuance of shares in private equity placement	444,445	—	95,388
Exercise of warrants	17,500	—	336
Balance of Class A common shares at 30 September 2006, including 7,100 shares held in treasury	**1,902,792**	**—**	**157,398**
Share premium associated with preferred shares			42,429
Share premium associated with share-based payments			9,489
Total share premium at 30 September 2006			**209,316**

No change in Series A preferred shares and Series B preferred shares took place during nine months ended 30 September 2006. The value of $602,000 and minus $53,000 of share-based compensation cost related to the stock options were exercised during the nine months ended 30 September 2006 and reclassified into Class A common shares category on exercise of the options.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

In April 2006, 2,100 of the Group's warrants issued in connection with the Senior Notes (Note 13) were exercised, resulting in the issuance of 17,500 Class A common shares. At 30 September 2006, warrants to acquire 103,333 shares of Class A common shares at $20.00 per share remain outstanding.

In August 2006, the Group raised $100 million cash consideration, gross of direct costs of $4,612,000, in a private placement of 444,445 of its Class A common 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.

15 COST OF SALES

	Nine months ended 30 September:	
	2006	2005
Materials and supplies	77,331	6,680
Employee costs (including mandatory social contributions of $13 million and $3 million for the nine months ended 30 September 2006 and 2005, respectively)	67,952	12,734
Depreciation and amortization	36,590	2,971
Services	67,243	12,862
Taxes	168	12
Loss from disposal of assets	477	—
Other	3,975	824
Total cost of sales	**253,736**	**36,083**

16 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Nine months ended 30 September:	
	2006	2005
Employee costs (including unified social tax of $1.6 million and 0.1 for the nine months ended 30 September 2006 and 2005, respectively)	26,538	5,336
Loss from disposal of assets	215	65
Services	16,248	1,964
Share options granted to management and employees, net of forfeitures	7,015	1,116
Transportation expenses	1,434	81
Taxes other than income	2,774	350
Depreciation	1,861	102
Provision for bad debts and obsolete inventories	791	—
Other	5,972	1,118
Total selling, general and administrative expenses	**62,848**	**10,132**

17 SHARE-BASED COMPENSATION

2005 Stock Option Plan. During the nine months ended 30 September 2006, the Group granted options for the purchase of a further 430,000 shares of the Group's Class A common shares. Options granted vest over periods of up to three years and are exercisable for ten years from the grant date. Vesting provisions differ by award. In July 2006, the Group's Board of Directors authorized an additional 150,000 shares for issue under the 2005 Stock Option Plan, bringing the total authorized to 900,000. In August 2006, the Group's Board of Directors authorized an additional 250,000 shares for issue under the 2005 Stock Option Plan, bringing the total authorized to 1,150,000. At 30 September 2006, 155,863 shares remained available for grant under the plan.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

The total grant date fair value of the stock options granted under the 2005 Plan during the nine months ended 30 September 2006 was $40,954,000. This amount is being recognized over the vesting period. During the nine months ended 30 September 2006, $4,175,000 of compensation expense associated with awards granted during 2006 and $2,840,000 of compensation expense associated with awards granted in earlier periods was recognized within selling, general and administrative expenses in the Group's consolidated condensed statement of income. The associated credit was recorded as share premium the consolidated condensed statement of changes in the shareholders' equity.

Options outstanding. The following summarizes information about stock options, including the Class B common shares, outstanding as of 30 September 2006:

	Weighted average exercise price in $ per share	Options
Options outstanding at 31 December 2005	**15.81**	**1,630,400**
Granted	156.23	430,000
Exercised	11.20	(53,763)
Forfeited	79.43	(52,500)
Options outstanding at 30 September 2006	**76.97**	**1,954,137**

	Options outstanding			Options exercisable	
Range of exercise prices (in US Dollars per share)	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted average exercise price ($)	Options exercisable at year end	Weighted average exercise price ($)
$4.00 – $10.00	98,712	7.8	7.29	48,337	5.43
$12.00	1,060,425	9.6	12.00	460,000	12.00
$15.00 – $30.00	180,000	9.0	22.24	—	
$34.00	335,000	9.3	34.00	—	
$130.00	40,000	9.7	130.00	—	
$225.00	240,000	9.9	225.00	—	
Total	**1,954,137**		**45.13**	**508,337**	**11.38**

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, 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. Based on the assumptions below, the weighted average fair value of employee stock options granted during the nine months ended 30 September 2006 was $95.24 per option. The significant inputs into the option valuation model are summarized as follows.

	Awards granted during the nine months ended 30 September:	
	2006	2005
Share price	$122.50-$225.00	$14.00
Dividend yield	—	—
Expected volatility	40.00%	40.00%
Risk-free interest rate	4.5-5.1%	3.8-4.0%
Expected life	5-7 years	5-7 years

Had the expected volatility been 25 percent, 50 percent or 75 percent, the weighted average fair value of employee stock options granted during the nine months ended 30 September 2006 would have been $78.68, $106.08 or $130.44 per option, respectively.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

18 EARNINGS PER SHARE

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

	Nine months ended 30 September:	
	2006	**2005**
Numerator		
(Loss) / Profit attributable to shareholders of Integra Group for basic earnings per share	(17,070)	2,638
(Loss) / Profit attributable to shareholders of Integra Group for diluted earnings per share	(17,070)	2,638
Denominator		
Weighted average number of common shares outstanding during the period—basic	3,232,762	1,875,000
Incremental common shares attributable to exercise of outstanding options	—	3,125
Denominator for diluted earnings (loss) per share	3,232,762	1,878,125
Basic loss / earnings per share (in US Dollars per share)	(5.28)	1.41
Diluted loss / earnings per share (in US Dollars per share)	(5.28)	1.40

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. Outstanding options and warrants were not included in the calculation of earnings per share for the nine months ended 30 September 2006 as their effect would be antidilutive.

19 CONSTRUCTION CONTRACTS

The revenues and gross profit recognised on long-term contracts of URBO for the nine months ended 30 September 2006 were as follows:

	Nine months ended 30 September 2006
Construction revenues	56,024
Construction costs	(37,058)
Gross profit	**18,966**

The aggregate amount of costs incurred on construction contracts that were in progress at 30 September 2006 and 31 December 2005 were $36,959,000 and $13,074,000, respectively. Aggregate gross profits (less losses) recognised for contracts that were in progress at 30 September 2006 and 31 December 2005 were $18,854,000 and $8,576,000 respectively.

20 SEGMENT INFORMATION

The Group operates business segments providing drilling, workover and geophysical services to oil and gas producers as well as manufactures drilling rigs and drilling tools. Prior to August 2006, the Group operated three business segments: drilling and workover, geophysics and manufacturing. Following its acquisition of Smith Eurasia in August 2006, the Group reorganized its operational activities into the following three reportable segments: drilling, workover and integrated project management (“IPM”), manufacturing; and formation evaluation. The most significant change to the composition of the segments was the transfer of BI from manufacturing to drilling, workover and integrated project management. 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 and Strommashina, which were acquired in September 2005 and July 2006 respectively and manufacture 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 2005, the Group operated substantially within one geographical segment which is the Russian Federation and CIS.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

During the nine months ended 30 September 2006, the Group operated primarily within one geographical segment which is the Russian Federation and CIS. From September 2006, after the acquisition of Smith Eurasia, the Group's operations extended to the Ukraine, Kazakhstan and the United States of America. Management expects that geographical segments will be the secondary segments for its financial reporting purposes in future periods.

Segment information at 30 September 2006 and at 31 December 2005 was as follows:

At 30 September 2006	Drilling, workover & IPM	Formation evaluation	Manufacturing	Total
Segment assets	528,480	373,824	175,052	1,077,356
Corporate assets	—	—	—	165,703
Inter-segment eliminations	—	—	—	(192,216)
Total assets	**528,480**	**373,824**	**175,052**	**1,050,843**
Segment liabilities	288,670	168,815	78,802	536,287
Corporate liabilities	—	—	—	418,590
Inter-segment eliminations	—	—	—	(192,216)
Total liabilities	**288,670**	**168,815**	**78,802**	**762,661**

At 31 December 2005	Drilling, workover & IPM	Formation evaluation	Manufacturing	Total
Segment assets	139,690	102,043	53,419	295,152
Corporate assets	—	—	—	6,930
Inter-segment eliminations	—	—	—	(5,336)
Total assets	**139,690**	**102,043**	**53,419**	**296,746**
Segment liabilities	48,952	36,075	20,597	105,624
Corporate liabilities	—	—	—	113,433
Inter-segment eliminations	—	—	—	(5,336)
Total liabilities	**48,952**	**36,075**	**20,597**	**213,721**

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

Segment information for the nine months ended 30 September 2006 and 2005 was as follows:

Nine months ended 30 September 2006	Drilling, workover & IPM	Formation evaluation	Manufacturing	Total
External revenues and other income	195,231	66,762	66,145	328,138
Inter-segment sales	—	—	—	(3,197)
Total segment revenues	**195,231**	**66,762**	**66,145**	**324,941**
External expenses	(178,316)	(65,395)	(54,588)	(298,299)
Corporate expenses	—	—	—	(21,482)
Inter-segment expenses	—	—	—	3,197
Total segment expenses	**(178,316)**	**(65,395)**	**(54,588)**	**(316,584)**
Segment results	**16,915**	**1,367**	**11,557**	**8,357**
Income of associated companies	—	708	—	708
Gain on disposal of Quest	225	—	—	225
Capital expenditures	65,514	21,525	9,126	96,165
Depreciation and amortization	(21,215)	(12,283)	(4,621)	(38,119)
Unallocated depreciation	—	—	—	(332)

Nine months ended 30 September 2005	Drilling & work-over	Formation evaluation	Manufacturing	Total
External revenues and other income	38,983	3,112	—	42,095
Inter-segment sales	—	—	—	(102)
Total segment revenues	**38,983**	**3,112**	**—**	**41,993**
External expenses	(38,730)	(2,669)	—	(41,399)
Corporate expenses	—	—	—	(4,918)
Inter-segment expenses	—	—	—	102
Total segment expenses	**(38,730)**	**(2,669)**	**—**	**(46,215)**
Segment results	**253**	**443**	**—**	**(4,222)**
Income of associated companies	—	1,961	—	1,961
Gain on acquisitions	—	8,931	—	8,931
Capital expenditures	2,885	212	—	3,097
Depreciation and amortization	(2,787)	(235)	—	(3,022)
Unallocated depreciation	—	—	—	(51)

21 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 30 September 2006 and 31 December 2005 are Brookline Partners LLC, a shareholder, the Group's associates (NNGF, NGT, SNGF, Yamal Fund) and OOO Standart and OOO Standart-2, related through common management and a common shareholder.

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.

(expressed in US Dollars (tabular amounts in thousands) except as indicated)

The table below discloses related party transactions as of 30 September 2006 and 31 December 2005 and for the periods ended 30 September 2006 and 2005:

	Nine months ended 30 September	
	2006	**2005**
Sales of services by Integra Group to related parties	2,278	224
Purchase of management services by Integra Group from related parties	(484)	(213)
Purchase of materials by Integra Group	(663)	—
Purchase of transportation services by Integra Group	(1,049)	(1,115)
Purchase of formation evaluation services by Integra Group	(5,461)	(2)
Other income (loss)	835	—

	30 September 2006	31 December 2005
Trade receivables, net	3,628	117
Trade payables, current	7,289	459
Loans issued to employees	732	—
Long-term borrowings	437	1,183
Promissory notes	238	—

Management compensation. At 30 September 2006, the Group's senior management team comprised six individuals whose compensation totalled $7,924,000 for the nine months ended 30 September 2006, including salary and share-based compensation of $2,289,000 and $5,635,000, respectively. In 2005, the Group's senior management team comprised ten individuals whose compensation totalled $3,342,000 for the periods ended and 2005, including salary, bonuses and share-based compensation of $720,000, $1,038,000 and $1,583,000, respectively.

Management services contract. The Group maintains a management services contract with Brookline Partners LLC, a significant shareholder and an affiliate of the Chairman of the Board. The Group paid $484,000 and $212,500 under this contract during nine months ended 30 September 2006 and 2005, respectively, plus reimbursement of expenses totalling $6,000 and $nil.

Loans issued to employees. During the nine months ended 30 September 2006 the Group issued a number of Russian Rouble-denominated loans to its employees in the amount of $751,000. The loans bear interest rates ranging from nil to 10 percent per annum, payable upon repayment of the loans. The loans mature in June 2007. At 30 September 2006, the fair value of the loans was $732,000 and accrued interest was $16,000.

Shareholder loans. There were no shareholder loans outstanding, issued or repaid during nine months ended 30 September 2006. During the nine months ended 30 September 2005, the Group obtained short-term loans from certain of its shareholders totalling $1,736,000 and bearing interest at 15 percent per annum. All loans were repaid during the nine months ended 30 September 2005.

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 (Note 4). Following the acquisition, the selling shareholders of Smith Eurasia are senior managers of the Group.

22 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 30 September 2006 and 31 December 2005, the Group had unpaid contracted amounts of $30,450,000 and $6,457,000, respectively. The contracted amounts at 30 September 2006 included payments for the acquisition of property, plant and equipment of the Group's subsidiaries.

Environmental matters. The enforcement of environmental regulation in the CIS 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. 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 CIS, and particularly 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 30 September 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 no insurance policies in relation to its operations, or in respect of public liability or other insurable risks and limited insurance policies primarily covering assets pledged against the Group's borrowings.

Legal proceedings. At 30 September 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. CIS countries continue to display some characteristics of emerging market economies. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the CIS and relatively high inflation. Tax and customs legislation within the is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in the economic trends, the future economic direction of the region is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the governments, together with tax, legal, regulatory, and political developments.

Mandatory tenders offers for remaining shares of acquired subsidiaries. Certain regulations in Russia and Kazakhstan oblige the Group to make tender offers for any remaining shares once it has acquired 30 percent and 95 percent, respectively, of the issued and outstanding shares. In one case, the Group consolidates a subsidiary on the basis of its ability to control the subsidiary's operations without legally owning 30 percent or 95 percent, as appropriate, of the issued and outstanding shares. As a result, it is possible that the Group may be required to make a mandatory tender offer to acquire all of the issued and outstanding shares that it does not already own. Management estimates that the potential additional expenditure required to acquire any remaining outstanding shares, should such a tender be required, would be approximately U.S.$20 million, excluding any penalties that may be assessed.

23 SUBSEQUENT EVENTS

Alfa-bank loan. In October 2006, the Group entered into a Russian Rouble-denominated loan agreement with Alfa-bank under which the Group obtained an amount equivalent to $25 million. The loan bears a fixed interest rate of 10.90 percent per annum payable monthly. The loan matures in October 2008.

Sberbank loan. In October 2006, the Group entered into a Russian Rouble-denominated agreement with Sberbank under which the Group obtained amount equivalent to $6.0 million. The loan bear a fixed interest rate of 10.4 percent per annum payable monthly. The loan matures in October 2009.

Alfa-bank loan. In November 2006, the Group entered into a Russian Rouble-denominated loan agreement with Alfa-bank under which the Group obtained an amount equivalent to $2.5 million. The loan bears a fixed interest rate of 10 percent per annum payable monthly. The line matures in May 2007.

Sberbank loans. In November 2006, the Group entered into two Russian Rouble-denominated loan agreements with Sberbank under which the Group obtained a total amount equivalent to $10.5 million. Both loans bear a fixed interest rate of 9 percent per annum payable monthly and both mature in November 2007.

Second Russian Rouble-denominated bonds. In December 2006, the Group issued Second Russian Rouble-denominated bonds with a total nominal value equivalent to $114,479,000. The bonds bear a fixed interest of 10.7 percent per annum payable semi-annually. The bonds mature in November 2011.

Alfa bank loan. In December 2006, the Group entered into a short-term Russian Rouble-denominated loan agreement with Alfa-bank under which the Group obtained an amount equivalent to $50 million. The loan bears a fixed interest rate of 10.5 percent per annum, payable monthly. The loan is payable at the earlier of 10 working days following an initial public offering of the Group's shares or December 2007.

Alba Alliance loan. In December 2006, the Group entered into a Russian Rouble-denominated loan agreement with Alba Alliance bank under which the Group obtained an amount equivalent to $16 million. The loan bears a fixed interest rate of 13.00 percent per annum payable at maturity. The loan matures in February 2007.

Azimut. In December 2006, the Group acquired Tomsk Geophysical Company, JSC Geostan and JSC Energy Azimut Services for $37.3 million. Management has not completed its initial purchase accounting estimates. Accordingly, no additional information is available for disclosure in these consolidated financial statements. The acquired entities perform seismic services in Kazakhstan and in the Russian Federation.

New Leasing Company. In October 2006, the Group entered into binding commitments to acquire New Leasing Company ("NLK") for $3,675,000. Management expects the transaction to close in February 2007 and has not completed its initial purchase accounting estimates. Accordingly, no additional information is available for disclosure in these consolidated financial statements. New Leasing Company owns equipment that it leases to certain of the Group's subsidiaries and associates.

Event of default. Under the agreement with Renaissance Securities Trading Limited ("Renaissance"), see Note 13, 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 all 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 this and other violations, in December 2006, the Group received a notification of default from Renaissance. 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 $2.0 million to Renaissance and agreed to borrow and additional $5.0 million with terms subject to further negotiation. Additionally, the interest rate on the original borrowings was increased to 12.0 percent per annum, with retrospective effect to 1 October 2006.

Additionally, according to agreements reached with Renaissance, in the event of a change in control of the Group or upon an initial public offering of the Group's shares, the Group is to pay to Renaissance an additional fee equal to 12.5 percent of the total of all outstanding principal and interest.

This restructuring comprises a significant modification of terms. Accordingly, the Group recognized a loss of approximately $12 million on the restructuring of its arrangement with Renaissance, which will be recorded in its consolidated statement of income in January 2007.

Certain other of the Group's borrowing arrangements contain cross-default provisions under which, in the event of a default in any of the Group's borrowings, the respective lenders may demand immediate payment of all outstanding borrowings. Borrowing arrangements with such cross-default provisions include the Facility Agreement, the Senior Notes, and the Restructured Senior Notes. Management believes that the waiver received from Renaissance effectively removes the legal necessity to obtain waivers with respect to those borrowing arrangements containing cross-default provisions. However, there can be no assurance that these other lenders will not attempt to obtain compensation from the Group or to accelerate their demands for payment under the respective agreements.

As the waiver was not received prior to 31 December 2006, all borrowings containing cross-default provisions will be classified as current liabilities in the Group's consolidated balance sheet at 31 December 2006.

As of 30 September 2006 the Group was not in breach of any covenants imposed by the borrowing arrangements and was not in a state of default.

INTEGRA GROUP

CONTACT INFORMATION

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

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INTEGRA GROUP

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2005

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ACCOUNTANT'S REPORT

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

Dear Sirs

Integra Group

We report on the financial information set out on pages from F-40 to F-78. This financial information has been prepared for inclusion in the a prospectus for the initial public offering of Integra Group's shares on the London Stock Exchange dated 22 February 2007 (the "**Prospectus**") of Integra group (the "**Company**") on the basis of the accounting policies set out in Note 2. This report is required by item 20.1 of Annex X to the PD Regulation and is given for the purpose of complying with that item and for no other purpose.

Responsibility

The Directors of Integra Group are responsible for preparing this financial information in accordance with the basis of preparation set out in accordance with International Financial Reporting Standards ("**IFRS**").

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Prospectus and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under Prospectus Rule 5.5.4R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex X to the PD Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting 2000 issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Integra Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of Integra Group as at the dates stated and of its results of operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Declaration

For the purposes of Prospectus Rule 5.5.4R(2)(f) we are responsible for this report as part of the following parts of the Prospectus, and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex X of the Prospectus Regulation.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

CONTENTS

INTEGRA GROUP

CONSOLIDATED BALANCE SHEETS
(expressed in thousands of US Dollars, except as indicated)

	Note	31 December: 2005	2004
Assets			
Cash and cash equivalents		21,471	730
Trade and other receivables	6	57,941	7,203
Inventories	7	27,221	1,154
Total current assets		**106,633**	**9,087**
Goodwill and other intangible assets	8	34,329	433
Property, plant and equipment	9	139,419	25,098
Investments in associates	10	13,913	—
Deferred tax assets	12	290	97
Other assets		2,162	119
Total non-current assets		**190,113**	**25,747**
Total assets		**296,746**	**34,834**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	11	50,186	7,345
Income taxes payable		4,159	20
Other taxes payable	12	9,737	2,358
Short-term borrowings and current portion of long-term borrowings	13	11,684	10,661
Total current liabilities		**75,766**	**20,384**
Long-term financial liabilities	13	115,098	949
Deferred tax liability	12	21,067	2,735
Other non-current liabilities		1,790	—
Total non-current liabilities		**137,955**	**3,684**
Total liabilities		**213,721**	**24,068**
Shareholders' equity:			
Ordinary shares (1,125,000 shares issued and outstanding at 31 December 2005 and 2004; nominal value one ten thousandth of one US Dollar)	14	—	—
Convertible preferred shares (1,926,471 and 750,000 shares issued and outstanding at 31 December 2005 and 2004, respectively; nominal value one ten thousandth of one US Dollar)	14	—	—
Cumulative translation adjustment		637	—
Warrants	13	136	—
Share premium	14	46,577	4,125
Retained earnings		10,530	6,641
Total equity attributable to Integra Group shareholders		**57,880**	**10,766**
Minority interest		25,145	—
Total equity		**83,025**	**10,766**
Total liabilities and equity		**296,746**	**34,834**

Approved and authorised for issue 22 February 2007

F. V. Lubashevsky
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	Period ended 31 December: 2005	2004
Sales		97,921	—
Cost of sales	18	(76,688)	—
Gross profit		**21,233**	**—**
Selling, general and administrative expenses	19	(23,829)	(1,242)
Gain on acquisition of subsidiaries	5	16,592	7,904
Impairment of goodwill	5	(926)	—
Loss on disposal of property, plant and equipment		(112)	—
Operating profit		**12,958**	**6,662**
Interest income		452	11
Interest expense	13	(7,794)	(32)
Exchange loss		(1,439)	—
Share of results of associates, net of income tax	10	2,056	—
Profit before taxation		**6,233**	**6,641**
Current income tax expense	12	(4,153)	—
Deferred income tax benefit	12	1,269	—
Total tax expense		**(2,884)**	**—**
Profit for the period		**3,349**	**6,641**
Profit (loss) attributable to:			
– Minority interest		(540)	—
– **Shareholders of Integra Group**		**3,889**	**6,641**
Earnings per share (in US Dollars per share)			
– Basic	16	1.81	4.43
– Diluted	16	1.69	4.43
Weighted average shares outstanding			
– Basic	16	2,146,493	1,500,000
– Diluted	16	2,297,339	1,500,000

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	Period ended 31 December: 2005	2004
Cash flows from operating activities			
Profit before taxation		6,233	6,641
Adjustments for:			
Gain on acquisition of subsidiaries	5	(16,592)	(7,904)
Impairment of goodwill	5	926	—
Depreciation and amortization	8, 9	8,412	5
Interest income		(452)	(11)
Interest expense		7,794	32
Loss on disposal of property, plant and equipment		112	—
Share-based compensation	15	3,023	—
Share of results of associates	10	(2,056)	—
Operating cash flows before working capital changes		**7,400**	**(1,237)**
Change in trade and other receivables		(2,015)	(505)
Change in inventories		2,840	(4)
Change in accounts payable and accrued liabilities		(10,338)	107
Change in other taxes payable		200	—
Cash used in operations before interest and income taxes		**(1,913)**	**(1,639)**
Income tax paid		(1,431)	—
Interest paid		(3,486)	—
Net cash used in operating activities		**(6,830)**	**(1,639)**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(15,886)	(128)
Proceeds from the disposal of property, plant and equipment		167	—
Purchase of companies, net of cash acquired		(99,780)	(2,045)
Loans provided		—	(360)
Repayment of loans		71	—
Interest received		452	11
Other		(1,166)	(109)
Net cash used in investing activities		**(116,142)**	**(2,631)**
Cash flows from financing activities:			
Proceeds from issuance of shares	14	39,429	3,000
Proceeds from borrowings		135,922	2,000
Repayment of borrowings		(31,362)	—
Net cash provided by financing activities		**143,989**	**5,000**
Net increase in cash and cash equivalents		**21,017**	**730**
Cash and cash equivalents at the beginning of the period		730	—
Effect of exchange differences on cash balances		(276)	—
Cash and cash equivalents at the end of the period		**21,471**	**730**

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	Warrants	Share premium	Cumulative translation adjustment	Retained earnings	Equity attributable to Integra Group shareholders	Minority interest	Total equity
Issuance of 1,000,000 Class A common shares for cash	14	—	—	—	—	—	—	—	—	—	—
Issuance of 750,000 Series A preferred shares for cash	14	—	—	—	—	3,000		—	3,000	—	3,000
Issuance of 125,000 Class A common shares in exchange for participation interest in Tarpan and Paritet	14	—	—	—	—	1,125	—	—	1,125	—	1,125
Recognized income											
Profit for the period		—	—	—	—	—	—	6,641	6,641	—	6,641
Total recognized income subtoal								6,641	6,641	—	6,641
Balance at 31 December 2004		**—**	**—**	**—**	**—**	**4,125**	**—**	**6,641**	**10,766**	**—**	**10,766**
Share-based compensation		—	—	—	—	3,023	—	—	3,023	—	3,023
Issuance of 1,176,471 Series B preferred shares for cash	14	—	—	—	—	39,429	—	—	39,429	—	39,429
Issuance of warrants		—	—	—	136	—	—	—	136	—	136
Fair value of minority interests acquired		—	—	—	—	—	—	—	—	25,685	25,685
Recognized income											
Translation adjustment		—	—	—	—	—	637	—	637	—	637
Profit for the year		—	—	—	—	—	—	3,889	3,889	(540)	3,349
Total recognized income		**—**	**—**	**—**	**—**	**—**	**637**	**3,889**	**4,526**	**(540)**	**3,986**
Balance at 31 December 2005		**—**	**—**	**—**	**136**	**46,577**	**637**	**10,530**	**57,880**	**25,145**	**83,025**

	Period ended 31 December: 2005	2004
Supplemental information for minority interests:		
Share of profit attributable to holders of equity instruments with redemption rights classified as a liability	(335)	—
Share of loss attributable to holders of instruments classified as equity	(205)	—
Loss attributable to minority interest	**(540)**	**—**

The accompanying notes are an integral part of these 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, geophysical and other oilfield services to the petroleum industry in the Russian Federation and Commonwealth of Independent States ("CIS").

Integra was incorporated in the Cayman Islands on 15 March 2004. During 2004 and 2005, management of the Integra have completed numerous acquisitions (See Note 5) as part of their strategy to become a leader in the oilfield services and oil and gas equipment manufacturing business in the Russian Federation.

Below is a table providing information on the principal subsidiaries of the Group, listed by service provided, at 31 December 2005 and 2004. Segment information is provided in Note 20. Information on acquisitions occurring subsequent to 31 December 2005 is provided in Note 24.

	Effective ownership at 31 December:	
Entity	**2005**	**2004**
Holding companies		
IG Holdings Limited ("Holdings")	100.0%	100.0%
Management companies		
IG Management Limited	100.0%	100.0%
ZAO Integra Management	100.0%	100.0%
Drilling services		
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%
Workover services		
OOO Integra KRS ("Integra KRS")	100.0%	—
OOO Oil Equipment Renovation Services and Sales ("SRIPNO")	100.0%	—
Quest Petroleum Exploration Limited ("Quest")	100.0%	—
OOO Komiquest International ("KomiQuest")	51.0%	—
OOO Nafta-Service ("Nafta-Service")	51.0%	—
OOO PVP ABS ("PVP ABS")	51.0%	—
Geophysical services		
OOO Geophyzservice ("GFS")	100.0%	—
OAO Russian Geophysical Company ("RGK")	100.0%	—
OAO Purgeophysics ("PGF")	57.2%	—
OAO Tyumenneftegeophysika ("TNGF")	75.0%	—
Equipment manufacturing		
ZAO Uralmash VNIIBT	100.0%	—
ZAO Uralmash Drilling Equipment ("URBO")	100.0%	—
OOO VNIIBT Drilling Instruments ("VNIIBT-BI")	100.0%	—
OAO Pavlovsky Factory ("PMZ")	90.8%	—
OAO NPO Drilling Technique ("NPO BT")	55.9%	—
ZAO NPP Neftegaztechnika ("NGT-M")	42.5%	—
OOO Orenburgtechservice ("OTS")	100.0%	—

All the subsidiaries except Holdings, IG Management Limited and Quest are registered in the Russian Federation. Holdings, IG Management Limited and Quest are registered in Cyprus, and Holdings has a representative office in Russian Federation.

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

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 2005 and 2004 were as follows:

Entity	Nature of activities	Effective ownership at 31 December: 2005	2004
OAO Nizhnevartovskgeophysika ("NNGF")	Geophysical services	33.8%	—
OAO Stavropolneftegeophysika ("SNGF")	Geophysical services	33.9%	—
ZAO Neftegeotechnology ("NGT-G")	Geophysical services	66.1%	—

The Group holds its effective ownership interest in NGT-G through its equity interest in NNGF, which holds 51% majority interest, and through GFS, which holds the remaining 49%. Because NGT-G is a subsidiary of NNGF, which is not controlled by the Group, the Group's investment in NNGF is accounted for as an associate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reissuance of accounts. Management has withdrawn the previously issued 2005 consolidated financial statements which were issued on 21 June 2006 in order to provide updated information. The 2005 consolidated financial statements as previously reported by the Group have been revised primarily to reflect the final purchase accounting adjustments and to provide segment information consistent with the Group's current operating structure as presented in the Group's interim condensed consolidated financial information for the nine months ended 30 September 2006, as well as other changes in disclosure as described below. As a result of its acquisition of Smith Eurasia in August 2006 (Note 24), the Group restructured its operations, moving the operations of BI from the manufacturing segment into the drilling, workover and integrated project management segment (Note 20). In these reissued financial statements, management has elected to provide the disclosures required by IAS 14, *Segment Information*. See Note 20 for a more complete discussion of changes to segments and for the disclosures required under IAS 14.

During the nine months ended 30 September 2006, management completed its accounting for the Group's 2005 acquisitions of Quest, SRIPNO, RGK&GFS, BI, URBO and TNGF. With the exception of BI and RGK&GFS, preliminary purchase accounting adjustments as disclosed in the consolidated financial statements as originally issued are unchanged in these reissued consolidated financial statements. The revised purchase accounting has resulted in a reduction of $8,534,000 in the carrying value of property, plant and equipment, of $1,839,000 in deferred tax liability and of $2,571,000 in minority interest and increases of $3,261,000 of goodwill and $863,000 in other assets. Additionally, in these financial statements the Group has accrued for the deferred tax liabilities from the excess of the carrying values of its investments in associates over the tax values of the cost of investments in them, as the Group is unable to control the timing of the reversal of the temporary differences.

As a result of these adjustments, profit attributable to shareholders of Integra Group for the year ended 31 December 2005 decreased from $4,557,000 to $3,889,000.

The Group has determined that the functional currency of the parent company, Integra Group, is the US Dollar, and has accounted for Integra Group's operations using the US Dollar as the functional currency since inception. Note 2.2 below corrects the description of the Group's functional currency determination as the financial statements, as previously issued, did not properly characterize the functional currency determination. In connection with this correction, the Group has added a disclosure in Note 3 discussing the effect of functional currency determination on the classification of and accounting for certain outstanding warrants.

2.1 Basis of preparation. These consolidated financial statements have been prepared in accordance with, International Financial Reporting Standards ("IFRS"). The Group applied IFRS 3, *Business Combinations* ("IFRS 3"), to account for all its business combinations and early adopted the revised versions of IAS 36, *Impairment of Assets*, and IAS 38, *Intangible Assets*. 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 and the provision for impairment of receivables. Actual results could differ from these estimates.

2.2 Functional and presentation currency. The United States Dollar ("$") is the functional currency for Integra Group, the parent company of the Group, and the presentation currency for the Group's consolidated operations. Management have used the US Dollar to manage the Group's financial risks and exposures, agree terms for acquisitions, to arrange financing and to measure the Group's performance. Integra Group is a holding company that does not operate in any one jurisdiction. The primary economic environment in which it operates reflects the nature of its operations. In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the Group determines functional currency on an entity-by-entity basis. 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 28.78 and 27.75 as of 31 December 2005 and 2004, respectively. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation. Further, all transactions within Russia must be settled in Russian Roubles and 10 percent (25 percent prior to 27 December 2004) of foreign currency receipts from transactions with foreign entities must be converted into Russian Roubles.

2.3 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.

2.4 Property, plant and equipment. All additions to property, plant and equipment 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.

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

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

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

The 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.

2.5 Leases. Leases are classified as finance leases when substantially all the risks and rewards associated with ownership are transferred to the Group. Assets leased on terms equivalent to financing a purchase by a long-term loan are capitalized at the lower of fair value of the asset or the present value of the minimum lease payments. The leased assets are depreciated over the lesser of their estimated useful lives or the lease term, if title does not pass to the Group. The future lease payments are recorded, net of future finance charges, as finance lease liabilities. The finance charge is determined as the interest rate implicit in the lease.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

2.6 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).

2.7 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.

2.8 Trade receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, net of any 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 receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the appropriate effective interest rate. The amount of the provision is recognised in the consolidated statements of income.

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

2.10 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 upon collection of receivables from customers net of VAT on purchases 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.

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.

2.11 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.

2.12 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.

2.13 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. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 Revenue recognition. For contracts relating to manufacture of drilling rigs that can be estimated reliably and it is probable that the contract will be profitable, the Group uses the percentage-of-completion method to determine the appropriate amount of revenues to recognise in a given period. 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 at such time as an agreement is reached with the customer on the amount that will be recovered from the customer. 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. Progress billings not yet paid by customers are included within trade and other receivables. The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Revenue from sales of services are recognised in the accounting period in which the services are rendered. The Group uses the "percentage of completion method" to determine the appropriate amount of revenues to recognise in a given period. 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 at such time as an agreement is reached with the customer on the amount that will be recovered from the customer. When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised only to the extent it is probable that costs incurred are expected to be recoverable. For works relating to the future contracts that have not been signed at the balance sheet date the revenue is recognized to the extent of costs incurred that are expected to be recovered.

The revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Group. In the event that contract is expected to generate losses, such loss is recognised immediately in the statement of income. Costs incurred in the year in connection with future activity on a contract 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. Progress billings not yet paid by customers are included within 'trade and other receivables'. The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Revenues for sales of goods manufactured by the drilling tools 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.

2.20 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.

2.21 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.

2.22 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.

2.23 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.

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

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. Intangible assets have definite lives and are amortised using the straight-line method over their useful lives as follows:

Trademarks	4-5 years
Patents	10-15 years
Computer software	2-5 years

2.24 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.

2.25 Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

2.26 New accounting developments. During the period December 2003 to March 2006, the International Accounting Standards Board ("IASB") revised 25 of its standards and issued 9 new standards. In addition, the International Financial Reporting Interpretations Committee ("IFRIC") issued six new interpretations in 2004, one of which was subsequently withdrawn. These standards are effective for accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration and Evaluation of Mineral Resources" ("IFRS 6") and IFRS 7 "Financial instruments: disclosures" ("IFRS 7"), which are effective for periods commencing on or after 1 January 2006 and 1 January 2007 respectively, but may be adopted early.

IAS 1 (revised 2003), Presentation of Financial Statements ("IAS 1 (revised)"). IAS 1 (revised) requires the classification as current all financial liabilities for which the Group does not have an unconditional right to defer their settlement for at least twelve months after the balance sheet date. Additionally, IAS 1 (revised) requires that minority interest be presented within total equity and that profit or loss for the period is allocated between profit or loss attributable to minority interest and profit or loss attributable to shareholders of Integra Group on the face of the consolidated statements of income.

IAS 8 (revised 2003), Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8 (revised)"). The Group applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are corrected retrospectively in the first set of financial statements after their discovery. The Group has not identified any material errors in its prior period financial statements.

IAS 16 (revised 2003), Property, Plant and Equipment ("IAS 16 (revised)"). The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group derecognises the carrying amount of a component of property, plant and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised.

IAS 21 (revised 2003), The Effects of Changes in Foreign Exchange Rates ("IAS 21 (revised)"). IAS 21 (revised) clarifies the method of translation of foreign currencies to the reporting currency and clarifies that goodwill and fair value adjustments to assets and liabilities resulting from acquisitions are treated as part of the assets and liabilities of the acquired entity and translated at the exchange rate on the balance sheet date. There was no significant effect upon the Group's adoption of IAS 21 (revised) on 1 January 2005.

IAS 24 (revised 2003), Related Party Disclosures. The definition of related parties was extended and additional disclosures required by the revised standard were made in these consolidated financial statements.

IAS 32 (revised 2003), Financial Instruments: Disclosure and Presentation. The Group amended its policies to classify as liabilities puttable shares and similar instruments previously classified as equity or compound instruments.

IFRS 5 (issued 2005), Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5"). The Group applies IFRS 5 prospectively in accordance with its transitional provisions to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after 1 January 2005. The Group's accounting policies describe assets held for sale as those that will be recovered principally through a sale transaction rather than through continuing use. Subject to certain exceptions, assets or disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Such assets cease to be depreciated and are presented separately on the face of the balance sheet. There was no impact of the adoption of IFRS 5.

The newly adopted standards and interpretations that did not significantly impact the Group are as follows: IFRS 4, *Insurance Contracts*; IFRS 6, *Exploration for and Evaluation of Mineral Resources*; IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*; IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments*; IFRIC 3, *Emission Rights*; and IFRIC Amendment to SIC-12.

The newly adopted revised and amended standards for which the revisions or amendments did not significantly impact the Group are as follows: IAS 2, *Inventories*; IAS 10, *Events after the Balance Sheet Date*; IAS 17, *Leases*; IAS 19, *Employee Benefits*; IAS 27, *Consolidated and Separate Financial Statements*; IAS 28, *Investments in Associates*; IAS 33, *Earnings per Share* and IAS 39, *Financial Instruments: Recognition and Measurement*.

The Group adopted all the above relevant new, revised and amended standards and the new IFRIC interpretations from their respective effective date, the majority of which were effective as of 1 January 2005. Such adoption did not have a material impact on the Group's consolidated financial position, statements of income or of cash flows.

New or revised standards not yet effective. Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the Group has not early adopted. These new standards and interpretations are not expected to significantly affect the Group's financial statements when adopted on 1 January 2006 or later.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006); IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006); IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006); IAS 39 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006); IFRS 7, Financial Instruments: Disclosures and a Complementary Amendment to IAS 1 Presentation of Financial Statements—Capital Disclosures (effective from 1 January 2007); IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006); IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006); IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006); IFRIC 6, Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005); IFRIC 7, Applying the Restatement Approach under

IAS 29 (effective for periods beginning on or after 1 March 2006); IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006); 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); IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

3 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.

Functional currency determination. Management has concluded that the functional currency of the parent company of the Group is the US Dollar. In May 2005, Integra Group issued warrants with exercise prices denominated in US Dollars (Note 13). 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 2005, current liabilities would have been higher by $1.8 million, warrants would have been lower by $0.1 million and profit for the year ended 31 December 2005 would have been reduced by $1.7 million.

Fair values of acquired assets and liabilities. Since its inception in March 2004, 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 engaged independent experts to advise as to the fair values of acquired property, plant and equipment and intangible assets. Changes in any of the estimates subsequent to the finalization of acquisition accounting may result in losses in future periods.

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.

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.

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.

Deferred income tax asset recognition. Deferred tax assets represent income taxes recoverable through future deductions from taxable profits. Deferred income tax assets are recorded on 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.

Assessment of the percentage of completion on services or 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.

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.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Trade and other receivables, short-term borrowings, trade and other payables, taxes payable and advances from customers are carried at their face values adjusted for any provisions, as appropriate. At 31 December 2005 and 2004, the fair values did not materially differ from the respective carrying values.

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 2005 and 31 December 2004, the carrying values of total long-term borrowings approximated their fair values.

The fair values of warrants classified as long-term financial liabilities in the consolidated balance sheets approximate their carrying values.

4 LIQUIDITY

For the years ended 31 December 2005 and 2004, the Group reported a net cash outflow from operating activities. The operating cash outflows were offset by external borrowings, and at 31 December 2005 the Group had a significant cash position. The Group obtained further borrowings subsequent to 31 December 2005 to fund its operations and additional acquisitions as discussed in Note 24.

At 30 September 2006, the Group had a net working capital deficit, primarily attributable to short-term borrowings. To meet its operating and debt service requirements for the immediate future, the Group is dependent upon its ability to obtain equity or debt financing to fund this working capital shortfall. Additionally, as discussed in Note 24, 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 January 2007, the Group obtained a waiver from the lender after agreeing to pay an immediate fee of $2.0 million and certain other modifications to the agreement including a retroactive increase in the interest rate and a significant additional fee to be paid in the event of a change in control or an initial public offering of the Group's shares.

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

As discussed in Note 24, in December 2006, the issued long-term, Russian Rouble-denominated bonds with face values of approximately $114 million. A portion of these proceeds were used to repay $104.6 million of short-term borrowings.

Management believes that the Group is able to attract sufficient debt or equity financing to repay or restructure its existing borrowings and to meet its operational, financing and investment needs. These consolidated financial statements have been prepared for the purposes of inclusion in a prospectus for the initial public offering of Integra Group's shares on the London Stock Exchange. The Directors have concluded, after taking account of these proceeds and other existing committed borrowings, that the Group has sufficient working capital for the foreseeable future, and that it is therefore appropriate for these financial statements to have been prepared on a going concern basis.

5 BUSINESS COMBINATIONS

From its inception in March 2004, the Group has completed acquisitions of numerous entities. Summarized below are the acquisitions through 31 December 2005. Acquisitions subsequent to 31 December 2005 are disclosed in Note 24.

2005 Activity

Acquired entity	Date of acquisition	Percentage acquired	Cost of acquisition	Goodwill (if applicable)	Excess of fair value of net assets acquired over purchase price (if applicable)	Profits/(losses) contributed through 31 December 2005
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)
			108,957	**19,517**	**16,592**	**5,640**

2004 Activity

Acquired entity	Date of acquisition	Percentage acquired	Cost of acquisition	Goodwill (if applicable)	Excess of fair value of net assets acquired over purchase price (if applicable)	Profits/(losses) contributed through 31 December 2005
BKS	December 2004	100.00%	625	—	(7,904)	—
Tarpan & Paritet	December 2004	100.00%	3,424	433	—	—
			4,049	**433**	**(7,904)**	**—**

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.

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

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 holding company with 51 percent interests in each of KomiQuest, Nafta-Service and PVP ABS, all three 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. In February 2006, the Group sold Quest back to the seller for the same amount, recognizing a gain on the sale of $225,000.

Fair values of subsidiaries acquired in 2005. Below is a summary of the preliminary 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
Goodwill (Excess of the Group's share in net assets over purchase consideration)	(7,554)	7,604	9,546	(9,038)	926	1,441	

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.

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

Summary combined financial information. The following table sets forth summary combined financial information for the full year ended 31 December 2005 and is presented to provide information to evaluate the financial effects of the acquisitions of URBO, BI, TNGF, RGK, GFS, SRIPNO and Quest as if they had occurred on 1 January 2005. Adjustments have been made to eliminate each acquiree's post-acquisition results that are included both in the Group's and in the acquiree's results, and inter-company transactions, and to adjust depreciation expense to reflect adjusted carrying values of property, plant and equipment following fair value adjustments and the associated income tax effects.

	Group	TNGF	URBO	BI	RGK & GFS	SRIPNO	Quest	Adjustments and eliminations	Summary combined
Total revenues	97,921	39,246	45,365	42,449	8,250	4,008	11,341	(50,386)	198,194
Profit (loss)	3,889	(2,416)	6,488	7,690	1,681	(1,211)	(66)	(25,109)	(9,054)

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 reduction of profit by $25,109,000 represents elimination of the gain from acquisition of subsidiaries and associates of $16,592,000 and $1,245,000, respectively as well as elimination of the acquirees' post-acquisition results of $5,640,000 and increase in the depreciation of the property, plant and equipment and other adjustments amounting to $1,632,000. The adjustment decreasing revenues by $50,386,000 represents elimination of post-acquisition revenues that were included in both the Group total and the individual acquirees' totals.

BKS. In December 2004, the Group acquired BKS for $625,000, including direct legal costs of $25,000. BKS provides drilling services to the petroleum industry in the Khanty-Mansiysk Autonomous Region. The excess of the estimated fair value of BKS' identifiable assets, liabilities and contingent liabilities over the purchase consideration amounted to $7,904,000 and was attributed to liquidity problems experienced by the previous owners of BKS. Such excess was recorded as a gain on acquisition in the consolidated statement of income for the period ended 31 December 2004.

Tarpan and Paritet. In December 2004, the Group acquired Tarpan and Paritet for $3,424,000, comprised of $2,250,000 in cash and 125,000 of Integra Group's Class A common shares valued at $9.00 per share. Direct legal costs associated with the acquisition were $49,000. Tarpan and Paritet provide drilling and other oilfield services to the petroleum industry in the Komi Republic and the Nenetskiy Autonomous Region of the Russian Federation.

Goodwill of $1,630,000 recognized in the preliminary purchase accounting for the acquisition was attributed to significant synergies expected to be realized after the Group's acquisition of Tarpan and Paritet.

During 2005, the Group finalized the purchase accounting for Tarpan and Paritet resulting in the Group recording deferred tax assets totalling $1,197,000 relating to the subsidiaries' tax loss carryforwards and other deferred tax assets that were not recognized in the preliminary purchase accounting. Accordingly, goodwill associated with the acquisition of Tarpan and Paritet was reduced to $433,000. Such adjustment was recorded in the consolidated balance sheet as of 31 December 2004 in accordance with IFRS 3.

6 TRADE AND OTHER RECEIVABLES

	31 December: 2005	31 December: 2004
Trade receivables	27,715	4,578
Amounts due from customers for contract work	4,847	—
VAT recoverable	5,788	726
Advances to suppliers	13,812	784
Prepaid expenses	5,779	1,115
Total trade and other receivables	**57,941**	**7,203**

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

7 INVENTORIES

	31 December: 2005	2004
Materials and supplies	21,903	1,154
Work in progress	3,017	—
Finished goods	2,301	—
Total inventories	**27,221**	**1,154**

At 31 December 2005 and 2004, inventories with carrying values of $747,000 and $742,000, respectively, were pledged as collateral for the Group's borrowings.

8 GOODWILL AND OTHER INTANGIBLE ASSETS

	31 December: 2005	2004
Goodwill from acquisition of subsidiaries:		
URBO	7,529	—
BI	9,452	—
Quest	1,393	—
Tarpan & Paritet	425	433
Other intangible assets	15,530	—
Total goodwill and other intangible assets	**34,329**	**433**

The accounting for goodwill and other intangible assets is maintained in the functional currencies of the Integra's subsidiaries 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.

Goodwill. Goodwill is attributed directly to the entity acquired, whose cash flows comprise the cash-generating unit 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 based on financial budgets approved by management covering a five-year period for URBO, BI and Tarpan & Paritet. Their cash flows were based on the 2006 approved budget and assumed no growth for subsequent years. All cash flow forecasts were discounted using a pre-tax discount rate of 15 percent per annum.

Based upon management's estimates, the recoverable amounts of URBO, BI and Tarpan & Paritet exceed their carrying amount by $35,675,000, $5,357,000 and $1,167,000 respectively. The discount rates used are pre-tax and reflect specific risks relating to the relevant cash-generating units. URBO's, BI's and Tarpan's & Paritet's carrying values would be equal to their value in use at discount rates of 69.1, 19.9 and 19.8 percent per annum, respectively.

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

Other intangible assets.

	Trade marks	Patents	Software	Other	Total
Cost					
Balance at 31 December 2004	**—**	**—**	**—**	**—**	**—**
Additions	—	—	62	606	668
Acquisitions	9,300	4,770	1,711	25	15,806
Disposals	—	—	—	—	—
Exchange differences	(167)	(86)	(32)	(12)	(297)
Balance at 31 December 2005	**9,133**	**4,684**	**1,741**	**619**	**16,177**
Amortization					
Balance at 31 December 2004	**—**	**—**	**—**	**—**	**—**
Amortization	(525)	(131)	—	(3)	(659)
Disposals	—	—	—	—	—
Exchange differences	9	3	—	—	12
Balance at 31 December 2005	**(516)**	**(128)**	**—**	**(3)**	**(647)**
Net book value					
Balance at 31 December 2004	—	—	—	—	—
Balance at 31 December 2005	8,617	4,556	1,741	616	15,530

All intangible assets are assessed as having finite useful lives. Trade marks and patents were acquired with the purchase of the URBO and BI. At 31 December 2005 the remaining useful lives of the trade marks and patents were 4-5 years and 14-16 years, respectively.

The amortization of intangible assets is included in the cost of sales.

9 PROPERTY, PLANT AND EQUIPMENT

	Rigs	Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost						
Balance at inception	**—**	**—**	**—**	**—**	**—**	**—**
Additions	—	—	—	—	128	128
Acquisitions	14,013	3,289	4,717	2,301	655	24,975
Balance at 31 December 2004	**14,013**	**3,289**	**4,717**	**2,301**	**783**	**25,103**
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)
Balance at 31 December 2005	**13,271**	**43,014**	**80,807**	**4,211**	**4,988**	**146,291**
Accumulated depreciation						
Balance at inception	**—**	**—**	**—**	**—**	**—**	**—**
Depreciation	—	—	—	—	(5)	(5)
Balance at 31 December 2004	**—**	**—**	**—**	**—**	**(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
Balance at 31 December 2005	**(1,932)**	**(1,011)**	**(3,631)**	**(181)**	**(117)**	**(6,872)**
Net book value						
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

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

The accounting for property, plant and equipment 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.

At 31 December 2005 and 2004, certain property, plant and equipment with a net book value of $24,824,000 and $13,342,000, 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.

10 INVESTMENTS IN ASSOCIATES

	31 December:	
	2005	2004
NNGF	8,352	—
SNGF	2,530	—
NGT-G	3,031	—
Total investments in associates	**13,913**	**—**

NNGF. The Group acquired its 33.8 percent interest in NNGF as part of its acquisition of RGK in May 2005.

SNGF. The Group acquired its 8.29 percent interest in SNGF as part of its acquisition of RGK in May 2005. In May 2005, the Group purchased an additional 25.57 percent for $598,000, bringing its total stake to 33.86 percent.

NGT-G. Group acquired its 17.24 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.

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

	31 December:	
	2005	2004
Carrying amount at the beginning of the period	—	—
Acquisitions	11,857	—
Share of results of associates, net of income tax (including gain of $1,245,000 net of tax on acquisition of SNGF)	2,056	—
Carrying amount at the end of the period	**13,913**	**—**

	31 December 2005	
Summarised Balance Sheets	**NNGF/NGT-G**	**SNGF**
Total assets	32,564	11,012
Total liabilities	(4,856)	(3,541)

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

Summarised Statements of Income	Period ended 31 December 2005 NNGF/NGT-G	SNGF
Total revenues	29,144	9,533
Total operating expenses	(23,634)	(8,515)
Operating profit	5,510	1,018
Gain on acquisition of subsidiaries	2,212	—
Interest expense, net	(500)	(207)
Income tax expense	(862)	(84)
Profit for the period	**6,360**	**727**

11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December: 2005	2004
Trade payables	15,846	4,090
Amounts due to customers for contract work	9,503	—
Accrued liabilities and other creditors	8,852	2,349
Advances from customers	15,985	906
Total accounts payable and accrued liabilities	**50,186**	**7,345**

12 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.

	Period ended 31 December: 2005	2004
Profit before taxation	6,233	6,641
Less share of results of associates, net of income tax	(2,056)	—
Profit before taxation and results of associates	4,177	6,641
Theoretical tax charge at Russian statutory income tax rate of 24 percent	(1,002)	(1,594)
Gain on acquisition of subsidiaries	3,982	1,897
Impairment of goodwill	(222)	—
Tax losses not recognized and other rate differences	(4,579)	(303)
Non-tax deductible expenses	(1,041)	
Other	(22)	—
Total income tax expense	**(2,884)**	**—**

Tax losses not recognized and other rate differences relate primarily to interest expense and other administrative expenses recorded in the Group's Cayman and Cyprus subsidiaries. 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.

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

Other taxes payable. Current taxes payable at 31 December 2005 and 2004 are detailed below.

	31 December:	
	2005	2004
Unified social tax	907	646
Personal income tax	1,275	656
Value-added tax	6,905	982
Property tax	272	28
Other taxes	378	46
Total other taxes payable	**9,737**	**2,358**

Included within VAT payable is $4,622,000 and $551,000 at 31 December 2005 and 2004, respectively, of VAT that is only payable to the tax authorities when the underlying receivable is recovered or written off.

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 2005 were as follows:

	31 December 2004	Income statement effect	Acquisitions	Exchange difference effect	31 December 2005
Assets					
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
Deferred income tax assets	**1,319**	**(285)**	**1,417**	**156**	**2,607**
Liabilities					
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)
Deferred income tax liabilities	**(3,957)**	**1,554**	**(21,472)**	**491**	**(23,384)**
Net deferred income tax liability	**(2,638)**	**1,269**	**(20,055)**	**647**	**(20,777)**

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

Movements in deferred income tax assets and liabilities during the period ended 31 December 2004 were as follows:

	15 March 2004	Income statement effect	Acquisitions and disposals	31 December 2004
Assets				
Investments	—	—	78	78
Accounts receivable	—	—	43	43
Inventories	—	—	734	734
Tax losses carried forward	—	—	463	463
Other	—	—	1	1
Deferred income tax assets	**—**	**—**	**1,319**	**1,319**
Liabilities				
Property, plant and equipment	—	—	(3,885)	(3,885)
Financial liabilities	—	—	(43)	(43)
Other	—	—	(29)	(29)
Deferred income tax liabilities	**—**	**—**	**(3,957)**	**(3,957)**
Net deferred income tax liability	**—**	**—**	**(2,638)**	**(2,638)**

Temporary differences associated with undistributed earnings of subsidiaries amounted to $14,306,000 and $623,000 as of 31 December 2005 and 2004, 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 2005, deferred tax assets related to such tax losses totalled $501,000. Such losses expire between 2012 and 2015. Additionally, deferred tax assets totalling $2,470,000 were not recognized including $1,794,000 relating to accumulated tax losses expiring between 2014 and 2015 and $676,000 relating to accumulated losses that do not have an expiration date. 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.

13 Financial Liabilities

Short-term borrowings. Below is a table detailing short-term borrowings and the current portion of long-term borrowings at 31 December 2005 and 2004. Information about borrowings obtained subsequent to 31 December 2005 are disclosed in Note 24.

	Weighted average effective interest rate at 31 December:		Balance at 31 December:	
	2005	2004	2005	2004
US Dollar-denominated borrowings	12% - 18%	25%	4,600	2,000
Russian Rouble-denominated borrowings	12.5% - 16%	13% -18%	2,769	7,360
Other	12% - 24%	24%	555	220
Current portion of long-term borrowings			3,760	1,081
Total short-term borrowings and current portion of long-term borrowings			**11,684**	**10,661**

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

Long-term borrowings. The Group's long-term borrowings at 31 December 2005 and 2004 are outlined below.

	31 December: 2005	31 December: 2004
Facility Agreement (net of issuance costs of $3,743,000 and accretion of discount allowance of $47,000; coupon of 14 percent per annum)	84,086	—
Senior Notes (face value of $14.5 million; coupon of 18 percent per annum)	14,364	—
IMB	9,294	—
Sberbank	5,784	1,798
Other	732	232
	114,260	2,030
Less: current portion of long-term borrowings	(3,760)	(1,081)
Total long-term borrowings	**110,500**	**949**
Warrants	4,598	—
Total long-term financial liabilities	**115,098**	**949**

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 comprises two separate $45 million tranches, Facility A and Facility B. Both Facility A and Facility B bear interest of 14 percent per annum. Interest is payable semi-annually on 31 March and 30 September. The interest accrued on the Facility B loan at the rate of 10 percent per annum is due in cash on each interest payment date. The balance of the 14 percent interest due on the Facility B loan and all of the 14 percent interest due on the Facility A loan may be paid in cash or added to the outstanding balance of the respective loan at the option of the Group.

As part of its agreement with the Lenders under the Facility Agreement, the Group issued 90,000 warrants to the Lenders. Each warrant allows 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 percent discount to the listing price. The number of shares each warrant entitles the holder to purchase is equal to 233.33 divided by the listing price of the Group's shares. Under the terms of the warrants, if exercised, the Group has 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 has been recorded as a liability in the consolidated balance sheet and the carrying value of the Facility loans has been reduced by a corresponding amount. 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 2005, the carrying value of the warrants was $4,598,000.

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 following table details the allocation of proceeds received from the Facility Agreement and the respective balances for Facility A, Facility B and the warrants at 31 December 2005

	Facility A	Facility B	Warrants
Proceeds (net of issuance costs of $3.743 million)	41,283	40,326	4,399
Interest expense:			
added to loan balance	1,733	495	—
accretion of discount	126	123	199
Balance at 31 December 2005	**43,142**	**40,944**	**4,598**

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 mature on 30 September 2010.

The Group may prepay any part of the Facility Agreement at 103.0 percent of par, 101.5 percent of par and 100.0 percent of par after 22 September 2006, 2007 and 2008, respectively. In the event of an initial public offering of the Group's shares, the net proceeds must be offered as repayment at par to the Lenders of Facility A. Subject to certain conditions, proceeds from sales of assets shall be offered as repayment at par to Lenders of Facility A.

Covenants include maintenance of a minimum cash and cash equivalents balance and restrictions on dividends, additional borrowings, disposals of assets and extending credit or guarantees other than in the normal course of business. In the event of default, the interest rate on the Facility Agreement will be increased by 2.0 percent per annum. The Facility Agreement is secured by the Group's pledge of the shares of Holdings as collateral.

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 bear interest of 18 percent per annum due semi-annually on 31 May and 30 November. Until 30 November 2006, Integra has the right to settle interest by issuing new notes in the amount of interest owed. In the event of a default, an incremental default interest of 8.0 percent is charged. If the default is not remedied within 60 days, the holders may require Integra to redeem part or all of the notes. Integra may 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. The list of covenants includes, among others, restrictions on debt incurrence unless certain financial ratios are achieved.

In connection with the issuance of the Senior Notes, Integra issued 14,500 warrants to the holders to purchase 120,833 of the Group's Class A common shares for $20.00 per share. Warrants may be exercised at any time upon the payment of the exercise price and delivery of the warrants.

In the event of a qualifying initial public offering of Integra's common shares for gross proceeds of at least $10.0 million where the offering price is more than $25.00 per common share, all unexercised warrants shall automatically be exercised on a cashless net exercise basis through the delivery of common shares valued at $20.00 (twenty US Dollars) per share. If the offering price is less than $25.00 per share, all unexercised warrants shall expire one year following the qualifying initial public offering.

Management has estimated the value of the warrants to be $135,667. This amount has been 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 is accreted over the term to maturity as interest expense at an effective interest rate of 8.3 percent.

In April 2006, a substantial portion of the Senior Notes were renegotiated (Note 24).

IMB. In December 2005, the Group entered into a Euro-denominated loan facility with International Moscow Bank (IMB) for the equivalent of $9,294,000. The loan bears a floating interest rate of EURIBOR plus 5.5 percent per annum payable monthly (7.9 percent at 31 December 2005). Any outstanding loans mature 30 June 2007. The facility is secured by certain of the Group's property, plant, equipment with carrying values of $5,056,000 and inventories with carrying values of $7,812,000.

Sberbank. In 2004, the Group entered into Russian Rouble-denominated credit facilities with Sberbank for a maximum amount equivalent to $8,747,000. The facilities bore interest ranging between 12.5 and 18 percent per annum. One of the facilities ($6,949,000) is secured by certain of the Group's production equipment with carrying values of $8,702,000. The unsecured facilities were repaid in full during 2005. The outstanding balances were equivalent to $5,784,000 and $1,798,000 at 31 December 2005 and 2004, respectively.

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

Scheduled maturities of long-term borrowings outstanding at 31 December 2005 and 2004 are as follows:

	Scheduled maturities at 31 December:	
	2005	**2004**
2006	—	949
2007	12,050	—
2008	14,364	—
2009	—	—
2010	84,086	—
Thereafter	—	—
Total long-term borrowings	**110,500**	**949**

Interest expense. Interest expense for the periods ended 31 December 2005 and 2004 comprised the following:

	Period ended 31 December:	
	2005	**2004**
Short-term borrowings		
US Dollar-denominated borrowings	35	32
Russian Rouble-denominated borrowings	1,671	—
Other short-term borrowings	100	—
Total interest expense associated with short-term borrowings	1,806	32
Long-term borrowings		
Facility Agreement, including:		
interest at coupon rate of 14 percent per annum	3,465	—
accretion of issuance costs	249	—
Senior Notes	1,752	—
IMB	2	—
Other long-term borrowings	146	—
Accretion of discount associated with warrants	199	—
Other	175	—
Total interest expense	**7,794**	**32**

14 SHAREHOLDERS' EQUITY

Shares authorized and issued. At incorporation on 15 March 2004, the total authorized share capital was $50,000 comprising 50,000 common shares, each with a nominal value of one US Dollar. In April 2004, the Board of Directors resolved to increase the authorised share capital to $100,000 and split the share capital into 900 million Class A common shares and 100 million Series A convertible preferred shares. All shares have the same nominal value of $0.0001.

Issued share capital in April 2004 comprised 1,000,000 Class A common shares issued at nominal value and the amount of paid-in ordinary share capital was one hundred US Dollars. In May 2004, Integra issued 750,000 Series A convertible preferred shares for $3,000,000. In September 2004, in connection with the acquisition of Tarpan and Paritet, Integra issued an additional 125,000 Class A common shares for $1,125,000. In October 2005, the Group issued 1,176,471 Series B convertible preferred shares in exchange for $40,000,000 cash consideration. The value of the shares issued is reflected net of the direct costs that amounted to $571,000.

Subsequent to 31 December 2005, the Group issued additional shares in connection with an acquisition and in a private placement (Note 24).

Class B common shares. In July 2005, the Group issued 1,000,000 Class B common shares to an executive for $100. Each Class B common share entitles its holder to cast a vote equal to that of 1.65 Class A common shares on all matters submitted to a vote of Class A common shareholders. The holder of Class B common shares is also 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 are exchangeable into Class A common shares beginning 1 January 2006. The remaining Class B common shares are exchangeable into Class A common shares beginning 1 January 2007. The exchange provision may be accelerated in certain circumstances including in the event the Group completes an initial public offering of its stock and the average price of the stock exceeds $100 for at least 30 days.

Because of the exchange option, the Class B common shares are accounted for as share-based compensation in the Group's consolidated financial statements (Note 15).

Preferred shares. Holders of Series A and Series B convertible preferred shares are entitled to vote together with the holders of the Class A common shares as a single class on all matters submitted for a vote of holders of Class A common shares.

Series A and Series B convertible preferred shares carry the same dividend rights as common shares. In the event of a liquidation, dissolution or winding up, the holders of the Series B convertible preferred shares are entitled to receive distribution or payment equal to $34.00 per share plus any declared but unpaid dividends before any distribution or payment is made upon any common shares or Series A convertible preferred shares. The holders of the Series A convertible preferred shares are entitled to receive distribution or payment equal to $4.00 per share plus any declared but unpaid dividends before any distribution or payment is made upon any common shares.

The holders of Series A and Series B convertible preferred shares are entitled, at their option, at any time to convert any such convertible preferred shares into an equal number of fully paid common shares, subject to certain adjustments. Each Series A and Series B convertible preferred share shall be automatically converted into fully paid common shares immediately upon the closing of a qualifying initial public offering.

15 SHARE-BASED COMPENSATION

2005 Stock Option Plan. In July 2005 the Group adopted the 2005 Stock Option Plan (the "2005 Plan"). The Group's Board of Directors authorized stock options for the purchase of up to 750,000 Class A common shares. The number of authorized shares available for issue under the 2005 Plan may be increased at the discretion of the Group's Board of Directors.

At 31 December 2005, options to purchase 630,400 shares of the Group's Class A common shares had been issued to directors and employees as approved by the Board of Directors. Options vest over periods of up to four years and are exercisable for ten years from the grant date. Vesting provisions differ by award.

The total grant date fair value of the stock options granted under the 2005 Plan during 2005 was $5,397,000. This amount is recognized over the vesting period. During 2005, $1,242,000 of compensation expense associated with awards granted was recognized within selling, general and administrative expenses in the Group's consolidated statement of income.

Class B common shares. In July 2005, the Group issued 1,000,000 Class B common shares to an executive for $100 (Note 14). The Class B common shares are exchangeable into Class A common shares at $12.00 per share, subject to certain reductions such as for dividends declared on Class A common shares. The exchange rights vest for 50 percent of the shares on 1 January 2006 and for the remaining shares on 1 January 2007.

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

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

Options outstanding. The following summarizes information about stock options, including the Class B common shares, outstanding as of 31 December 2005.

	Weighted average exercise price in $ per share	Options
Options outstanding at 31 December 2004	—	—
Granted	15.81	1,630,400
Options outstanding at 31 December 2005	**15.81**	**1,630,400**

	Options outstanding			Options exercisable	
Range of exercise prices (in US Dollars per share)	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted average exercise price ($)	Options exercisable at year end	Weighted average exercise price ($)
$4.00 – $6.00	49,175	8.5	5.11	49,175	5.11
$8.00 – $10.00	55,800	8.5	8.98	5,425	8.00
$12.00 – $15.00	1,183,759	9.7	12.14	—	—
$17.00 – $25.00	43,333	9.7	20.08	—	—
$27.50 – $34.00	298,333	9.8	32.83	—	—
Total	**1,630,400**		**13.66**	**54,600**	**5.40**

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, 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. Based on the assumptions below, the weighted average fair value of employee stock options granted during 2005 was $5.21 per option. The significant inputs into the option valuation model are summarized as follows.

Share price	$14 – 30
Dividend yield	—
Expected volatility	40.00%
Risk-free interest rate	3.8-4.6%
Expected life	4-7 years

Had the expected volatility been 25 percent, 50 percent or 75 percent, the weighted average fair value of employee stock options granted during 2005 would have been $3.61, $6.24 or $8.48 per option, respectively.

The holders of Series A and Series B convertible preferred shares are entitled, at their option, at any time to convert any such convertible preferred shares into an equal number of fully paid common shares, subject to certain adjustments. Each Series A and Series B convertible preferred share shall be automatically converted into fully paid common shares immediately upon the closing of a qualifying initial public offering of Integra's common shares for gross proceeds of at least $10.0 million.

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

16 EARNINGS PER SHARE

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

	Period ended 31 December:	
	2005	**2004**
Numerator		
Profit attributable to shareholders of Integra Group for basic earnings per share	3,889	6,641
Profit attributable to shareholders of Integra Group for diluted earnings per share	3,889	6,641
Denominator		
Weighted average number of common shares outstanding during the period—basic	2,146,493	1,500,000
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	—
Denominator for diluted earnings per share	2,297,339	1,500,000
Basic earnings per share (in US Dollars per share)	1.81	4.43
Diluted earnings per share (in US Dollars per share)	1.69	4.43

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.

17 CONSTRUCTION CONTRACTS

The revenues and gross profit recognised on long-term contracts since acquisition of URBO through 31 December 2005 were as follows:

	Period ended 31 December 2005
Construction revenues	22,854
Construction costs	(14,858)
Gross profit	**7,996**

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

18 COST OF SALES

	Period ended 31 December:	
	2005	**2004**
Materials and supplies	24,842	—
Employee costs (including mandatory social contributions of $4.2 million and nil for the periods ended 31 December 2005 and 2004, respectively)	21,240	—
Depreciation and amortization	8,304	—
Services	20,143	—
Other	2,159	—
Total cost of sales	**76,688**	**—**

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

19 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Period ended 31 December: 2005	2004
Employee costs (including unified social tax of $1.6 million and $0.1 million for the periods ended 31 December 2005 and 2004, respectively)	11,672	705
Services	3,551	512
Share options granted to management and employees	3,023	—
Transportation expenses	841	—
Taxes other than income	212	—
Depreciation	108	5
Other	4,422	20
Total selling, general and administrative expenses	**23,829**	**1,242**

20 SEGMENT INFORMATION

The Group operates business segments providing drilling, workover and geophysical services to oil and gas producers as well as manufactures drilling rigs and drilling tools. Prior to August 2006, the Group operated three business segments: drilling and workover, geophysics and manufacturing. Following its acquisition of Smith Eurasia in August 2006, the Group reorganized its operational activities into the following three reportable segments: drilling, workover and integrated project management ("IPM"), manufacturing; and formation evaluation. The most significant change to the composition of the segments was the transfer of BI from manufacturing to drilling, workover and integrated project management. 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 and Strommachina, which was acquired in September 2005 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 2005, the Group operated substantially within one geographical segment which is the Russian Federation and CIS.

Segment information as of and for the year ended 31 December 2005 under the new operational structure 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)
Total assets	**139,690**	**102,043**	**53,419**	**296,746**
Segment liabilities	48,952	36,075	20,597	105,624
Corporate liabilites				113,433
Inter-segment eliminations				(5,336)
Total liabilities	**48,952**	**36,075**	**20,597**	**213,721**

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

Segment information for the year ended 31 December 2005 under the new operational structure 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)
Total segment revenues	**70,396**	**4,968**	**22,854**	**97,921**
External expenses	(67,947)	(5,486)	(17,787)	(91,220)
Corporate expenses				(9,706)
Inter-segment expenses				297
Total segment expenses	**(67,947)**	**(5,486)**	**(17,787)**	**(100,629)**
Segment results	**2,449**	**(518)**	**5,067**	**(2,708)**
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

Segment information as of and for the year ended 31 December 2005 under the former operational structure was as follows:

	Drilling & workover	Geophysics	Manufacturing	Total
Segment assets	59,421	102,043	133,688	295,152
Corporate assets				6,930
Inter-segment eliminations				(5,336)
Total assets	**59,421**	**102,043**	**133,688**	**296,746**
Segment liabilities	24,508	36,075	45,041	105,624
Corporate liabilites				113,433
Inter-segment eliminations				(5,336)
Total liabilities	**24,508**	**36,075**	**45,041**	**213,721**

Segment information for the year ended 31 December 2005 under the former operational structure was as follows:

	Drilling & workover	Geophysics	Manufacturing	Total
External revenues and other income	57,746	4,968	35,504	98,218
Inter-segment sales				(297)
Total segment revenues	**57,746**	**4,968**	**35,504**	**97,921**
External expenses	(57,862)	(5,486)	(27,203)	(90,551)
Corporate expenses				(10,375)
Inter-segment expenses				297
Total segment expenses	**(57,862)**	**(5,486)**	**(27,203)**	**(100,629)**
Segment results	**(116)**	**(518)**	**8,301**	**(2,708)**
Income of associated companies	—	2,056	—	2,056
Gain on acquisitions	—	16,592	—	16,592
Capital expenditures	12,128	672	4,319	17,119
Depreciation and amortization	4,121	386	3,839	8,346
Unallocated depreciation				66

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

At 31 December 2004, segment assets and liabilities for drilling were $32,803,000 and $22,480,000, respectively, and for corporate and other were $3,132,000 and $2,689,000, respectively. For the period ended 31 December 2004, segment expenses for corporate and other were $1,253,000.

21 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 2005 and 2004 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.

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 2005 and 2004.

	As of or for the period ended 31 December:	
	2005	**2004**
Sales of management services by Integra Group to related parties	380	—
Purchase of management services by Integra Group from related parties	638	240
Purchase of transportation services by Integra Group	1,233	—
Purchase of geophysical services by Integra Group	171	—
Trade receivables, net	106	32
Trade payables, current	413	623

Pledge. At 31 December 2005, the Group's associate NNGF had pledged certain of its property, plant and equipment as collateral for certain of the Group's borrowings.

Management compensation. The Group's senior management team comprised ten and three individuals whose compensation totalled $5,390,000 and $151,000 for the periods ended 31 December 2005 and 2004, respectively, including salary and bonuses of $2,700,000 and $151,000, respectively, and share-based compensation of $2,690,000 and nil, respectively.

Management services contract. The Group maintains a management services contract with Brookline Partners LLC, a significant shareholder and an affiliate of the Chairman of the Board. The Group paid $589,000 and $240,000 under this contract in 2005 and 2004, respectively, plus reimbursement of expenses totalling $49,000 and $nil.

Shareholder loans. During 2005, the Group obtained short-term loans from certain of its shareholders totalling $1,736,000 and bearing interest at 15 percent per annum. All loans were repaid by 31 December 2005.

22 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 2005 and 31 December 2004, the Group had unpaid contracted amounts of $6,457,000 and nil, respectively.

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 2005, 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 no insurance policies in relation to its operations, or in respect of public liability or other insurable risks and limited insurance policies primarily covering assets pledged against the Group's borrowings.

Legal proceedings. At 31 December 2005, 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. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. 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 the economic trends, 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.

23 FINANCIAL RISKS

The Group's activities expose it to a variety of financial risks, including the 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 the credit risks

Credit risks. Financial assets, which potentially subject Group entities 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.

During 2005, a significant proportion of the Group's sales were made to and trade receivables were due from three oil and gas majors: TNK-BP, Lukoil and Rosneft. Balances are presented below in millions of US Dollars.

	Sales for the year ended 31 December 2005	Net amount due at 31 December 2005
Lukoil Group	24	—
TNK-BP Group	19	(6)
Rosneft Group	3	1

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. A substantial proportion of the Group's borrowings are denominated in US Dollars. The Group does not have any formal hedging arrangements to mitigate its foreign exchange risk.

Interest rate risk. The Group borrows long-term debt principally at fixed rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. 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.

24 SUBSEQUENT EVENTS

24.1 Disposal of Quest. In February 2006, the Group disposed its 100 percent interest in Quest back to its original seller for the purchase amount of $1,800,000, 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 condensed income statement and had served to reduce the carrying value of it's investment in Quest.

24.2 Acquisition of subsidiaries

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. The Group recognized goodwill of $258,000 on its acquisition of PNBK based upon the difference between its cost of acquisition and management's preliminary 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 preliminary 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. The Group recognized goodwill of $5,613,000 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 from combining it with the rest of 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 $20,015,000 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 $19,472,000 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. The purchase price is subject to a contingent payment of up to $15,000,000, which is payable based upon PBN's operating results for 2006 and 2007. At the date of issuing this interim condensed consolidated financial information, management believes that it is probable that the Group will pay an additional $3,838,000 in purchase consideration. An accrual for this amount has been recorded within accounts payable and accrued liabilities in the consolidated condensed balance sheet.

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 14). Smith Eurasia is included within the Group's drilling, workover and integrated project management segment. 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 $69,908,000 attributable to Smith Eurasia's strong management team and the value of management's experience to the rest of the Group. The Group also expects that Smith Eurasia's management team, five of whom collectively owned 100 percent of Smith Eurasia prior to Integra's acquisition (Note 21), will further integrate the entities in its drilling, workover and integrated project management segment into a more cohesive single business.

Acquisition of Yamalgeophysika. In August 2006, the Group acquired 29.74 percent of the outstanding shares of Yamalgeophysika ("YGF"), a company providing seismic services to the petroleum industry in the Yamal-Nenets region of the Russian Federation. Subsequently, the Group signed agreements selling 15.17 percent of the shares for $37.2 million. Under the agreements, no payment is due until May 2007, through which time the shares are pledged to the Group. Additionally, the Group holds a power of attorney to vote the shares. Management has the unilateral ability to cancel the transaction and has an unwritten agreement with the counterparty to the agreements that such shares will be acquired by the Group before the due date. Additionally, the Group advanced funds to agents holding shares of YGF (the "Agents") in the form of short-term loans bearing a fixed interest rate of 14 percent per annum payable at maturity date. The loans are collateralized by 21.0 percent of the outstanding shares of YGF. The Agents issued a power of attorney to the Group that grants the Group the right to vote and to receive any dividends declared on the shares for a period of three years. Additionally, in December 2006, the Group obtained, for no consideration, a call option that allows it to purchase the collateral for the amount advanced to the Agents. As of 30 September 2006, all members of YGF's Board of Directors are representatives of the Group. Management believes that the rights and arrangements described above allow it to control 50.74 percent of YGF and provide it with all the risks and rewards of ownership related to the shares held by the Agents. Accordingly, the Group has consolidated YGF from the date of acquisition in August 2006. As management has the ability and intention to exercise its rights to acquire 36.17 percent of the shares of YGF, the advances described above were treated as part of the Group's purchase consideration for YGF, resulting in a total acquisition cost of $78,048,000, including transaction costs of $3,023,000 for the Group's control of 50.74 percent of YGF. Management's preliminary estimate of the fair value of YGF's identifiable assets, liabilities and contingent liabilities is disclosed in the table below. Such estimates are subject to change upon finalization. The Group recognized goodwill of $23,248,000 on its acquisition of YGF, based upon the difference between its cost of acquisition and on management's preliminary estimate of the fair value of YGF's identifiable assets, liabilities and contingent liabilities. Management attributes this goodwill to the synergies expected to be realized from combining YGF with the rest of the Group. YGF is included within the Group's formation evaluation segment.

New Leasing Company. In October 2006, the Group entered into binding commitments to acquire New Leasing Company for $3,675,000. Management expects the transaction to close in February 2007 and has not completed its initial purchase accounting estimates. Accordingly, no additional information is available for disclosure in these consolidated financial statements. New Leasing Company owns equipment that it leases to certain of the Group's subsidiaries and associates.

Azimut. In December 2006, the Group acquired Tomsk Geophysical Trust, JSC Geostan and JSC Energy Azimut Services for $37.3 million. Management has not completed its initial purchase accounting estimates. Accordingly, no additional information is available for disclosure in these consolidated financial statements. The acquired entities perform seismic services in Kazakhstan and in the Russian Federation.

Mandatory tenders offers for remaining shares of acquired subsidiaries. Certain regulations in Russia and Kazakhstan oblige the Group to make tender offers for any remaining shares once it has acquired 30 percent and 95 percent, respectively, of the issued and outstanding shares. In one case, the Group consolidates a subsidiary on the basis of its ability to control the subsidiary's operations without legally owning 30 percent or 95 percent, as appropriate, of the issued and outstanding shares. As a result, it is possible that the Group may be required to make a mandatory tender offer to acquire all of the issued and outstanding shares that it does not already own. Management estimates that the potential additional expenditure required to acquire any remaining outstanding shares, should such a tender be required, would be approximately U.S.$20 million, excluding any penalties that may be assessed.

24.3 Borrowings

Sberbank. In March 2006, the Group repaid the outstanding amount of loan as of 1 January 2006 in amount of $5,784,000 to Sberbank in full.

NOMOS-bank. In March 2006, the Group entered into a US Dollar-denominated loan agreement with NOMOS-bank for $7,000,000. The loan bears a fixed interest rate of 12 percent per annum payable monthly, matures in March 2009 and is collateralized by certain of the Group's property, plant and equipment.

First Russian Rouble-denominated Bonds. In March 2006, the Group issued Russian Rouble-denominated bonds with a total nominal value equivalent to $72,025,000 (the "First Russian Rouble-denominated Bonds"). The First Russian Rouble-denominated Bonds bear fixed interest of 10.5 percent per annum payable semi-annually. The bonds mature on 20 March 2009.

Senior Notes and Restructured Senior Notes. In April 2006, the Group refinanced its debt with one of the investment funds totalling $12,500,000 as of 31 December 2005. As a result of this refinancing, the interest rate was reduced from 18 percent per annum to 11 percent per annum, the maturity was extended from 31 May 2008 to 30 April 2010, the principal amount was increased from $12,500,000 to $15,000,000, and the early redemption fee schedule was modified as presented below. The new principal amount following the restructuring of the restructured notes (the "Restructured Senior Notes") is $15,000,000. This amount comprises the initial principal amount of $12,500,000, $1,250,000 of the 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 is payable semi-annually. However, through 30 April 2008, the Group has the right to settle interest by issuing new Restructured Senior Notes. In the event of a default, the coupon rate is increased by 2.0 percent per annum to 13.0 percent per annum.

The restructuring described above comprises 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 $747,000, estimated by applying management's estimate of the Group's external borrowing rate for similar instruments, 13 percent.

The remaining $2,000,000 Senior Notes held by the other investment fund remained outstanding as per the initial agreement.

In April 2006, 2,100 of the Group's warrants issued in connection with the Senior Notes were exercised, resulting in the issuance of 17,500 Class A common shares. At 30 September 2006, warrants to acquire 103,333 shares of Class A common shares at $20.00 per share remain outstanding.

Alfa-bank. In June 2006, the Group entered into a series of Russian Rouble-denominated loan facility agreements with Alfa-bank for an equivalent of $15,000,000. Due to the change of the exchange rate between the date of transaction and the reporting date the value of the loan as of 30 September 2006 increased to $15,142,000. The loan facilities bear a fixed interest rate of 10.5 percent per annum payable monthly. The loan facilities mature in December 2007. The loan facilities are collateralized by certain of the Group's property, plant and equipment with carrying value equivalent to $33,379,000.

Alfa-bank and IMB. In July and August 2006, the Group obtained loans in the amounts equivalent to $67,214,000 and $37,341,000 from Alfa-bank and IMB, respectively, as bridge loans to be refinanced from the proceeds of the Second Russian Rouble-denominated bonds issued in December 2006. The loans from both of the banks bear fixed interest of 9.25 percent per annum, payable monthly. In December 2006, both loans were repaid from the proceeds of the Second Russian rouble-denominated bonds.

Alfa-bank. During the period from February till July 2006 the Group entered into a series of Russian Rouble-denominated loan facility agreements with Alfa-bank for an equivalent of $22,432,000. Due to the change of the exchange rate between the date of transaction and the reporting date the value of the loan as of 30 September 2006 increased to $23,222,000. The loans bear fixed interest rates ranging from 9.5 percent to 10.5 percent per annum payable monthly. The loan facilities mature within the period from December 2006 to March 2007. The loan facilities are collateralized by certain of the Group's inventories and property, plant and equipment with carrying value equivalent to $3,178,000 and $6,250,000 respectively.

Alfa-bank loan. In October 2006, the Group entered into a Russian Rouble-denominated loan agreement with Alfa-bank under which the Group obtained an amount equivalent to $25 million. The loan bears a fixed interest rate of 10.90 percent per annum payable monthly. The loan matures in October 2008.

Sberbank loan. In October 2006, the Group entered into a Russian Rouble-denominated agreement with Sberbank under which the Group obtained amount equivalent to $6.0 million. The loan bear a fixed interest rate of 10.4 percent per annum payable monthly. The loan matures in October 2009.

Alfa-bank loan. In November 2006, the Group entered into a Russian Rouble-denominated loan agreement with Alfa-bank under which the Group obtained an amount equivalent to $2.5 million with. The loan bears a fixed interest rate of 10 percent per annum payable monthly. The line matures in May 2007.

Sberbank loans. In November 2006, the Group entered into two Russian Rouble-denominated loan agreements with Sberbank under which the Group obtained a total amount equivalent to $10.5 million. Both loans bear a fixed interest rate of 9 percent per annum payable monthly and both mature in November 2007.

Second Russian Rouble-denominated bonds. In December 2006, the Group issued Second Russian Rouble-denominated bonds with a total nominal value equivalent to $114,479,000. The bonds bear a fixed interest of 10.7 percent per annum payable semi-annually. The bonds mature in November 2011.

Alfa bank loan. In December 2006, the Group entered into a short-term Russian Rouble-denominated loan agreement with Alfa-bank under which the Group obtained an amount equivalent to $50 million. The loan bears a fixed interest rate of 10.5 percent per annum, payable monthly. The loan is payable at the earlier of 10 working days following an initial public offering of the Group's shares or December 2007.

Alba-Alliance loan. In December 2006, the Group entered into a Russian Rouble-denominated loan agreement with Alba Alliance bank under which the Group obtained an amount equivalent to $16 million. The loan bears a fixed interest rate of 13.00 percent per annum payable at maturity. The loan matures in February 2007.

Renaissance Securities Trading Limited. In August 2006, the Group obtained a loan in the amount of $75 million from Renaissance Securities Trading Limited (the "Lender") as a bridge loan that becomes immediately payable, together with accrued interest, on admittance of the Integra's or any of its subsidiaries' shares to trade on any investment exchange or automated dealer quotation system. The bridge loan bears floating interest of LIBOR plus 4.7 percent (10.2 percent at 30 September 2006) per annum payable on the loan repayment date. On provision of certain guaranties by Integra's subsidiaries, the interest rate will decrease to LIBOR plus 3.5 percent per annum. The loan matures in July 2007.

Event of default. Under the agreement with Renaissance Securities Trading Limited ("Renaissance"), 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 this and other related violations, in December 2006, the Group received a notification of default from Renaissance. 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 $2.0 million to Renaissance and agreed to borrow and additional $5.0 million with terms subject to further negotiation. Additionally, the interest rate on the original borrowings was increased to 12.0 percent per annum, with retrospective effect to 1 October 2006.

Additionally, according to agreements reached with Renaissance, in the event of a change in control of the Group or upon an initial public offering of the Group's shares, the Group is to pay to Renaissance an additional fee equal to 12.5 percent of the total of all outstanding principal and interest.

This restructuring comprises a significant modification of terms. Accordingly, the Group recognized a loss of approximately $12 million on the restructuring of its arrangement with Renaissance, which will be recorded in its consolidated statement of income in January 2007.

Certain other of the Group's borrowing arrangements contain cross-default provisions under which, in the event of a default in any of the Group's borrowings, the respective lenders may demand immediate payment of all outstanding borrowings. Borrowing arrangements with such cross-default provisions include the Facility Agreement, the Senior Notes, and the Restructured Senior Notes. Management believes that the waiver received from Renaissance effectively removes the legal necessity to obtain waivers with respect to those borrowing arrangements containing cross-default provisions. However, there can be no assurance that these other lenders will not attempt to obtain compensation from the Group or to accelerate their demands for payment under the respective agreements. If they were to accelerate their demands for payment, the Group's ability to continue as a going concern would be threatened.

As the waiver was not received prior to 31 December 2006, all borrowings containing cross-default provisions will be classified as current liabilities in the Group's consolidated balance sheet at 31 December 2006.

24.4 Private placement. In August 2006, the Group raised $100 million cash consideration, gross of direct costs of $4,612,000, in a private placement of 444,445 of its Class A common shares.

INTEGRA GROUP

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ZAO URALMASH DRILLING EQUIPMENT

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE PERIODS ENDED 31 DECEMBER 2005 AND 2004

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Shareholders of ZAO Uralmash Drilling Equipment

1. We have audited the accompanying consolidated balance sheets of ZAO Uralmash Drilling Equipment and its subsidiary (the "Company") as of 31 December 2005 and 2004 and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

2. We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005 and 2004, and the results of its operations and its cash flows for the periods then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
22 December 2006

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ZAO URALMASH DRILLING EQUIPMENT

CONSOLIDATED BALANCE SHEETS
(expressed in millions of Russian Roubles, except as indicated)

	Notes	As of 31 December 2005: 2005	2004
Assets			
Cash and cash equivalents		9	13
Trade and other receivables	4	486	26
Inventories	5	257	143
Receivables due from related parties	15	92	77
Total current assets		**844**	**259**
Intangible assets	6	70	—
Property, plant and equipment	7	125	—
Deferred tax asset	9	2	—
Total non-current assets		**197**	**—**
Total assets		**1,041**	**259**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	8, 6, 15	134	112
Promissory note payable to related party	15	170	
Advances from customers		274	—
Income taxes payable		56	—
Other taxes payable	9	27	—
Total current liabilities		**661**	**112**
Long-term liability for manufacturing and marketing rights	6	50	—
Total non-current liabilities		**50**	**—**
Total liabilities		**711**	**112**
Common shares (146,500 shares authorized, issued and outstanding at 31 December 2005 and 2004; nominal value RR 1,000 per share)	10	147	147
Retained earnings		183	—
Total equity attributable to shareholders of the Company		**330**	**147**
Total liabilities and equity		**1,041**	**259**

Approved and authorized for issue on 22 December 2006

Sergey Luzgin
General Director

Galina Vonslavovich
Chief Financial Officer

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

ZAO URALMASH DRILLING EQUIPMENT

CONSOLIDATED STATEMENTS OF INCOME

(expressed in millions of Russian Roubles, except as indicated)

	Note	Period ended 31 December: 2005	2004
Sales	11	1,282	—
Cost of sales	12	(883)	—
Gross profit		**399**	**—**
Selling, general and administrative expenses	13	(141)	—
Operating profit		**258**	**—**
			—
Interest income		3	—
Interest expense		(17)	—
Exchange loss		(1)	—
Profit before taxation		**243**	**—**
Current income tax expense	9	(62)	—
Deferred income tax benefit	9	2	—
Total tax expense	9	(60)	—
Profit for the period		**183**	**—**

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

ZAO URALMASH DRILLING EQUIPMENT

CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in millions of Russian Roubles, except as indicated)

	Notes	Period ended 31 December: 2005	2004
Cash flows from operating activities			
Profit before taxation		**243**	—
Adjustments for:			
Depreciation and amortization	6, 7	18	—
Interest income		(3)	—
Interest expense		17	—
Exchange losses		1	—
Operating cash flows before working capital changes		**276**	**—**
Change in trade and other receivables		(460)	(26)
Change in inventories		(114)	(143)
Change in accounts payable and accrued liabilities		(12)	112
Change in other taxes payable		27	—
Change in advances from customers		274	—
Cash provided by (used in) operations before interest and income taxes		**(9)**	**(57)**
Income tax paid		(6)	—
Interest expense paid		(8)	
Net cash provided by (used in) operating activities		**(23)**	**(57)**
Cash flows from investing activities:			
Additions to property, plant and equipment		(131)	—
Loan provided to related party	15	(92)	—
Cash inflows from other investing activities		1	—
Net cash used in investing activities		**(222)**	**—**
Cash flows from financing activities:			
Proceeds from issuance of common shares	10	77	70
Proceeds from issuance of promissory notes	15	170	—
Other repayments of financial liabilities		(6)	
Proceeds from borrowings		209	—
Repayment of borrowings		(209)	—
Net cash provided by financing activities		**241**	**70**
Net (decrease) increase in cash and cash equivalents		**(4)**	**13**
Cash and cash equivalents at the beginning of the period		13	—
Cash and cash equivalents at the end of the period		**9**	**13**

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

ZAO URALMASH DRILLING EQUIPMENT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(expressed in millions of Russian Roubles, except for share information)

	Note	Common shares	Retained earnings	Total equity attributable to shareholders of the Company
Issuance of 146,500 common shares	10	147	—	147
Profit for the period		—	—	—
Balance at 31 December 2004		**147**	**—**	**147**
Profit for the period		—	183	183
Balance at 31 December 2005		**147**	**183**	**330**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

1 GENERAL INFORMATION

ZAO Uralmash Drilling Equipment ("URBO") together with its consolidated subsidiary OOO Orenburgtechservice (collectively the "Company") engages in the manufacturing of drilling equipment and constituent components for the petroleum industry of the Russian Federation.

URBO was founded in October 2004. During 2005, the Company acquired plant and equipment for the manufacture of drilling equipment as well as certain rights to manufacture certain types of equipment. In September 2005, IG Holdings Limited (registered in Cyprus) acquired 100% of URBO. IG Holdings Limited is ultimately controlled by Integra Group ("Integra"), registered in Cayman Islands.

The Company operates within one business segment. The Company assesses its results of operations and makes its strategic and investment decisions based on analysis of its profitability as a whole. The Company operates within one geographical segment, which is the Russian Federation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in force at 31 December 2005. The policies set out below have been consistently applied to all consolidated entities.

URBO and its consolidated subsidiary maintain their accounting records in Russian Roubles and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (Russian GAAP). The financial statements of the Company are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention. 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 consolidated financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect of useful lives of property, plant and equipment, assessment of percentage of completion of contracts with customers and fair values of financial instruments. Actual results could differ from these estimates (Note 3).

2.2 Functional and presentation currency. The Russian Rouble ("RR") is the functional currency of all of the consolidated entities and the presentation currency of these consolidated financial statements. Monetary balance sheet items denominated in foreign currencies have been re-measured using the exchange rate at the respective balance sheet dates. Exchange gains and losses resulting from foreign currency translation are included within exchange gain (loss) in the consolidated statement of income.

The US dollar to Russian Rouble exchange rate was 28.78 and 27.75 as of 31 December 2005 and 2004, respectively. Through early 2006, the Russian rouble was not a convertible currency in most countries outside of the former Soviet Union and, further, the Company was required to convert a portion of its hard currency proceeds into Russian roubles. During the first half of 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.

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

Business combinations are accounted for using the purchase method. Identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company'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 statement of income.

2.4 Property, plant and equipment. All additions to property, plant and equipment are recorded at historical cost. Historical cost includes expenditures directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. 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.

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

Buildings	25-40 years
Plant and equipment	4-9 years
Motor vehicles	2-5 years
Other	2-8 years

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 statement of income.

2.5 Intangible assets. 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.

Intangible assets have finite useful lives. The Company does not have any internally-generated intangible assets. Intangible assets primarily include capitalised trademarks, manufacturing and marketing rights, patents, and computer software licenses. Acquired computer software licenses, rights to manufacture and market, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives as follows:

Rights to manufacture and market certain drilling equipment	5 years
Trademarks	4-5 years
Patents	14-16 years
Other	2-5 years

2.6 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).

2.7 Inventories. Inventories are stated at the lower of cost or net realizable value. The cost of materials is determined using the weighted average method. The materials and 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.

2.8 Trade receivables and loans provided. Trade receivables and loans provided are recognised initially at fair value and subsequently measured at amortized cost using the original effective interest method, net of any provision for impairment. A provision for impairment of trade receivables and loans provided is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the appropriate effective interest rate. The amount of the provision is recognised in the consolidated statement of income.

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

2.10 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 upon collection of receivables from customers net of VAT on purchases 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.

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.

2.11 Borrowings and other financial liabilities. Borrowings and other financial liabilities (including liabilities for manufacturing and marketing rights and promissory notes issued by the Company) are recognised initially at fair value (see Note 2.18), net of applicable transaction costs incurred. Such liabilities are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognised in the consolidated statement of income over the period of the term of the liability using the effective interest method.

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

Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost using the effective interest method.

Unless disclosed otherwise, the borrowings effective interest rates approximated the contractual interest rates at the reporting dates.

2.12 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, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Provisions. Provisions are recognised when the Company 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. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.14 Share capital. Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares 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.

2.15 Employee benefits. The Company incurs employee costs related to the provision of benefits such as health insurance. These amounts principally represent an implicit cost of employment of personnel and, accordingly, have been charged to the consolidated statement of income or capitalised as work in progress or finished goods, as appropriate.

The Company contributes to the Russian Federation state pension scheme on behalf of its employees in accordance with the state defined contribution plan. Mandatory contributions to the governmental pension scheme are accrued when incurred.

2.16 Revenue recognition. For contracts relating to manufacture of drilling equipment that can be estimated reliably and it is probable that the contract will be profitable, the Company uses the percentage-of-completion method to determine the appropriate amount of revenues to recognise in a given period. 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 outcome of a manufacturing contract cannot be estimated reliably, contract revenue is recognised only to the extent it is probable that costs incurred are expected 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 represent the amounts due from customers for contract work and are presented as work in progress.

The Company 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. Progress billings not yet paid by customers are included within trade and other receivables. The Company 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).

Sales are shown net of VAT.

2.17 Taxes payable. Taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date.

2.18 New or revised standards not yet effective. Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods and which the Company has not early adopted. These new standards and interpretations are not expected to significantly affect the Company's financial statements when adopted on 1 January 2006 or later.

The new standards and interpretations which the Company has not early adopted are as follows: IFRIC 4, *Determining whether an Arrangement contains a Lease* (effective from 1 January 2006); IAS 21 (Amendment) Net Investment in a Foreign Operation (effective from 1 January 2006); IAS 39 (Amendment), *The Fair Value Option* (effective from 1 January 2006); IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006); IAS 39 (Amendment), *Financial Guarantee Contracts* (effective from 1 January 2006); IFRS 6, *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRS 7, *Financial Instruments: Disclosures and a Complementary Amendment to IAS 1, Presentation of Financial Statements—Capital Disclosures* (effective from 1 January 2007); IAS 19 (Amendment), *Employee Benefits* (effective from 1 January 2006); IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IFRS 6 (Amendment), *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006); IFRIC 6, *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* (effective for periods beginning on or after 1 December 2005); IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006); 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); IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

3 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.

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.

Assessment of the percentage of completion on goods manufactured. The Company'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 estimate 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.

During 2005, the Company recognised RR 275 million of gross profits less aggregated losses of RR 28 million on the contracts that had not been completed at 31 December 2005. Should management estimates of the estimated costs to complete the contracts that were in progress increase by 10 percent or decrease by 10 percent the profit recognised on the contracts in the year ended 31 December 2005 would decrease by RR 25 million and increase by RR 28 million, accordingly.

Fair values of financial assets and liabilities. 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 management using available market information, where it exists, and appropriate valuation methodologies where no market information is available.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

Cash and cash equivalents are carried at fair value.

Trade and other receivables, short-term borrowings, accounts payable and accrued liabilities are carried at amortized cost, net of provisions, as appropriate. Discount rates which have been used for assessing of the fair value of the assets and liabilities ranged from 13 percent to 15 percent. At 31 December 2005 and 2004, the fair values did not materially differ from the respective carrying values.

The fair values of the Company's long-term borrowings were estimated based upon rates available to the Company on similar instruments of similar maturities. At 31 December 2005 and 2004, the carrying values of total long-term borrowings approximated their fair values.

4 TRADE AND OTHER RECEIVABLES

	As of 31 December:	
	2005	2004
Trade receivables	133	—
Amounts due from customers for contract work	36	—
VAT recoverable	62	26
Prepayments to suppliers	184	—
Prepaid expenses	6	—
Other	65	—
Total trade and other receivables	**486**	**26**

Prepayments to suppliers represent the amounts paid to suppliers to acquire materials, constituent parts, services and equipment.

5 INVENTORIES

	As of 31 December:	
	2005	2004
Materials and supplies	225	143
Work in progress	32	—
Total inventories	**257**	**143**

At 31 December 2005 and 2004, materials and supplies in amount of RR 209 million and nil, respectively, were pledged as collateral for guarantees issued by third party banks to the Company's customers.

6 INTANGIBLE ASSETS

Intangible assets at 31 December 2005 comprise a non-compete agreement with OAO Uralmash, which grants the Company the exclusive right to manufacture and market certain types of drilling rigs and tools through 2010. The intangible asset was recorded at its historic cost which equalled the fair value of the Company's liability for acquiring the exclusivity agreement, or RR 82 million. During 2005, RR 12 million of amortization expense related to the exclusivity agreement was recorded within cost of sales.

Under the terms of agreement, the Company is to make quarterly payments, net of VAT of US $0.2 million (RR 6 million), through the third quarter of 2010, inclusive. At 31 December 2005, the total carrying value of the liability was RR 73 million, of which RR 24 million was recorded within accounts payable and accrued liabilities in the consolidated balance sheet.

There were no other significant intangible assets at 31 December 2005 and 2004.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost					
Balance at 31 December 2004	—	—	—	—	—
Additions	102	24	2	4	132
Disposals	—	(1)	—	—	(1)
Balance at 31 December 2005	102	23	2	4	131
Accumulated depreciation					
Balance at 31 December 2004	—	—	—	—	—
Depreciation charge	(2)	(3)	—	(1)	(6)
Balance at 31 December 2005	(2)	(3)	—	(1)	(6)
Net book value					
Balance at 31 December 2004	**—**	**—**	**—**	**—**	**—**
Balance at 31 December 2005	**100**	**20**	**2**	**3**	**125**

8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As of 31 December:	
	2005	2004
Trade payables	93	112
Liability for manufacturing and marketing rights (Note 6)	24	—
Accrued liabilities and other creditors	17	—
Total accounts payable and other payables	**134**	**112**

9 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 profit before income tax.

	Period ended 31 December:	
	2005	2004
Profit before taxation	243	—
Theoretical tax charge at Russian statutory income tax rate of 24 percent	(58)	—
Non deductible expenses	(2)	—
Total income tax expense	**(60)**	**—**

Other taxes payable. Current taxes payable at 31 December 2005 and 2004, respectively, are detailed below.

	As of 31 December:	
	2005	2004
Value-added tax	21	—
Unified social tax	4	—
Personal income tax	1	—
Property tax	1	—
Total other taxes payable	**27**	**—**

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

Included within VAT payable are RR 15 million and RR nil at 31 December 2005 and 2004, respectively, of VAT that is only payable to the tax authorities when the underlying receivable is recovered or written off.

Deferred income tax. Differences between the carrying value of certain assets and liabilities for financial reporting purposes and their income tax bases give rise to certain deferred tax assets and liabilities.

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

	31 December 2005	Income statement effect in 2005	31 December 2004	Income statement effect in 2004	At inception
Accounts payable and accrued liabilities	10	10	—	—	—
Trade and other receivables	(1)	(1)	—	—	—
Construction contracts	(7)	(7)	—	—	—
Net deferred income tax assets	**2**	**2**			

Temporary differences associated with undistributed earnings of subsidiaries were not significant at 31 December 2005 and 2004. As the Company 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 subsidiaries.

10 EQUITY

Common shares authorized and issued. At incorporation in October 2004, the total authorized and issued share capital consists of 146,500 common shares, each with a nominal value of RR 1,000. At the date of incorporation, the Company's shareholders contributed RR 70 million in cash in exchange for 146,500 shares. The remaining RR 77 million was paid in 2005. Since inception, the Company has not declared or paid dividends.

Distributable retained earnings. The statutory accounting reports of ZAO Uralmash Drilling Equipment are the basis for income distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net income calculated in accordance with Russian accounting regulations. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation. For the periods ended 31 December 2005 and 2004, ZAO Uralmash Drilling Equipment reported statutory net income of RR 229 million and nil, respectively, in its statutory accounting reports.

11 CONSTRUCTION CONTRACTS

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

	Period ended 31 December: 2005	2004
Construction revenues	1,282	—
Construction costs	(883)	—
Gross profit	**399**	**—**

The aggregate amount of costs incurred on construction contracts that were in progress at 31 December 2005 and 2004 were RR 376 million and nil, respectively. During 2005, the Company recognised aggregate gross profits of RR 275 million less losses of RR 28 million for contracts that were in progress at 31 December 2005. There were no contracts in progress at 31 December 2004.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

12 COST OF SALES

	Period ended 31 December: 2005	2004
Materials and supplies	570	—
Employee costs (including mandatory social contributions of RR 18 million and nil for the periods ended 31 December 2005 and 2004, respectively)	88	—
Depreciation and amortization	16	—
Services	157	—
Other	52	—
Total cost of sales	**883**	**—**

13 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Period ended 31 December: 2005	2004
Employee costs (including unified social tax of RR 7 million and nil for the periods ended 31 December 2005 and 2004, respectively)	38	—
Services	82	—
Taxes other than on income	2	—
Depreciation	2	—
Other	17	—
Total selling, general and administrative expenses	**141**	**—**

14 FINANCIAL RISKS

The Company's activities are primarily exposed to credit risk. The Company's overall risk management objective is to reduce potential adverse effects of such risks on the financial performance of the Company; however, the Company's management currently does not maintain any formal management programs beyond analysis of the financial position of individual customers.

Financial assets, which potentially subject Company entities to credit risk, consist principally of receivables (Note 4). The Company 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 impairment provisions are created when management believes that losses are likely. The carrying amount of accounts receivable (Note 4), receivable from related parties (Note 15) and cash and cash equivalents comprise the maximum amount exposed to credit risk.

Significant customers. During 2005, a significant proportion of the Company's sales were made to oil and gas producing companies, and drilling and other service provider companies. The revenues from and balances receivable from the Company's six most significant customers as of and for the year ended 31 December 2005 are presented below.

	Sales for the year ended 31 December 2005	Net amount due at 31 December 2005
OOO Drilling Company Eurasia	388	77
RUP PO Belorusneft	243	9
OOO OMZ-MNP, Ekaterinburg branch	233	22
OAO Surgutneftegaz	76	14
OOO PKF Uralmetmarket	72	8
OAO TNK-BP Holding	49	—

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond provisions already recorded.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

15 RELATED PARTY TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related if they meet the definition of related party as determined in IAS 24, *Related Party Disclosures*. Under the definitions therein, parties are 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. Key management and close family members of management, shareholders of other related parties also are considered related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Because of these relationships, it is possible that the Company may have entered transactions which unrelated parties might not have 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.

Balances with related parties of the Company as of and for the periods ended 31 December 2005 and 2004 are outlined below.

	31 December:	
	2005	2004
Receivable from related parties	92	77
Payable to related parties	170	112

Receivable from related parties. In December 2005, the Company provided a Russian Rouble-denominated loan to OOO BK Alliance, a subsidiary of Integra Group, the Company's ultimate parent (Note 1). The loan bears fixed interest of 13.5 percent per annum and matures in February 2006. The loan was fully repaid in February 2006.

At 31 December 2004, share subscription of RR 77 million was receivable from the Company's original shareholders. This amount was paid in full during 2005.

Payable to related parties. At 31 December 2005, payable to related parties comprises a USD 6 million, non interest-bearing promissory note held by IG Holding Limited, the Company's sole shareholder. The note was payable on demand and was fully repaid in March 2006.

At 31 December 2004, payable to related parties represents a trade payable of RR 112 million due to OAO Zavod Nizhegorodskiy Teplokhod, a subsidiary of OOO OMZ-MNP, an entity under common control prior to the Company's acquisition by IG Holdings Limited.

Transactions with related parties of the Company for the periods ended 31 December 2005 and 2004 are outlined below.

	Period ended 31 December:	
	2005	2004
Sales	232	—
Purchases of inventory	—	112
Interest income	1	—
Management compensation	10	—

Sales. Sales to related parties for the year ended 31 December 2005 comprised sales of services on production of ground drilling equipment to OOO OMZ-MNP, an entity under common control prior to the Company's acquisition by IG Holdings Limited.

Purchases of inventory. During the period ended 31 December 2004, the Company purchased constituent parts from OAO Zavod Nizhegorodskiy Teplokhod, an entity under common control prior to the Company's acquisition by IG Holdings Limited.

Interest income. Interest income represents interest accrued on the loan to OOO BK Alliance discussed above.

Management compensation. The Company's senior management team comprised 10 individuals. Compensation for the year ended 31 December 2005 included RR 1 million of bonuses.

16 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Contractual commitments and guarantees. In the normal course of business, the Company enters into contracts for the purchase of property, plant and equipment. At 31 December 2005 and 31 December 2004, the Company did not have any unpaid contracted and committed amounts.

At 31 December 2005, there were no outstanding guarantees provided by the Company on behalf of third parties or any other related parties.

Environmental matters. The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company 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.

Insurance policies. The Company holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks except for limited insurance policies primarily covering inventory pledged against the Company's borrowings.

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 Company 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. The areas that could be challenged include but are not limited by transfer pricing issues, the economic substance of transactions, compliance with customs and currency regulations. 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 2005, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in these financial statements.

Operating environment of the Company. The Russian Federation continues to display some characteristics of an emerging market economy. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in the economic trends, 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.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

17 SUBSEQUENT EVENTS

Borrowings. Subsequent to 31 December 2005, the Company obtained a number of loan facilities from a Russian bank and one of its' related parties. All of the facilities bear fixed interest rates and mature in 2006 and 2007. The agreements with the banks are collateralised by the property, plant and equipment of and guaranteed by other subsidiaries of Integra. The majority of the proceeds have been used to issue loans to other subsidiaries of Integra on similar terms. The remaining portion has been utilized by the Company to finance its working capital.

Below is a table detailing main borrowings obtained by the Company since 31 December 2005 and their major terms.

	Collateralised by the Company's property	Guarantees issued by	Interest rate	Amount due	Amount available
Alfa-Bank (RR-denominated)	—	Integra subsidiaries	10.5%	75	75
Alfa-Bank (RR-denominated)	—	Integra subsidiaries	9.5%	47	47
Alfa-Bank (RR-denominated)	—	Integra subsidiaries	9.5%	140	140
Total borrowings received				**262**	**262**

Below is a table detailing main loans issued by the Company to the subsidiaries of Integra since 31 December 2005 and their major terms. All issued loans were RR-denominated, were uncollateralized and were not guaranteed.

	Interest rate	Amount due	Amount available
ZAO Integra Management	13%	20	20
OOO Geophyzservice	13%	41	41
ZAO Integra Management	13%	10	10
ZAO Integra Management	13%	10	10
ZAO Uralmash VNIIBT	11.50%	6	6
OAO Stromneftemash Group	12.65%	39	39
ZAO TSZ	12.65%	10	10
OAO Strommashina	12.65%	41	41
Total loans issued		**177**	**177**

Guarantees. In March 2006, the Company, together with two other subsidiaries of Integra provided a guarantee to ZAO Nomos-Bank on behalf of OAO Tyumenneftegeophyzika (a subsidiary of Integra) with respect to borrowings totalling US$ 7,000,000. The underlying facility and the associated guarantee expire in March 2008.

In August 2006, the Company, together with four other subsidiaries of Integra provided a guarantee to ZAO International Moscow Bank (MMB) on behalf of OOO Integra Finance (a subsidiary of Integra) with respect to borrowings totalling RR 1 billion. The underlying facility and the associated guarantee expire in January 2008. The guarantee agreement restricts the Company's ability to obtain further debt without MMB's consent.

In July 2006, the Company, together with four other subsidiaries of Integra provided a guarantee to OAO Alfa Bank on behalf of OAO Tyumenneftegeophyzika (a subsidiary of Integra) with respect to borrowings totalling RR 1,800 million. The underlying facility and the associated guarantee expire in January 2010.

The value of the guarantees was estimated to be immaterial.

ZAO URALMASH DRILLING EQUIPMENT

CONTACT INFORMATION

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OOO VNIIBT-BI

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
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AUDITORS' REPORT

To the Shareholders of OOO VNIIBT Burovoy Instrument

1. We have audited the accompanying consolidated balance sheets of OOO VNIIBT Burovoy Instrument and its subsidiaries (the "Company") as of 31 December 2005, 2004 and 2003 and the related consolidated statements of income, of cash flows and of changes in equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
22 December 2006

CONTENTS

OOO VNIIBT-BI

CONSOLIDATED BALANCE SHEETS
(expressed in millions of Russian Roubles)

	Note	31 December 2005: 2005	2004	2003
Assets				
Cash and cash equivalents		349	16	49
Trade and other receivables	5	280	270	569
Inventories	6	312	339	240
Loans issued	15	32	29	55
Non-current assets held for sale	7	28	23	—
Total current assets		**1,001**	**677**	**913**
Property, plant and equipment	7	505	460	573
Other non-current assets		48	54	2
Total non-current assets		**553**	**514**	**575**
Total assets		**1,554**	**1,191**	**1,488**
Liabilities				
Accounts payable and accrued liabilities	8	145	219	602
Income tax payable		47	33	2
Other taxes payable	9	65	40	35
Short-term borrowings	15	—	44	1
Total current liabilities		**257**	**336**	**640**
Long-term borrowings	10	262	25	—
Deferred tax liability	9	38	50	86
Participants' redeemable capital interest	11	746	539	479
Total non-current liabilities		**1,046**	**614**	**565**
Equity				
Minority interest		251	241	283
Total equity		**251**	**241**	**283**
Total liabilities and equity		**1,554**	**1,191**	**1,488**

Approved and authorized for issue on 22 December 2006

Pavel Kamsky
General Director

Elena Dubrovina
Chief Financial Officer

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

OOO VNIIBT-BI

CONSOLIDATED STATEMENT OF INCOME
(expressed in millions of Russian Roubles)

		Year ended 31 December:		
	Note	**2005**	**2004**	**2003**
Sales	12	1,200	895	759
Cost of sales	13	(680)	(495)	(486)
Gross profit		**520**	**400**	**273**
Selling, general and administrative expenses	14	(213)	(331)	(243)
Other losses	7, 15	(4)	(60)	—
Operating profit		**303**	**9**	**30**
Finance income (expenses)				
Interest income		7	7	—
Interest expense		(10)	(2)	(2)
Fair value gain on loans received from related parties	15, 10	—	8	—
Fair value losses on loans issued to related parties	15	—	(2)	(4)
Total finance (expenses) income		(3)	11	(6)
Profit before income tax		300	20	24
Income tax benefit (expense)				
Current income tax expense		(95)	(48)	(7)
Deferred income tax benefit	9	12	36	2
Total income tax expense		(83)	(12)	(5)
Profit for the period		**217**	**8**	**19**
Profit attributable to:				
Participants of OOO VNIIBT-BI		207	50	17
Minority interest		10	(42)	2

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

OOO VNIIBT-BI

CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in millions of Russian Roubles)

	Notes	Year ended 31 December: 2005	2004	2003
Cash flows from operating activities				
Profit before income tax		300	20	24
Adjustments to profit before taxation:				
Depreciation and amortization	13, 14	97	99	84
Provision for impairment of receivables	14	—	(5)	1
Provision for impairment of inventories	13	4	14	3
Total finance expenses (income)		3	(11)	6
Loss on remeasurement of non-current assets held for sale	7, 15	—	60	—
Other non-cash items		17	(5)	(4)
Operating cash flows before working capital changes		**421**	**172**	**114**
Change in trade and other receivable		(14)	307	(216)
Change in inventories		23	(113)	(29)
Change in taxes other than income taxes payable		25	5	1
Change in accounts payable and accrued liabilities		(74)	(383)	347
Cash provided by (used in) operations before interest and income taxes		**381**	**(12)**	**217**
Income tax paid		(81)	(17)	(9)
Interest paid		(7)	(1)	(2)
Net cash provided by (used in) operating activities		**293**	**(30)**	**206**
Cash flows from investing activities:				
Purchase of property, plant and equipment		(146)	(67)	(83)
Purchase of intangible assets		(29)	(31)	(1)
Proceeds from the disposal of property, plant and equipment		8	20	6
Provision of loans		(32)	(30)	(50)
Repayment of loans provided		30	50	—
Interest received		3	2	—
Other		16	(16)	1
Net cash used in investing activities		**(150)**	**(72)**	**(127)**
Cash flows from financing activities:				
Contributions from participants	11	—	10	—
Proceeds from borrowings		475	99	1
Repayment of borrowings		(285)	(40)	(43)
Dividends paid		—	—	(1)
Net cash provided by (used in) financing activities		**190**	**69**	**(43)**
Net increase in cash and cash equivalents		**333**	**(33)**	**36**
Cash and cash equivalents at the beginning of the period		16	49	13
Cash and cash equivalents at the end of the period		349	16	49

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

OOO VNIIBT-BI

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(expressed in millions of Russian Roubles)

	Minority interest	Total equity
Balance at 1 January 2003	**281**	**281**
Profit for the period	2	2
Balance at 31 December 2003	**283**	**283**
Loss for the period	(42)	(42)
Balance at 31 December 2004	**241**	**241**
Profit for the period	10	10
Balance at 31 December 2005	**251**	**251**

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

(expressed in millions of Russian Roubles)

1 GENERAL INFORMATION

OOO VNIIBT Drilling Instruments ("VNIIBT-BI") together with its consolidated subsidiaries (collectively the "Company") engage in the manufacturing of drilling tools and other related equipment to the petroleum industry in the Russian Federation. The Company also provides related repair and maintenance services for drilling equipment and leases hydraulic turbine motors.

The Company operates in one business segment which is the provision of manufacturing and associated services to the petroleum industry of the Russian Federation. The Company assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole. The Company operates within one geographical segment which is Russian Federation.

These financial statements comprise the consolidated accounts of a number of entities which, prior to the formation of VNIIBT-BI in August 2003, were ultimately controlled by OAO OMZ (through February 2004) and by OOO OMZ-MNP (from February 2004 through September 2005).

The principal entities which operations are included in these consolidated financial statements are as follows:

Entity	Effective ownership at 31 December 2005
OOO VNIIBT Drilling Instruments ("VNIIBT-BI")	parent
PMZ sub-holding	
OAO Pavlovsky Factory ("PMZ")	90.8%
OOO BI-Trans ("BI-Trans")	90.8%
NPO BT sub-holding	
OAO NPO Drilling Technique ("NPO BT")	55.9%

Prior to April 2005, VNIIBT-BI, PMZ and NPO BT were direct subsidiaries of OAO OMZ. In April 2005, OAO OMZ contributed its shares in PMZ and NPO BT to VNIIBT- BI with the result that VNIIBT-BI became the 100% parent company of PMZ and NPO BT. VNIIBT-BI was acquired by IG Holdings Ltd., a member of Integra Group in September 2005 and since that date Integra has been the Company's ultimate controlling party.

Throughout reporting periods until September 2005, the Company had significant transactions with parties, related through common controlling shareholders, which are further detailed in Note 15.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation. These consolidated financial statements are the Company's first financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), issued and effective as at 31 December 2005, and are covered by IFRS 1, *First-time Adoption of IFRS*. The Company's transition date is 1 January 2003 and the Company prepared its opening balance sheet at that date. The policies set out below have been consistently applied for all the periods presented. VNIIBT-BI and its subsidiaries maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("Russian GAAP"). These financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Reconciliations and descriptions of the effect of the transition from Russian GAAP to IFRS on equity, on the consolidated statement of income and on cash flows are provided in Note 4.

The consolidated financial statements have been prepared under the historical cost convention. 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. Principal estimates are disclosed in Note 3. Actual results could differ from these estimates.

(expressed in millions of Russian Roubles)

2.2 Consolidation of entities under common control. As described in Note 1, through April 2005, VNIIBT-BI, PMZ and NPO BT were operating under the common control or OAO OMZ and OOO OMZ-MNP. These consolidated financial statements were prepared the objective of showing what the Company's financial position and performance would have been had the Company had been legally established in its current form from 1 January 2003. Accordingly, in preparing these financial statements, the financial statements of VNIIBT-BI and the consolidated financial statements of the PMZ and NPO BT sub-holdings were consolidated using the pooling-of-interest method. All holdings contributed to the Company by OOO OMZ and OOO OMZ_MNP has been treated as though they had been contributed to VNIIBT-BI as of 1 January 2003. Minority interest at the balance sheet dates in respect to the consolidated entities represents the interest in equity of all the entities and their subsidiaries which is not attributable to VNIIBT-BI.

2.3 Functional and presentation currency. The Russian Rouble ("RR") is the functional currency of VNIIBT-BI and its subsidiary and is the presentation currency of these consolidated financial statements. Monetary balance sheet items denominated in foreign currencies have been re-measured using the exchange rate at the respective balance sheet dates. Exchange gains and losses resulting from foreign currency translation are included in the determination of profit or loss.

The Russian Rouble to US dollar exchange rate was 28.78, 27.75 and 29.45 as of 31 December 2005, 2004 and 2003, respectively. Through early 2006, the Russian rouble was not a convertible currency in most countries outside of the former Soviet Union and, further, the Company was required to convert a portion of its hard currency proceeds into Russian roubles. During the first half of 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.

2.4 Accounting for subsidiaries. Subsidiary undertakings are consolidated when the Company has an interest of more than 50 percent of the voting rights or otherwise has power to exercise control over their financial and operating policies. Subsidiaries are consolidated from the date on which control was achieved by the Company and are no longer consolidated from the date that control ceases. All inter-company transactions, balances and unrealized gains on transactions between the consolidated companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.5 Property, plant and equipment. All additions to property, plant and equipment are recorded at historical cost. Historical cost includes expenditures directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. 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.

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

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

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 statement of income.

2.6 Impairment of assets. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and at least annually for intangible assets with indefinite estimated lives. 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).

2.7 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.

2.8 Trade receivables, loans and other receivables. Trade receivables and other financial assets are recognised initially at fair value plus the transaction costs and subsequently measured at amortized cost using the effective interest method, net of any provision for impairment. A provision for impairment of trade receivables and other financial assets is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the consolidated statement of income.

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

2.10 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 upon collection of receivables from customers net of VAT on purchases 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.

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.

2.11 Borrowings and other financial liabilities. Borrowings and other financial liabilities (including promissory notes issued by the Company) are recognised initially at fair value (Note 3), net of applicable transaction costs incurred. Such liabilities are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognised in the consolidated statement of income over the period of the term of the liability using the effective interest method. Unless disclosed separately, the borrowings effective interest rates approximated the contractual interest rates at the reporting dates.

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

Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost using the effective interest method.

2.12 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Participants' redeemable capital interest. The Company's equity participants have a right to request redemption of their proportionate share of the Company's net assets in cash. The Company's obligation to redeem gives rise to a financial liability even though the obligation is conditional on the equity participant exercising the right. The participants' redeemable capital interest is measured at amortised cost with changes in the liability recognised within the statement of income. The liability is classified as non-current because the Company has an unconditional right to defer redemption for at least twelve months after the balance sheet date.

The payment on redemption is the participant's share of the net assets of the company in accordance with the Russian Accounting Regulations. The Company's Russian Accounting Regulations net assets were RR 624 million, RR 3 million and RR 119 million at 31 December 2005, 2004 and 2003, respectively. The amount of the IFRS net assets being in excess of the RAR net assets is due to timing differences which reverse in future periods. The Company, therefore, measures the liability presented in these financial statements based on the net assets of the company in accordance with IFRS.

Distributions to participants are presented as a finance cost in the statement of income and are recognised when declared. Distributions to participants are disclosed when they are proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

2.14 Provisions. Provisions are recognised when: the Company 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. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.15 Dividends. Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are issued.

2.16 Employee benefits. The Company incurs employee costs related to the provision of benefits such as health insurance. These amounts principally represent an implicit cost of employment of personnel and, accordingly, have been charged to the consolidated statement of income or capitalized as work in progress or finished goods, as appropriate.

The Company contributes to the Russian Federation state pension scheme on behalf of its employees in accordance with the state defined contribution plan. Mandatory contributions to the governmental pension scheme are accrued when incurred.

2.17 Revenue recognition. Revenues for sales of goods are recognized when the significant risks and rewards of ownership have passed to the buyer, and when it is probable that economic benefits will flow to the Company and when those economic benefits can be reliably measured. Sales are shown net of VAT.

Revenue from sales of services is recognised in the accounting period in which services are rendered to the customer. Most of the Company's contracts specify a fixed price specified for a distinctive volume of works. Revenue for such contracts is recognised based on the actual volume of works performed under such contract during the respective period. The revenue is recognised only to the extent it can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. In the event that contract is expected to generate losses, such loss is recognised immediately in the statement of income.

2.18 Operating leases. Where the Company is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the Company to the lessee, the total lease payments receivable from customers are recognised as rental income on a straight-line basis over the lease term.

2.19 Non-current assets classified as held for sale. Non-current assets (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

Held for sale property, plant and equipment are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised.

2.20 New or revised standards not yet effective. Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods and which the Company has not early adopted. These new standards and interpretations are not expected to significantly affect the Company's financial statements when adopted on 1 January 2006 or later.

The new standards and interpretations which the Company has not early adopted are as follows: IFRIC 4, *Determining whether an Arrangement contains a Lease* (effective from 1 January 2006); IAS 21 (Amendment) Net Investment in a Foreign Operation (effective from 1 January 2006); IAS 39 (Amendment), *The Fair Value Option* (effective from 1 January 2006); IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006); IAS 39 (Amendment), *Financial Guarantee Contracts* (effective from 1 January 2006); IFRS 6, *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRS 7, *Financial Instruments: Disclosures and a Complementary Amendment to IAS 1, Presentation of Financial Statements—Capital Disclosures* (effective from 1 January 2007); IAS 19 (Amendment), *Employee Benefits* (effective from 1 January 2006); IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IFRS 6 (Amendment), *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006); IFRIC 6, *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* (effective for periods beginning on or after 1 December 2005); IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006); IFRIC 9 *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 September 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); IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

3 CRITICAL ESTIMATES AND JUDGMENTS

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments 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 judgments, 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.

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.

Impairment of property, plant and equipment. At each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company's assets has declined below their carrying values. In conducting such assessment the management uses both externally and internally available information, including independent appraisals and business performance results. If such indications exist, the management conducts the analysis to determine whether the assets are impaired by making assessments of the recoverable amount, which is the higher of the fair value less cost to sell and the value in use.

Should management judgement used to determine whether or not the indicators of impairment existed at reporting dates change, the carrying values of the assets could be impaired resulting in impairment charge being recognised in the Company's consolidated statement of income.

Fair valuation of property, plant and equipment. As discussed in Note 4, the Company elected to value its property, plant and equipment at carrying values equal to their fair values in the transition balance sheet. The fair values were estimated by an independent appraiser using the market value of the assets and the depreciated replacement cost method, as appropriate, as defined by IAS 16, *Property, Plant and Equipment*. Independent experts use a number of judgments, including but not limited by the following: (i) choice of source of prices used as a reference for replacement cost of the constituent parts, (ii) assessment of cost of transportation and assembly of the plant and equipment, (iii) assessment of the level of accumulated obsolescence and wear-and-tear depreciation. Change in the above judgments can result in significantly different estimated fair values of the assets, and therefore the carrying values of the Company's property, plant and equipment may have been different than those recorded in the balance sheets.

Fair values of financial assets and liabilities. 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 management using available market information, where it exists, and appropriate valuation methodologies where no market information is available.

Trade and other receivables, short-term loans issued, short-term borrowings, accounts payable and accrued liabilities are carried at amortized cost, net of provisions, as appropriate. Discount rates which have been used for assessing of the fair value of the assets and liabilities ranged from 13 percent to 17 percent. At 31 December 2005, 2004 and 2003, the fair values did not materially differ from the respective carrying values.

The fair values of the Company's long-term borrowings were estimated based upon rates available to the Company on similar instruments of similar maturities. At 31 December 2005, 2004 and 2003, the carrying values of total long-term borrowings approximated their fair values.

(expressed in millions of Russian Roubles)

4 ADOPTION OF IFRS

IFRS 1, *First-time Adoption of International Financial Reporting* Standards ("IFRS 1") provides first-time adopters with certain exemptions from the historic cost requirement. In particular, IFRS 1 allows first-time adopters to recognize, upon initial adoption, items of property, plant and equipment at carrying values equal to their fair values in the transition balance sheet. Accordingly, management has recorded the Company's property, plant and equipment in the transition balance sheet at its fair value as of 1 January 2003 and designated such value as the deemed cost of these assets. The fair values were estimated by an independent appraiser using the market value of the assets and the depreciated replacement cost method, as appropriate, as defined by IAS 16, *Property, Plant and Equipment*. Market values were determined directly by reference to the observable prices in an active trading market for the Company's motor vehicles, constituent parts of the plant and equipment, and buildings. Subsequent additions to property, plant and equipment are recorded at their historical cost.

Fair values of property, plant and equipment. Below is a summary of the assessed fair values of property, plant and equipment recorded as deemed cost as of the date of transition, 1 January 2003.

	Buildings	Plant and equipment	Motor vehicles	Other	Total
Carrying value under Russian GAAP	140	70	2	5	217
Fair value adjustment	366	12	1	(1)	378
Carrying value under IFRS	**506**	**82**	**3**	**4**	**595**

Reconciliation with Russian GAAP. Below is a reconciliation of equity as reported under IFRS to equity as reported under Russian GAAP as of 1 January 2003 and 31 December 2005.

	As of 1 January 2003	As of 31 December 2005
Total consolidated equity under Russian GAAP	**184**	**652**
Fair value adjustment on property, plant and equipment(1)	378	378
Additional depreciation charge(1)	—	(220)
Accounting for items with different useful lifetimes(2)	—	18
Provision for impairment of accounts receivable(3)	(12)	(9)
Loss on assets held for resale(4)	—	(60)
Deferred tax adjustment(5)	(88)	(26)
Minority interest(6)	281	251
Classification of participants' redeemable capital interest(7)	(463)	(746)
Other	1	13
Total equity under IFRS	**281**	**251**

Below is a reconciliation of the change in participants' redeemable capital interest from operations as reported under IFRS to net profit as reported under Russian GAAP for the year 31 December 2005:

	12 months ended 2005
Net profit under Russian GAAP	**258**
Additional depreciation charge(1)	(66)
Fair value adjustment on disposal of property, plant and equipment(1)	(10)
Accounting for items with different useful lifetimes(2)	10
Deferred tax adjustment(5)	13
Other	12
Profit for the year	**217**

(1) The fair value adjustment to property, plant and equipment results from the Company's use of the exemption available under IFRS 1 to first-time adopters that allows assigning fair values to property, plant and equipment on the IFRS transition date. The fair value adjustment for reporting periods ending

(expressed in millions of Russian Roubles)

subsequent to 1 January 2003 is reduced to account for the effect of disposed assets. Additional depreciation charge is due to the combined effect of different cost basis and different estimated useful lives used in IFRS and Russian GAAP.

(2) Adjustment is recorded to account for the effect of different useful lifetimes adopted for certain assets under Russian GAAP and IFRS. Under Russian GAAP such assets had a useful lifetime of less than one year and were classified as inventories. Under IFRS the useful lifetime was estimated as more than one year and such assets were accounted as property, plant and equipment.

(3) Provision for impairment of accounts receivable is due to different recognition policies adopted for IFRS and Russian GAAP. Under Russian GAAP recognition of such provisions can be deferred until the time of legal bankruptcy of the counterparty, and timing of expected cashflows is not required to be taken into consideration.

(4) The adjustment was recorded to re-measure non-current assets held for sale to their fair value less costs to sell. Such assets are carried at costs under Russian GAAP.

(5) The deferred tax adjustment was recorded to reflect the impact of the other adjustments on the deferred tax balance.

(6) Russian GAAP does not require the preparation of consolidated financial statements. Preparation of consolidated financial statements under IFRS requires that minority interests in subsidiaries be recognized separately.

(7) As discuss in Notes 2 and 11, IFRS requires that participants' redeemable capital interest be classified as a liability. Under Russian GAAP, this amount is treated as equity.

The Company has not provided reconciliation between cash flows as reported under Russian GAAP and IFRS. Under Russian GAAP, cash flows are presented using the direct method while under IFRS the Company has presented its cash flows using the indirect method. Under the direct method, cash flows from operations are reported based upon actual cash received from revenues, expenses and other operating activities. Under the indirect method, cash flows from operations are reported by adjusting net income for non-cash items and working capital changes.

5 TRADE AND OTHER RECEIVABLES

	31 December:		
	2005	**2004**	**2003**
Trade receivables (net of provision of RR 1 million, RR 1 million and RR 5 million as of 31 December 2005, 2004 and 2003, respectively)	134	128	33
VAT recoverable	38	34	48
Prepayments to suppliers (net of provision of RR nil, RR 1 million and RR 1 million as of 31 December 2005, 2004 and 2003, respectively)	60	33	22
Prepaid expenses and other receivables (net of provision of RR 1 million, RR nil and RR 1 million as of 31 December 2005, 2004 and 2003, respectively)	48	75	466
Total accounts receivable and prepayments	**280**	**270**	**569**

(expressed in millions of Russian Roubles)

6 INVENTORIES

Inventories primarily represent materials and supplies.

	31 December: 2005	2004	2003
Materials and supplies (net of obsolescence provision of RR 11 million, RR 10 million and RR 5 as of 31 December 2005, 2004 and 2003, respectively)	192	177	119
Work in progress (net of obsolescence provision of RR 2 million, RR nil and RR nil as of 31 December 2005, 2004 and 2003, respectively)	55	90	54
Finished goods (net of obsolescence provision of RR 15 million, RR 14 million and RR 5 million as of 31 December 2005, 2004 and 2003, respectively)	65	72	67
Total inventories	**312**	**339**	**240**

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Motor vehicles	Other	Total
Cost					
Balance at 1 January 2003	506	82	3	4	595
Additions	20	55	—	5	80
Disposals	(9)	(7)	—	(2)	(18)
Balance at 31 December 2003	517	130	3	7	657
Additions	17	63	1	8	89
Disposals	(15)	(10)	—	(1)	(26)
Re-classifications to non-current assets held for sale	(130)	—	—	—	(130)
Balance at 31 December 2004	389	183	4	14	590
Additions	5	136	2	4	147
Disposals	(4)	(13)	—	(2)	(19)
Re-classifications to non-current assets held for sale	(6)	—	—	—	(6)
Balance at 31 December 2005	**384**	**306**	**6**	**16**	**712**
Accumulated depreciation					
Balance at 1 January 2003	—	—	—	—	—
Depreciation	(69)	(14)	(1)	—	(84)
Balance at 31 December 2003	(69)	(14)	(1)	—	(84)
Depreciation	(58)	(37)	(1)	(1)	(97)
Disposals	3	1	—	—	4
Re-classifications to non-current assets held for sale	47	—	—	—	47
Balance at 31 December 2004	(77)	(50)	(2)	(1)	(130)
Depreciation	(9)	(74)	(1)	(1)	(85)
Disposals	1	7	—	—	8
Balance at 31 December 2005	**(85)**	**(117)**	**(3)**	**(2)**	**(207)**

(expressed in millions of Russian Roubles)

	Buildings	Plant and equipment	Motor vehicles	Other	Total
Net book value					
Balance at 31 December 2003	**448**	**116**	**2**	**7**	**573**
Balance at 31 December 2004	**312**	**133**	**2**	**13**	**460**
Balance at 31 December 2005	**299**	**189**	**3**	**14**	**505**

At 31 December 2005, 2004 and 2003 certain property, plant and equipment with a net book value of RR 286 million, RR nil and RR nil, respectively were pledged as collateral for the Company's guarantees to third parties.

During 2004, the Company agreed to sell OOO Invest Finance, a related party by virtue of common control, certain assets, primarily buildings and equipment, for total proceeds of RR 23 million. As a result, the Company recognized a loss of RR 60 million, equal to the difference between their carrying values and the agreed sales proceeds, in the consolidated statement of income for the year ended 31 December 2004 (Note 15).

8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	31 December: 2005	2004	2003
Trade accounts payable		26	19	85
Accrued liabilities and other creditors	15	33	166	459
Advances from customers		86	34	58
Total accounts payable and accrued liabilities		**145**	**219**	**602**

9 TAXES

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

	Year ended 31 December: 2005	2004	2003
Profit before taxation	300	20	24
Theoretical tax charge at the Russian statutory income tax rate of 24 percent	(72)	(5)	(6)
Non-deductible expenses	(11)	(7)	—
Non taxable income	—	—	1
Total income tax expense	**(83)**	**(12)**	**(5)**

Other taxes payable. Current taxes payable at 31 December 2005, 2004 and 2003 are detailed below.

	31 December: 2005	2004	2003
Unified social tax	3	6	4
Personal income tax	3	2	2
Value-added tax	58	29	27
Property tax	1	1	1
Other taxes	—	2	1
Total other taxes payable	**65**	**40**	**35**

(expressed in millions of Russian Roubles)

Included within VAT payable is RR 41 million, RR 19 million and RR 14 million at 31 December 2005, 2004 and 2003, respectively, of VAT that is only payable to the tax authorities when the underlying receivable is recovered or written off.

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

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

	31 December 2005	Charge in 2005	31 December 2004	Charge in 2004	31 December 2003	Charge in 2003
Assets						
Inventories	7	1	6	4	2	—
Other	8	7	1	1	—	—
Deferred income tax assets	**15**	**8**	**7**	**5**	**2**	**—**
Liabilities						
Property, plant and equipment	(47)	4	(51)	25	(76)	14
Accounts receivable	—	—	—	9	(9)	(10)
Inventories	(5)	(2)	(3)	(1)	(2)	(2)
Other	(1)	2	(3)	(2)	(1)	—
Deferred income tax liabilities	**(53)**	**4**	**(57)**	**31**	**(88)**	**2**
Net deferred income tax liability	**(38)**	**12**	**(50)**	**36**	**(86)**	**2**

10 BORROWINGS

Long-term borrowings. The Company's long-term borrowings at 31 December 2005 and 2004 are outlined below.

	As of 31 December:		
	2005	2004	2003
MMB	245	—	—
OAO Perspectiva	17	15	—
Other	—	10	—
Total long-term borrowings	**262**	**25**	**—**

MMB. In December 2005, the Company entered into a Euro-denominated loan facility with International Bank of Moscow for total amount of Euro 7.8 million. The loan bears an interest rate of EURIBOR plus 5.5 percent per annum (7.9375 percent at 31 December 2005), payable monthly, and matures in June 2007. The loan is guaranteed by certain of Integra Group's subsidiaries.

OAO Perspectiva. In November 2004, the Company entered into a RR 20 million credit facility with OAO Perspectiva, a related party by virtue of common control. The credit facility bears interest at 6.2 percent per annum. The outstanding balance is scheduled for repayment in November 2007.

OAO Perspectiva loan was recorded at its fair value at the origination date. The fair value was estimated by applying a pre-tax discount rate of 17 percent per annum, management's estimate of the Company's external borrowing rate for similar instruments. The difference between the fair value and the face value of the loan of RR 5 million (pre-tax) was recorded as fair value gain on loans received from related parties in the consolidated statement of income.

(expressed in millions of Russian Roubles)

11 PARTICIPANTS' REDEEMABLE CAPITAL INTEREST

VNIIBT-BI was established by OAO OMZ in April 2003. In June 2004, OOO OMZ-MNP increased the statutory charter capital to RR 10 million by making additional cash contribution of RR 9.99 million.

As discussed in Note 2, the Company's equity participants' redeemable capital interest constitutes a financial liability. Below is a table showing the changes in participants redeemable capital interest for the years ended 31 December 2005, 2004 and 2003.

	Participants' redeemable capital interest
Balance 1 at January 2003	**463**
Distribution declared and paid	(1)
Change in participants' redeemable capital interest from operations	17
Balance at 31 December 2003	**479**
Cash contribution to participants' capital	10
Change in participants' redeemable capital interest from operations	50
Balance at 31 December 2004	**539**
Change in participants' redeemable capital interest from operations	207
Balance at 31 December 2005	**746**

Distributable retained earnings. The statutory accounting reports of VNIIBT BI are the basis for income distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net income calculated in accordance with Russian accounting regulations. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation. At 31 December 2005, 31 December 2004 and 31 December 2003, retained earnings, available for distribution in accordance with the legislative requirements of the Russian Federation totaled RR 242 million, RR 105 million and RR 3 million, as reported in VNIIBT-BI's statutory accounting reports.

Dividends distributed to the participant during the years ended 31 December 2005, 2004 and 2003 totaled RR nil, RR nil and RR 1 million, all of which had been paid out in full by 31 December 2005.

12 SALES

	Year ended 31 December:		
	2005	2004	2003
Sales of manufactured goods	1,034	859	710
Sales of services	166	36	49
Total sales	1,200	895	759

13 COST OF SALES

	Year ended 31 December:		
	2005	2004	2003
Materials and supplies	173	140	180
Employee costs (including mandatory social contributions of RR 53 million, RR 50 million and RR 54 millions for the years ended 31 December 2005, 2004 and 2003, respectively)	256	226	201
Depreciation and amortization	94	96	82
Technological services	81	4	13
Provision for impairment of inventories	4	14	4
Other	72	15	6
Total cost of sales	**680**	**495**	**486**

(expressed in millions of Russian Roubles)

14 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:		
	2005	2004	2003
Transportation costs	35	54	16
Advertising and marketing costs	4	43	—
Employee costs (including mandatory social contributions of RR 17 million, RR 19 million and RR 17 million for the years ended 31 December 2005, 2004 and 2003, respectively)	98	88	82
Depreciation and amortization	3	3	2
Consulting services	22	47	53
Management services (Note 15)	—	19	—
Other services	31	24	41
Royalties	—	16	—
Bank charges and factoring	1	22	10
Materials and supplies	4	2	10
Provision for impairment of receivables	—	(5)	1
Other	15	18	28
Total selling, general and administrative expenses	**213**	**331**	**243**

15 RELATED PARTY TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related if they meet the definition of related party as determined in IAS 24, *Related Party Disclosures*. Under the definitions therein, parties are 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. Key management and close family members of management, shareholders of other related parties also are considered related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. 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 2005, 2004 and 2003.

		As of or for the year ended 31 December:		
		2005	2004	2003
Trade receivables		—	5	11
Prepaid expenses and other receivables		—	21	400
Short-term loans issued		32	29	47
Trade accounts payable		—	90	11
Accrued liabilities and other creditors		—	39	416
Short-term borrowings		—	44	—
Long-term borrowings	10	17	15	—
Sales		—	26	15
Purchases		25	46	22
Fair value gains on loans received from related parties	10	—	8	—
Fair value losses on loans issued to related parties		—	(2)	(4)
Key management compensation		9	7	1
Management services		—	19	—

(expressed in millions of Russian Roubles)

Trade receivable from related parties. Included within trade accounts receivable at 31 December 2004 and 2003 were RR 5 million and RR 11 million, respectively, due from OOO OMZ-MNP Group's entities, parties related by virtue of ultimate shareholders.

Prepaid expenses and other receivables from related parties. Included within prepaid expenses at 31 December 2004 and 2003 were amounts due by parties related by virtue of common control for financial assets earlier purchased by such parties from the Company:

	31 December:		
	2005	**2004**	**2003**
ZAO Center Razvitiya Sudostoeniya	—	—	199
OOO Tekhkomtorg	—	21	169
OOO Novye Promyshlennye Technologii	—	—	32
Total	—	21	400

The other receivables were settled by cash.

Loans issued to related parties. Included within short-term loans issued at 31 December 2005 was RR 32 million due from OOO Geophyzservice and OOO Integra KRS in amount of RR 22 million and RR 10 million, respectively, both of which are subsidiaries of Integra Group. The loans were unsecured and bore interest of 13.5 percent per annum. The loan issued to OOO Integra KRS was fully repaid in April 2006.

In December 2004, the Company issued a number of short-term loans totaling to RR 30 million to OAO Perspectiva, party related by virtue of common control. The loans were unsecured and bore interest between 8 percent and 9 percent per annum.

The loans were recorded at its fair value at the origination date. The fair value was estimated by applying a discount rate of pre-tax 15 percent per annum, management's estimate of the Company's borrowing rate for similar instruments. The difference between the fair value and the face value of the loan of RR 2 million was recorded as loss on loans issued to related parties in the consolidated statement of income for the year ended 31 December 2004. All loans were fully repaid in during the first quarter of 2005, recognizing gain on loans issued to related parties in the consolidated statement of income.

In July 2003, the Company issued a RR 50 million short-term RR-denominated loan to ZAO Center Razvitiya Sudostroeniya, a party related by virtue of common control. The loan was unsecured, bore interest of 8.7 percent per annum and was fully repaid in March 2004.

The loan was recorded at its fair value at the origination date. The fair value was estimated by applying a pre-tax discount rate of 17 percent per annum, management's estimate of the Company's borrowing rate for similar instruments. The difference between the fair value and the face value of the loan of RR 4 million was recorded as fair value loss on loans issued to related parties in the consolidated statement of income for the year ended 31 December 2003. All loans were fully repaid in March 2004, recognizing gain on loans issued to related parties in the consolidated statement of income.

Short-term borrowings from related parties. During 2004, the Company entered into a short-term, RR 29 million Russian Rouble-denominated loan with OOO Tekhkomtorg, a related party by virtue a common control. The loan was unsecured and bore the interest of 6.5 percent per annum. The loan was fully repaid in July 2005.

The loan was recorded at its fair value at the origination date. The fair value was estimated by applying a discount rate of 15 percent per annum, management's estimate of the Company's borrowing rate for similar instruments. The difference between the fair value and the face value of the loan of RR 2 million was recorded as fair value gain on loans received from related parties in the consolidated statement of income for the year ended 31 December 2004.

During 2004, the Company entered into a short-term, RR 17 million Russian Rouble-denominated loan with OOO Aromasintez, a party related by virtue of common control. The loan was unsecured and bore interest of 3.5 percent per annum. The loan was repaid in full in March 2005.

The loan was recorded at its fair value at the origination date. The fair value was estimated by applying a discount rate of 15 percent per annum, management's estimate of the Company's borrowing rate for similar instruments. The difference between the fair value and the face value of the loan of RR 1 million was recorded as fair value gain on loans received from related parties in the consolidated statement of income for the year ended 31 December 2004.

Trade accounts payable from related parties. Included within trade accounts payable at 31 December 2004 and 2003 were RR 90 million and RR 11 million, respectively, due to OOO OMZ-MNP Group's entities, a parties related by virtue of ultimate shareholders.

Accrued liabilities and other amounts payable to related parties. Included within accrued liabilities and other accounts payable at 31 December 2004 and 2003 were amounts due to parties related by virtue of common control for promissory notes purchased by the Company.

Sales to related parties. Included within sales for the years ended 31 December 2004 and 2003 were RR 26 million and RR 15 million, respectively, of sales of drilling instruments to various parties related through common controlling shareholders.

Purchases from related parties. Included within cost of sales for the years ended at 31 December 2005, 2004 and 2003 were RR 25 million, RR 46 millions and RR 22 million, respectively, of purchases of services and inventories from various parties related through common controlling shareholders.

Loss on asset disposal. During 2004, the Company entered into agreements with OOO Invest Finance, a related party by virtue of common control, to sell certain assets, primarily buildings and equipment, for total proceeds of RR 23 million ($ 1 million). As a result, the Company re-classified such assets from property, plant and income to assets held for sale in its consolidated balance sheet and recognized a loss of RR 60 million, equal to the difference between their carrying values and the agreed sales proceeds, in the consolidated statement of income for the year ended 31 December 2004. The Company completed the disposal of the assets in July 2006.

Key management compensation. The Company's key management team comprised 14, 14 and 9 individuals whose compensation comprised salary and bonuses.

Management services. Included within selling, general and administrative expenses for the years ended 31 December 2004 was RR 19 million of cost related to provision of management services by parties related through common controlling shareholders.

16 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Contractual commitments and guarantees. At 31 December 2005, 2004 and 2003 the Company had no contractual commitments for purchases of property, plant and equipment or intangible assets.

At 31 December 2005, the Company had provided a guarantee for the borrowings of ZAO URBO, a subsidiary of Integra Group. Outstanding borrowings subject to the guarantee were RR 286 million at 31 December 2005. The Company received no consideration for providing the guarantee.

The effect of adoption of IAS 39 (Amendment) Financial Guarantees Contracts starting 1 January 2006 was estimated to be immaterial.

Environmental matters. The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company 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 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 Company 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. The areas that could be challenged include but are not limited by transfer pricing issues, the economic substance of transactions, compliance with customs and currency regulations. 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 2005, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in these financial statements.

Insurance policies. The Company holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks. Limited insurance policies existing primarily covering assets pledged against the Company’s borrowings.

Legal proceedings. At 31 December 2005, the Company 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 Company.

Operating environment of the Company. The Russian Federation continues to display some characteristics of an emerging market economy, including relatively high inflation. The tax and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in the economic trends, 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.

17 FINANCIAL RISKS

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

Credit risks. Financial assets, which potentially subject Company entities to credit risk, consist principally of trade receivables. The Company 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.

(expressed in millions of Russian Roubles)

During 2003-2005, a significant proportion of the Company's sales were made to and trade receivables were due from eight significant customers. The revenues and balances with these customers are presented as follows:

	Sales for the year ended 31 December:		
	2005	2004	2003
OAO Surgurteftegaz	164	81	124
OAO Tatneft	91	34	44
OOO Radius Center	48	58	33
ZAO Belorusneft	79	3	26
ZAO Udmurtneft-Burenie	65	17	9
ZAO Nizhnevartovskburneft	31	42	—
ZAO Orenburgburneft	18	29	22
OOO PK Permtekhmash	7	43	16

	Net amount due at 31 December:		
	2005	2004	2003
OAO Surgurteftegaz	11	11	—
OAO Tatneft	8	3	5
ZAO Udmurtneft-Burenie	13	12	—
ZAO Nizhnevartovskburneft	3	9	—
ZAO Orenburgburneft	1	3	4
OOO PK Permtekhmash	—	—	2

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond provisions already recorded.

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

Interest rate risk. The Company's borrowings comprise a mixture of fixed and variable rate debt. Accordingly, the Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. Currently, the Company does not maintain a formal management program focusing on the unpredictability of interest rate fluctuations with the aim of minimizing potential adverse effects on the financial performance of the Company.

Currency risks. The Company is exposed to currency risk to the extent it has long-term borrowings denominated in Euros (Note 10). Currently, the Company does not maintain a formal management program focusing on the unpredictability of currency exchange rate fluctuations with the aim of minimizing potential adverse effects on the financial performance of the Company.

18 SUBSEQUENT EVENTS

Additional loans issued. During 2006, the Company entered into a series of short-term Russian Rouble-denominated loans under which it issued loans totaling RR 251 million to other subsidiaries of Integra Group. The loans bear interest of 13 percent per annum and mature in March 2007.

Guarantees provided. During 2006, the Company provided guarantees for the borrowings of several other subsidiaries of Integra Group. Borrowings subject to the Company's guarantees totalled RR 3.475 billion. Other subsidiaries of Integra Group also guaranteed the borrowings.

The effect of adoption of IAS 39 (Amendment), *Financial Guarantee Contracts,* on 1 January 2006 was estimated to be immaterial.

OOO VNIIBT-BI

CONTACT INFORMATION

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OAO TYUMENNEFTEGEOPHYSIKA

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

AUDITORS' REPORT

To the Shareholders of OAO Tyumenneftegeophysika

1. We have audited the accompanying consolidated balance sheets of OAO Tyumenneftegeophysika and its subsidiaries (the "Company") as of 31 December 2005, 2004 and 2003 and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
22 December 2006

CONTENTS

OAO TYUMENNEFTEGEOPHYSIKA

CONSOLIDATED BALANCE SHEETS

(expressed in millions of Russian Roubles, except as indicated)

	Note	As of 31 December: 2005	2004	2003
Assets				
Current assets:				
Cash and cash equivalents		76	2	3
Trade and other receivables	6	251	367	346
Inventories		71	69	46
Total current assets		**398**	**438**	**395**
Non-current assets:				
Property, plant and equipment	7	1,095	1,255	1,036
Intangible assets		48	70	28
Investments in associates		7	8	—
Other non-current assets		7	10	11
Total non-current assets		**1,157**	**1,343**	**1,075**
Total assets		**1,555**	**1,781**	**1,470**
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities	8	293	400	175
Income tax payable		14	—	2
Other taxes payable	9	58	52	54
Short-term borrowings	10	175	141	65
Total current liabilities		**540**	**593**	**296**
Non-current liabilities:				
Long-term borrowings	10	36	87	—
Deferred tax liability	9	81	114	130
Liability for put options held by minority shareholders		2	—	—
Total non-current liabilities		**119**	**201**	**130**
Total liabilities		**659**	**794**	**426**
Shareholders' equity:				
Common shares (33,465,000 authorized, issued and outstanding at 31 December 2005, 2004 and 2003)	11	2,832	2,832	2,832
Preferred shares (11,155,000 authorized, issued and outstanding at 31 December 2005, 2004 and 2003)		944	944	944
Accumulated deficit		(2,880)	(2,789)	(2,732)
Total equity attributable to shareholders of the Company		**896**	**987**	**1,044**
Total liabilities and equity		**1,555**	**1,781**	**1,470**

Approved and authorized for issue on 22 December 2006

Pavel Kolesnik
General Director

Natalia Gutsalenko
Chief Financial Officer

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

OAO TYUMENNEFTEGEOPHYSIKA

CONSOLIDATED STATEMENTS OF INCOME
(expressed in millions of Russian Roubles, except as indicated)

		Year ended 31 December:		
	Note	2005	2004	2003
Sales	15	1,109	1,083	1,031
Cost of sales	12	(1,057)	(997)	(976)
Gross profit		**52**	**86**	**55**
General and administrative expenses	13	(128)	(132)	(127)
Gain (loss) on disposal of property, plant and equipment		28	6	(10)
Operating loss		**(48)**	**(40)**	**(82)**
Interest expense		(27)	(12)	(5)
Exchange gain (loss)		(5)	1	—
Change in liability for put options held by minority shareholders	2	(1)	—	—
Share of results of associate, net of income tax		(1)	1	—
Loss before taxation		**(82)**	**(50)**	**(87)**
Current income tax expense	9	(20)	(12)	(12)
Deferred income tax benefit	9	33	16	28
Total tax benefit	9	**13**	**4**	**16**
Loss for the year		**(69)**	**(46)**	**(71)**

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

OAO TYUMENNEFTEGEOPHYSIKA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in millions of Russian Roubles, except as indicated)

	Notes	Year ended 31 December: 2005	2004	2003
Cash flows from operating activities				
Loss before taxation		(82)	(50)	(87)
Adjustments for:				
Provision for impairment of accounts receivable	6	22	(5)	3
Depreciation and amortization	12,13	259	258	284
Interest expense		27	12	5
Exchange (gain) loss		5	(1)	—
Loss (gain) on disposal of property, plant and equipment		(28)	(6)	10
Share of results of associate, net of income tax		1	(1)	—
Operating cash flows before working capital changes		204	207	215
Change in trade and other receivables		97	(12)	(103)
Change in inventories		(2)	(23)	(9)
Change in taxes payable		6	(2)	35
Change in accounts payable and accrued liabilities		(29)	(18)	64
Cash provided by operations before interest and income taxes		276	152	202
Income tax paid		(6)	(14)	(1)
Interest paid		(26)	(11)	(5)
Net cash provided by operating activities		**244**	**127**	**196**
Cash flows from investing activities:				
Purchase of property, plant and equipment	7	(157)	(286)	(200)
Proceeds from the disposal of property, plant and equipment	7	18	1	—
Net cash used in investing activities		**(139)**	**(285)**	**(200)**
Cash flows from financing activities:				
Proceeds from borrowings	10	295	341	252
Repayment of borrowings	10	(312)	(178)	(247)
Dividends paid	11	(14)	(6)	(28)
Net cash provided by (used for) financing activities		**(31)**	**157**	**(23)**
Net increase (decrease) in cash and cash equivalents		74	(1)	(27)
Cash and cash equivalents at the beginning of the period		2	3	30
Cash and cash equivalents at the end of the period		**76**	**2**	**3**

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

OAO TYUMENNEFTEGEOPHYSIKA

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in millions of Russian Roubles, except as indicated)

	Common shares	Preferred shares	Accumulated deficit	Total equity attributable to shareholders of the Company
Balance at 1 January 2003	**2,832**	**944**	**(2,639)**	**1,137**
Loss for the year	—	—	(71)	(71)
Dividends declared	—	—	(22)	(22)
Balance at 31 December 2003	**2,832**	**944**	**(2,732)**	**1,044**
Loss for the year	—	—	(46)	(46)
Dividends declared	—	—	(11)	(11)
Balance at 31 December 2004	**2,832**	**944**	**(2,789)**	**987**
Loss for the year	—	—	(69)	(69)
Dividends declared	—	—	(22)	(22)
Balance at 31 December 2005	**2,832**	**944**	**(2,880)**	**896**

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

1 GENERAL INFORMATION

OAO Tyumenneftegeophysika ("TNGF"), together with its consolidated subsidiary OOO Irtyshgeophysika (collectively the "Company") and its associated undertaking, engage in seismic data processing and interpretation and the provision of topographic, cartographic, and other research and development services to the petroleum industry in the Russian Federation and in Kazakhstan. TNGF was incorporated in Russia as an open joint stock company effective 5 July 1993 pursuant to the approval by the Committee on Management of State Property.

On 31 December 2005, IG Holdings Limited, a subsidiary of Integra Group ("Integra", the Company's ultimate controlling party), acquired a 75 percent stake in TNGF. Integra is also the ultimate controlling entity of the Company.

OOO Irtyshgeophysika. In August 2005, TNGF and four individuals founded OOO Irtyshgeophysika, a Russian company providing geophysical services to a petroleum industry in eastern Siberia. TNGF contributed RR 1.125 million for its 75 percent stake in the entity and the other shareholders contributed RR 0.375 million in cash for their combined 25 percent stake.

OOO Ishymgeophysika. In May 2004, TNGF and ZAO Kazmorgeophysika founded OOO Ishymgeophysika, a Kazakhstan company providing geophysical services to petroleum industry in Kazakhstan. TNGF contributed operating assets valued at RR 7.4 million for its 50 percent stake in the entity and ZAO Kazmorgeophysica contributed operating assets valued at RR 7.4 million. In July 2006, the Company purchased the remaining 50 percent of OOO Ishymgeophysika (Note 17).

The Company operates in one business and geographical segment which is provision of services to the petroleum industry within the Russian Federation. The Company assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation. These consolidated financial statements are the Company's first financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), issued and effective as at 31 December 2005, and are covered by IFRS 1, *First-time Adoption of IFRS*. The Company's transition date is 1 January 2003 and the Company prepared its opening balance sheet at that date. The policies set out below have been consistently applied for all the periods presented. TNGF and its subsidiary maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("Russian GAAP"). These financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Reconciliations and descriptions of the effect of the transition from Russian GAAP to IFRS on the Company's equity and its net income and cash flows are provided in Note 5.

The consolidated financial statements have been prepared under the historical cost convention. 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. Principal estimates are disclosed in Note 3. Actual results could differ from these estimates.

2.2 Functional and presentation currency. The Russian Rouble ("RR") is the functional currency of TNGF and its subsidiary and is the presentation currency of these consolidated financial statements. Monetary balance sheet items denominated in foreign currencies have been re-measured using the exchange rate at the respective balance sheet dates. Exchange gains and losses resulting from foreign currency translation are included in the determination of profit or loss.

The US dollar to Russian Rouble exchange rate was 28.78, 27.75 and 29.45 as of 31 December 2005, 2004 and 2003, respectively. Through early 2006, the Russian rouble was not a convertible currency in most countries outside of the former Soviet Union and, further, the Company was required to convert a portion of its hard currency proceeds into Russian roubles. During the first half of 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.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

2.3 Accounting for subsidiaries. Subsidiary undertakings are consolidated when the Company has an interest of more than 50 percent of the voting rights or otherwise has power to exercise control over their financial and operating policies. Subsidiaries are consolidated from the date on which control was achieved by the Company and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between consolidated companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.4 Associated undertakings. Associated undertakings are undertakings over which the Company has significant influence, but which it does not control. Generally significant influence occurs when the Company has between 20 percent and 50 percent of the voting rights. Associated undertakings are accounted for using the equity method.

The equity method involves recognising in the statement of income the Company's share of the associated undertakings' profit or loss for the year. Unrealised gains on transactions between the Company and its associated undertakings are eliminated to the extent of the Company's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Company's interest in each associated undertaking is carried in the balance sheet at an amount that reflects cost, including the goodwill at acquisition, plus its share of profit and losses and other changes in the post-acquisition movements in reserves, less dividends received. Provisions are recorded for any impairment in value.

The Company discontinues recognition of the share of the associate's losses when the carrying amount of the investment in an associated undertaking reaches zero, unless the Company has incurred obligations or guaranteed obligations in respect of the associated undertaking.

The associate is tested for impairment as a single asset whenever there are indicators of impairment.

2.5 Property, plant and equipment. All additions to property, plant and equipment are recorded at historical cost. Historical cost includes expenditures directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. 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.

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

Buildings	50
Plant and equipment	2-30
Motor vehicles	5-10

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 statement of income.

2.6 Intangible assets. 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.

Intangible assets primarily include computer software licenses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets have definite lives and are amortised using the straight-line method over their useful lives as follows:

Software	4-5 years
Other	2-5 years

2.7 Impairment of assets. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and at least annually for intangible assets with indefinite estimated lives. 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).

2.8 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.

2.9 Trade receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the original effective interest method, net of any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the appropriate effective interest rate. The amount of the provision is recognised in the consolidated income statement.

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

2.11 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 upon collection of receivables from customers net of VAT on purchases 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.

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.

2.12 Borrowings and other financial liabilities. Borrowings and other financial liabilities are recognised initially at fair value, net of transaction costs incurred. Such liabilities are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

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

Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost using the effective interest method.

Unless disclosed otherwise, the borrowings effective interest rates approximated the contractual interest rates at the reporting dates.

2.13 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 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Provisions. Provisions are recognised when the Company 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. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.15 Share capital*.* Common shares and 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.

Share capital has been adjusted for the effects of changes in the purchase power of the Russian Rouble from inception through 31 December 2002, in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*.

2.16 Dividends. Dividends are recognized as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are issued.

2.17 Minority interest and related put options. The Company's subsidiary is a Russian limited liability company ("OOO"). Minority equity shareholders in OOOs have a right to request redemption of their interests in the respective company in cash. The OOO'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 OOO's statutory net assets. The Company has measured this liability as the higher of IFRS or Russian GAAP net carrying values of minority interests in the OOO's net assets at each balance sheet date. The resulting liability was reclassified from minority interest in equity and was recorded in the consolidated balance sheets as liabilities for put options held by minority shareholders.

2.18 Employee benefits. The Company incurs employee costs related to the provision of benefits such as health insurance. These amounts principally represent an implicit cost of employment of personnel and, accordingly, have been charged to the consolidated statements of income or capitalised as work in progress or finished goods, as appropriate.

The Company contributes to the Russian Federation state pension scheme on behalf of its employees in accordance with the state defined contribution plan. Mandatory contributions to the governmental pension scheme are accrued when incurred.

2.19 Revenue recognition. Services contracts include long-term contracts to provide specialised services. Revenue from sales of services are recognised in the accounting period in which the services are rendered. The Company uses the "percentage of completion method" to determine the appropriate amount of revenues to recognise in a given period. 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 at such time as an agreement is reached with the customer on the amount that will be recovered from the customer. When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. For works relating to the future contracts that have not been signed at the balance sheet date the revenue is recognized to the extent that it is probable that costs incurred will be recovered.

The revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Company. In the event that contract is expected to generate losses, such loss is recognised immediately in the statement of income. Costs incurred in the year in connection with future activity on a contract are presented as inventories, prepayments or other assets, depending on their nature.

The Company 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. Progress billings not yet paid by customers are included within 'trade and other receivables'. The Company 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).

Sales are shown net of VAT.

2.20 Taxes payable. Taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date.

2.21 New or revised standards not yet effective. Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods and which the Company has not early adopted. These new standards and interpretations are not expected to significantly affect the Company's financial statements when adopted on 1 January 2006 or later.

The new standards and interpretations which the Company has not early adopted are as follows: IFRIC 4, *Determining whether an Arrangement contains a Lease* (effective from 1 January 2006); IAS 21 (Amendment) Net Investment in a Foreign Operation (effective from 1 January 2006); IAS 39 (Amendment), *The Fair Value Option* (effective from 1 January 2006); IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006); IAS 39 (Amendment), *Financial Guarantee Contracts* (effective from 1 January 2006); IFRS 6, *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRS 7, *Financial Instruments:*

Disclosures and a Complementary Amendment to IAS 1, Presentation of Financial Statements—Capital Disclosures (effective from 1 January 2007); IAS 19 (Amendment), *Employee Benefits* (effective from 1 January 2006); IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IFRS 6 (Amendment), *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006); IFRIC 6, *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* (effective for periods beginning on or after 1 December 2005); IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006); 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); IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

3 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 financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities are outlined below.

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 estimates and actual experience may result in losses in future periods and changes in any of these conditions or estimates may cause adjustments to future depreciation rates.

Fair valuation of property, plant and equipment. As discussed in Note 5, the Company elected to value its property, plant and equipment at carrying values equal to their fair values in the transition balance sheet. The fair values were estimated by an independent appraiser using the market value of the assets and the depreciated replacement cost method, as appropriate, as defined by IAS 16, *Property, Plant and Equipment*. Independent experts use a number of judgments, including but not limited by the following: (i) choice of source of prices used as a reference for replacement cost of the constituent parts, (ii) assessment of cost of transportation and assembly of the plant and equipment, (iii) assessment of the level of accumulated obsolescence and wear-and-tear depreciation. Change in the above judgments can result in significantly different estimated fair values of the assets, and therefore the carrying values of the Company's property, plant and equipment may have been different than those recorded in the balance sheets.

Impairment of property, plant and equipment. At each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company's assets has declined below their carrying values. In conducting such assessment the management uses both externally and internally available information, including independent appraisals and business performance results. If such indications exist, the management conducts the analysis to determine whether the assets are impaired by making assessments of the recoverable amount, which is the higher of the fair value less cost to sell and the value in use.

For the years ended 31 December 2005, 2004 and 2003, the Company has experienced losses, which are impairment indicators. As discussed in Note 1, in December 2005, the Company was acquired by Integra. Upon acquisition, Integra engaged an independent appraiser to estimate the fair value of the Company's property, plant and equipment. Such assessment indicated that the fair value of the Company's property, plant and equipment exceeds its carrying value. Accordingly, no impairment exists with respect to property, plant and equipment.

Should management judgement used to determine whether or not the indicators of impairment existed at reporting dates change, the carrying values of the assets could be impaired resulting in impairment charge being recognised in the Company's consolidated statement of income.

Fair values of financial assets and liabilities. 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 management using available market information, where it exists, and appropriate valuation methodologies where no market information is available.

Cash and cash equivalents are carried at fair value.

Trade and other receivables, short-term borrowings, accounts payable and accrued liabilities are carried at amortised cost, net of provisions, as appropriate. Discount rates which have been used for assessing of the fair value of the assets and liabilities ranged from 13 percent to 17 percent. At 31 December 2005, 2004 and 2003, the fair values did not materially differ from the respective carrying values.

The fair values of the Company's long-term borrowings were estimated based upon rates available to the Company on similar instruments of similar maturities. At 31 December 2005, 2004 and 2003, the carrying values of total long-term borrowings approximated their fair values.

Assessment of the percentage of completion on service revenues. The Company's revenue from services 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 estimate 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 LIQUIDITY

For the years ended 31 December 2005, 2004 and 2003, the Company has experienced recurring losses and, at 31 December 2005 and 2004, the Company's current liabilities exceeded its current assets. Short-term obligations of the Company primarily comprise trade and other payables and short-term borrowings. The Company's cash flows from operations are dependent on its contract portfolio. However, the Company has generated cash from operating activities for each of the three years ended 31 December 2005, 2004 and 2003. Additionally, management is currently taking measures to improve the entity's working capital position. Such measures include, but are not limited to, obtaining financial support from its parent, IG Holdings Limited, and from third party lenders (Note 17), together with seeking new contracts and customers. Based on the above, management believes that a going concern basis for the preparation of these financial statements is appropriate.

5 ADOPTION OF IFRS

IFRS 1, *First-time Adoption of International Financial Reporting* Standards ("IFRS 1") provides first-time adopters with certain exemptions from the historic cost requirement. In particular, IFRS 1 allows first-time adopters to recognize, upon initial adoption, items of property, plant and equipment at carrying values equal to their fair values in the transition balance sheet. Accordingly, management has recorded the Company's property, plant and equipment in the transition balance sheet at its fair value as of 1 January 2003 and designated such value as the deemed cost of these assets. The fair values were estimated by an independent appraiser using the market value of the assets and the depreciated replacement cost method, as appropriate, as defined by IAS 16, *Property, Plant and Equipment*. Market values were determined directly by reference to the observable prices in an active trading market for the the Company's motor vehicles, constituent parts of the plant and equipment and buildings.

Subsequent additions to property, plant and equipment are recorded at their historical cost.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Fair values of property, plant and equipment. Below is a summary of the assessed fair values of property, plant and equipment recorded as deemed cost as of the date of transition, 1 January 2003.

	Buildings	Plant and equipment	Motor Vehicles	Other	Total
Carrying value under Russian GAAP	73	431	28	46	578
Fair value adjustment	170	479	—	(12)	637
Carrying value under IFRS	243	910	28	34	1,215

Reconciliation with Russian GAAP. Below is a reconciliation of shareholders' equity as reported under IFRS to shareholders' equity as reported under Russian GAAP as of 1 January 2003 and 31 December 2005.

	1 January 2003	31 December 2005
Shareholders' equity under Russian GAAP	665	671
Fair value adjustment to property, plant and equipment(1)	637	637
Additional depreciation(2)	—	(335)
Provision for impairment of receivables(3)	—	(29)
Deferred tax adjustment(4)	(157)	(71)
Other adjustments	(8)	23
Shareholders' equity under IFRS	**1,137**	**896**

Below is a reconciliation of the loss as reported under IFRS to net income as reported under Russian GAAP for the year 31 December 2005:

	Year ended 31 December 2005
Net income under Russian GAAP	**15**
Provision for impairment of receivables(3)	(24)
Additional depreciation(2)	(98)
Deferred tax adjustment(4)	33
Other	5
Loss attributable to shareholders of the Company under IFRS	**(69)**

(1) The fair value adjustment to property, plant and equipment results from the Company's use of the exemption available under IFRS 1 to first-time adopters which allows assigning fair values to property, plant and equipment on the IFRS transition date.

(2) Additional depreciation charge is due to the combined effect of different cost basis and different estimated useful lives used in IFRS and Russian GAAP.

(3) Provision for impairment of receivables is due to different accounting policies adopted for IFRS and Russian GAAP. Generally, Russian GAAP requires companies to provide for receivables only when certain measures taken to collect the receivables have been unsuccessful while IFRS requires provisions as soon as management believes that a portion of the receivable will not be recovered.

(4) The deferred tax adjustment was recorded to reflect the impact of the other adjustments on the deferred tax balance.

The Company has not provided a reconciliation between cash flows as reported under Russian GAAP and IFRS. Under Russian GAAP, cash flows are presented using the direct method while under IFRS the Company has presented its cash flows using the indirect method. Under the direct method, cash flows from operations are reported based upon actual cash received from revenues, expenses and other operating activities. Under the indirect method, cash flows from operations are reported by adjusting net income for non-cash items and working capital changes.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

6 TRADE AND OTHER RECEIVABLES

	31 December:		
	2005	2004	2003
Trade receivables (net of provision for impairment of RR 24 million, RR 2 million and RR 5 million at 31 December 2005, 2004 and 2003, respectively)	188	243	178
VAT recoverable	12	17	6
Advances to suppliers (net of provision for impairment of RR nil, RR nil and RR 2 million at 31 December 2005, 2004 and 2003, respectively)	1	27	110
Prepaid expenses and other receivables	50	80	52
Total trade and other receivables	**251**	**367**	**346**

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machines & equipment	Motor Vehicles	Other	Total
Cost					
Balance as of 1 January 2003	243	910	27	35	1,215
Additions	8	45	2	60	115
Disposals	(2)	(20)	(2)	—	(24)
Balance as of 31 December 2003	249	935	27	95	1,306
Additions	21	345	6	107	479
Disposals	(1)	(15)	(1)	—	(17)
Balance as of 31 December 2004	269	1,265	32	202	1,768
Additions	3	84	7	12	106
Disposals	(12)	(27)	(5)	—	(44)
Balance as of 31 December 2005	**260**	**1,322**	**34**	**214**	**1,830**
Accumulated depreciation					
Balance as of 1 January 2003	—	—	—	—	—
Depreciation charge	(35)	(216)	(11)	(8)	(270)
Balance as of 31 December 2003	(35)	(216)	(11)	(8)	(270)
Depreciation charge	(12)	(197)	(6)	(32)	(247)
Disposals	—	3	1	—	4
Balance as of 31 December 2004	(47)	(410)	(16)	(40)	(513)
Depreciation charge	(10)	(188)	(5)	(35)	(238)
Disposals	—	12	4	—	16
Balance as of 31 December 2005	(57)	(586)	(17)	(75)	(735)
Net Book Value					
Balance as of 31 December 2003	214	719	16	87	1,036
Balance as of 31 December 2004	222	855	16	162	1,255
Balance as of 31 December 2005	203	736	17	139	1,095

At 31 December 2005, 2004 and 2003, certain property, plant and equipment with total carrying values of RR 323 million, RR 385 million and RR 285 million, respectively, were pledged as collateral for the Company's borrowings (Note 10).

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December:		
	2005	2004	2003
Trade payables	163	266	56
Prepayments from customers	75	84	76
Dividends payable	17	8	4
Accrued salaries and wages	33	33	33
Accrued liabilities and other creditors	5	9	6
Total trade and other payables	**293**	**400**	**175**

9 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 profit before income tax.

	Year ended 31 December:		
	2005	2004	2003
Loss before taxation and share of results of associates	(80)	(50)	(88)
Share of results of associate, net of income tax	(1)	1	—
	(81)	49	(88)
Theoretical income tax benefit at statutory rate of 24 percent	19	12	21
Non-deductible benefits in kind and charity	(6)	(8)	(5)
Total income tax benefit	**13**	**4**	**16**

Other taxes payable. Current taxes payable at 31 December 2005, 2004 and 2003 are detailed below.

	31 December:		
	2005	2004	2003
Unified social tax	2	4	5
Personal income tax	4	4	5
Value-added tax	43	37	40
Property tax	4	3	3
Other taxes	5	4	1
Total other taxes payable	**58**	**52**	**54**

At 31 December 2005, 2004 and 2003 included within VAT payable is RR 26 million, RR 34 million and RR 24 million, respectively, of VAT that is payable to the tax authorities when the underlying receivable is recovered or written off.

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

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Movements in deferred income tax assets and liabilities during the period ended 31 December 2005, 2004 and 2003 were as follows:

	31 December 2005	Income statement effect	31 December 2004	Income statement effect	31 December 2003	Income statement effect	1 January 2003
Trade and other receivables	12	10	2	(1)	3	3	—
Total deferred tax assets	**12**	**10**	**2**	**(1)**	**3**	**3**	**—**
Property, plant and equipment	(76)	26	(102)	23	(125)	33	(158)
Trade and other receivables	(3)	(3)	—	8	(8)	(8)	—
Accounts payable and accrued liabilities	(14)	—	(14)	(14)	—	—	—
Total deferred tax liabilities	**(93)**	**23**	**(116)**	**17**	**(133)**	**25**	**(158)**
Net deferred income tax liability	**(81)**	**33**	**(114)**	**16**	**(130)**	**28**	**(158)**

The temporary differences associated with undistributed retained earnings of subsidiaries amounted to RR 0.2 million, RR 0.1 million and RR nil as of 31 December 2005, 2004 and 2003, respectively. The Company is able to control the timing and reversal of these temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. As a result, no deferred tax liability was recognised for the temporary differences associated with the investments in subsidiaries.

The temporary differences on property, plant and equipment primarily result from utilization of the fair value as deemed cost exemption available under IFRS 1 (Note 5) and from differences in the timing and the amount of depreciation recognised for tax and accounting purposes.

10 BORROWINGS

Short-term borrowings. Below is a table detailing short-term borrowings and the current portion of long-term borrowings at 31 December 2005, 2004 and 2003.

	31 December: 2005	2004	2003
Short-term borrowings	45	141	65
Current portion of long-term borrowings	130	—	—
Total short-term borrowings and current portion of long-term borrowings	**175**	**141**	**65**

As of 31 December 2005, 2004 and 2003 all borrowings were Russian Rouble-denominated and collateralised by the Company's property, plant and equipment. Short-term borrowings had effective interest rates ranging from 12.5 to 13.0 percent per annum, 10.8 to 15 percent per annum and 15 percent per annum for the years ended 31 December 2005, 2004 and 2003, respectively.

Long-term borrowings. The Company's long-term borrowings at 31 December 2005 and 2004 are outlined below.

	31 December: 2005	2004	2003
Sberbank	166	87	—
Less: current portion of long-term borrowings	(130)	—	—
Total long-term borrowings	**36**	**87**	**—**

Sberbank. In December 2004, the Company entered into a Russian Rouble-denominated credit facility with Sberbank for a maximum amount of RR 200 million. The facility, which matures in June 2007, bears a fixed interest of 12.5 percent, and is repayable on a monthly basis beginning March 2006. The facility is collateralized by the production equipment of the Company.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Scheduled maturities of long-term borrowings outstanding at 31 December 2005, 2004 and 2003 are as follows:

	Scheduled maturities at 31 December:		
	2005	2004	2003
2006	—	87	—
2007	36	—	—
Total long-term borrowings	**36**	**87**	**—**

11 SHARE CAPITAL

Shares authorized and issued. At incorporation on 5 July 1993, the total authorized and issued share capital was RR 44,620,000 comprising 33,465,000 common shares, each with nominal value of RR 1 (one Russian Rouble), and RR 11,155,000 preferred shares each with nominal value of RR 1 (one Russian Rouble). Share capital had been paid in full.

Share capital as reported in the consolidated balance sheet differs from its par value as it has been adjusted for the effects of changes in the purchase power of the Russian Rouble from inception through 31 December 2002, in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*.

Holders of preferred shares are entitled to an unspecified annual dividend, at a level greater or equal to that declared on common shares. The holders of preferred shares receive voting rights in the event no dividend was declared for the holders of such shares.

During the years ended 31 December 2005, 2004 and 2003, the Company declared dividends totaling RR 22,281,000, RR 11,150,000 and RR 22,310,000, respectively. In May 2006, the Company's shareholders approved preferred dividends for 2005 in the amount of RR 0.02 per preferred share for a total dividend of RR 223,100.

Distributable retained earnings. The statutory accounting reports of TNGF are the basis for income distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net income calculated in accordance with Russian accounting regulations. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation. At 31 December 2005, 2004 and 2003, retained earnings, available for distribution reported in the statutory financial statements of TNGF totaled RR 11,225,000, 22,844,000 and 29,716,000 respectively.

12 COST OF SALES

	Year ended 31 December:		
	2005	2004	2003
Employee costs (including mandatory social contributions of RR 61 million, RR 53 million, and RR 45 million for the years ended 31 December 2005, 2004 and 2003, respectively)	363	400	382
Materials and supplies	176	148	91
Depreciation and amortization	247	239	274
Services	143	107	140
Environmental fees and permits	45	38	31
Other	83	65	58
Total cost of sales	**1,057**	**997**	**976**

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

13 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:		
	2005	2004	2003
Employee costs (including mandatory social contributions of RR 5 million, RR 8 million and RR 8 million for the years ended 31 December 2005, 2004 and 2003, respectively)	39	53	54
Provision for impairment of receivables	22	(5)	3
Property and other taxes	17	13	15
Depreciation and amortization	12	19	10
Services	2	4	13
Trip expenses	3	4	4
Bank charges	2	3	3
Other	31	41	25
Total general and administrative expenses	**128**	**132**	**127**

The provision for impairment of receivables charge for the year ended 31 December 2005 includes a reserve against the amount due from OAO Eastern Oil Company, a subsidiary of YUKOS Oil Company. The provision was set up following management's re-assessment of the customer's liquidity.

14 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Contractual commitments and guarantees. At 31 December 2005 the Company had no outstanding guarantees or contractual commitments for purchases of property, plant and equipment and intangible assets.

Environmental matters. The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company 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 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 Company 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. The areas that could be challenged include but are not limited by transfer pricing issues, the economic substance of transactions, compliance with customs and currency regulations. 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 2005, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in these financial statements.

Insurance policies. The Company holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks. Limited insurance policies exist primarily covering assets pledged against the Company's borrowings.

Legal proceedings. At 31 December 2005, the Company 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 Company.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Operating environment. The Russian Federation continues to display some characteristics of an emerging market, including relatively high inflation. The tax and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in the economic trends, 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.

15 FINANCIAL RISKS

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

Credit risks. Financial assets, which potentially subject Company to credit risk, consist principally of trade receivables. The Company 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 (Note 6) and balances on accounts with banks, net of provision for impairment, represents the maximum amount exposed to credit risk.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision already recorded.

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

During 2005, a significant proportion of the Company's sales were made to five Russian oil and gas majors: Surgutneftegaz, Surgutgazprom, Sibneft-Nojabrskneftegaz, Tyumenneftegaz and Varjeganneftegaz. The related revenues and balances as of and for the three years ended 31 December 2005 are presented below.

	Sales for the year ended 31 December 2005	Net amount due from at 31 December 2005
OAO Surgutneftegaz	251	13
OOO Surgutgazprom	88	—
Sibneft-Nojabrskneftegaz	98	—
TNK-BP	96	9
OAO Varjegannneftegaz	66	—

	Sales for the year ended 31 December 2004	Net amount due from at 31 December 2004
OAO Surgutneftegaz	188	47
OOO Surgutgazprom	97	—
OOO Vostochno-Sibirskaya Neftegazovaja Kompanija	107	16
TNK-BP	96	69
OOO Yuganskneftegaz	80	—

	Sales for the year ended 31 December 2003	Net amount due from at 31 December 2003
OAO Vostochno-Sibirskaya Neftegazovaja Kompanija	164	—
OOO Surgutgazprom	141	—
TNK-BP	110	5
OOO Surgutneftegaz	100	14
OIL INDIA Limited	86	—

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Interest rate risk. Substantially all the Company's borrowings are made at fixed rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. Currently, the Company 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 Company.

16 RELATED PARTY TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related if they meet the definition of related party as determined in IAS 24, *Related Party Disclosures*. Under the definitions therein, parties are 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. Key management and close family members of management, shareholders of other related parties also are considered related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Because of these relationships, it is possible that the Company may have entered transactions which unrelated parties might not have 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.

Balances with related parties of the Company at or for the years ended 31 December 2005, 2004 and 2003 consist of the following:

	At or for the year ended 31 December:		
	2005	2004	2003
Accounts payable to OOO Ishymgeophysika	5	1	—
Purchases from OOO Ishymgeophysika	5	1	—
Management compensation	14	18	14

Management compensation. The Company's senior management team comprised seven, eight and eight individuals for the years ended 31 December 2005, 2004 and 2003, respectively. Included in management compensation were annual bonuses and other benefits of RR 3 million, RR 1 million and RR 3 million for the years ended 31 December 2005, 2004 and 2003, respectively.

17 SUBSEQUENT EVENTS

Acquisition of Ishymgeophysika. In July 2006, the Company purchased the remaining 50 percent of Ishymgeophysika for RR 9 million, bringing its total interest to 100 percent. The information on the fair values of the individual assets and liabilities for this acquisition is not presented as the Company is currently in the process of determining the fair values and such disclosure would be impracticable.

Borrowings. Subsequent to 31 December 2005, the Company obtained a number of loan facilities from Russian banks. All of the facilities bear fixed interest rates and mature in 2007. The agreements with the banks are collateralised by the Company's property, plant and equipment and guaranteed by other subsidiaries of Integra. The majority of the proceeds have been used to issue loans to other subsidiaries of Integra on similar terms. The remaining portion has been utilized by the Company to finance its working capital.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Below is a table detailing main borrowings obtained by the Company since 31 December 2005 and their major terms.

	Collateralised by the Company's property	Guarantees issued by	Interest rate	Amount due	Amount available
Nomos-bank (USD-denominated) . . .	Yes	Integra subsidiaries	12%	189[1]	189[1]
Alfa-Bank (RR-denominated)	Yes	Integra subsidiaries	10.5%	270	270
Alfa-Bank (RR-denominated)	—	Integra subsidiaries	9.25%	1,800	1,800
Total borrowings received				**2,259**	**2,259**

(1) US Dollar amounts have been translated into Russian Roubles using the exchange rate of RR 27.00 to one US Dollar.

Below is a table detailing main loans issued by the Company to the subsidiaries of Integra since 31 December 2005 and their major terms. All issued loans were RR-denominated.

	Collateralised by the Company's property	Guarantees issued by	Interest rate	Amount due	Amount available
ZAO Integra Management . .	—	—	12%-13%	104	184
OOO Integra Finance	—	—	12%	1,614	2,000
OOO BK Alliance	—	—		9	100
OOO BK Sever	—	—		18	100
Total loans issued				**1,745**	**2,384**

Guarantees. In August 2006, the Company, together with four other subsidiaries of Integra provided a guarantee to ZAO International Moscow Bank (MMB) on behalf of OOO Integra Finance (a subsidiary of Integra) with respect to borrowings totalling RR 1 billion. The underlying facility and the associated guarantee expire in February 2007. The guarantee agreement restricts the Company's ability to obtain further debt without MMB's consent. Management believes that it is impracticable to estimate the value of the guarantee given the joint and several nature of the contingent liability.

In October 2006, the Company, together with two other subsidiaries of Integra provided a guarantee to ZAO International Moscow Bank (MMB) on behalf of ZAO Uralmash-Burovoe Oborudovanie (a subsidiary of Integra) with respect to borrowings totalling $20,000,000. The underlying facility and the associated guarantee expire in March 2008. The guarantee agreement restricts the Company's ability to obtain further debt without MMB's consent.

The value of the guarantees was estimated to be immaterial.

OAO TYUMENNEFTEGEOPHYSIKA

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SMITH EURASIA

INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006 (UNAUDITED)

CONTENTS

SMITH EURASIA

INTERIM CONDENSED COMBINED BALANCE SHEETS (UNAUDITED)
(expressed in millions of Russian Roubles)

	Note	30 September 2006	31 December 2005
Assets			
Cash and cash equivalents		637	433
Short-term investments	3	14	66
Trade and other receivables	4	255	134
Inventory		261	130
Total current assets		**1,167**	**763**
Property, plant and equipment		26	19
Deferred tax assets	6	9	8
Long-term loans issued to related party	10	—	29
Total non-current assets		**35**	**56**
Total assets		**1,202**	**819**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	5	357	135
Income taxes payable		250	239
Other taxes payable	6	262	224
Short-term borrowings		—	22
Total current liabilities		**869**	**620**
Long-term financial liabilities		—	15
Deferred tax liability	6	12	—
Total non-current liabilities		**12**	**15**
Total liabilities		**881**	**635**
Shareholders' equity:			
Share capital		4	4
Cumulative translation adjustment		(16)	(10)
Retained earnings		333	190
Total equity		**321**	**184**
Total liabilities and equity		**1,202**	**819**

Approved and authorized for issue on 22 February 2007

Mark Sadykhov	Sergey Malygin
General Director	Chief Financial Officer

The acccompanying notes are an integral part of these interim condensed combined financial statements.

SMITH EURASIA

INTERIM CONDENSED COMBINED STATEMENTS OF INCOME (UNAUDITED)
(expressed in millions of Russian Roubles)

	Note	Nine months ended 30 September: 2006	2005
Sales of drilling components		564	692
Sales of services		741	130
Total sales	7	**1,305**	**822**
Cost of sales	8	(742)	(598)
Gross profit		**563**	**224**
Selling, general and administrative expenses	9	(287)	(254)
Dividend received from entities under common control	10	8	—
Loss on available for sales investments		—	(1)
Operating profit		**284**	**(31)**
Interest income		16	9
Interest expense		(3)	(1)
Exchange gain (loss)		18	(3)
Fair value adjustment on transactions under common control		—	4
Profit before taxation		**315**	**(22)**
Current income tax expense		(67)	(25)
Deferred income tax expense	6	(11)	(3)
Total tax expense		**(78)**	**(28)**
Profit (loss) for the period		**237**	**(50)**

SMITH EURASIA

INTERIM CONDENSED COMBINED STATEMENTS OF CASH FLOWS (UNAUDITED)
(expressed in millions of Russian Roubles)

	Notes	Nine months ended 30 September: 2006	2005
Cash flows from operating activities			
Profit before taxation		**315**	**(22)**
Adjustments for:			
Depreciation	9	28	4
Exchange gain		(18)	3
Interest expense		3	1
Interest income		(16)	(9)
Gain on contributions received from commonly controlled entities		(8)	—
Loss on available-for-sale investments		—	1
Fair value adjustment on transactions under common control		—	(4)
Operating cash flows before working capital changes		**304**	**(26)**
Change in trade and other receivables		(122)	(80)
Change in inventories		(130)	(82)
Change in accounts payable and accrued liabilities		230	90
Change in other taxes payable		48	90
Cash provided by (used in) operations before interest and income taxes		**330**	**(8)**
Income tax paid		(42)	(7)
Interest paid		(3)	(1)
Net cash provided by operating activities		**285**	**(16)**
Cash flows from investing activities:			
Interest received		16	9
Purchase of property, plant and equipment		(34)	(17)
Repayments of short-term loans provided to related parties		56	—
Loans provided to related parties		(11)	(35)
Acquisition of financial assets under common control		(54)	—
Other		(1)	—
Net cash used in investing activities		**(28)**	**(43)**
Cash flows from financing activities:			
Proceeds from long-term debt from related parties		—	17
Repayment of long-term debt from related parties		(17)	—
Proceeds from short-term debt		—	15
Repayments of short-term debt		(22)	—
Contribution from shareholders		8	—
Net cash provided (used in) by financing activities		**(31)**	**32**
Net increase in cash and cash equivalents		**226**	**(27)**
Cash and cash equivalents at the beginning of the period		433	405
Effect of exchange differences on cash balances		(22)	13
Cash and cash equivalents at the end of the period		**637**	**391**

SMITH EURASIA

INTERIM CONDENSED COMBINED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
(expressed in millions of Russian Roubles)

	Notes	Share capital	Cumulative translation adjustment	Retained earnings	Total equity
Balance as of 31 December 2004		**4**	**(16)**	**218**	**206**
Recognized income					
Translation adjustment		—	6	—	6
Loss for the period		—	—	(50)	(50)
Total recognized income (loss)		—	6	(50)	(44)
Balance as of 30 September 2005		**4**	**(10)**	**168**	**162**
Balance as of 31 December 2005		**4**	**(10)**	**190**	**184**
Distributions to shareholders	10			(94)	(94)
Recognized income					
Translation adjustment		—	(6)	—	(6)
Profit for the period		—	—	237	237
Total recognized income (loss)		—	(6)	237	231
Balance as of 30 September 2006		**4**	**(16)**	**333**	**321**

(expressed in Russian Roubles, tabular amounts in millions except as indicated)

1 GENERAL INFORMATION

In August 2006, IG Holdings Limited, a subsidiary of Integra Group ("Integra"), acquired a 100 percent interest in Smith Eurasia Inc., SE Management LLC, Smith Eurasia Limited, and Supply International (collectively— "the Holding Companies"). During the reporting periods ended 31 December 2004 and 2005 Holding Companies, together with their respective consolidated subsidiaries, were collectively owned and managed by the group of three core shareholders. Since February 2006 and until the acquisition of the Holding Companies by Integra, two additional individuals were admitted as shareholders of the Holding Companies.

The Holding Companies and their subsidiaries (collectively "Smith Eurasia" or "SEA") engage in the sale of drilling bits and components, in the provision of drilling, workover and other oilfield services to the petroleum industry. The majority of SEA's operations are in the Russian Federation. Additionally, SEA has sales operations in Ukraine, Kazakhstan, Estonia and Turkmenistan, procurement operations in the United States of America, and in the Cayman Islands and Belize. Sales to Estonia and Turkmenistan are being made using direct agreements between local customers and SEA companies registered in the United States of America.

SEA operates in one business segment and assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole. Management considers the Commonwealth of Independent States to be a single geographic region.

Integra is the Holding Companies' current ultimate controlling party and is registered in Cayman Islands.

These interim condensed combined financial statements have been prepared solely for the purposes of inclusion into a prospectus for the initial public offering on Integra's shares on the London Stock Exchange. The basis of preparation and significant accounting policies for these interim condensed combined financial statements are described in Note 2.

The Holding Companies and their subsidiaries combined into these interim condensed combined financial statements were as follows:

Company	Nature of business	Country of registration	Date of incorporation
Smith Eurasia Inc.	Holding company, sales of drilling components	United States of America	1997
Smith Overseas Services Inc.	Consulting services	United States of America	2001
OOO Smith Overseas Services	Sales of drilling components and services	Russian Federation	2004
SE Management LLC	Holding company, sales of drilling components	United States of America	2004
Smith Siberian Services LLC	Holding company	United States of America	2004
Smith Overseas Services LLC	Holding company	United States of America	2004
OOO Smith Siberian Services	Sales of drilling components and services	Russian Federation	2004
OOO Smith Production Technology	Sales of drilling components and services	Russian Federation	2004
DP Smith Ukraine	Sales of drilling components and services	Ukraine	2005
OOO Smith Drilling Services	Sales of drilling components	Russian Federation	2003
TOO Smith Eurasia—KZ	Sales of drilling components and services	Kazakhstan	2005
Smith Eurasia Limited	Sales of drilling components and services	Cayman Islands	1996
Supply International	Sales of drilling bits	Belize	1993

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation. These interim condensed combined financial statements have been prepared solely for the purposes of inclusion into a prospectus for the initial public offering of depositary receipts of Integra's shares on the London Stock Exchange. The accounting policies used in preparing these interim condensed combined financial statements are described below and are based on International Financial Reporting Standards ("IFRS"), except for the policies used to account for the combination of entities acquired by Integra.

As discussed in Note 1, through the date of its acquisition by Integra in August 2006, SEA were collectively owned and managed by a group of 5 shareholders. In preparing these interim condensed combined financial statements, the financial statements of the individual combined entities were aggregated on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses. Balances, transactions and unrealised gains or losses on transactions between the combined entities, including their subsidiaries, were eliminated in full. Share capital represents the sum of the respective share capital of the Holding Companies.

The interim condensed combined financial statements have been prepared under the historical cost convention. The preparation of interim condensed combined financial statements 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. Actual results could differ from these estimates.

2.2 Functional and presentation currency. Management has selected the Russian Rouble ("RR") as the presentation currency for SEA's operations. The financial statements of each of the combined entities were maintained in their respective functional currencies, and, where their functional currencies are other than the Russian Rouble, their financial information is translated into Russian Roubles in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The US dollar is the functional currency of all Holding Companies, of Smith Eurasia Limited, Smith Overseas Services Inc. and of Supply International. Balance sheet items have been translated into presentation currency using the exchange rate at the respective balance sheet date. Income statement items were translated into presentation currency 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 Russian Roubles were included within cumulative translation adjustment in the statement of changes in shareholders' equity.

The Russian Rouble to US dollar exchange rate was 26.78 to one and 28.78 to one as of 30 September 2006 and 31 December 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 Russian companies were required to convert a portion of their hard currency proceeds into Russian roubles. During the first half of 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.

2.3 Accounting policies. The principal accounting policies followed by SEA are consistent with those disclosed in the financial statements for the year ended 31 December 2005.

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

These new standards and interpretations are not expected to significantly affect SEA's financial statements when adopted: IFRS 7, *Financial Instruments: Disclosures* and a Complementary Amendment to IAS 1, *Presentation of Financial Statements—Capital Disclosures* (effective from 1 January 2007); 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

(expressed in Russian Roubles, tabular amounts in millions except as indicated)

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); IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

New or amended standards and interpretations effective for SEA from 1 January 2006 are discussed below. None of the adoptions had a material impact on SEA's financial position or results of operations.

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, 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 decommission funds.

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.

3 SHORT-TERM INVESTMENTS

	30 September 2006	31 December 2005
Marketable securities	11	11
Loans issued to ZAO Smith Industrial Supply	—	54
Other short-term investments	3	1
Total short-term investments	**14**	**66**

4 TRADE AND OTHER RECEIVABLES

	30 September 2006	31 December 2005
Trade receivables (net of provision for impairment of receivables of RR 1 million and RR nil as of 30 September 2006 and 2005 respectively)	212	94
VAT recoverable	15	20
Prepaid taxes	—	4
Advances to suppliers	15	9
Prepaid expenses	5	2
Other receivables	8	5
Total accounts receivable and prepayments	**255**	**134**

(expressed in Russian Roubles, tabular amounts in millions except as indicated)

5 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 September 2006	31 December 2005
Trade payables	238	104
Salaries and wages	18	8
Advances from customers	3	1
Accrued liabilities and other creditors	98	22
Total accounts payable and accrued liabilities	**357**	**135**

6 TAXES

SEA operates in a number of tax jurisdictions, including the United Stated of America, the Cayman Islands, Belize, Kazakhstan, the Ukraine and the Russian Federation. The calculations of current and deferred income taxes have been performed using enacted tax rates effective for the appropriate jurisdiction.

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.

	Period ended 30 September:	
	2006	2005
Profit (loss) before taxation		
Russian Federation	277	43
United States of America	19	(22)
Cayman Islands and Belize	12	(41)
Other	7	(2)
Total profit before taxation	**315**	**(22)**
Theoretical tax charge at Russian statutory income tax rate of 24 percent	(76)	5
US income recognized in LLCs taxed at the shareholder level	9	(2)
Effect of income taxed at rates higher than 24 percent	(15)	(18)
Effect of income taxed at rates lower than 24 percent	3	(10)
Non tax deductible expenses and other differences	1	(3)
Total income tax expense	**(78)**	**(28)**

Other taxes payable. Current taxes payable at 30 September 2006 and 2005 are detailed below.

	30 September 2006	31 December 2005
Penalties and fines	252	215
Value-added tax	6	7
Other taxes	4	2
Total other taxes payable	**262**	**224**

Deferred income tax. Differences between IFRS and Russian 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.

(expressed in Russian Roubles, tabular amounts in millions except as indicated)

Movements in deferred income tax assets and liabilities during the year ended 30 September 2006 were as follows:

	30 September 2006	Income statement effect in 9 months 2006	31 December 2005	30 September 2005	Income statement effect in 9 months 2005	31 December 2004
Assets						
Inventories	6	0	6	1		1
Tax losses carried forward	3	1	2	1	(3)	4
Other	—	—	—	—	—	—
Deferred income tax assets	**9**	**1**	**8**	**2**	**(3)**	**5**
Liabilities						
Inventories	(3)	(3)	—	—	—	—
Accounts receivable	(6)	(6)	—	—	—	—
Others	(3)	(3)	—	—	—	—
Deferred income tax liabilities	**(12)**	**(12)**	**—**	**—**	**—**	**—**
Net deferred income tax liability	**(3)**	**(11)**	**8**	**2**	**(3)**	**5**

Deferred tax assets for tax losses carried forward are recognized when management believes it is probable that the respective entities will be able to utilize the losses to offset future tax profits. At 31 September 2006 and 31 December 2005 there were no unrecognised tax losses carried forward.

The temporary differences associated with undistributed earnings of subsidiaries amounted to RR 219 million and RR 18 million for the periods ended 30 September 2006 and 2005 respectively. As respective companies of SEA are 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 recognized for the temporary differences associated with the investment in subsidiaries of holding companies.

7 SALES

SEA operates in one business segment and assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole. In the period of 9 months of 2006 and 2005 sales of drilling components, sales of services and other operating revenues have been made to customers, presented in the following countries.

	Nine months ended 30 September:	
	2006	2005
Russian Federation	1,044	489
Other CIS countries	248	275
Other	13	58
Total sales	**1,305**	**822**

8 COST OF SALES

	Nine months ended 30 September:	
	2006	2005
Materials and supplies	421	504
Third party drilling services	155	—
Employee costs (including mandatory social contributions of RR 10 million and RR 4 million for the 9 month period ended 30 September 2006 and 2005 respectively)	111	72
Transportation services	55	22
Total cost of sales	**742**	**598**

(expressed in Russian Roubles, tabular amounts in millions except as indicated)

9 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Nine months ended 30 September:	
	2006	2005
Employee costs (including mandatory social contributions of RR 9 million and RR 2 million for the 9 month period ended 30 September 2006 and 2005 respectively)	81	46
Entertainment and business development	71	94
Fines and penalties	41	76
Depreciation	28	4
Business trips	18	2
Office lease	15	7
Taxes other than income	5	3
Bad debt provision	3	—
Selling commissions	—	3
Other costs	25	19
Total selling, general and administrative expenses	**287**	**254**

10 RELATED PARTY TRANSACTIONS

For the purposes of these interim condensed combined financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or such parties are under common control, or when such parties are members of key management in accordance with definitions of 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 SEA entered into significant transactions or had significant balances outstanding as of 31 December 2005 and 2004 are Smith Eurasia LLC, ZAO Smith Industrial Supply, Smith Equipment and Services Limited and Smith Siberian Services Limited related through common ultimate shareholders.

Because of these relationships, it is possible that SEA 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.

At 30 September 2006 and 31 December 2005, SEA had trade receivables of RR 5 million and RR 6 million, respectively, outstanding from related parties.

Transactions with related parties of SEA for the periods ended 30 September 2006 and 2005 are outlined below:

	As of:	
	30 September 2006	31 December 2005
Short term loan provided to related party (ZAO Smith Industrial Supply)	—	54
Long-term loans provided to related party (Smith Eurasia LLC)	—	29
Long-term borrowings from related party (Smith Siberian Services Ltd)	—	15

	9 months ended:	
	30 September 2006	30 September 2005
Sales of drilling components	1	61
Management compensation	17	11
Dividend received from entities under common control	8	—
Distributions to shareholders (net of income tax of RR nil)	94	—

Distributions to shareholders. In April of 2006, SEA, through one of its entities, acquired a 2 percent ownership in Vostok Energy Ltd (formerly 'Royal Atlantic') for the cash consideration of RR 54 million. According to terms of the sales and purchase agreement with Integra for the acquisition of 100 percent interest on Holding Companies, this investment is excluded from the acquisition and will be returned to original shareholders free of charge. Accordingly, the investment was derecognized as of the date of the acquisition of Holding Companies by Integra and after-tax loss on derecognition of the investment was recorded in the interim condensed combined statements of changes in shareholder's equity for nine months ended 30 September 2006 under the caption 'distributions to shareholders'.

In 2005, SEA, provided USD-denominated loan to Smith Eurasia LLC for RR 35 million. This loan was recorded at its fair value at the origination date by applying an effective rate of 12 percent per annum. In June 2006, another portion of the loan in the amount of RR 11 million was provided to Smith Eurasia LLC. According to terms of the sales and purchase agreement with Integra for the acquisition of 100 percent interest on Holding Companies, this loan will not be returned and is not recoverable. Loss on derecognition of the carrying amount of the loan of RR 40 million is recorded in the interim condensed combined statements of changes in shareholder's equity for nine months ended 30 September 2006 under the caption 'distributions to shareholders'.

Management compensation. SEA's senior management team comprised five individuals, whose compensation for each reporting period is disclosed in the table above. Management compensation included salaries and bonuses. There were no significant benefits-in-kind or other compensation provided to senior management.

Dividend received from entities under common control. The Company owns 100 percent of the voting shares in ZAO Smith Industrial Supply ("SIS"). SIS is not engaged in the Company's core business, and is managed and controlled separately from the rest of the SEA entities. SIS was disposed by SEA in June 2006, prior to the acquisition by Integra. As a result, the financial position and operating results of SIS are not relevant for the objective of showing the financial position and the results of operations of the Company's business. Therefore, the results of SIS operations have not been included in these interim condensed combined financial statements. The Company's investment in SIS is recorded at cost. The dividend received from SIS were recorded in the interim condensed combined statements of income.

11 CONTINGENCIES AND COMMITMENTS

Environmental matters. The enforcement of environmental regulation in many of the countries in which SEA operates is evolving and the enforcement posture of government authorities is continually being reconsidered. SEA 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. Tax, currency and customs legislation in the CIS 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 SEA may be challenged by the relevant regional and federal authorities. Specifically, recent events within the Russian Federation and other CIS countries 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. The areas that could be challenged include but are not limited by transfer pricing issues, the economic substance of transactions, compliance with customs and currency regulations. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods generally remain open to review by the authorities in respect of taxes for three to six calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As of 31 December 2005, management believes that its interpretation of the relevant legislation is appropriate and that the SEA'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. SEA holds no insurance policies in relation to its operations or in respect of public liability or other insurable risks and limited insurance policies primarily covering assets pledged against the Group's borrowings.

Legal. During 9 months of 2005, certain combined entities have been engaged in the provision of services, which according to legislation require legal licences. However, during this period all of such services were subcontracted to third parties. Management believes that such approach reduces the risk of legal claims. While management believes the likelihood of any claims being brought against it as minimal, management cannot exclude the possibility that authorities may pursue SEA for prior violations of related regulations.

At 30 September 2006, SEA 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 SEA and which have not been accrued or disclosed in these financial statements.

Operating environment of SEA. The Russian Federation and other countries in the CIS continue to display some characteristics of an emerging market economy. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the CIS and relatively high inflation. The tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in the economic trends, the future economic direction of the region is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

SMITH EURASIA

COMBINED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2005 AND 2004 AND FOR EACH OF TWO YEARS ENDED 31 DECEMBER 2005 AND 2004

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ACCOUNTANT'S REPORT

The Directors
Smith Eurasia
Smolenskaya-Sennaya square, bld. 27-29/1, block 6
119121 Moscow
Russian Federation

Dear Sirs

Integra Group

We report on the financial information set out on pages from F-166 to F-182. This financial information has been prepared for inclusion in the a prospectus for the initial public offering of Integra Group's shares on the London Stock Exchange dated February 2007 (the "**Prospectus**") of Smith Eurasia (the "**Company**") on the basis of the accounting policies set out in Note 2. This report is required by item 20.1 of Annex X to the PD Regulation and is given for the purpose of complying with that item and for no other purpose.

Responsibility

The Directors of Smith Eurasia are responsible for preparing this financial information in accordance with the basis of preparation set out in accordance with International Financial Reporting Standards ("**IFRS**"), except for the basis of combination.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Prospectus and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under Prospectus Rule 5.5.4R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex X to the PD Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting 2000 issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Integra Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of Smith Eurasia as at the dates stated and of its results of operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Declaration

For the purposes of Prospectus Rule 5.5.4R(2)(f) we are responsible for this report as part of the following parts of the Prospectus, and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex X of the Prospectus Regulation.

PricewaterhouseCoopers

Moscow, Russian Federation

CONTENTS

SMITH EURASIA

COMBINED BALANCE SHEETS
(expressed in millions of Russian Roubles, except as indicated)

	Notes	31 December: 2005	2004
Assets			
Cash and cash equivalents		433	405
Short-term investments	4	66	12
Trade and other receivables	5	134	155
Inventory	6	130	52
Total current assets		**763**	**624**
Property, plant and equipment		19	3
Deferred tax assets	8	8	5
Long terms loans issued to related party	14	29	31
Total non-current assets		**56**	**39**
Total assets		**819**	**663**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	7	135	135
Income tax payable		239	194
Other taxes payable	8	224	128
Short-term borrowings	9	22	—
Total current liabilities		**620**	**457**
Long-term loans from related parties	14	15	—
Total non-current liabilities		**15**	**—**
Total liabilities		**635**	**457**
Shareholders' equity:			
Share capital		4	4
Cumulative translation adjustment		(10)	(16)
Retained earnings		190	218
Total equity		**184**	**206**
Total liabilities and equity		**819**	**663**

Approved and authorized for issue on 22 February 2007

Mark Sadykhov
General Director

Sergey Malygin
Chief Financial Officer

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

SMITH EURASIA

COMBINED STATEMENTS OF INCOME
(expressed in millions of Russian Roubles, except as indicated)

	Notes	Year ended 31 December: 2005	2004
Sales of drilling components		830	524
Sales of services		218	118
Total sales	11	**1,048**	**642**
Cost of sales	12	(708)	(386)
Gross profit		**340**	**256**
Selling, general and administrative expenses	13	(330)	(197)
Changes in fair value of financial assets		1	(1)
Operating profit		**11**	**58**
Interest income		16	10
Interest expense		(2)	—
Exchange (loss) gain		(5)	1
Fair value adjustment on transactions under common control		(4)	(6)
Profit before taxation		**16**	**63**
Current income tax expense		(47)	(57)
Deferred income tax benefit		3	7
Total tax expense	8	**(44)**	**(50)**
Profit (loss) for the year		**(28)**	**13**

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

SMITH EURASIA

COMBINED STATEMENTS OF CASH FLOWS
(expressed in millions of Russian Roubles, except as indicated)

	Notes	Year ended 31 December: 2005	2004
Cash flows from operating activities			
Profit before taxation		16	63
Adjustments for:			
Depreciation	13	2	—
Bad debt provision		1	2
Exchange loss (gain)		5	(1)
Interest expense		2	—
Interest income		(16)	(10)
Fair value adjustment on transactions under common control		4	6
Other adjustments		7	(1)
Operating cash flows before working capital changes		**21**	**59**
Change in trade and other receivables		20	(79)
Change in inventories		(77)	(41)
Change in accounts payable and accrued liabilities		(7)	24
Change in other taxes payable		91	75
Cash provided by operations before interest and income taxes		**48**	**38**
Income tax paid		(7)	(2)
Interest paid		(2)	—
Net cash provided by operating activities		**39**	**36**
Cash flows from investing activities:			
Interest received		14	8
Purchase of property, plant and equipment		(21)	(3)
Short-term loans provided to related parties	14	(21)	—
Long term loans provided to related parties	14	(35)	(7)
Repayments of short-term loans provided to related parties		—	18
Proceeds from sales of marketable securities		—	4
Net cash provided by (used) in investing activities		**(63)**	**20**
Cash flows from financing activities:			
Proceeds from long-term loan from related party	14	18	—
Proceeds from short-term debt		22	—
Net cash provided by financing activities		**40**	**—**
Net increase in cash and cash equivalents		**16**	**56**
Cash and cash equivalents at the beginning of the period		405	365
Effect of exchange differences on cash balances		12	(16)
Cash and cash equivalents at the end of the period		**433**	**405**

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

SMITH EURASIA

COMBINED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in millions of Russian Roubles except as indicated)

	Notes	Share capital	Cumulative translation adjustment	Retained earnings	Total equity
Balance as of 31 December 2003		**4**	**—**	**205**	**209**
Recognized income					
Translation adjustment		—	(16)	—	(16)
Profit for the year		—	—	13	13
Total recognized income (loss)		—	(16)	13	(3)
Balance as of 31 December 2004		**4**	**(16)**	**218**	**206**
Recognized income					
Translation adjustment		—	6	—	6
Loss for the year		—	—	(28)	(28)
Total recognized income (loss)		—	6	(28)	(22)
Balance as of 31 December 2005		**4**	**(10)**	**190**	**184**

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS
(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

1 GENERAL INFORMATION

In August 2006, IG Holdings Limited, a subsidiary of Integra Group ("Integra"), acquired a 100 percent interest in Smith Eurasia Inc., SE Management LLC, Smith Eurasia Limited, and Supply International (collectively – "the Holding Companies"). During the reporting periods ended 31 December 2004 and 2005 Holding Companies, together with their respective consolidated subsidiaries, were collectively owned and managed by the group of three core shareholders. Since February 2006 and until the acquisition of the Holding Companies by Integra, two additional individuals were admitted as shareholders of the Holding Companies.

The Holding Companies and their subsidiaries (collectively "Smith Eurasia" or "SEA") engage in the sale of drilling bits and components, in the provision of drilling, workover and other oilfield services to the petroleum industry. The majority of SEA's operations are in the Russian Federation. Additionally, SEA has sales operations in Ukraine, Kazakhstan, Estonia and Turkmenistan, procurement operations in the United States of America, and in the Cayman Islands and Belize. Sales to Estonia and Turkmenistan are being made using direct agreements between local customers and SEA companies registered in the United States of America.

SEA operates in one business segment and assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole. Management considers the Commonwealth of Independent States to be a single geographic region.

Integra is the Holding Companies' current ultimate controlling party and is registered in Cayman Islands.

These combined financial statements have been prepared solely for the purposes of inclusion into a prospectus for the initial public offering on Integra's shares on the London Stock Exchange. The basis of preparation and significant accounting policies for these combined financial statements are described in Note 2.

The Holding Companies and their subsidiaries combined into these combined financial statements were as follows:

Company	Nature of business	Country of registration	Date of incorporation
Smith Eurasia Inc.	Holding company, sales of drilling components	United States of America	1997
Smith Overseas Services Inc.	Consulting services	United States of America	2001
OOO Smith Overseas Services	Sales of drilling components, sales of services	Russian Federation	2004
SE Management LLC	Holding company, sales of drilling components	United States of America	2004
Smith Siberian Services LLC	Holding company	United States of America	2004
Smith Overseas Services LLC	Holding company	United States of America	2004
OOO Smith Siberian Services	Sales of drilling components, sales of services	Russian Federation	2004
OOO Smith Production Technology	Sales of drilling components, sales of services	Russian Federation	2004
DP Smith Ukraine	Sales of drilling components, sales of services	Ukraine	2005
OOO Smith Drilling Services	Sales of drilling components	Russian Federation	2003
TOO Smith Eurasia – KZ	Sales of drilling components, sales of services	Kazakhstan	2005
Smith Eurasia Limited	Sales of drilling components, sales of services	Cayman Islands	1996
Supply International	Sales of drilling bits	Belize	1993

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation. These combined financial statements have been prepared solely for the purposes of inclusion into a prospectus for the initial public offering of depositary receipts of Integra's shares on the London Stock Exchange. The accounting policies used in preparing these combined financial statements are described below and are based on International Financial Reporting Standards ("IFRS"), except for the policies used to account for the combination of entities acquired by Integra.

The combined financial statements of SEA are the SEA' first financial statements prepared in accordance with IFRS, issued and effective as at 31 December 2005, and are covered by IFRS 1, First time adoption of IFRS. SEA' transition date is 1 January 2004, and SEA prepared their operating balance sheet at that date. The policies set out below have been consistently applied for all the periods presented. SEA has not presented the combined financial statements under any local GAAP.

As discussed in Note 1, through the date of its acquisition by Integra in August 2006, SEA was operating under the collective management of a group of five shareholders. These combined financial statements include only the activities of those entities sold by the five shareholders to Integra. Other entities that were owned and managed by the five shareholders but were not sold to Integra are not combined in these financial statements but are treated as related parties (Note 14). In preparing these combined financial statements, the financial statements of the individual combined entities were aggregated on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses. Balances, transactions and unrealised gains or losses on transactions between the combined entities, including their subsidiaries, were eliminated in full. Share capital represents the sum of the respective share capital of the Holding Companies.

The combined financial statements have been prepared under the historical cost convention. The preparation of combined financial statements 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. Principal estimates are disclosed in Note 3. Actual results could differ from these estimates.

2.2 Functional and presentation currency. Management has selected the Russian Rouble ("RR") as the presentation currency for SEA's operations. The financial statements of each of the combined entities were maintained in their respective functional currencies, and, where their functional currencies are other than the Russian Rouble, their financial information is translated into Russian Roubles in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. US dollar is the functional currency of all Holding Companies. Balance sheet items have been translated into presentation currency using the exchange rate at the respective balance sheet date. Income statement items were translated into presentation currency 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 Russian Roubles were included within cumulative translation adjustment in the statement of changes in shareholders' equity.

The Russian Rouble to US dollar exchange rate was 28.78 to one and 27.75 to one as of 31 December 2005 and 2004, respectively. Through early 2006, the Russian rouble was not a convertible currency in most countries outside of the former Soviet Union and, further, the Russian companies were required to convert a portion of their hard currency proceeds into Russian roubles. During the first half of 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.

2.3 Foreign currency transactions. Monetary assets and liabilities held by the entities as of 31 December 2005 and 2004 and denominated in foreign currencies are translated into the functional currency of the respective entity using the official exchange rate of Central Bank of the Russian Federation at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised as exchange gains or losses in the combined statements of income.

2.4 Accounting for combined entities. Entities are combined from the date on which control was achieved by the SEA Holding Companies and are no longer combined from the date that such control ceases. All inter-company transactions, balances and unrealised gains on transactions between the combined companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.5 Accounting for subsidiaries. Subsidiary undertakings are consolidated when SEA 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 any of the Holding Companies 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 SEA.

2.6 Inventories. Inventories are stated at lower of cost or net realizable value. Cost of materials and supplies is determined by reference to the purchase price of each item. The materials and supplies 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.

2.7 Trade receivables and loans issued. Trade receivables and loans issued are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, net of any provision for impairment. A provision for impairment is established when there is objective evidence that SEA will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the combined statements of income.

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

2.9 Marketable securities. Marketable securities are recorded at their fair values at the time of origination and at the balance sheet date. Publicly-traded marketable securities are valued at their closing price at each reporting date. Changes in the fair values and realized gains and losses on disposals of marketable securities are recorded in the combined statements of income within changes in fair value of financial assets.

2.10 Value-added tax. Value-added tax ("VAT") regulations vary by jurisdiction. In the jurisdictions where VAT is applied and where SEA operates, tax regulations generally permit the settlement of sales and purchases value added tax on a net basis. VAT payable represents VAT related to sales payable to tax authorities upon collection of receivables from customers net of VAT on purchases 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.

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.

2.11 Financial liabilities. Borrowings, trade accounts payable and other financial liabilities are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognised in the combined statement of income over the period of the borrowings using the effective interest method.

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

Unless disclosed otherwise, the borrowings effective interest rates approximated the contractual interest rates at the reporting dates.

2.12 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 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.

2.13 Provisions. Provisions are recognised when SEA has a present legal or constructive obligation as a result of past events, and 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. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.14 Dividends. Dividends are recognized as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are issued.

2.15 Employee benefits. SEA 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 combined statements of income.

SEA contributes to obligatory state pension schemes on behalf of its employees in accordance with the terms of the state defined contribution plans, as applicable. Such mandatory contributions to governmental pension schemes are accrued when incurred.

2.16 Revenue recognition. Services contracts include long-term contracts to provide specialised services. Revenue from sales of services are recognised in the accounting period in which the services are rendered. SEA uses the "percentage of completion method" to determine the appropriate amount of revenues to recognise in a given period. Contract costs are recognised when incurred. When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised only to the extent it is probable that costs incurred are expected to be recoverable. For works relating to the future contracts that have not been signed at the balance sheet date the revenue is recognized to the extent of costs incurred that are expected to be recovered.

The revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to SEA. In the event that contract is expected to generate losses, such loss is recognised immediately in the statement of income. Costs incurred in the year in connection with future activity on a contract are presented as inventories, prepayments or other assets, depending on their nature.

The Company 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. Progress billings not yet paid by customers are included within 'trade and other receivables'. The Company 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).

Revenue from the sale of goods is recognized when SEA has transferred to the buyer the significant risks and rewards of ownership of the goods, SEA retains neither continuing management involvement to the degree usually associated with the ownership nor effective control over the goods sold, the amount of the revenue can be measures reliably, it is probable that the economic benefits will flow to SEA and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.17 New or revised standards not yet effective. Certain new standards and interpretations have been published that are mandatory for the SEA's accounting periods beginning on or after 1 January 2006 or later periods and which the SEA has not early adopted. These new standards and interpretations are not expected to significantly affect the SEA's financial statements when adopted on 1 January 2006 or later.

The new standards and interpretations which SEA has not early adopted are as follows: IFRIC 4, *Determining whether an Arrangement contains a Lease* (effective from 1 January 2006); IAS 21 (Amendment) Net Investment in a Foreign Operation (effective from 1 January 2006); IAS 39 (Amendment), *The Fair Value Option* (effective from 1 January 2006); IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006); IAS 39 (Amendment), *Financial Guarantee Contracts* (effective from 1 January 2006); IFRS 6, *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRS 7, *Financial Instruments: Disclosures and a Complementary Amendment to IAS 1, Presentation of Financial Statements—Capital Disclosures* (effective from 1 January 2007); IAS 19 (Amendment), *Employee Benefits* (effective from 1 January 2006); IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IFRS 6 (Amendment), *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006); IFRIC 6, *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* (effective for periods beginning on or after 1 December 2005); IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006); 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); and IFRIC 11, *IFRS 2: Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007).

3 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 financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities are outlined below.

Fair values. 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 management using available market information, where it exists, and appropriate valuation methodologies where no market information is available.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

Cash and cash equivalents , short-term investments and marketable securities are carried at fair value.

Trade and other receivables, short-term borrowings, accounts payable and accrued liabilities are carried at amortised cost, net of provisions, as appropriate. Discount rate which has been used for the assessment of fair value of liabilities was equalled to 12 percent. At 31 December 2005 and 2004, the fair values did not materially differ from the respective carrying values.

Assessment of the percentage of completion on service revenues. The Company's revenue from services 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 estimate 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.

The fair values of SEA's long-term financial liabilities were estimated based upon rates available to SEA on similar instruments with similar maturities. At 31 December 2005 and 2004, the carrying values of total long-term borrowings approximated their fair values.

4 SHORT-TERM INVESTMENTS

		As of 31 December	
	Note	2005	2004
Marketable securities		11	11
Loans issued to related parties	14	54	—
Other short-term investments		1	1
Total short-term investments		**66**	**12**

For details of loans issued to related party see Note 14.

5 TRADE AND OTHER RECEIVABLES

	As of 31 December	
	2005	2004
Trade receivables (net of provision for impairment of receivables of RR 3 million and RR 2 million as of 31 December 2005 and 2004 respectively)	94	146
VAT recoverable	20	3
Prepaid taxes	4	—
Advances to suppliers	9	3
Prepaid expenses	2	1
Other receivables	5	2
Total accounts receivable and prepayments	**134**	**155**

6 INVENTORIES

	As of 31 December	
	2005	2004
Materials and supplies (net of obsolescence provision of RR 4 million and RR nil as of 31 December 2005 and 2004, respectively)	130	52
Total inventories	**130**	**52**

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	At of 31 December: 2005	2004
Trade payables	105	109
Salaries and wages	21	23
Advances from customers	8	2
Accrued liabilities and other creditors	1	1
Total accounts payable and accrued liabilities	**135**	**135**

8 TAXES

SEA operates in a number of tax jurisdictions, including the United Stated of America, the Cayman Islands, Belize, Kazakhstan, the Ukraine and the Russian Federation. The calculations of current and deferred income taxes have been performed using enacted tax rates effective for the appropriate jurisdiction.

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

	Year ended 31 December: 2005	2004
Profit (loss) before taxation		
Russian Federation	44	(11)
United States of America	(17)	(51)
Cayman Islands and Belize	(14)	125
Other	3	—
Total net profit before taxation	**16**	**63**
Theoretical tax charge at Russian statutory income tax rate of 24 percent	(4)	(15)
US income recognized in LLC's taxed at the shareholder level	5	(1)
Effect of income taxed at rates higher than 24 percent	(38)	(62)
Effect of income taxed at rates lower than 24 percent	(3)	31
Non tax deductible expenses	(4)	(3)
Total income tax expense	**(44)**	**(50)**

Other taxes payable. Current taxes other than income taxes payable at 31 December 2005 and 2004 are detailed below.

	2005	2004
Penalties and fines	217	128
Value-added tax	7	—
Total other taxes payable	**224**	**128**

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 and their respective income tax bases using the appropriate rate for the respective jurisdiction.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

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

	31 December 2005	Income statement effect	31 December 2004	Income statement effect	31 December 2003
Assets					
Inventories	6	5	1	1	—
Tax losses carried forward	2	(2)	4	4	—
Deferred income tax assets	**8**	**3**	**5**	**5**	**—**
Liabilities					
Others	—	—	—	2	(2)
Deferred income tax liabilities	**—**	**—**	**—**	**2**	**(2)**
Net deferred income tax liability	**8**	**3**	**5**	**7**	**(2)**

Deferred tax assets for tax losses carried forward are recognized when management believes it is probable that respective companies of SEA will be able to utilize the losses to offset future tax profits. At 31 December 2005 and 2004 there were no unrecognised tax losses carried forward.

Temporary differences associated with undistributed earnings of subsidiaries amounted to RR 26 million and RR 9 million for the years ended 31 December 2005 and 2004, respectively. As SEA 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 recognized for the temporary differences associated with SEA's investment in subsidiaries of the Holding Companies.

9 SHORT TERM BORROWINGS

Short-term borrowings. Below is a table detailing short-term borrowings and the current portion of long-term borrowings at 31 December 2005 and 2004.

	31 December:	
	2005	2004
Rosbank	15	—
Mezhregional Trade-Investment Bank	7	—
Total short-term borrowings	**22**	**—**

Rosbank. In July 2005, SEA entered into a Russian Rouble-denominated credit facility with Rosbank for a maximum amount of RR 15 million. The facility, which matures in May 2006, bears fixed interest of 12.5 percent per annum, and is repayable on a monthly basis beginning from the first month of disbursement. The facility is secured by an ABN AMRO Bank guarantee.

Mezhregional Trade-Investment Bank. In December 2005, SEA obtained a Russian Rouble-denominated loan from Mezhregional Trade-Investment Bank with maturity in March 2006 and a fixed interest of 15 percent per annum. The facility is collateralized by SEA's drilling bits and other production materials.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

10 SHARE CAPITAL

Share capitals of four holding companies have been added together to form share capital for these combined financial statements. SE management LLC does not have shares being the partnership. Share capitals of four holding companies have been fully paid. Par value of ordinary and preferred shares is one US dollar.

	Number of ordinary shares	Number of preferred shares	Share capital in US dollars
Smith Eurasia Ltd	70,120	9,150	79,270
Smith Eurasia Inc.	810	—	810
SE Management LLC	—	—	1,000
Supply International	50,000	—	50,000

Share capitals have been translated into roubles using the exchange rate at the respective balance sheet date.

11 SALES

SEA operates in one business and geographic segment and assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole. In 2005 and 2004, sales of drilling components, sales of services and other operating revenues have been made to customers, presented in the following countries.

	Year ended 31 December:	
	2005	2004
Russian Federation	681	351
Other CIS countries	308	149
Other	59	142
Total sales	**1,048**	**642**

12 COST OF SALES

	Year ended 31 December:	
	2005	2004
Materials and supplies	572	320
Employee costs (including mandatory social contributions of RR 6 million and RR nil for the years ended 2005 and 2004 respectively)	94	48
Transportation services	31	18
Third party drilling services	11	—
Total cost of sales	**708**	**386**

13 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2005	2004
Entertainment and business development	109	51
Employee costs (including mandatory social contributions of RR 4 million and RR 3 million for the years ended 2005 and 2004 respectively)	69	41
Tax penalties and fines	83	72
Office lease	13	2
Depreciation	2	—
Taxes other than income	6	1
Sales commissions	3	—
Other costs	45	30
Total selling, general and administrative expenses	**330**	**197**

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

14 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 or exercise significant influence over the other party in making financial or operational decisions, or such parties are under common control, or when such parties are members of key management in accordance with definitions of 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 SEA entered into significant transactions or had significant balances outstanding as of 31 December 2005 and 2004 are Smith Eurasia LLC, ZAO Smith Industrial Supply, Smith Equipment and Services Limited and Smith Siberian Services Limited related through common ultimate shareholders.

Because of these relationships, it is possible that SEA 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.

Balances with related parties of SEA as of and for the periods ended 31 December 2005 and 2004 are outlined below:

	As of 31 December:	
	2005	2004
Trade receivables	7	68
Trade payables	—	(1)
Short term loans provided to related party	54	—
Long-term loans provided to related party	29	31
Long-term borrowings from related party	15	—

	Year ended 31 December:	
	2005	2004
Sales of drilling components	67	203
Purchases of inventories	—	2
Management compensation	15	12
Distributions to shareholders (net of income tax RR nil)	35	—

Trade receivables. Included within trade receivables are settlements with the following related parties.

	As of 31 December:	
	2005	2004
ZAO Smith Industrial Supply	7	2
ZAO Smith Siberian Services	—	66
Total trade receivables	**7**	**68**

Short term loans provided to related parties. In 2003, SEA signed a number of agreements with ZAO Smith Industrial Supply for the provision of US dollar denominated credit facilities. All agreements bear a fixed interest rate of 6.5 percent per annum. Under these agreements by the end of 2003 ZAO Smith Industrial Supply borrowed amount equivalent to RR 28 million. In 2004, the amount of loans provided to ZAO Smith Industrial Supply increased from RR 28 million to RR 35 million. Amounts provided under loan agreements in 2004 are included into the amount of long term loans provided to related parties in the Combined Statements of Cash Flows and in the Combined Balance Sheets. In 2005, the amount of loans issued was further increased to RR 56 million. Loans issued are classified as long term loans at 31 December 2004 and as short-term investments at 31 December 2005. The loan was ultimately repaid in July 2006. These loans were recorded at their fair values at the respective origination dates by applying an effective rate of 12 percent per annum. The difference between the fair value and the nominal value of the loan in the pre tax amount of RR 6 million was recognized as a loss in the combined statements of income for the year ended

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

31 December 2004 as fair value adjustment on transactions under common control. During the years ended 31 December 2005 and 2004 RR 1.6 million and RR 3.9 million respectively were recognized as interest income.

Long-term loans to related parties. In 2005, SEA provided USD-denominated loan to Smith Eurasia LLC for RR 35 million. This loan was recorded at their fair values at the respective origination dates by applying an effective rate of 12 percent per annum. The difference between the fair value and the nominal value of the loan in the pre-tax amount of RR 8 million was recognized as a loss in the combined statement of income for the year ended 31 December 2005 as fair value adjustment on transactions under common control. During the year ended 31 December 2005, RR 0.4 million was recognized as interest income. This loan is included into the amount of long term loans provided to related parties in the Combined Statements of Cash Flows.

Long-term borrowings from related party. In April 2005, SEA received a USD-denominated loan from ZAO Smith Siberian Services Limited for RR 17 million. The loan was repayable within 40 months from the date of the receipt and bore interest of two percent per annum. This loan was recorded at its fair value at the origination date. The fair value was estimated by applying an effective rate of 12 percent per annum, management's estimate of SEA's external borrowing rate for similar instruments. The difference between the fair value and the nominal value of the loan in the pre-tax amount of RR 4 million was recognized as a gain in the combined statements of income for the year ended 31 December 2005 as fair value adjustment on transactions under common control. During the year ended 31 December 2005 RR 1.1 million was recognized as interest expense on this loan.

Sales of drilling components.

	As of 31 December:	
	2005	2004
ZAO Smith Siberian Services	65	203
ZAO Smith Industrial Supply	2	—
Total sales of drilling bits	**67**	**203**

Purchases of inventories. During 2005 and 2004, SEA purchased goods from ZAO Smith Siberian Services in the amount of RR 9 million and 2 million, respectively.

Management compensation. During 2005 and 2004 five shareholders of SEA prior to its acquisition by Integra comprised key management personnel. Senior management compensation comprised salaries and bonuses of RR 15 million and RR 12 million for the period ended 31 December 2005 and 2004 respectively. There were no significant benefits-in-kind or other compensation provided to senior management.

Distributions to shareholders. In 2005, SEA provided USD-denominated loan to Smith Eurasia LLC for RR 35 million. According to terms of the purchase sales agreement with Integra for the acquisition of 100 percent interest on Holding Companies, this loan will not be repaid. Loss on derecognition of the nominal amount of the loan is recorded in the Statement of Changes in Shareholder's Equity for the year ended 31 December 2005 under the caption 'distributions to shareholders'. This loan is included into the amount of long term loans provided to related parties in the Combined Statements of Cash Flows.

15 CONTINGENCIES AND COMMITMENTS

Environmental matters. The enforcement of environmental regulation in the CIS is evolving and the enforcement posture of government authorities is continually being reconsidered. SEA 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. Tax, currency and customs legislation in the CIS 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 SEA may be challenged by the relevant regional and federal authorities. Specifically, recent events within the Russian Federation and other CIS countries 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. The areas that could be challenged include but are not limited by transfer pricing issues, the economic substance of transactions, compliance with customs and currency regulations. 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 2005, management believes that its interpretation of the relevant legislation is appropriate and that the SEA'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. SEA holds no insurance policies in relation to its operations or in respect of public liability or other insurable risks and limited insurance policies primarily covering assets pledged against SEA's borrowings.

Legal. Through 2005, certain combined entities have been engaged in the provision of services, which according to legislation, require legal licences. However, during 2005 and 2004, all of such services were subcontracted to third parties. Management believes that such approach reduces the risk of legal claims. While it believes the likelihood of any claims being brought against it as minimal, management cannot exclude the possibility that authorities may pursue SEA for prior violations of related regulations.

At 31 December 2005, SEA was involved in a number of court proceedings (as a plaintiff) 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 SEA and which have not been accrued or disclosed in these financial statements.

Operating environment of SEA. The CIS continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the CIS, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the CIS is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in the economic trends, the future economic direction of the CIS is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

16 FINANCIAL AND OPERATING RISKS

SEA's activities primarily expose it to the credit risk and the risk of supplies concentration. SEA's overall risk management objective is to reduce potential adverse effects of the above risks on the financial performance of SEA, however its management currently does not maintain any formal management programs beyond management of the credit risks

Credit risks. Financial assets, which potentially subject SEA entities to credit risk, consist principally of trade receivables. SEA does not have formal policies in place to ensure that sales of products and services are made to customers with an appropriate credit history, but SEA has the practice of using 100 percent prepayments and letters of credit for suppliers to all new customers without any 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.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to SEA beyond the provision already recorded.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

During 2005, a significant proportion of SEA's sales were made to Siberian Service Company. The related revenues and balances as of and for the two years ended 31 December 2005 are presented below.

	As of 31 December:	
	2005	2004
Amount due from Siberian Service Company	28	—
	Period ended 31 December:	
	2005	**2004**
Sales to Siberian Service Company	184	—

Significant supplier. Smith Eurasia Limited has been party to a series of sales representation agreements effective from 1996 with Smith International Inc., the world's fourth largest producer of drilling bits and other drilling equipment. The current agreement expires in February of 2007. Under the terms of the sales representation agreement, Smith Eurasia Limited is appointed as the exclusive representative of Smith International Inc. for the CIS. As exclusive representative, Smith Eurasia Limited benefits from fixed discounts to the standard price lists of Smith International Inc.

For the years ended 31 December 2005 and 2004, SEA purchased RR 295 million and RR 328 million, respectively, of equipment from Smith International Inc.

SMITH EURASIA

CONTACT INFORMATION

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Russian Federation
117420 Moscow
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Telephone: +7-495-739-3440
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The SE Management LLC registered office is:

USA
615 South Dupont Highway
Dover, Delaware, 19901

The Supply International registered office is:

Belize City, Belize, C.A.
1876 Hutson Street, P.O. Box 214

The Smith Eurasia Inc registered office is:

USA
5177 Richmond Avenue, Suite 740
Houston, Texas 77056

OAO YAMALGEOPHYZIKA

INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)
AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

CONTENTS

OAO YAMALGEOPHYZIKA

INTERIM CONDENSED BALANCE SHEETS (UNAUDITED)
(expressed in millions of Russian Roubles, except as indicated)

	Note	30 September 2006	31 December 2005
Assets			
Current assets:			
Cash and cash equivalents		84	60
Trade and other receivables	4	564	516
Income tax prepayment		81	41
Inventories		263	244
Total current assets		**992**	**861**
Non-current assets:			
Property, plant and equipment	5	951	963
Investment in associate		15	10
Other non-current assets		17	9
Total non-current assets		**983**	**982**
Total assets		**1,975**	**1,843**
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities	6	152	218
Other taxes payable		68	77
Short-term borrowings and current portion of long-term borrowings	8	368	388
Total current liabilities		**588**	**683**
Non-current liabilities:			
Long-term borrowings	8	138	196
Deferred tax liability		101	72
Total non-current liabilities		**239**	**268**
Total liabilities		**827**	**951**
Shareholders' equity:			
Common shares (44,519,856 authorized and issued at 30 September 2006 and 31 December 2005)		1,078	1,078
Preferred shares (16,626,240 authorized and issued at 30 September 2006 and 31 December 2005)		399	399
Accumulated deficit		(329)	(585)
Total equity		**1,148**	**892**
Total liabilities and equity		**1,975**	**1,843**

Approved and authorized for issue on 27 December 2006

Sergey Torbin
General Director

Eteri Taranova
Deputy Chief Financial Officer

The accompanying notes are an integral part of these condensed interim financial information.

OAO YAMALGEOPHYZIKA

INTERIM CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(expressed in millions of Russian Roubles, except as indicated)

	Note	Nine months ended 30 September: 2006	2005
Sales		1,791	1,287
Cost of sales	9	(1,019)	(966)
Gross profit		**772**	**321**
General and administrative expenses	10	(252)	(212)
Loss on disposal of property, plant and equipment		(19)	(7)
Operating profit		**501**	**102**
Interest expense		(51)	(35)
Foreign exchange loss		(3)	—
Share of results of associate, net of income tax		5	6
Profit before taxation		**452**	**73**
Current income tax expense		(94)	(61)
Deferred income tax benefit (expense)		(29)	32
Total tax expense		**(123)**	**(29)**
Profit for the period		**329**	**44**

The accompanying notes are an integral part of these condensed interim financial information.

OAO YAMALGEOPHYZIKA

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
(expressed in millions of Russian Roubles)

	Notes	Nine months ended 30 September: 2006	2005
Net cash provided by operating activities		**363**	**137**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(185)	(38)
Proceeds from the disposal of property, plant and equipment		2	5
Other		(8)	3
Net cash used in investing activities		**(191)**	**(30)**
Cash flows from financing activities:			
Proceeds from short-term borrowings	8	230	375
Repayments of short-term borrowings	8	(268)	(351)
Proceeds from long-term borrowings	8	25	—
Repayments of long-term borrowings	8	(64)	(64)
Dividends paid		(71)	(61)
Net cash provided by (used for) financing activities		**(148)**	**(101)**
Net increase in cash and cash equivalents		24	6
Cash and cash equivalents at the beginning of the period		60	58
Cash and cash equivalents at the end of the period		**84**	**64**

The accompanying notes are an integral part of these condensed interim financial information.

OAO YAMALGEOPHYZIKA

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
(expressed in millions of Russian Roubles)

	Common shares	Preferred shares	Retained earnings	Total shareholders' equity
Balance at 31 December 2004	**1,078**	**399**	**(555)**	**922**
Profit for the period	—	—	44	44
Dividends declared (RR 1.20 per one ordinary share and RR 1.20 per one preferred share)	—	—	(73)	(73)
Balance at 30 September 2005	**1,078**	**399**	**(584)**	**893**
Balance at 31 December 2005	**1,078**	**399**	**(585)**	**892**
Profit for the period	—	—	329	329
Dividends declared (RR 1.20 per one ordinary share and RR 1.20 per one preferred share)	—	—	(73)	(73)
Balance at 30 September 2006	**1,078**	**399**	**(329)**	**1,148**

The accompanying notes are an integral part of these condensed interim financial information.

1 GENERAL INFORMATION

OAO Yamalgeophyzika ("YGF" or the "Company"), engages in seismic data processing and interpretation and the provision of topographic, cartographic, and other research and development services to the petroleum industry in the Russian Federation. YGF was incorporated in Russia as an open joint stock company in June 1994 pursuant to the approval by the Committee on Management of State Property of the Russian Federation.

In July 2006, Integra Group ("Integra") acquired a controlling stake in the Company. Accordingly, from August 2006, Integra is the Company's ultimate controlling shareholder.

The Company operates in one business segment which is provision of services to the petroleum industry within the Russian Federation. The Company assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole.

The Company's seismic service revenues, which constitutes majority of the Company's sales, can be negatively affected by severe winter weather conditions in certain regions. There is a limited season for providing seismic services in certain Siberian regions of the Russian Federation as due to flood-like conditions from winter thawing. Such conditions generally restrict the provision of seismic services in Siberia from December to April.

2 BASIS OF PREPARATION.

These interim condensed financial information have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). This financial information should be read together with the financial statements for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of interim condensed financial information in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to impairment of non-current assets, useful lives of property, plant and equipment, fair values of financial assets and liabilities and assessment of percentage of completion on service revenues. Actual results could differ from these estimates.

The US dollar to Russian Rouble exchange rate was 26.78 and 28.78 as of 30 September 2006 and 31 December 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 Company was required to convert 10 percent of its hard currency proceeds into Russian roubles. During the first half of 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Company are consistent with those disclosed in the financial statements for the year ended 31 December 2005.

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

These new standards and interpretations are not expected to significantly affect the Company's financial statements when adopted: IFRS 7, *Financial Instruments: Disclosures* and a Complementary Amendment to IAS 1, *Presentation of Financial Statements—Capital Disclosures* (effective from 1 January 2007); 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

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

2006); IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006); and 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); IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

New or amended standards and interpretations effective for the Company from 1 January 2006 are discussed below. None of the adoptions had a material impact on the Company's financial position or results of operations.

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, 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 decommission funds.

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.

IAS 21 (Amendment), *Net Investment in a Foreign Operation.* The amendment clarifies the requirements of IAS 21 regarding an entity's investment in foreign operations.

IFRS 6 *Exploration for and Evaluation of Mineral Resources and amendments to IFRS 1 and IFRS 6* are not relevant to the Company's operations.

4 TRADE AND OTHER RECEIVABLES

	30 September 2006	31 December 2005
Trade receivables (net of provision for impairment of RR 4 million at 30 September 2006 and RR 1 million at 31 December 2005, respectively)	407	369
Prepayments to suppliers (net of provision for impairment of RR 22 million and RR 20 million at 30 September 2006 and 31 December 2005, respectively)	105	93
Prepaid expenses and other receivables (net of provision for impairment of RR 3 million and RR 2 million at 30 September 2006 and 31 December 2005, respectively)	51	43
VAT recoverable	1	11
Total trade and other receivables	**564**	**516**

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

5 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machines and equipment	Motor Vehicles	Other	Total
Cost					
Balance as of 31 December 2004	263	951	107	21	1,342
Additions	18	1	10	—	29
Disposals	(5)	(7)	(4)	(5)	(21)
Balance as of 30 September 2005	**276**	**945**	**113**	**16**	**1,350**
Balance as of 31 December 2005	284	1,019	126	77	1,506
Additions	5	118	16	1	140
Disposals	(2)	(19)	(4)	(1)	(26)
Balance as of 30 September 2006	**287**	**1,118**	**138**	**77**	**1,620**
Accumulated depreciation					
Balance as of 31 December 2004	(26)	(271)	(36)	(6)	(339)
Depreciation charge	(10)	(135)	(14)	(1)	(160)
Disposals	1	3	2	1	7
Balance as of 30 September 2005	**(35)**	**(403)**	**(48)**	**(6)**	**(492)**
Balance as of 31 December 2005	(38)	(446)	(51)	(8)	(543)
Depreciation charge	(9)	(124)	(10)	(1)	(144)
Disposals	2	12	3	1	18
Balance as of 30 September 2006	**(45)**	**(558)**	**(58)**	**(8)**	**(669)**
Net Book Value					
Balance as of 31 December 2004	237	680	71	15	1,003
Balance as of 30 September 2005	241	542	65	10	858
Balance as of 31 December 2005	246	573	75	69	963
Balance as of 30 September 2006	242	560	80	69	951

At 30 September 2006 and 31 December 2005 certain property, plant and equipment with a net book value of RR 548 million and RR 637 million, respectively, were pledged as collateral for the Company's borrowings (Note 8).

6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 September 2006	31 December 2005
Trade payables	17	35
Advances from customers	18	42
Dividends payable	35	20
Accrued salaries and wages	79	100
Accrued liabilities and other creditors	3	21
Total trade and other payables	**152**	**218**

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

7 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 profit before income tax.

	Nine months ended 30 September: 2006	2005
Profit before taxation	452	73
less share of results of associate, net of income tax	(5)	(6)
Profit before taxation and results of associates	447	67
Theoretical income tax expense at statutory rate of 24 percent	(107)	(16)
Non-deductible expenses, benefits in kind and charity	(16)	(13)
Total income tax expense	**(123)**	**(29)**

8 BORROWINGS

Short-term borrowings. Below is a table detailing short-term borrowings and the current portion of long-term borrowings at 30 September 2006 and 31 December 2005.

	30 September 2006	31 December 2005
Short-term borrowings from Sberbank	264	303
Current portion of long-term borrowings	104	85
Total short-term borrowings and current portion of long-term borrowings	**368**	**388**

As of 30 September 2006 and 31 December 2005 all short-term borrowings were Russian Rouble-denominated and collateralised by certain production equipment of the Company.

Short-term borrowings from Sberbank bore fixed interest rates ranging from 8 percent to 10.5 percent per annum for the 9 months ended 30 September 2006 and for 12 months ended 31 December 2005 respectively. The effective weighted interest average rates for short-term borrowings were 10.3 percent and 10.4 percent for the 9 months ended 30 September 2006 and for 12 months ended 31 December 2005 respectively.

Long-term borrowings. The Company's long-term borrowings at 30 September 2006 and 31 December 2005 are outlined below.

	30 September 2006	31 December 2005
Sberbank	242	281
Less: current portion of long-term borrowings	(104)	(85)
Total long-term borrowings	**138**	**196**

Scheduled maturities of long-term borrowings outstanding at 30 September 2006 were as follows:

	30 September 2006
Scheduled to mature during the twelve months ended:	
30 September 2008	114
30 September 2009	24
Total long-term borrowings	**138**

In 2006, the Company received an additional tranche of RR 24 million under Sberabank loan facility. The tranche matures in the fourth quarter 2008.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

9 COST OF SALES

	Nine months ended 30 September:	
	2006	2005
Employee costs (including mandatory social contributions of RR 81 million and RR 83 million for the 9 months ended 30 September 2006 and 2005, respectively)	533	510
Fuel	136	115
Depreciation	136	153
Materials	79	81
Explosive materials	40	40
Transport expenses	28	24
Third parties services	16	26
Repair expenses	9	2
Public utilities	8	8
Other	34	7
Total cost of sales	**1,019**	**966**

10 GENERAL AND ADMINISTRATIVE EXPENSES

	Nine months ended 30 September:	
	2006	2005
Employee costs (including mandatory social contributions of RR 19 million and RR 20 million for the 9 months ended 30 September 2006 and 2005, respectively)	125	118
Taxes other than income tax	14	10
Insurance	12	11
Depreciation	10	7
Bank charges	7	6
Provision for impairment of receivables	6	3
Other	78	57
Total general and administrative expenses	**252**	**212**

11 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Contractual commitments and guarantees. At 30 September 2006 the Company had no material outstanding guarantees or contractual commitments for purchases of property, plant and equipment and intangible assets.

Environmental matters. The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company 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 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 Company 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 30 September 2006, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in these financial statements.

Insurance policies. The Company holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks. Limited insurance policies exist primarily covering assets pledged against the Company's borrowings.

Legal proceedings. At 30 September 2006, the Company 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 Company.

Operating environment. The Russian Federation continues to display some characteristics of an emerging market, including relatively high inflation. The tax and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in the economic trends, 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.

12 RELATED PARTY TRANSACTIONS

Management compensation. The Company's senior management team comprised 3 individuals for the 9 months ended 30 September 2006 and 2005, respectively, whose compensation comprised salaries and bonuses of RR 9 million and RR 5 million for the nine months ended 30 September 2006 and 2005, respectively.

13 SUBSEQUENT EVENTS

Additional borrowings. Subsequent to 30 September 2006 the Company obtained the following additional facilities from Sberbank and Alfabank totaling RR 1,050 million. The new borrowings bear interest at rates from 10.4 percent to 10.9 percent per annum and mature between February 2007 and October 2009. The borrowings are collateralized by the Company's assets.

OAO YAMALGEOPHYZIKA

CONTACT INFORMATION

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OAO YAMALGEOPHYZIKA

FINANCIAL STATEMENTS AS OF AND FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
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Telephone +7 (495) 967 6000
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AUDITORS' REPORT

To the Shareholders of OAO Yamalgeophyzika

1. We have audited the accompanying balance sheets of OAO Yamalgeophyzika (the "Company") as of 31 December 2005, 2004 and 2003 and the related statements of income, of cash flows and of changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
27 December 2007

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OAO YAMALGEOPHYZIKA

BALANCE SHEETS

(expressed in millions of Russian Roubles, except as indicated)

		As of 31 December:		
	Note	**2005**	**2004**	**2003**
Assets				
Current assets:				
Cash and cash equivalents		60	58	56
Trade and other receivables	5	557	419	553
Inventories	6	244	215	188
Total current assets		**861**	**692**	**797**
Non-current assets:				
Property, plant and equipment	7	963	1,003	880
Investment in associate	8	10	—	—
Other non-current assets		9	9	6
Total non-current assets		**982**	**1,012**	**886**
Total assets		**1,843**	**1,704**	**1,683**
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities	9	218	163	138
Income tax payable		—	25	—
Other taxes payable	10	77	82	67
Short-term borrowings and current portion of long-term borrowings	12	388	320	227
Total current liabilities		**683**	**590**	**432**
Non-current liabilities:				
Long-term borrowings	12	196	85	159
Restructured tax liabilities	11	—	15	16
Deferred tax liability	10	72	92	122
Total non-current liabilities		**268**	**192**	**297**
Total liabilities		**951**	**782**	**729**
Shareholders' equity:				
Common shares (44,519,856 authorized and issued at 31 December 2005, 2004 and 2003)	13	1,078	1,078	1,069
Preferred shares (16,626,240 authorized and issued at 31 December 2005, 2004 and 2003)	13	399	399	399
Accumulated deficit		(585)	(555)	(514)
Total equity		**892**	**922**	**954**
Total liabilities and equity		**1,843**	**1,704**	**1,683**

Approved and authorized for issue on 27 December 2006

Sergey Torbin
General Director

Eteri Taranova
Deputy Chief Financial Officer

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

OAO YAMALGEOPHYZIKA

STATEMENTS OF INCOME
(expressed in millions of Russian Roubles, except as indicated)

		Year ended 31 December:		
	Note	2005	2004	2003
Sales		1,660	1,379	1,119
Cost of sales	14	(1,261)	(1,086)	(829)
Gross profit		**399**	**293**	**290**
General and administrative expenses	15	(300)	(195)	(148)
Loss on disposal of property, plant and equipment		2	(4)	(17)
Operating profit		**101**	**94**	**125**
Interest expense		(50)	(51)	(31)
Extinguishment of restructured tax liabilities	11	15	—	—
Share of results of associate, net of income tax	8	9	—	—
Profit before taxation		**75**	**43**	**94**
Current income tax expense	10	(51)	(56)	(39)
Deferred income tax benefit	10	20	30	8
Total tax expense		**(31)**	**(26)**	**(31)**
Profit for the period		**44**	**17**	**63**

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

OAO YAMALGEOPHYZIKA

STATEMENTS OF CASH FLOWS

(expressed in millions of Russian Roubles, except as indicated)

	Notes	Year ended 31 December: 2005	2004	2003
Cash flows from operating activities				
Profit before taxation		75	43	94
Adjustments for:				
Provision for impairment of accounts receivable	5,15	16	3	—
Depreciation	7, 14,15	212	192	156
Interest expense		50	51	31
Provision for inventory obsolescence		1	—	(6)
Loss on disposal of property, plant and equipment		(2)	4	17
Extinguishment of restructured tax liabilities	11	(15)		
Share of results of associate, net of income tax	8	(9)	—	—
Operating cash flows before working capital changes		328	293	292
Change in trade and other receivables		(128)	105	(49)
Change in inventories		(30)	(27)	(72)
Change in taxes other than income payable		9	18	(28)
Change in accounts payable and accrued liabilities		48	18	(37)
Change in restructured tax liabilities		—	(3)	(5)
Cash provided by operations before interest and income taxes		227	404	101
Income tax paid		(116)	(7)	(25)
Interest paid		(50)	(49)	(29)
Net cash provided by operating activities		**61**	**348**	**47**
Cash flows from investing activities:				
Purchase of property, plant and equipment	7	(180)	(324)	(71)
Proceeds from the disposal of property, plant and equipment		9	6	4
Other		(1)	(5)	(2)
Net cash used in investing activities		**(172)**	**(323)**	**(69)**
Cash flows from financing activities:				
Proceeds from short-term borrowings		448	466	315
Repayments of short-term borrowings		(380)	(373)	(421)
Proceeds from long-term borrowings		196	40	159
Repayments of long-term borrowings		(85)	(114)	—
Dividends paid		(66)	(42)	(21)
Net cash provided by (used for) financing activities		**113**	**(23)**	**32**
Net increase in cash and cash equivalents		2	2	10
Cash and cash equivalents at the beginning of the period		58	56	46
Cash and cash equivalents at the end of the period		**60**	**58**	**56**

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

OAO YAMALGEOPHYZIKA

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in millions of Russian Roubles, except as indicated)

	Notes	Common shares	Preferred shares	Retained earnings	Total equity attributable to shareholders of the Company
Balance at 1 January 2003		1,069	399	(556)	912
Profit for the year		—	—	63	63
Dividends declared	13	—	—	(21)	(21)
Balance at 31 December 2003		**1,069**	**399**	**(514)**	**954**
Profit for the year		—	—	17	17
Bonus share issue		9	—	(9)	—
Dividends declared	13	—	—	(49)	(49)
Balance at 31 December 2004		**1,078**	**399**	**(555)**	**922**
Profit for the year		—	—	44	44
Dividends declared	13	—	—	(74)	(74)
Balance at 31 December 2005		**1,078**	**399**	**(585)**	**892**

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

1 GENERAL INFORMATION

OAO Yamalgeophyzika ("YGF" or the "Company"), engages in seismic data processing and interpretation and the provision of topographic, cartographic, and other research and development services to the petroleum industry in the Russian Federation. YGF was incorporated in Russia as an open joint stock company in June 1994 pursuant to the approval by the Committee on Management of State Property of the Russian Federation.

In August 2006, Integra Group ("Integra") through several of its subsidiaries, acquired a controlling stake in the Company. Accordingly from July 2006, Integra is the Company's ultimate controlling shareholder. Before the acquisition the Company was owned by a number of legal entities and individuals.

The Company operates in one business and geographical segment which is provision of services to the petroleum industry within the Russian Federation. The Company assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation. These financial statements are the Company's first financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS"), issued and effective as at 31 December 2005, and are covered by IFRS 1, *First-time Adoption of IFRS*. The Company's transition date is 1 January 2003 and the Company prepared its opening balance sheet at that date. The policies set out below have been consistently applied for all the periods presented. YGF maintains their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("Russian GAAP"). These financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Reconciliations and descriptions of the effect of the transition from Russian GAAP to IFRS on the Company's equity and its net income and are provided in Note 4.

The financial statements have been prepared under the historical cost convention. The preparation of 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. Principal estimates are disclosed in Note 3. Actual results could differ from these estimates.

2.2 Associated undertakings. Associated undertakings are undertakings over which the Company has significant influence, but which it does not control. Generally significant influence occurs when the Company has between 20 percent and 50 percent of the voting rights. Associated undertakings are accounted for using the equity method.

The equity method involves recognising in the statement of income the Company's share of the associated undertakings' profit or loss for the year. Unrealised gains on transactions between the Company and its associated undertakings are eliminated to the extent of the Company's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Company's interest in an associated undertaking is carried in the balance sheet at an amount that reflects cost, including the goodwill at acquisition, plus its share of profit and losses and other changes in the post-acquisition movements in reserves, less dividends received. Provisions are recorded for any impairment in value.

The Company discontinues recognition of the share of an associate's losses when the carrying amount of the investment in an associated undertaking reaches zero, unless the Company has incurred obligations or guaranteed obligations in respect of the associated undertaking.

The associate is tested for impairment as a single asset whenever there are indicators of impairment.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

2.3 Functional and presentation currency. The Russian Rouble ("RR") is the functional currency of YGF and is the presentation currency of these financial statements. Monetary balance sheet items denominated in foreign currencies have been re-measured using the exchange rate at the respective balance sheet dates. Exchange gains and losses resulting from foreign currency translation are included in the determination of profit or loss.

The US dollar to Russian Rouble exchange rate was 28.78, 27.75 and 29.45 as of 31 December 2005, 2004 and 2003, respectively. Through early 2006, the Russian rouble was not a convertible currency in most countries outside of the former Soviet Union and, further, the Company was required to convert a portion of its hard currency proceeds into Russian roubles. During the first half of 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.

2.4 Property, plant and equipment. All additions to property, plant and equipment are recorded at historical cost. Historical cost includes expenditures directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. 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.

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

Buildings	20-50
Plant and equipment	4-30
Motor vehicles	4-10

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 statement of income.

2.5 Impairment of assets. Assets 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).

2.6 Inventories. Inventories are stated at lower of cost or net realizable value. Cost of materials is determined using the weighted average method. The materials are accounted for at their cost of purchase, which comprises the purchase price, import duties and other taxes (other than those subsequently recoverable from the tax authorities), and transport, handling and other directly attributable costs. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The cost of inventories excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.7 Trade receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the original effective interest method, net of any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

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

2.9 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 upon collection of receivables from customers net of VAT on purchases 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.

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.

2.10 Borrowings and other financial liabilities. Borrowings and other financial liabilities are recognised initially at fair value, net of transaction costs incurred. Such liabilities are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

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

Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently carried at amortized cost using the effective interest method.

Unless disclosed otherwise, the borrowings effective interest rates approximated the contractual interest rates at the reporting dates.

2.11 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 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 associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.12 Provisions. Provisions are recognised when the Company 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. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.13 Share capital. Common shares and 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.

Share capital has been adjusted for the effects of changes in the purchase power of the Russian Rouble from inception through 31 December 2002, in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*.

2.14 Dividends. Dividends are recognized as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are issued.

2.15 Employee benefits. The Company incurs employee costs related to the provision of benefits such as health insurance. These amounts principally represent an implicit cost of employment of personnel and, accordingly, have been charged to the statements of income.

The Company contributes to the Russian Federation state pension scheme on behalf of its employees in accordance with the state defined contribution plan. Mandatory contributions to the governmental pension scheme are accrued when incurred.

2.16 Revenue recognition. Services contracts include long-term contracts to provide specialised services. Revenue from sales of services are recognised in the accounting period in which the services are rendered. The Company uses the "percentage of completion method" to determine the appropriate amount of revenues to recognise in a given period. 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 at such time as an agreement is reached with the customer on the amount that will be recovered from the customer. When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. For works relating to the future contracts that have not been signed at the balance sheet date the revenue is recognized to the extent that it is probable that costs incurred will be recovered.

The revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Company. In the event that contract is expected to generate losses, such loss is recognised immediately in the statement of income. Costs incurred in the year in connection with future activity on a contract are presented as inventories, prepayments or other assets, depending on their nature.

The Company 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. Progress billings not yet paid by customers are included within 'trade and other receivables'. The Company 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).

Sales are shown net of VAT.

2.17 Taxes payable. Taxes have been provided for in the financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date.

2.18 New or revised standards not yet effective. Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods and which the Company has not early adopted. These new standards and interpretations are not expected to significantly affect the Company's financial statements when adopted on 1 January 2006 or later.

The new standards and interpretations which the Company has not early adopted are as follows: IFRIC 4, *Determining whether an Arrangement contains a Lease* (effective from 1 January 2006); IAS 21

(Amendment) Net Investment in a Foreign Operation (effective from 1 January 2006); IAS 39 (Amendment), *The Fair Value Option* (effective from 1 January 2006); IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006); IAS 39 (Amendment), *Financial Guarantee Contracts* (effective from 1 January 2006); IFRS 6, *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRS 7, *Financial Instruments: Disclosures and a Complementary Amendment to IAS 1, Presentation of Financial Statements—Capital Disclosures* (effective from 1 January 2007); IAS 19 (Amendment), *Employee Benefits* (effective from 1 January 2006); IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006); IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006); IFRIC 6, *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* (effective for periods beginning on or after 1 December 2005); IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006); 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); IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

3 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 financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities are outlined below.

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 estimates and actual experience may result in losses in future periods and changes in any of these conditions or estimates may cause adjustments to future depreciation rates.

Fair valuation of property, plant and equipment. As discussed in Note 4, the Company elected to value its property, plant and equipment at carrying values equal to their fair values in the transition balance sheet. The fair values were estimated by an independent appraiser using the market value of the assets and the depreciated replacement cost method, as appropriate, as defined by IAS 16, *Property, Plant and Equipment*. Independent experts use a number of judgments, including but not limited by the following: (i) choice of source of prices used as a reference for replacement cost of the constituent parts, (ii) assessment of cost of transportation and assembly of the plant and equipment, (iii) assessment of the level of accumulated obsolescence and wear-and-tear depreciation. Change in the above judgments can result in significantly different estimated fair values of the assets, and therefore the carrying values of the Company's property, plant and equipment may have been different than those recorded in the balance sheets.

Impairment of property, plant and equipment. At each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company's assets has declined below their carrying values. In conducting such assessment the management uses both externally and internally available information, including independent appraisals and business performance results. If such indications exist, the management conducts the analysis to determine whether the assets are impaired by making assessments of the recoverable amount, which is the higher of the fair value less cost to sell and the value in use.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Should management judgement used to determine whether or not the indicators of impairment existed at reporting dates change, the carrying values of the assets could be impaired resulting in impairment charge being recognised in the Company's statement of income.

Fair values of financial assets and liabilities. 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 management using available market information, where it exists, and appropriate valuation methodologies where no market information is available.

Cash and cash equivalents are carried at fair value.

Trade and other receivables, short-term borrowings, accounts payable and accrued liabilities are carried at amortized cost, net of provisions, as appropriate. Discount rates which have been used for assessing of the fair value of the assets and liabilities ranged from 13 percent to 17 percent. At 31 December 2005, 2004 and 2003, the fair values did not materially differ from the respective carrying values.

The fair values of the Company's long-term borrowings were estimated based upon rates available to the Company on similar instruments of similar maturities. At 31 December 2005, 2004 and 2003, the carrying values of total long-term borrowings approximated their fair values.

Assessment of the percentage of completion on service revenues. The Company's revenue from services 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 estimate 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 ADOPTION OF IFRS

IFRS 1, *First-time Adoption of International Financial Reporting* Standards ("IFRS 1") provides first-time adopters with certain exemptions from the historic cost requirement. In particular, IFRS 1 allows first-time adopters to recognize, upon initial adoption, items of property, plant and equipment at carrying values equal to their fair values in the transition balance sheet. Accordingly, management has recorded the Company's property, plant and equipment in the transition balance sheet at its fair value as of 1 January 2003 and designated such value as the deemed cost of these assets. The fair values were estimated by an independent appraiser using the market value of the assets and the depreciated replacement cost method, as appropriate, as defined by IAS 16, *Property, Plant and Equipment*. Market values were determined directly by reference to the observable prices in an active trading market for the Company's motor vehicles, constituent parts of the plant and equipment and buildings. Subsequent additions to property, plant and equipment are recorded at their historical cost.

Fair values of property, plant and equipment. Below is a summary of the assessed fair values of property, plant and equipment recorded as deemed cost as of the date of transition, 1 January 2003.

	Buildings	Plant and equipment	Motor Vehicles	Other	Total
Carrying value under Russian GAAP	75	371	50	13	509
Fair value adjustment	167	292	18	—	477
Carrying value under IFRS	242	663	68	13	986

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Reconciliation with Russian GAAP. Below is a reconciliation of shareholders' equity as reported under IFRS to shareholders' equity as reported under Russian GAAP as of 1 January 2003 and 31 December 2005.

	As of 1 January 2003	As of 31 December 2005
Shareholders' equity under Russian GAAP	480	711
Fair value adjustment to property, plant and equipment (1)	477	405
Additional depreciation (2)	—	(207)
Release of fair value adjustment on property, plant and equipment disposed during the reporting period (1)	—	(19)
Revenue recognition adjustments (3)	70	55
Provision for inventory obsolescence (4)	(10)	(5)
Provision for impairment of receivables (5)	(4)	(23)
Deferred tax adjustment (11)	(130)	(27)
Recognition of current tax overpayment (7)	40	—
Gain on tax restructuring (8)	16	—
Transition period profit tax adjustment (9)	(16)	—
Equity accounting for associate (10)	—	9
Other adjustments	(11)	(7)
Shareholders' equity under IFRS	**912**	**892**

Below is a reconciliation of the loss as reported under IFRS to net income as reported under Russian GAAP for the year 31 December 2005:

	Year ended 31 December 2005
Net income under Russian GAAP	**97**
Additional depreciation (2)	(66)
Revenue recognition adjustments (3)	55
Expenses charged directly to equity under Russian GAAP (6)	(44)
Provision for impairment of receivables (5)	(16)
Deferred tax adjustment (11)	29
Equity accounting for associate (10)	9
Provision for inventory obsolescence (4)	(1)
Other	(19)
Profit for the period under IFRS	**44**

(1) The fair value adjustment to property, plant and equipment results from the Company's use of the exemption available under IFRS 1 to first-time adopters that allows assigning fair values to property, plant and equipment on the IFRS transition date. The fair value adjustment for reporting periods ending subsequent to 1 January 2003 is reduced to account for the effect of any disposed assets.

(2) Additional depreciation charge is due to the combined effect of different cost basis and different estimated useful lives used in IFRS and Russian GAAP.

(3) Revenue recognition is due to different revenue recognition policies adopted for IFRS and Russian GAAP. Under IFRS the Company recognises the revenues using assessment of stage of completion of appropriate services. Under Russian GAAP the revenues are recognised at the time of billing the customer.

(4) Inventory provision is due to different measurement policies for inventories adopted for IFRS and Russian GAAP. The difference is for creation of provision on slow moving items for IFRS purposes considering the net realisable value of such items to be equalled to zero.

(5) Provision for impairment of receivables is due to different recognition policies adopted for IFRS and Russian GAAP. Generally, Russian GAAP requires companies to provide for receivables only when certain measures taken to collect the receivables have been unsuccessful while IFRS requires provisions as soon as management believes that a portion of the receivable will not be recovered.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

(6) An adjustment was recorded to include certain expenses which were charged directly to equity under Russian GAAP into the IFRS statement of income. Such expenses comprised certain general and administrative costs which are not recoverable for income tax purposes.
(7) Current tax overpayment adjustment is recorded to account for different timing of recognition for certain tax assets as required under IFRS. Under Russian GAAP such assets have been recognised at the time when the associated benefit was utilised by the Company.
(8) Gain on tax restructuring is recognized under IFRS but not under, Russian GAAP where such liabilities are accounted at their nominal value even following restructuring.
(9) Transition period profit tax adjustment was recorded to account for the effects of the introduction of a new tax code in 2002. The changes in tax code were accounted differently by the Company under Russian GAAP, resulting in profits tax liability being recognised later under Russian GAAP compared to IFRS.
(10) An adjustment was recorded by the Company to account for the different basis of preparation of accounts for the associate (Note 8).
(11) The deferred tax adjustment was recorded to reflect the impact of the other adjustments on the deferred tax balance.

The Company has not provided a reconciliation between cash flows as reported under Russian GAAP and IFRS. Under Russian GAAP, cash flows are presented using the direct method while under IFRS the Company has presented its cash flows using the indirect method. Under the direct method, cash flows from operations are reported based upon actual cash received from revenues, expenses and other operating activities. Under the indirect method, cash flows from operations are reported by adjusting net income for non-cash items and working capital changes.

5 TRADE AND OTHER RECEIVABLES

	As of 31 December:		
	2005	2004	2003
Trade receivables (net of provision for impairment of RR 1 million, RR 1 million and RR 2 million at 31 December 2005, 2004 and 2003, respectively)	369	318	288
Prepayments to suppliers (net of provision for impairment of RR 20 million, RR 6 million and RR 2 million at 31 December 2005, 2004 and 2003, respectively)	93	22	204
Prepaid expenses and other receivables (net of provision for impairment of RR 2 million, RR nil and RR nil at 31 December 2005, 2004 and 2003, respectively)	43	66	27
Income tax prepayments	41	—	24
VAT recoverable	11	13	10
Total trade and other receivables	**557**	**419**	**553**

6 INVENTORIES

	As of 31 December:		
	2005	2004	2003
Materials (net of provision for inventory obsolescence of RR 5 million, RR 4 million and RR 4 million at 31 December 2005, 2004 and 2003, respectively)	244	215	188
Total inventories	**244**	**215**	**188**

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machines and equipment	Motor Vehicles	Other	Total
Cost					
Balance as of 1 January 2003	242	663	68	13	986
Additions	14	54	11	5	84
Disposals	(15)	(18)	(2)	(2)	(37)
Balance as of 31 December 2003	241	699	77	16	1,033
Additions	30	261	32	7	330
Disposals	(8)	(9)	(2)	(2)	(21)
Balance as of 31 December 2004	263	951	107	21	1,342
Additions	28	77	24	56	185
Disposals	(7)	(9)	(5)	—	(21)
Balance as of 31 December 2005	**284**	**1,019**	**126**	**77**	**1,506**
Accumulated depreciation					
Balance as of 1 January 2003	—	—	—	—	—
Depreciation charge	(15)	(117)	(21)	(3)	(156)
Disposals	1	1	1	—	3
Balance as of 31 December 2003	(14)	(116)	(20)	(3)	(153)
Depreciation charge	(13)	(158)	(17)	(4)	(192)
Disposals	1	3	1	1	6
Balance as of 31 December 2004	(26)	(271)	(36)	(6)	(339)
Depreciation charge	(13)	(179)	(18)	(2)	(212)
Disposals	1	4	3	—	8
Balance as of 31 December 2005	**(38)**	**(446)**	**(51)**	**(8)**	**(543)**
Net Book Value					
Balance as of 31 December 2003	227	583	57	13	880
Balance as of 31 December 2004	237	680	71	15	1,003
Balance as of 31 December 2005	246	573	75	69	963

At 31 December 2005, 2004 and 2003, certain property, plant and equipment with total carrying values of RR 637 million, RR 541 million and RR 614 million, respectively, were pledged as collateral for the Company's borrowings (Note 12).

8 INVESTMENT IN ASSOCIATE

At 1 January 2005, YGF held an 12.5 percent interest in OAO Yamalo-Nenetsky Regional Stock Center "Yamal" which was valued at cost of RR 0.1 million. In June 2005 YGF acquired additional stake of 20.0 percent in OAO Yamalo-Nenetsky Regional Stock Center "Yamal" for RR 1.35 million and increased its share from 12.5 percent to 32.5 percent. Assets of the Stock Center comprise 160,000 shares of OAO Gazprom, which have been revalued to the market value as at 31 December 2005.

At the time of acquisition the Company's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities (primarily comprising shares of OAO Gazprom) exceeded the cost of the investment. The excess of RR 1 million was recognised as income in the period in which the investment was acquired and is presented as investor's share of the associate's profit or loss. The remaining part of the share of results of associate relates to the appreciation of the market value of shares of OAO Gazprom.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As of 31 December:		
	2005	2004	2003
Trade payables	35	29	44
Advances from customers	42	—	—
Dividends payable	20	13	6
Accrued salaries and wages	100	101	79
Accrued liabilities and other creditors	21	20	9
Total trade and other payables	**218**	**163**	**138**

10 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 profit before income tax.

	Year ended 31 December:		
	2005	2004	2003
Profit before taxation	75	43	94
less share of results of associate, net of income tax	(9)	—	—
Profit (loss) before taxation and results of associates	66	43	94
Theoretical income tax benefit (expense) at statutory rate of 24 percent	(16)	(10)	(23)
Gain on de-recognition of restructured tax liability	4	—	—
Non-deductible expenses, benefits in kind and charity	(19)	(16)	(8)
Total income tax expense	**(31)**	**(26)**	**(31)**

Other taxes payable. Current taxes payable at 31 December 2005, 2004 and 2003 are detailed below.

	As of 31 December:		
	2005	2004	2003
Value-added tax	56	52	44
Unified social tax	12	13	10
Personal income tax	6	10	6
Property tax	3	6	2
Other taxes	—	1	5
Total other taxes payable	**77**	**82**	**67**

At 31 December 2005, 2004 and 2003 included within VAT payable is RR 22 million, RR 15 million and RR 25 million, respectively, of VAT that is payable to the tax authorities when the underlying receivable is recovered or written off.

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

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Movements in deferred income tax assets and liabilities during the period ended 31 December 2005, 2004 and 2003 were as follows:

	31 December 2005	Income statement effect	31 December 2004	Income statement effect	31 December 2003	Income statement effect	1 January 2003
Property, plant and equipment	(58)	17	(75)	17	(92)	20	(112)
Inventories	(12)	(8)	(4)	9	(13)	(16)	3
Differences in revenue recognition	(12)	(15)	3	22	(19)	(2)	(17)
Restructured taxes	(2)	3	(5)	—	(5)	(1)	(4)
Accounts receivable	11	24	(13)	(19)	6	5	1
Other	1	(1)	2	1	1	2	(1)
Total deferred tax liabilities	**(72)**	**20**	**(92)**	**30**	**(122)**	**8**	**(130)**
Net deferred income tax liability	**(72)**	**20**	**(92)**	**30**	**(122)**	**8**	**(130)**

The temporary differences on property, plant and equipment primarily result from utilization of the fair value as deemed cost exemption available under IFRS 1 (Note 4) and from differences in the timing and the amount of depreciation recognised for tax and accounting purposes.

11 RESTRUCTURED TAX LIABILITIES

In September 1999, the Russian government issued a resolution providing tax relief to certain taxpayers. As a result of the resolution, during 2000, the Company entered into an agreement with the tax authorities that restructured certain of the Company's tax liabilities, including interest and penalties, by allowing the Company to defer the tax liabilities for a period of up to ten years. Under the agreement, the Company would receive further tax relief if the Company settled the outstanding principle amount under the accelerated repayment schedule.

As a result of the restructuring agreement, the Company recorded an after-tax gain of RR 16 million in its statement of income for the year ended 31 December 2000. The gain is based on the difference between the estimated fair value of the new restructuring agreement (based on discounted future cash flows) and the carrying amount of the old payables. The amortization of the discount (representing the difference between the carrying amount of the old payables and the discounted value of the restructured taxes) is recorded within interest expense and amounted to RR nil, RR 2 million and RR 3 million for the years ended 31 December 2005, 2004 and 2003, respectively.

During the year ended 31 December 2005 having complied with the terms of the accelerated repayment schedules of restructured taxes payable provided for by the regulation, the Company became eligible to extinguish restructured tax interest and fines. Accordingly, the Company recorded a RR 15 million gain on extinguishment of penalties in its statement of income for the year ended 31 December 2005.

12 BORROWINGS

Short-term borrowings. Below is a table detailing short-term borrowings and the current portion of long-term borrowings at 31 December 2005, 2004 and 2003.

	As of 31 December:		
	2005	2004	2003
Short-term borrowings from Sberbank	303	206	227
Current portion of long-term borrowings	85	114	—
Total short-term borrowings and current portion of long-term borrowings	**388**	**320**	**227**

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

As of 31 December 2005, 2004 and 2003 all short-term borrowings were Russian Rouble-denominated and collateralised by certain production equipment of the Company.

Short-term borrowings from Sberbank bore fixed interest rates ranging from 8 percent to 10.5 percent per annum, 9 percent to 16.5 percent per annum and 13 percent to 19 percent per annum for the years ended 31 December 2005, 2004 and 2003, respectively. As of 31 December 2005, 2004 and 2003, the effective weighted interest average rates for short-term borrowings were 10.4 percent, 10.2 percent and 14.1 percent, respectively.

Long-term borrowings. The Company's long-term borrowings at 31 December 2005 and 2004 are outlined below.

	As of 31 December:		
	2005	**2004**	**2003**
Sberbank	281	170	130
Zapsibcombank	—	29	29
Less: current portion of long-term borrowings	(85)	(114)	—
Total long-term borrowings	**196**	**85**	**159**

Zapsibcombank. In October 2003, the Company entered into a Russian Rouble-denominated credit facility with Zapsibcombank for a maximum amount of RR 29 million. The facility bore a fixed interest of 13 percent and was repaid in October 2005. The facility was collateralized by certain production equipment of the Company.

Sberbank. In November 2003, the Company entered into a Russian Rouble-denominated credit facility with Sberbank for a maximum amount of RR 170 million. The facility, which matures in November 2006, bears a fixed interest of 13 percent per annum, and is repayable on a quarterly basis beginning March 2005. The facility is collateralized by certain production equipment of the Company. At 31 December 2005 and 2004, RR 85 million and RR 170 million, respectively, was outstanding under the facility.

In October 2005, the Company entered into another Russian Rouble-denominated credit facility with Sberbank for a maximum amount of RR 220 million. The facility, which matures in October 2008, bears a fixed interest of 10.4 percent per annum, and is repayable on a quarterly basis beginning January 2007. The facility is collateralized by certain production equipment of the Company. At 31 December 2005 RR 196 million was outstanding under the facility.

As of 31 December 2005, 2004 and 2003, the long-term borrowings effective weighted interest average rates with allocated transaction costs were 12.5 percent, 13.4 percent and 13.0 percent, respectively.

Scheduled maturities of long-term borrowings outstanding at 31 December 2005, 2004 and 2003 were as follows:

	Scheduled maturities at 31 December:		
	2005	**2004**	**2003**
Scheduled maturities during the year ended 31 December:			
- 2005	—	—	114
- 2006	—	85	45
- 2007	110	—	—
- 2008	86	—	—
Total long-term borrowings	**196**	**85**	**159**

13 SHARE CAPITAL

Shares authorized and issued. During 2004, the Company's shareholders adopted resolution increasing the nominal value of common shares from RR 1 per share to RR 1.2 per share, resulting in a reclassification of RR 9 million from retained earnings to common shares.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Preferred shares. Nominal value of preferred shares is RR 1. Holders of preferred shares are entitled to an unspecified annual dividend, at a level greater or equal to that declared on common shares. Holders of preferred shares receive voting rights in the event no dividend was declared for the holders of such shares.

Dividends. During the years ended 31 December 2005, 2004 and 2003, the Company declared dividends totaling RR 1.20 per share, RR 0.8 per share and RR 0.35 per share, respectively, for both common and preferred shares.

Distributable retained earnings. The statutory accounting reports of OAO Yamalgeophyzika are the basis for income distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net income calculated in accordance with Russian accounting regulations. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation. For the years ended 31 December 2005, 2004 and 2003 OAO Yamalgeophyzika reported statutory net income of RR 97 million, RR 217 million and RR 116 million, respectively in its statutory accounting reports.

14 COST OF SALES

	Year ended 31 December:		
	2005	**2004**	**2003**
Employee costs (including mandatory social contributions of RR 96 million, RR 84 million, and RR 65 million for the years ended 31 December 2005, 2004 and 2003, respectively)	591	536	422
Depreciation	202	184	146
Fuel	142	134	74
Materials	79	96	77
Third parties services	49	55	33
Transport expenses	38	7	4
Explosive materials	35	22	19
Repair expenses	19	20	11
Public utilities	13	12	7
Provision for obsolete inventory	1	—	(6)
Other	92	20	42
Total cost of sales	**1,261**	**1,086**	**829**

15 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:		
	2005	**2004**	**2003**
Employee costs (including mandatory social contributions of RR 23 million, RR 11 million and RR 17 million for the years ended 31 December 2005, 2004 and 2003, respectively)	159	79	91
Provision for impairment of receivables	16	3	—
Taxes other than income tax	15	12	12
Insurance	13	20	9
Depreciation	10	8	10
Bank charges	6	4	5
Other	81	69	21
Total general and administrative expenses	**300**	**195**	**148**

16 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Contractual commitments and guarantees. At 31 December 2005, 2004 and 2003 the Company had no outstanding guarantees or contractual commitments for purchases of property, plant and equipment and intangible assets.

Environmental matters. The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company 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 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 Company 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. The areas that could be challenged include but are not limited by transfer pricing issues, the economic substance of transactions, compliance with customs and currency regulations. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities with respect to taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As of 31 December 2005, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in these financial statements.

Insurance policies. The Company holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks. Limited insurance policies exist primarily covering assets pledged against the Company's borrowings.

Legal proceedings. At 31 December 2005, the Company 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 Company.

Operating environment. The Russian Federation continues to display some characteristics of an emerging market economy, including relatively high inflation. The tax and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in the economic trends, 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.

17 FINANCIAL RISKS

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

Credit risks. Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company 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 (Note 5) and balances on accounts with banks, net of provision for impairment, represents the maximum amount exposed to credit risk.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision already recorded.

(expressed in Russian Roubles, tabular amounts in millions, except as indicated)

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

During 2005, a significant proportion of the Company's sales were made to six Russian oil and gas companies. The related revenues and balances as of and for the three years ended 31 December 2005 are presented below.

	Sales for the year ended 31 December 2005	Net amount due from at 31 December 2005
OOO Nadymgazprom	379	—
Sibneft-Nojabrskneftegaz	294	—
OAO Yamburggazdobycha	269	18
OAO Messoyakhaneftegaz	125	29
Lukoil-Zapadnaja Sibir	116	8
OAO Purneftegazgeologia	89	—

	Sales for the year ended 31 December 2004	Net amount due from at 31 December 2004
Sibneft-Nojabrskneftegaz	376	—
OOO Nadymgazprom	362	127
OAO Yamalneftegazdobycha	254	—
OAO Yamburggazdobycha	193	28
Lukoil-Zapadnaja Sibir	86	—
AO RITEK	50	—

	Sales for the year ended 31 December 2003	Net amount due from at 31 December 2003
OAO Yamalneftegazdobycha	298	—
OAO Yamburggazdobycha	294	—
OOO Nadymgazprom	198	25
AO RITEK	120	14
OOO Yangpur	66	3
OAO Purneftegazgeologia	40	—

Interest rate risk. All of the Company's borrowings are made at fixed rates. Accordingly, management believes that the Company is not significantly exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

18 RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if they meet the definition of related party as determined in IAS 24, *Related Party Disclosures*. Under the definitions therein, parties are 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. Key management and close family members of management, shareholders of other related parties also are considered related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Because of these relationships, it is possible that the Company may have entered transactions which unrelated parties might not have 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.

Management compensation. The Company's senior management team comprised 3 individuals for the years ended 31 December 2005, 2004 and 2003, respectively, whose compensation of RR 7 million, 6 million, 5 million respectively comprised salaries and bonuses.

19 SUBSEQUENT EVENTS

Additional borrowings. Subsequent to 31 December 2005 the Company obtained the following additional borrowings.

Alfa-bank loan. In October 2006, the Company entered into a Russian Rouble-denominated loan agreement with Alfa-bank under which the Company obtained an amount of RR 669 million. The loan bears a fixed interest rate of 10.90 percent per annum payable monthly. The loan matures in October 2008.

Sberbank loan. In October 2006, the Company entered into a Russian Rouble-denominated credit line agreement with Sberbank under which the Company obtained a non-revolving credit line with the limit of RR 158 million with the availability period ending in January 2007. The line bears a fixed interest rate of 10.40 percent per annum payable monthly. The line matures in October 2009.

Sberbank loan. In November 2006, the Company entered into two Russian Rouble-denominated loan agreement with Sberbank under which the Company obtained an amount of RR 87 million. The loan bears a fixed interest rate of 9 percent per annum payable monthly. The loan matures in November 2007.

OAO YAMALGEOPHYZIKA

CONTACT INFORMATION

The company's registered office is:

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ZAO FIRST NATIONAL DRILLING COMPANY

INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)
AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

CONTENTS

ZAO FIRST NATIONAL DRILLING COMPANY

INTERIM BALANCE SHEETS (UNAUDITED)

(expressed in millions of Russian Roubles, except as indicated)

	Note	30 September 2006	31 December 2005
Assets			
Cash and cash equivalents		21	43
Trade and other receivables	4	633	415
Inventories	5	130	88
Amounts due from related parties		—	8
Total current assets		**784**	**554**
Property, plant and equipment	6	486	377
Other non-current assets	12	46	—
Total non-current assets		**532**	**377**
Total assets		**1,316**	**931**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	7	395	416
Income tax payable		—	12
Other taxes payable		70	88
Short-term borrowings and current portion of long-term borrowings	9	161	114
Current portion of finance lease liabilities due to related parties	12	—	14
Total current liabilities		**626**	**644**
Long-term borrowings	9	528	112
Long-term finance lease liabilities due to related parties	12	—	2
Deferred tax liability		9	11
Total non-current liabilities		**537**	**125**
Total liabilities		**1,163**	**769**
Shareholders' equity:			
Common shares (par value of RR 1,000 per share; 10,000 shares authorized, issued and outstanding at 30 September 2006 and 31 December 2005)		10	10
Additional paid-in capital		54	54
Retained earnings		89	98
Total shareholders' equity		**153**	**162**
Total liabilities and equity		**1,316**	**931**

Approved and authorized for issue on 22 December 2006

Ravil Shaikhutdinov
General Director

Vyacheslav Shirokikh
Chief Financial Officer

FIRST NATIONAL DRILLING COMPANY

INTERIM STATEMENTS OF INCOME (UNAUDITED)

(expressed in millions of Russian Roubles, except as indicated)

	Note	Nine months ended 30 September: 2006	2005
Sales		858	739
Cost of sales	10	(743)	(664)
Gross profit		**115**	**75**
General and administrative expenses	11	(96)	(82)
Gain on disposal of property, plant and equipment		—	(2)
Operating profit		**19**	**(9)**
Interest income		2	9
Interest expense		(35)	(70)
Exchange gain (loss)		4	(4)
Profit (loss) before taxation		**(10)**	**(74)**
Current income tax expense		(1)	—
Deferred income tax benefit		2	17
Total income tax benefit		**1**	**17**
Loss for the period		**(9)**	**(57)**

FIRST NATIONAL DRILLING COMPANY

INTERIM CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(expressed in millions of Russian Roubles)

	Nine months ended 30 September:	
	2006	**2005**
Net cash provided by (used in) operating activities	**(197)**	**82**
Cash flows from investing activities:		
Purchase of property, plant and equipment	(179)	(117)
Issuance of loans	(44)	(12)
Repayment of loans	5	—
Net cash used in investing activities	**(218)**	**(129)**
Cash flows from financing activities:		
Proceeds from borrowings	719	1,234
Repayment of borrowings	(323)	(1,137)
Repayment of finance lease obligations	(3)	(47)
Net cash provided by financing activities	**393**	**50**
Net increase (decrease) in cash and cash equivalents	**(22)**	**3**
Cash and cash equivalents at the beginning of the period	43	4
Cash and cash equivalents at the end of the period	**21**	**7**

FIRST NATIONAL DRILLING COMPANY

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
(expressed in millions of Russian Roubles)

	Common shares authorized and issued	Additional paid-in capital	Retained earnings	Total equity
Balance at 31 December 2004	**10**	**45**	**48**	**103**
Loss for the period	—	—	(57)	(57)
Dividends declared	—	—	(8)	(8)
Fair value adjustment to financial liabilities issued at rates below market, net of RR 2 million in income tax	—	9	—	9
Balance at 30 September 2005	**10**	**54**	**(17)**	**47**
Balance at 31 December 2005	**10**	**54**	**98**	**162**
Loss for the period	—	—	(9)	(9)
Balance at 30 September 2006	**10**	**54**	**89**	**153**

SELECTED NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)
(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

1 GENERAL INFORMATION

First National Drilling Company (the "Company") is engaged in the provision of drilling, workover and other oilfield services to the petroleum industry in the Yamalo-Nenezkiy Region of the Russian Federation. The Company was incorporated as a closed joint stock company on 29 January 2002.

Through February 2006, PNBK was owned by two shareholders OOO Vestem and OAO RITEK. Each of the shareholders held a 50 percent ownership in the Company. In March 2006, the Company was acquired by IG Holdings Limited (registered in Cyprus). IG Holdings Limited is ultimately controlled by Integra Group ("Integra"), registered in Cayman Islands.

The Company operates in one business segment which is provision of drilling services to the petroleum industry within the Russian Federation. The Company assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole.

2 BASIS OF PREPARATION.

These interim condensed financial information have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). This financial information should be read together with the financial statements for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards ("IFRS").

The Russian Rouble ("RR") is the both functional and presentation currency for the Company's operations as the majority of the Company's business is conducted in Russian Roubles and management have historically used the Russian Roubles accounts to manage the Company's financial risks and exposures, and to measure its performance. Balance sheets items denominated in foreign currencies have been re-measured using the exchange rate at the respective balance sheets date. Exchange gains and losses resulting from foreign currency translation are included in the determination of net profit or loss.

The preparation of interim condensed financial information in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information 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 and the provision for impairment of receivables. Actual results could differ from these estimates.

The US dollar to Russian Rouble exchange rate was 26.78 and 28.78 as of 30 September 2006 and 31 December 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 Company was required to convert 10 percent of its hard currency proceeds into Russian roubles. During the first half of 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Company are consistent with those disclosed in the financial statements for the year ended 31 December 2005.

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

These new standards and interpretations are not expected to significantly affect the Company's financial statements when adopted: IFRS 7, *Financial Instruments: Disclosures* and a Complementary Amendment to IAS 1, *Presentation of Financial Statements—Capital Disclosures* (effective from 1 January 2007); 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

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

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); IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

New or amended standards and interpretations effective for the Company from 1 January 2006 are discussed below. None of the adoptions had a material impact on the Company's financial position or results of operations.

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, 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 decommission funds.

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 TRADE AND OTHER RECEIVABLES

	30 September 2006	31 December 2005
Trade receivables (net of provision for impairment of RR 2 million at 30 September 2006 and 31 December 2005)	153	255
Amounts due from customers for contracts work	198	35
VAT recoverable	52	79
Prepayments to suppliers	176	23
Prepaid expenses	54	23
Total trade and other receivables	**633**	**415**

5 INVENTORIES

	30 September 2006	31 December 2005
Materials (net of provision for impairment of RR 4 million and RR nil as at 30 September 2006 and 31 December 2005, respectively)	54	38
Spare parts	47	32
Others	29	18
Total inventories	**130**	**88**

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

Inventories with carrying value of RR nil and RR 6 million were pledged as collateral for borrowings at 30 September 2006 and 31 December 2005, respectively (Note 9).

6 PROPERTY, PLANT AND EQUIPMENT

	Rigs	Buildings	Motor vehicles	Plant and equipment	Other	Total
Cost						
Balance at 31 December 2004	240	113	30	140	5	528
Additions	6	2	1	83	2	94
Disposals	—	(4)	—	(3)	—	(7)
Balance at 30 September 2005	**246**	**111**	**31**	**220**	**7**	**615**
Balance at 31 December 2005	242	101	32	198	7	580
Additions	126	13	5	60	3	207
Disposals	—	(1)	(2)	(1)	—	(4)
Balance at 30 September 2006	**368**	**113**	**35**	**257**	**10**	**783**
Accumulated depreciation						
Balance at 31 December 2004	(60)	(15)	(10)	(35)	(1)	(121)
Depreciation charge	(30)	(6)	(4)	(28)	(1)	(69)
Disposals	1	1	—	2	—	4
Balance at 30 September 2005	**(89)**	**(20)**	**(14)**	**(61)**	**(2)**	**(186)**
Balance at 31 December 2005	(97)	(19)	(16)	(69)	(2)	(203)
Depreciation charge	(39)	(6)	(6)	(45)	(1)	(97)
Disposals	1	—	1	1	—	3
Balance at 30 September 2006	**(135)**	**(25)**	**(21)**	**(113)**	**(3)**	**(297)**
Net book value at:						
– 31 December 2004	180	98	20	105	4	407
– 30 September 2005	157	91	17	159	5	429
– 31 December 2005	145	82	16	129	5	377
– 30 September 2006	233	88	14	144	7	486

At 30 September 2006 and 31 December 2005 certain property, plant and equipment with a net book value of RR 197 million and RR 83 million, respectively, were pledged as collateral for the Company's borrowings (Note 9).

Property, plant and equipment held under finance lease agreements. Included within property, plant and equipment were assets under finance leases with related parties (Note 12) with net book values as detailed in the table below.

	Rigs	Buildings	Motor vehicles	Plant and equipment	Total
Net book value of leased assets at:					
– 31 December 2004	89	2	8	67	166
– 31 December 2005	21	2	5	43	71
– 30 September 2006	—	—	—	—	—

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 September 2006	31 December 2005
Trade payables	336	357
Amounts due to suppliers and contractors	1	8
Advances from customers	16	26
Accrued liabilities and other creditors	42	25
Total accounts payable and accrued liabilities	**395**	**416**

8 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.

	Nine months ended 30 September:	
	2006	2005
Loss before taxation	(10)	(74)
Theoretical tax benefit at the Russian statutory income tax rate of 24 percent	2	18
Non-deductible expenses expenses	(1)	(1)
Total income tax expense	**1**	**17**

9 BORROWINGS

Short-term borrowings. Below is a table detailing short-term borrowings and the current portion of long-term borrowings at 30 September 2006 and 31 December 2005. All short-term borrowings were Russian Rouble denominated.

	30 September 2006	31 December 2005
OAO Mobilbank	—	20
Alfa-bank	133	—
	133	**20**
Current portion of long-term debt	28	94
Total short-term borrowings	**161**	**114**

OAO Mobilbank. During 2003-2005 the Company maintained several Russian Rouble-denominated credit facilities with OAO Mobilbank. Total borrowings available under the facilities ranged from RR 13 million to RR 25 million, with a RR 20 million maximum balance at 31 December 2005. The facilities were unsecured and bore interest of 15 percent per annum. The loan was repaid in full in January 2006.

Alfa-bank. In June 2006, the Company entered into a short-term, RR 134 million Russian Rouble-denominated loan from Alfa-bank. The loan bears interest of 9.5 percent per annum and is guaranteed by OOO BK Alliance, OOO BK Sever and IG Holding Limited, subsidiaries of Integra. The loan matures in December 2006.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

Long-term borrowings. The Company's long-term borrowings at 30 September 2006 and 31 December 2005 are outlined below.

	30 September 2006	31 December 2005
OOO Integra Finance	337	—
Alfa-bank	135	—
ZAO International Moscow Bank	48	90
OAO RITEK	36	52
Sberbank	—	50
OOO Vestem	—	14
	556	**206**
Less current portion of long-term debt	(28)	(94)
Total long-term borrowings	**528**	**112**

Integra-Finance. During April-August 2006, the Company entered into a number of Russian Rouble-denominated loans from OOO Integra Finance, a subsidiary of Integra with total amount RR 337 million. The loans are unsecured, bear interest of 13 percent per annum and mature in March 2009.

Alfa-bank. In June 2006, the Company entered into a short-term, RR 135 million Russian Rouble-denominated loan from Alfa-bank. The loan bore the interest rate 10.5 percent per annum and was guaranteed by OOO BK Alliance, OOO BK Sever and IG Holding Limited which are subsidiaries of Integra and collateralized by certain of the Company's property, plant and equipment with carrying values of approximately RR 197 million at 30 September 2006. The loan matures in August 2008.

Scheduled maturities of long-term borrowings outstanding at 30 September 2006 are as follows:

Scheduled maturities during the twelve months ended 30 September:	
2006	—
2007	56
2008	135
2009	337
Total long-term borrowings	**528**

10 COST OF SALES

	Nine months ended 30 September:	
	2006	2005
Materials and supplies	143	145
Employee costs and benefits	195	154
Depreciation	91	68
Technological services	169	172
Transportation services	138	109
Other	7	16
Total cost of sales	**743**	**664**

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

11 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Nine months ended 30 September:	
	2006	2005
Employee costs	50	45
Services	27	17
Depreciation	6	1
Materials and supplies	3	2
Provision for taxes and penalties	—	6
Social expenses	2	4
Other	8	7
Total general and administrative costs	**96**	**82**

12 RELATED PARTY TRANSACTIONS

For the purposes of this financial information, parties are considered to be related if they meet the definition of related party as determined in IAS 24, *Related Party Disclosures*. Under the definitions therein, parties are 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. Key management and close family members of management, shareholders of other related parties also are considered related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Because of these relationships, it is possible that the Company 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 30 September 2006 and 31 December 2005 and for the periods ended 30 September 2006 and 2005:

	Nine months ended 30 September:	
	2006	2005
Sales to RITEK	—	569
Sales to PNBK-Kazakhstan	4	—
Management compensation	6	5
Management services agreement	8	—
Purchases of inventory from OOO VNIIBT-BI	17	—

	As of:	
	30 September 2006	31 December 2005
Amounts due from shareholders		
Trade receivable from RITEK	—	182
Amounts due from subsidiaries of Integra Group		
Prepayment to OOO BK Alliance	27	—
Prepayment to OOO BK Sever	90	—
Prepayment to OOO VNIIBT BI	36	—
Amounts due to subsidiaries of Integra Group		
Trade payables to ZAO Integra Management	8	—
Trade payables to OOO VNIIBT BI	7	—
Trade payables to OOO Integra Finance	9	—
Trade payables to Integra's affiliates	2	—
Other non-current assets	46	8
Current portion of finance lease liabilities	—	14
Long-term finance lease liabilities	—	2
Borrowings from related parties (Note 9)	337	67

Amounts due from subsidiaries of Integra Group. Prepayments to OOO BK Alliance, OOO BK Sever and OOO VNIIBT BI were issued under agreements for delivery of drilling equipment and spare parts to the drilling rigs.

Other non-current assets. Other non-current assets as of 31 December 2005 included RR 8 million comprising a non interest-bearing loan issued to TOO PNBK Kazakhstan, which at the time of issuing the loan was a party related by virtue of common control. In September 2006, TOO PNBK Kazakhstan repaid RR 3 million ahead of schedule, resulting in a gain on early redemption of RR 1 million, which was recorded within interest income in the statement of income for the nine months ended 30 September 2006. At 30 September 2006, the remaining carrying balance of the loan was RR 7 million.

In September 2006, the Company extended a RR 39 million, Russian Rouble-denominated loan to PBN Group, a subsidiary of Integra. The loan is unsecured, bore interest 13 percent and is scheduled to mature in March 2009. At 30 September 2006, the loan is included within other non-current assets in the Company's balance sheet.

Management services agreement. In April 2006, the Company entered into a management services agreement with ZAO Integra Management, a subsidiary of Integra. Under the terms of the agreement, the Company pays actual costs incurred during the period including salaries of General Director and Finance director and business trips expenses. The fee is payable quarterly. During the nine months ended 30 September 2006, the Company incurred RR 8 million of expense under the agreement.

Management compensation. The Company's senior management team comprised 12 individuals whose compensation included salaries and bonuses only. There was no significant other compensation provided to senior management.

13 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Contractual commitments and guarantees. At 30 September 2006 and 31 December 2005, the Company had RR 124 million and RR nil, respectively, of contractual commitments for purchases of property, plant and equipment and intangible assets.

At 30 September 2006, the Company had outstanding guarantees for borrowings of other subsidiaries of Integra totaling RR 2,026 million. The Company received no consideration for providing the guarantee.

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

Taxation. Russian tax 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 Company 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 30 September 2006, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in this financial information.

Insurance policies. The Company holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks. Limited insurance policies existing primarily covering assets pledged against the Company's borrowings.

Legal proceedings. At 30 September 2006, the Company 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 Company.

Operating environment of the Company. The Russian Federation continues to display some characteristics of an emerging market economy, including relatively high inflation. The tax and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in the economic trends, 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.

14 SUBSEQUENT EVENTS

Additional loans issued. In October 2006, the Company issued a Russian Rouble denominated loan to OAO Pricaspyiburneft (OAO PBN), a subsidiary of Integra, totalling RR 100 million. The loan is unsecured, bears interest of 13.5 percent per annum and matures in March 2009.

FIRST NATIONAL DRILLING COMPANY

CONTACT INFORMATION

The Company's registered office is:

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ZAO FIRST NATIONAL DRILLING COMPANY

FINANCIAL STATEMENTS AS OF AND FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

ZAO PricewaterhouseCoopers Audit
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AUDITORS' REPORT

To the Shareholders of ZAO First National Drilling Company

1. We have audited the accompanying balance sheets of ZAO First National Drilling Company (the "Company") as of 31 December 2005, 2004 and 2003 and the related statements of income, of cash flows and of changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
22 December 2006

CONTENTS

ZAO FIRST NATIONAL DRILLING COMPANY

BALANCE SHEETS

(expressed in millions of Russian Roubles, except as indicated)

	Note	31 December: 2005	2004	2003
Assets				
Cash and cash equivalents		43	4	—
Trade and other receivables	7	415	251	124
Inventories	8	88	98	52
Amounts due from related parties	15	—	93	36
Total current assets		**546**	**446**	**212**
Property, plant and equipment	9	377	407	361
Loans issued to related parties	15	8	—	—
Deferred tax asset	11	—	3	—
Total non-current assets		**385**	**410**	**361**
Total assets		**931**	**856**	**573**
Liabilities and shareholders' equity				
Accounts payable and accrued liabilities	10	416	355	202
Income tax payable		12	6	1
Other taxes payable	11	88	55	33
Short-term borrowings and current portion of long-term borrowings	12	114	62	13
Short-term portion of finance lease liabilities due to related parties	15	14	56	32
Total current liabilities		**644**	**534**	**281**
Long-term borrowings	12	112	102	61
Long-term finance lease liabilities due to related parties	15	2	117	86
Deferred tax liability	11	11	—	19
Total non-current liabilities		**125**	**219**	**166**
Total liabilities		**769**	**753**	**447**
Shareholders' equity:				
Common shares (par value RR 1,000 (one thousand) per share; 10,000 shares authorized, issued and outstanding at 31 December 2005, 2004 and 2003)		10	10	10
Additional paid-in capital		54	45	45
Retained earnings		98	48	71
Total shareholders' equity		**162**	**103**	**126**
Total liabilities and equity		**931**	**856**	**573**

Approved and authorized for issue on 22 December 2006

Ravil Shaikhutdinov
General Director

Vyacheslav Shirokikh
Chief Financial Officer

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

ZAO FIRST NATIONAL DRILLING COMPANY

STATEMENTS OF INCOME

(expressed in millions of Russian Roubles)

	Note	Year ended 31 December: 2005	2004	2003
Sales	17	1,143	1,114	708
Cost of sales	13	(884)	(982)	(562)
Gross profit		**259**	**132**	**146**
General and administrative expenses	14	(97)	(77)	(72)
Gain on disposal of property, plant and equipment		2	9	—
Operating profit		**164**	**64**	**74**
Interest income		16	7	3
Interest expense		(88)	(66)	(57)
Exchange gain (loss)		(5)	6	1
Loss on early redemption of loans received from shareholders	12	—	(34)	—
Profit (loss) before taxation		**87**	**(23)**	**21**
Current income tax expense		(17)	(19)	(20)
Deferred income tax benefit (expense)	11	(12)	22	8
Total income tax benefit (expense)	11	**(29)**	**3**	**(12)**
Profit (loss) for the year		**58**	**(20)**	**9**

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

ZAO FIRST NATIONAL DRILLING COMPANY

STATEMENTS OF CASH FLOWS

(expressed in millions of Russian Roubles)

	Note	Year ended 31 December: 2005	2004	2003
Cash flows from operating activities				
Profit (loss) before taxation		87	(23)	21
Adjustments for:				
Depreciation	9	97	85	55
Change in provision for impairment of receivables	7	2	—	—
Interest income		(16)	(7)	(3)
Interest expense		88	66	57
Exchange gain (loss)		5	(6)	(1)
Loss on early repayment of loans received from shareholders		—	34	—
Loss (gain) on disposal of property, plant and equipment		(2)	(9)	—
Operating cash flows before working capital changes		261	140	129
Change in trade and other receivables		(166)	(108)	58
Change in inventories		10	(46)	(25)
Change in accounts payable and accrued liabilities		118	77	(40)
Change in other taxes payable		18	32	22
Cash provided by operations before interest and income taxes		241	95	144
Income tax paid		(11)	(14)	(21)
Interest paid		(35)	(21)	(9)
Net cash provided by operating activities		**195**	**60**	**114**
Cash flows from investing activities:				
Purchase of property, plant and equipment		(185)	(52)	(96)
Proceeds from the disposal of the property, plant and equipment		33	—	—
Purchase of promissory notes/issuance of loans		(12)	(18)	—
Repayment of promissory notes/loans		3	15	—
Interest received		—	2	3
Net cash used in investing activities		**(161)**	**(53)**	**(93)**
Cash flows from financing activities:				
Proceeds from borrowings		1,403	922	123
Repayment of borrowings		(1,339)	(861)	(132)
Repayment of finance lease obligations		(58)	(64)	(27)
Dividends paid		(1)	—	—
Net cash provided by financing activities		**5**	**(3)**	**(36)**
Net increase (decrease) in cash and cash equivalents		**39**	**4**	**(15)**
Cash and cash equivalents at the beginning of the period		4	—	15
Cash and cash equivalents at the end of the period		**43**	**4**	**—**

Details on non-cash transactions are provided in Note 6 to these financial statements.

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

ZAO FIRST NATIONAL DRILLING COMPANY

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in millions of Russian Roubles)

	Note	Common shares authorised and issued	Additional paid-in capital	Retained earnings	Total equity
Balance at 1 January 2003		10	46	62	118
Profit for the year		—	—	9	9
Fair value adjustment to financial assets issued at rates below market (net of income taxes of RR 0.2 million)	15	—	(1)	—	(1)
Balance at 31 December 2003		**10**	**45**	**71**	**126**
Loss for the year		—	—	(20)	(20)
Dividends declared (RR 341 per one share)		—	—	(3)	(3)
Balance at 31 December 2004		**10**	**45**	**48**	**103**
Profit for the year		—	—	58	58
Dividends declared (RR 847 per one share)		—	—	(8)	(8)
Fair value adjustment to financial liabilities issued at rates below market (net of income taxes of RR 2 million)	12	—	9	—	9
Balance at 31 December 2005		**10**	**54**	**98**	**162**

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

1 GENERAL INFORMATION

ZAO First National Drilling Company ("PNBK") is a closed joint-stock company engaged in the provision of drilling, workover and other oilfield services to the petroleum industry in the Yamalo-Nenezkiy Region of the Russian Federation. PNBK was incorporated as a closed joint stock company on 29 January 2002.

Through February 2006, PNBK was owned by two shareholders OAO RITEK and OOO Vestem with 51 percent and 49 percent ownership, respectively. In March 2006, the Company was acquired by IG Holdings Limited (registered in Cyprus). IG Holdings Limited is ultimately controlled by Integra Group ("Integra"), registered in Cayman Islands.

The Company operates in one business segment which is provision of drilling services to the petroleum industry within the Russian Federation. The Company assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole.

Throughout reporting periods until September 2005, the Company had significant transactions with parties, related through common controlling shareholders, which are further detailed in Note 15. Because of these relationships, it is possible that the Company may have entered transactions which unrelated parties might not and it is possible that terms of these transactions are not the same as those that would have result from transactions with wholly unrelated parties.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation. These financial statements are the Company's first financial statements prepared in accordance with IFRS, issued and effective as at 31 December 2005, and are covered by IFRS 1, *First-time Adoption of IFRS*. The Company's transition date is January 1, 2003 and the Company prepared its opening balance sheet at that date. The policies set out below have been consistently applied for all the periods presented. PNBK maintains the accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("Russian GAAP"). These financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Reconciliations and descriptions of the effect of the transition from Russian GAAP to IFRS on the Group's equity and its net income and cash flows are provided in Note 5.

The financial statements have been prepared under the historical cost convention. The preparation of 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. Principal estimates are disclosed in Note 3. Actual results could differ from these estimates.

2.2 Functional and presentation currency. The Russian Rouble ("RR") is the functional currency of PNBK and is the presentation currency of these financial statements. Monetary balance sheet items denominated in foreign currencies have been re-measured using the exchange rate at the respective balance sheet dates. Exchange gains and losses resulting from foreign currency translation are included in the determination of profit or loss.

The US dollar to Russian Rouble exchange rate was 28.78, 27.75 and 29.45 as of 31 December 2005, 2004 and 2003, respectively. Through early 2006, the Russian rouble was not a convertible currency in most countries outside of the former Soviet Union and, further, the Company was required to convert a portion of its hard currency proceeds into Russian roubles. During the first half of 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.

2.3 Property, plant and equipment. All additions to property, plant and equipment are recorded at historical cost. Historical cost includes expenditures directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. 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.

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

Rigs	5-7 years
Buildings	25-30 years
Plant and equipment	2-15 years
Motor vehicles	3-15 years

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 gains or losses are included in the statements of income.

2.4 Leases. Leases are classified as finance leases when substantially all the risks and rewards associated with ownership are transferred to the Company. Assets are capitalized at the lower of fair value of the asset or the present value of the minimum lease payments. The leased assets are depreciated over the lesser of their estimated useful lives or the lease term, if title does not pass to the Company. The future lease payments are recorded, net of future finance charges, as finance lease liabilities. The finance charge is determined as the interest rate implicit in the lease.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

2.5 Impairment of assets. Assets 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).

2.6 Inventories. Inventories are stated at lower of cost or net realizable value. The cost of materials is determined using the weighted average method. The materials are accounted for at their cost of purchase, which comprises the purchase price, import duties and other taxes (other than those subsequently recoverable from the tax authorities), and transport, handling and other directly attributable costs. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The cost of inventories excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Spare parts are generally classified as inventories unless (i) they are expected to be used during more than one reporting period; or (ii) directly relate to a specific item of property, plant and equipment in which case such spare parts are classified as property, plant and equipment.

2.7 Trade receivables, loans issued and promissory notes. Trade receivables, loans issued and promissory notes are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, net of any provision for impairment. A provision for impairment of trade receivables, loans issued and promissory notes is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the Company's statements of income.

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

2.9 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 upon collection of receivables from customers net of VAT on purchases 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.

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.

2.10 Trade payables. Trade payables are recognised initially at fair value, net of transaction costs incurred. Trade payables are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognised in the statements of income over the period of the trade payables using the effective interest method.

2.11 Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognised in the statements of income over the period of the borrowings using the effective interest method.

The Company does not capitalise borrowing cost.

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

Unless disclosed otherwise, the borrowings effective interest rates approximated the contractual interest rates at the reporting dates.

2.12 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 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.

2.13 Share capital. Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares 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.

Share capital has been adjusted for the effects of changes in the purchase power of the Russian Rouble from inception through 31 December 2002, in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*.

2.14 Additional paid-in capital. Gains and losses arising on initial recognition of loans issued to or received from shareholders are recorded as debits or credits to the additional paid-in capital and recorded within the statements of the changes in shareholder's equity net of associated profits tax.

2.15 Provisions. Provisions are recognised when the Company 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. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.16 Employee benefits. The Company incurs employee costs related to the provision of benefits such as health insurance. These amounts principally represent an implicit cost of employment of personnel and, accordingly, have been charged to the statements of income.

The Company contributes to the Russian Federation state pension scheme on behalf of its employees in accordance with the state defined contribution plan. Mandatory contributions to the governmental pension scheme are accrued when incurred.

2.17 Revenue recognition. Services contracts include long-term contracts to provide specialised services. Revenue from sales of services are recognised in the accounting period in which the services are rendered. The Company uses the "percentage of completion method" to determine the appropriate amount of revenues to recognise in a given period. 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 at such time as an agreement is reached with the customer on the amount that will be recovered from the customer. When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised only to the extent it is probable that costs incurred are expected to be recoverable. For works relating to the future contracts that have not been signed at the balance sheet date the revenue is recognized to the extent that it is probable that costs incurred will be recovered.

The revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Company. In the event that contract is expected to generate losses, such loss is recognised immediately in the statement of income. Costs incurred in the year in connection with future activity on a contract are presented as inventories, prepayments or other assets, depending on their nature.

The Company 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. Progress billings not yet paid by customers are included within 'trade and other receivables'. The Company 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).

Sales are shown net of VAT.

During the reporting periods the Company did not have significant revenues other than from provision of services.

2.18 Dividends. Dividends are recognized as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are issued.

2.19 New or revised standards not yet effective. Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods and which the Company has not early adopted. These new standards and interpretations are not expected to significantly affect the Company's financial statements when adopted on 1 January 2006 or later.

The new standards and interpretations which the Company has not early adopted are as follows: IFRIC 4, *Determining whether an Arrangement contains a Lease* (effective from 1 January 2006); IAS 21 (Amendment) Net Investment in a Foreign Operation (effective from 1 January 2006); IAS 39 (Amendment), *The Fair Value Option* (effective from 1 January 2006); IAS 39 (Amendment), *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006); IAS 39 (Amendment), *Financial Guarantee Contracts* (effective from 1 January 2006); IFRS 6, *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRS 7, *Financial Instruments: Disclosures and a Complementary Amendment to IAS 1, Presentation of Financial Statements—Capital Disclosures* (effective from 1 January 2007); IAS 19 (Amendment), *Employee Benefits* (effective from 1 January 2006); IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IFRS 6 (Amendment), *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006); IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006); IFRIC 6, *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* (effective for periods beginning on or after 1 December 2005); IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006); IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006); 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); IFRIC 11, *IFRS 2—Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007); and IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008).

3 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 financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities are outlined below.

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.

Impairment of property, plant and equipment. At each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company's assets has declined below their carrying values. In conducting such assessment the management uses both externally and internally available information, including independent appraisals and business performance results. If such indications exist, the management conducts the analysis to determine whether the assets are impaired by making assessments of the recoverable amount, which is the higher of the fair value less cost to sell and the value in use.

Should management judgement used to determine whether or not the indicators of impairment existed at reporting dates change, the carrying values of the assets could be impaired resulting in impairment charge being recognised in the Company's statement of income.

Fair valuation of property, plant and equipment. As discussed in Note 5, the Company elected to value its property, plant and equipment at carrying values equal to their fair values in the transition balance sheet. The fair values were estimated by an independent appraiser using the market value of the assets and the depreciated replacement cost method, as appropriate, as defined by IAS 16, *Property, Plant and Equipment*. Independent experts use a number of judgments, including but not limited by the following: (i) choice of source of prices used as a reference for replacement cost of the constituent parts, (ii) assessment of cost of transportation and assembly of the plant and equipment, (iii) assessment of the level of accumulated obsolescence and wear-and-tear depreciation. Change in the above judgments can result in significantly different estimated fair values of the assets, and therefore the carrying values of the Company's property, plant and equipment may have been different than those recorded in the balance sheets.

Fair values. 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 management using available market information, where it exists, and appropriate valuation methodologies where no market information is available.

Cash and cash equivalents are carried at fair value.

Trade and other receivables, short-term borrowings, accounts payable and accrued liabilities are carried at amortized cost, net of provisions, as appropriate. Discount rates which have been used for assessing of the fair value of the assets and liabilities ranged from 13 percent to 17 percent. At 31 December 2005, 2004 and 2003, the fair values did not materially differ from the respective carrying values.

The fair values of the Company's long-term borrowings were estimated based upon rates available to the Company on similar instruments of similar maturities. At 31 December 2005, 2004 and 2003, the carrying values of total long-term borrowings approximated their fair values.

The fair values of the Company's long-term finance lease liabilities were estimated based upon rates available to the Company on similar instruments of similar maturities. At 31 December 2005, 2004 and 2003, the carrying values of total long-term finance lease liabilities approximated their fair values.

Assessment of the percentage of completion on service revenues. The Company's revenue from services 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 estimate 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 LIQUIDITY

For the year ended 31 December 2005 the Company has experienced losses and, at 31 December 2005 and 2003, the Company's current liabilities exceeded its current assets. Short-term obligations of the Company primarily comprise trade and other payables and short-term borrowings. The Company's cash flows from operations are dependent on its contract portfolio. However, the Company has generated cash from operating activities for each of the three years ended 31 December 2005, 2004 and 2003. Additionally, management is currently taking measures to improve the entity's working capital position. Such measures include, but are not limited to, obtaining financial support from its parent, IG Holdings Limited, and from third party lenders (Note 18), together with seeking new contracts and customers. Based on the above, management believes that a going concern basis for the preparation of these financial statements is appropriate.

5 ADOPTION OF IFRS

IFRS 1, *First-time Adoption of International Financial Reporting* Standards ("IFRS 1") provides first-time adopters with certain exemptions from the historic cost requirement. In particular, IFRS 1 allows first-time adopters to recognize, upon initial adoption, items of property, plant and equipment at carrying values equal to their fair values in the transition balance sheet. Accordingly, management has recorded the Company's property, plant and equipment in the transition balance sheet at its fair value as of 1 January 2003 and designated such value as the deemed cost of these assets. The fair values were estimated by an independent appraiser using the market value of the assets and the depreciated replacement cost method, as appropriate, as defined by IAS 16, *Property, Plant and Equipment*. Market values were determined directly by reference to the observable prices in an active trading market for the Company's motor vehicles, constituent parts of the plant and equipment and buildings. Subsequent additions to property, plant and equipment are recorded at their historical cost.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

Fair values of property, plant and equipment. Below is a summary of the assessed fair values of property, plant and equipment recorded as deemed cost as of the date of transition, 1 January 2003.

	Rigs	Buildings	Motor vehicles	Plant and equipment	Other	Total
Carrying value under Russian GAAP	98	21	21	23	1	164
Fair value adjustment	(7)	74	1	9	—	77
Carrying value under IFRS	**91**	**95**	**22**	**32**	**1**	**241**

Reconciliation with Russian GAAP. Below is a reconciliation of shareholders' equity as reported under IFRS to shareholders' equity as reported under Russian GAAP as of 1 January 2003 and 31 December 2005.

	1 January 2003	31 December 2005
Shareholders' equity under Russian GAAP	**29**	**178**
Fair value adjustment on property, plant and equipment(1)	66	57
Additional depreciation(2)	—	(26)
Accrued loss(3)	(25)	(24)
Accounting for finance lease(4)	3	(20)
Accrued interest(5)	37	(7)
Deferred tax adjustment(6)	8	27
Tax accrual(7)	—	(24)
Other	—	1
Shareholders' equity under IFRS	**118**	**162**

Below is a reconciliation of the loss as reported under IFRS to net income as reported under Russian GAAP for the year 31 December 2005:

	Year ended 31 December 2005
Net income under Russian GAAP	**18**
Fair value adjustment on disposed property, plant and equipment property(1)	(11)
Additional depreciation(2)	(11)
Accrued loss(3)	116
Accounting for finance lease(4)	(12)
Deferred tax adjustment(6)	(21)
Tax accrual(7)	(9)
Other	(12)
Net loss under IFRS	**58**

(1) The fair value adjustment to property, plant and equipment results from the Company's use of the exemption available under IFRS 1 to first-time adopters which allow assigning fair values to property, plant and equipment on the IFRS transition date. The fair value adjustment for reporting periods ending subsequent to 1 January 2003 is reduced to account for the effect of disposed assets.

(2) Additional depreciation charge is due to the combined effect of different cost basis and different estimated useful lives used in IFRS and Russian GAAP.

(3) Accrued loss is related to recognition of the revenue and cost of sales in accordance with IAS 18 requirements under the percentage of completion method.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

(4) Differences in accounting for finance leases are due to the fact that such leases are required to be recorded as operating leases under Russian GAAP.
(5) Interest expense under IFRS accrued includes accretion of discounts recognized at the time of origination of the loans received from the shareholders (See Note 12). Such loans are recognized and carried at face value under Russian GAAP.
(6) The deferred tax adjustment was recorded to reflect the impact of the other adjustments on the deferred tax balance.
(7) Tax accrual is recorded to account for different recognition criteria under Russian GAAP and IFRS. Under Russian GAAP the tax accrual is made in the period in which the tax return is submitted or re-submitted. Under IFRS the liability has been provided for once the management has concluded the Company has an obligation.

The Company has not provided reconciliation between cash flows as reported under Russian GAAP and IFRS. Under Russian GAAP, cash flows are presented using the direct method while under IFRS the Company has presented its cash flows using the indirect method. Under the direct method, cash flows from operations are reported based upon actual cash received from revenues, expenses and other operating activities. Under the indirect method, cash flows from operations are reported by adjusting net income for non-cash items and working capital changes.

6 NON-CASH TRANSACTIONS

During the years ended 31 December 2004 and 2003, the Company settled trade accounts receivable from its shareholder, OAO RITEK, totalling RR 249 million and RR 38 million, respectively, by accepting promissory notes of OOO Leasing-Invest, OAO RITEK, and Sberbank. During the years ended 31 December 2005 and 2004, RR 93 million and RR 194 million, respectively, of such promissory notes were used to settle trade accounts payable.

7 TRADE AND OTHER RECEIVABLES

	31 December:		
	2005	**2004**	**2003**
Trade receivables (net of provision for impairment of RR 2 million RR nil and RR nil as of 31 December 2005, 2004 and 2003, respectively)	255	196	88
Amounts due from customers for contract work	35	—	—
VAT recoverable	79	44	31
Prepayments to suppliers	23	6	3
Prepaid expenses	23	5	2
Total trade and other receivables	**415**	**251**	**124**

8 INVENTORIES

	31 December:		
	2005	**2004**	**2003**
Raw materials	38	49	26
Spare parts	32	32	17
Others	18	17	9
Total inventories	**88**	**98**	**52**

Inventories with carrying value of RR 6 million, RR nil and RR nil were pledged as collateral for borrowings at 31 December 2005, 2004 and 2003, respectively (Note 12).

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

9 PROPERTY, PLANT AND EQUIPMENT

	Rigs	Buildings	Motor vehicles	Plant and equipment	Other	Total
Cost						
Balance at 1 January 2003	91	95	22	32	1	241
Additions	121	14	5	35	1	176
Disposals	—	—	—	(3)	—	(3)
Balance at 31 December 2003	212	109	27	64	2	414
Additions	57	14	3	100	3	177
Disposals	(29)	(10)	—	(24)	—	(63)
Balance at 31 December 2004	240	113	30	140	5	528
Additions	7	5	3	83	2	100
Disposals	(5)	(17)	(1)	(25)	—	(48)
Balance at 31 December 2005	**242**	**101**	**32**	**198**	**7**	**580**

	Rigs	Buildings	Motor vehicles	Plant and equipment	Other	Total
Accumulated depreciation						
Balance at 1 January 2003	—	—	—	—	—	—
Depreciation charge	(25)	(9)	(5)	(16)	—	(55)
Disposals	—	—	—	2	—	2
Balance at 31 December 2003	(25)	(9)	(5)	(14)	—	(53)
Depreciation charge	(37)	(9)	(5)	(33)	(1)	(85)
Disposals	2	3	—	12	—	17
Balance at 31 December 2004	(60)	(15)	(10)	(35)	(1)	(121)
Depreciation charge	(39)	(8)	(6)	(43)	(1)	(97)
Disposals	2	4	—	9	—	15
Balance at 31 December 2005	**(97)**	**(19)**	**(16)**	**(69)**	**(2)**	**(203)**
Net book value						
Balance at 31 December 2003	187	100	22	50	2	361
Balance at 31 December 2004	180	98	20	105	4	407
Balance at 31 December 2005	145	82	16	129	5	377

At 31 December 2005, 2004 and 2003, certain property, plant and equipment with a net book value of RR 83 million, RR 112 million, and RR nil, respectively, were pledged as collateral for the Company's borrowings (Note 12).

Property, plant and equipment held under finance lease agreements. Included within property, plant and equipment were assets under finance leases with related parties (Note 15) with net book values as detailed in the table below.

	Rigs	Buildings	Motor vehicles	Plant and equipment	Total
Net book value of leased assets at:					
- 31 December 2003	90	2	11	—	103
- 31 December 2004	89	2	8	67	166
- 31 December 2005	21	2	5	43	71

In December 2005, a number of rigs and equipment held under finance lease agreements with net book value RR 57 million and RR 45 million, respectively, were purchased by the Company by settling the outstanding lease liability. No gains or losses were recognized as a result of the settlements. The settlement of the lease liability was not treated as an acquisition in the Company's statement of cash flows as such assets were already recorded as property, plant and equipment in the Company's balance sheet. Subsequent to 31 December 2005, the Company recognized a gain of RR 2 million on the early settlement of its lease liabilities.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December:		
	2005	2004	2003
Trade payables	357	234	152
Amounts payable for contracts works	8	56	12
Promissory notes payable	—	31	26
Prepayments from customers	26	15	—
Accrued liabilities and other creditors	25	19	12
Total accounts payable and accrued liabilities	**416**	**355**	**202**

11 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.

	Year ended 31 December:		
	2005	2004	2003
Profit (loss) before taxation	87	(23)	21
Theoretical tax charge at Russian statutory income tax rate of 24 percent	(21)	6	(5)
Provision for taxes and penalties	(2)	(2)	(1)
Accounting for finance lease	(3)	2	(4)
Charity and social expenses	(1)	(1)	—
Other non-deductible expenses	(2)	(2)	(2)
Total income tax expense	**(29)**	**3**	**(12)**

Other taxes payable. Current taxes payable at 31 December 2005, 2004 and 2003 are detailed below.

	31 December:		
	2005	2004	2003
Value-added tax	59	35	23
Provision for taxes and penalties	24	16	6
Unified social tax	2	1	2
Other taxes	3	3	2
Total other taxes payable	**88**	**55**	**33**

Included within VAT payable is RR 24 million, RR 35 million and RR 24 million at 31 December 2005, 2004 and 2003, respectively, of VAT that is only payable to the tax authorities when the underlying receivable is recovered or written off.

Deferred income tax. Differences between IFRS and Russian 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.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

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

	31 December 2005	Income statement effect	Equity statement effect	31 December 2004
Assets				
Recognition of expenses under the percentage of completion method	12	(12)	—	24
Accounts receivable	(7)	(17)	—	10
Total deferred tax assets	**5**	**(29)**	**—**	**34**
Liabilities				
Inventories	(3)	9	—	(12)
Long-term borrowings	(1)	2	(2)	(1)
Property, plant and equipment	(12)	6	—	(18)
Deferred income tax liabilities	**(16)**	**17**	**(2)**	**(31)**
Net deferred income tax asset (liability)	**(11)**	**(12)**	**(2)**	**3**

Movements in deferred income tax assets and liabilities during the year ended 31 December 2004 were as follows:

	31 December 2004	Income statement effect	31 December 2003
Assets			
Recognition of expenses under percentage of completion method	24	12	12
Accounts receivable	10	10	—
Total deferred tax assets	**34**	**22**	**12**
Liabilities			
Inventories	(12)	(9)	(3)
Long-term borrowings	(1)	7	(8)
Property, plant and equipment	(18)	2	(20)
Total deferred tax liabilities	**(31)**	**—**	**(31)**
Net deferred income tax asset (liability)	**3**	**22**	**(19)**

Movements in deferred income tax assets and liabilities during the year ended 31 December 2003 were as follows:

	31 December 2003	Income statement effect	1 January 2003
Assets			
Recognition of expenses under the percentage of completion method	12	5	7
Total deferred tax assets	**12**	**5**	**7**
Liabilities			
Inventories	(3)	(3)	—
Long-term borrowings	(8)	4	(12)
Property, plant and equipment	(20)	2	(22)
Total deferred tax liabilities	**(31)**	**3**	**(34)**
Net deferred income tax asset (liability)	**(19)**	**8**	**(27)**

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

12 BORROWINGS

Short-term borrowings. Below is a table detailing short-term borrowings and the current portion of long-term borrowings at 31 December 2005, 2004 and 2003. All short-term borrowings were Russian Rouble denominated.

	31 December:		
	2005	**2004**	**2003**
OAO Mobilbank	20	25	13
Sberbank	—	13	—
Subtotal	**20**	**38**	**13**
Current portion of long-term debt	94	24	—
Total short-term borrowings	**114**	**62**	**13**

OAO Mobilbank. During 2003-2005 the Company maintained several Russian Rouble-denominated credit facilities with OAO Mobilbank. Total borrowings available under the facilities ranged from RR 13 million to RR 25 million, with a RR 20 million maximum balance at 31 December 2005, payable in January 2006. The facilities were unsecured and bore interest of 15 percent per annum. The loan was repaid in full in January 2006.

Sberbank. In February 2004, the Company entered into a short-term, RR 12.8 million Russian Rouble-denominated loan from Sberbank. The loan bore the interest rate 14.3 percent per annum and was collateralized by certain of the Company's property, plant and equipment with carrying values of approximately RR 42 million at 31 December 2004. The loan was repaid in full in July 2005.

Long-term borrowings. The Company's long-term borrowings at 31 December 2005, 2004 and 2003 are outlined below.

	31 December:		
	2005	**2004**	**2003**
ZAO International Moscow Bank	90	110	—
OAO RITEK	52	4	50
Sberbank	50	—	—
OOO Vestem	14	12	11
Subtotal	206	126	61
Less current portion of long-term debt	(94)	(24)	—
Total long-term borrowings	**112**	**102**	**61**

ZAO International Moscow Bank. In September 2004, the Company entered into a $4 million, US Dollar-denominated loan with ZAO International Moscow Bank. The loan was guaranteed by one of the Company's shareholders, OAO RITEK, was collateralized by certain of the Company's property, plant and equipment as well as certain assets of OOO Leasing-Invest and bears interest of LIBOR + 6.5 percent per annum, payable on a monthly basis. The loan matures in September 2007.

OAO RITEK. In June 2002, the Company obtained a RR 116 million, Russian Rouble-denominated loan ("Loan A") from its shareholder, OAO RITEK. The loan was unsecured and bore no interest.

Loan A was recorded at its fair value at the origination date. The fair value was estimated by applying a discount rate of pre-tax 22 percent per annum, management's estimate of the Company's borrowing rate for similar instruments. The difference between the fair value and the face value of the loan of RR 42 million (net of RR 10 million income tax) was recorded as a shareholder contribution within additional paid-in capital during the year ended 31 December 2002. The Company repaid Loan A in full in December 2004, recognizing a loss on early redemption of RR 34 million.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

In December 2004, the Company obtained a second Russian Rouble-denominated loan ("Loan B") from OAO RITEK. Loan B had a maximum borrowing capacity of RR 80 million, was unsecured, bore no interest and had been scheduled to mature in March 2008. Loan B was provided in several tranches between December 2004 and March 2005.

Loan B was recorded at its fair value at the origination date. The fair value was estimated by applying a pre-tax discount rate of 15 percent per annum, management's estimate of the Company's borrowing rate for similar instruments. The difference between the fair value and the face value of the loan was recorded each time the Company borrowed under Loan B, resulting in contributions to additional paid capital of RR 9 (net of RR 2 million income tax) million during 2005.

Sberbank. In August 2005, the Company entered into a RR 50 million, Russian Rouble-denominated loan agreement with Sberbank. The loan matures in July 2008, bears interest of 14.5 percent per annum, payable monthly, and is collateralized by certain of the Company's property, plant and equipment and inventories.

OOO Vestem. In October 2002, the Company obtained an unsecured, $0.5 million, non-interest bearing, US Dollar-denominated loan ("Loan C") from its shareholder, OOO Vestem.

Loan C was recorded at its fair value at the origination date. The fair value was estimated by applying a pre-tax discount rate of 15 percent per annum, management's estimate of the Company's borrowing rate for similar instruments. The difference between the fair value and the face value of the loan of RR 4 million (net of income tax of RR 1 million) was recorded as a shareholder contribution within additional paid-in capital during the year ended 31 December 2002. The Company repaid Loan C in full in January 2006.

Scheduled maturities of long-term borrowings outstanding at 31 December 2005, 2004 and 2003 are as follows:

	Scheduled maturities at 31 December:		
	2005	2004	2003
2005	—	—	10
2006	—	65	26
2007	83	37	25
2008	29	—	—
Total long-term borrowings	**112**	**102**	**61**

13 COST OF SALES

	Year ended 31 December:		
	2005	2004	2003
Materials and supplies	190	241	145
Employee costs and benefits	193	216	115
Depreciation	96	84	55
Technological services	278	263	173
Transportation services	121	170	64
Other	6	8	10
Total cost of sales	**884**	**982**	**562**

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

14 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:		
	2005	2004	2003
Employee costs	55	37	32
Services	10	9	17
Depreciation	1	1	—
Materials and supplies	3	1	1
Provision for taxes and penalties	8	10	6
Provision for impairment of receivables	2	—	—
Bank charges	2	2	2
Social expenses	5	5	3
Other	11	12	11
Total general and administrative costs	**97**	**77**	**72**

15 RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if they meet the definition of related party as determined in IAS 24, *Related Party Disclosures*. Under the definitions therein, parties are 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. Key management and close family members of management, shareholders of other related parties also are considered related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Because of these relationships, it is possible that the Company 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 2005, 2004 and 2003.

	As of or for the year ended 31 December:		
	2005	2004	2003
Trade receivable from OAO RITEK	182	87	82
Promissory notes issued by related parties	—	93	36
Long-term loans issued	8	—	—
Current portion of finance lease liabilities	14	56	32
Long-term finance lease liabilities	2	117	86
Borrowings	67	16	61
Sales to OAO RITEK	700	697	514
Management compensation	7	4	4
Interest income	16	7	—
Interest expense	53	57	67
Loss on early redemption of loans received from shareholders	—	34	—

Promissory notes issued by related parties. Included within promissory notes issued by related parties at 31 December 2003 were RR 18 million in non interest-bearing promissory notes issued by OAO RITEK, one of the Company's shareholders and received as a settlement for accounts receivable. The Company used the promissory notes to settle trade accounts payable during 2004.

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

These promissory notes were recorded at fair value at the origination date. The fair value was estimated by applying a pre-tax discount rate of 17 percent per annum, management's estimate of the Company's borrowing rate for similar instruments. The difference between the fair value and the face value of the promissory notes of RR 1 million (net of income tax) was recorded as a debit to additional paid-in capital during the year ended 31 December 2003 and the associated discount was amortized in 2004, resulting in interest income recognized in the statement of income for the year ended 31 December 2004.

At 31 December 2004 and 2003, the promissory notes issued by related parties included RR 96 million and RR 57 million in promissory notes issued by OOO Leasing-Invest, a related party by virtue of common control also received as a settlement for accounts receivable. The promissory notes were Russian-Rouble denominated and bore interest rates ranging between 6 and 9 percent per annum. The Company used all outstanding promissory notes to settle trade accounts payable during 2005 (Note 6).

Long-term loans issued. Long-term amounts due from related parties at 31 December 2005, include RR 8 million due from TOO PNBK Kazakhstan, a company related by virtue of common control. In July 2005, the Company issued a RR 12 million, Russian Rouble-denominated loan to TOO PNBK Kazakhstan. The loan was unsecured, and bore no interest. The loan was scheduled for repayment in July 2008, but was partially early repaid in March and September 2006.

The Company recorded the loan at its fair value at the origination date. The fair value was estimated by applying a discount rate of 15 percent per annum. The pre-tax gain on origination of the loan representing the difference between the fair value and the face value of the loan of RR 4 million was recorded within interest expense in the statements of income.

Finance lease liabilities. During the years ended 31 December 2005, 2004 and 2003, the Company entered into a number of finance leases for property, plant and equipment with OOO Leasing-Invest (the "Lessor"), a party related by virtue of common control. During 2005 and subsequent to 31 December 2005, the Company negotiated with the Lessor to terminate substantially all of the finance leases (Note 9).

At 31 December 2005, 2004 and 2003, finance lease liabilities were scheduled to mature as outlined in the table below.

	31 December:		
	2005	**2004**	**2003**
Scheduled maturity during the year ended 31 December:			
2004	—	—	33
2005	—	68	27
2006	17	114	106
2007	2	58	48
Total lease payment	**19**	**240**	**214**
Total implicit interest	(3)	(67)	(96)
Less current portion of finance lease liabilities	(14)	(56)	(32)
Total long-term finance lease liabilities	**2**	**117**	**86**

Shareholders loans. During 2005, 2004 and 2003 the Company received non interest-bearing loans from its shareholders as outlined in Note 12.

Management compensation. The company's senior management team comprised 12, 10 and 8 individuals whose compensation for each reporting period is disclosed in the table above. Management compensation included salaries and bonuses. There was no significant benefits-in-kind or other compensation provided to senior management.

Sale to shareholders. The Company's sales made to and trade receivables due from OAO RITEK are disclosed in Note 17.

16 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Contractual commitments and guarantees. At 31 December 2005, 2004 and 2003 the Company had no contractual commitments for purchases of property, plant and equipment or intangible assets.

At 31 December 2005, the Company had provided a guarantee for the borrowings of OOO Leasing-Invest, a party related by virtue of common control. Outstanding borrowings subject to the guarantee were RR 71 million at 31 December 2005. The Company received no consideration for providing the guarantee.

At 31 December 2005, the Company had provided a guarantee for the borrowings of OOO VNIIBT BI, a subsidiary of Integra Group, Outstanding borrowing subject to the guarantee were RR 266 million at 31 December 2005. The Company received no consideration for providing the guarantee.

Environmental matters. The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company 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 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 Company 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. The areas that could be challenged include but are not limited by transfer pricing issues, the economic substance of transactions, compliance with customs and currency regulations. 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 2005, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in these financial statements.

Insurance policies. The Company holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks. Limited insurance policies existing primarily covering assets pledged against the Company’s borrowings.

Legal proceedings. At 31 December 2005, the Company 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 Company.

Operating environment of the Company. The Russian Federation continues to display some characteristics of an emerging market economy, including relatively high inflation. The tax and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Whilst there have been improvements in the economic trends, 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.

17 FINANCIAL RISKS

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

(expressed in Russian Roubles (tabular amounts in millions) except as indicated)

Credit risks. Financial assets, which potentially subject Company entities to credit risk, consist principally of trade receivables. The Company 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.

During 2003-2005, a significant proportion of the Company's sales were made to and trade receivables were due from seven significant customers. The revenues and balances with these customers are presented as follows:

	Sales for the year ended 31 December:		
	2005	**2004**	**2003**
RITEK	700	697	514
Belkamneft	129	155	118
Irkutsk oil company	89	—	—
Uliyanovskneft	87	5	—
Nafta-Uliyanovsk	51	65	—
Sibneftegaz	20	179	—
Techneftinvest	17	46	—

	Net amount due at 31 December:		
	2005	**2004**	**2003**
RITEK	182	87	82
Belkamneft	25	29	4
Irkutsk oil company	30	—	—
Uliyanovskneft	1	—	—
Nafta-Uliyanovsk	—	18	—
Sibneftegaz	6	42	—
Techneftinvest	2	8	—

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company 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. A substantial proportion of the Company's borrowings are denominated in US dollars. The Company does not have any formal hedging arrangements to mitigate its foreign exchange risk.

Interest rate risk. The Company's borrowings comprise a mixture of fixed and variable rate debt. Accordingly, the Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates which impact the Company's profit margins and net income. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. Currently the Company does not maintain a formal management program focusing on the unpredictability of interest rate fluctuations with the aim of minimizing potential adverse effects on the financial performance of the Company.

18 SUBSEQUENT EVENTS

Additional termination of lease. During the first quarter of 2006, the Company's shareholders and OOO Leasing-Invest negotiated the further termination of leases of fixed assets, see Note 15.

Additional borrowings. In June 2006, the Company entered into a RR 133 million, Russian Rouble denominated loan with Alfa-Bank. The loan bears interest of 9.5 percent per annum and matures in December 2006. The loan is guaranteed by the Company's shareholder, IG Holdings Limited.

In June 2006, the Company entered into a RR 135 million, Russian Rouble denominated loan with Alfa-Bank. The loan bears interest of 10.5 percent per annum and matures in August 2008. The loan is collateralized by the Company's assets.

In September 2006, the Company entered into a $4.0 million, US-dollar denominated loan with Moscow International Bank. The loan bears interest of LIBOR plus 6.55 percent per annum and matures in September 2007.

During April-August 2006, the Company entered into a number of Russian-Rouble denominated loans totalling RR 367 million, with OOO Integra Finance, a related party by virtue of common control. The loans bear interest of 13 percent per annum and mature in March 2009.

Guarantees issued. In February 2006, the Company provided a guarantee for the borrowings of OAO BK Alliance, a subsidiary of Integra Group. Borrowing subject to the guarantee was RR 226 million. Two other subsidiaries of Integra Group also guaranteed the borrowings.

In July 2006, the Company provided a guarantee for the borrowings of OAO Tyumenneftegeophysika, a subsidiary of Integra Group. Borrowings subject to the guarantee were RR 1,800 million. Four other subsidiaries of Integra Group also guaranteed the borrowings.

The value of the guarantees was estimated to be immaterial.

FIRST NATIONAL DRILLING COMPANY

CONTACT INFORMATION

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AZIMUTH GROUP

US GAAP INTERIM COMBINED FINANCIAL STATEMENTS AS OF AND FOR NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2006

BDO Unicon
Auditors and Consultants

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INDEPENDENT ACCOUNTANT'S REPORT

To the Management of Integra Group

We have reviewed the accompanying interim combined balance sheets of Azimuth Group which includes JSC Azimuth Energy Services, JSC Geostan and OOO Tomsk Geophysical Company (jointly referred to as the "Group") as of September 30, 2006 and December 31, 2005, and the related interim combined statements of income, cash flows, changes in shareholders' equity for the nine-month periods ended September 30, 2006 and 2005. These interim combined financial statements are the responsibility of Integra Group's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim condensed combined financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

BDO Unicon

January 12, 2007
Moscow, Russian Federation

CONTENTS

AZIMUTH GROUP

INTERIM COMBINED BALANCE SHEETS (UNAUDITED)

(expressed in thousands of US Dollars)

	Notes	September 30, 2006	December 31, 2005
Assets			
Current assets			
Cash and cash equivalents		1,909	2,500
Accounts receivable and prepayments	3	6,280	5,764
Inventories	4	2,810	2,524
Other current assets		49	60
Total current assets		**11,048**	**10,848**
Non-current assets			
Property, plant and equipment	5	10,881	8,703
Other non-current assets		984	1,044
Total non-current assets		**11,865**	**9,747**
Total assets		**22,913**	**20,595**
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term debt	6	851	4,084
Accounts payable and accrued liabilities	8	5,720	3,290
Taxes payable	9	731	1,031
Total current liabilities		**7,302**	**8,405**
Long term liabilities			
Long-term debt due to related party	7	1,933	1,952
Long-term payables		—	126
Deferred tax liability		485	210
Total long-term liabilities		**2,418**	**2,288**
Total liabilities		**9,720**	**10,693**
Commitments and Contingencies			
Shareholders' equity			
Share capital	11	9,244	9,244
Treasury shares	11	(1,509)	(1,509)
Capital deficit		(1,085)	(1,085)
Currency translation adjustment		3,283	2,832
Retained earnings		3,260	420
Total shareholders' equity		**13,193**	**9,902**
Total Liabilities and Shareholders' Equity		**22,913**	**20,595**

Approved and authorized for issue on January 12, 2007

Larionov N.I.
Management Committee Chairman

Toktamysova K.B.
Finance Manager

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

AZIMUTH GROUP

INTERIM COMBINED STATEMENTS OF INCOME (UNAUDITED)
(expressed in thousands of US Dollars)

	Notes	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Sales and other operating revenues	12	33,967	30,075
Cost of sales	13	(24,198)	(26,624)
Gross margin		**9,769**	**3,451**
General and administrative expenses		(5,168)	(7,455)
Gain on disposal of property, plant and equipment		36	765
Operating income (loss)		**4,637**	**(3,239)**
Interest expense		(300)	(339)
Foreign exchange gain/(loss)		344	(4)
Income/(loss) before income tax		**4,681**	**(3,582)**
Current income tax expense		(1,566)	(667)
Deferred income tax expense		(275)	(118)
Total income tax expense	10	**(1,841)**	**(785)**
Net income/(loss)		**2,840**	**(4,367)**

Larionov N.I.
Management Committee Chairman

Toktamysova K.B.
Finance Manager

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

AZIMUTH GROUP

INTERIM COMBINED STATEMENTS OF CASH FLOWS (UNAUDITED)

(expressed in thousands of US Dollars)

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Cash flows from operating activities		
Net income (loss)	2,840	(4,367)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expenses	2,495	1,541
Gain on disposal of property, plant and equipment	(36)	(765)
Allowance for doubtful accounts	(2,099)	2,905
Exchange loss/(gain), net	(344)	4
Deferred income tax benefit	275	118
Changes in operating assets in liabilities:		
Decrease/(increase) in accounts receivable and prepayments	1,723	(2,581)
Decrease/(increase) in inventories	(120)	83
Decrease in other current assets	11	2,373
Increase accounts payable and accrued liabilities	2,430	2,807
Decrease in taxes payable	(300)	(56)
Net cash provided by operating activities	**6,875**	**2,062**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(5,924)	(1,368)
Proceeds from disposal of property, plant and equipment	1,738	1,305
Net cash used in investing activities	**(4,186)**	**(63)**
Cash flow from financing activities		
Proceeds from short-term debt	980	—
Repayment of short-term debt	(4,225)	(4,239)
Proceeds from long-term debt	—	3,610
Net cash used in financing activities	**(3,245)**	**(629)**
Effect of exchange rate changes on cash and cash equivalents	**(35)**	**15**
Net increase/(decrease) in cash and cash equivalents	**(591)**	**1,385**
Cash and cash equivalents, beginning of the period	2,500	731
Cash and cash equivalents, end of the period	**1,909**	**2,116**
Non cash transaction		
Non-cash additions of property, plant and equipment	451	84
Supplemental information		
Income tax paid	2,067	518
Interest paid	300	339

Larionov N.I.
Management Committee Chairman

Toktamysova K.B.
Finance Manager

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

AZIMUTH GROUP

INTERIM COMBINED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)

(expressed in thousands of US Dollars)

	Share capital	Treasury shares	Capital deficit	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
Balance as of December 31, 2005	**9,244**	**(1,509)**	**(1,085)**	**2,832**	**420**	**9,902**
Net income	—	—	—		2,840	2,840
Currency translation adjustment	—	—	—	451	—	451
Total other comprehensive income						3,291
Balance as of September 30, 2006	**9,244**	**(1,509)**	**(1,085)**	**3,283**	**3,260**	**13,193**

Larionov N.I.
Management Committee Chairman

Toktamysova K.B.
Finance Manager

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

NOTE 1: ORGANIZATION AND PRINCIPAL ACTIVITIES

Azimuth Group is a group of JSC Azimuth Energy Services and JSC Geostan, both registered in the Republic of Kazakhstan, OOO Tomsk Geophysical Company and its 100% subsidiary ZAO Tomsk Geophysical Trust, both registered in the Russian Federation, (jointly referred to as the "Group") which engage in seismic data processing and interpretation and the provision of topographic, cartographic, and other research and development services to the petroleum industry in the Republic of Kazakhstan and the Russian Federation, respectively.

In December 2006, Integra Group ("Integra") acquired 94.11% in JSC Azimuth Energy Services, 99.5% in JSC Geostan and 100% in OOO Tomsk Geophysical Company. Accordingly from December 2006, Integra is the Group's ultimate controlling shareholder. Before the acquisition the Group ultimately was owned by International Energy Services Inc., a Delaware company.

The Group operates in one business segment which is provision of services to the petroleum industry within the Republic of Kazakhstan and the Russian Federation. The Group assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation.

The accompanying interim combined financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The companies of the Group (Note 1) maintain their accounting records and prepare their statutory financial statements in accordance with their national accounting and reporting regulations. The accompanying interim combined financial statements have been prepared from these accounting records and adjusted as necessary to comply with US GAAP.

These combined financial statements have been prepared solely for the purposes of inclusion into a prospectus for the initial public offering of depositary receipts of Integra's shares on the London Stock Exchange.

In preparing these combined financial statements, the financial statements of the individual combined entities were aggregated on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses. Balances, transactions and unrealised gains or losses on transactions between the combined entities, including their subsidiaries, were eliminated. Share capital represents the sum of the respective share capital of the combined entities.

The accompanying interim combined financial statements of the Group have been prepared under assumption that the Group as a whole and each company of the Group taken separately will operate as a going concern in the foreseeable future, and that assets will be realized and liabilities settled in due course.

Reporting and Functional Currency.

The Russian Rouble (RR) and Kazakhstan Tenge (KZT), respectively are the functional currencies (primary currency in which business is conducted) for the companies operations which are conducted within the Russian Federation and Republic of Kazakhstan. The Group uses the US Dollar as its reporting currency.

The transactions and balances in the accompanying interim combined financial statements have been translated into US Dollars as follows: assets and liabilities are translated at closing exchange rates; the statements of operations and cash flows have been translated using average exchange rates approximating the exchange rates effective at the dates on which transactions are recognized. Translation differences resulting from the use of these exchange rates have been included as a component of shareholder's equity.

(expressed in thousands of US Dollars except as indicated)

For the purpose of translating the Kazakhstan Tenge and Russian Rouble activities to US Dollars the following official rates have been used:

	Balance sheet, at date	
	KZT/USD	RR/USD
September 30, 2006	127.22	26.78
December 31, 2005	133.77	28.78

	Statements of operations and cash flows, average	
	KZT/USD	RR/USD
December 31, 2005 – September 30, 2006	125.47	27.39
December 31, 2004 – September 30, 2005	132.87	28.15

Foreign currency transactions.

Monetary assets and liabilities held by the entities as of September 30, 2006 and December 31, 2005 and denominated in foreign currencies are translated into the functional currency of the respective entity using the official exchange rate of Central Bank of the Russian Federation or the Republic of Kazakhstan, respectively, at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized as exchange gains or losses in the combined statements of income.

Accounting for combined entities.

All transactions, balances and unrealised gains on transactions between the combined companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting for subsidiaries.

Subsidiary undertakings are consolidated when the parent company 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. All transactions, balances and unrealised gains on transactions between the parent company and its subsidiary are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Management Estimates.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the revenues and expenses during the reporting periods. Certain significant estimates and assumptions for the Group include: recoverability and lives of long-term assets, provisions for uncollectible accounts receivable and obsolete inventories; legal and tax contingencies and other commitments. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

Cash and cash equivalents.

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

Trade receivables.

Trade receivables are presented at net realizable value. Allowances are provided for estimated uncollectible amounts. The estimate is made on the basis of receivables' ageing per contractual obligations, past history of settlements with the customer and its current financial position. Changes in allowances for uncollectible amounts are recorded in income within selling, general and administrative expenses.

Inventories.

Inventories are recorded at the lower of cost and net realizable value. The materials are accounted for at their cost of purchase, which comprises the purchase price, import duties and other taxes (other than those subsequently recoverable from the tax authorities), and transport, handling and other directly attributable costs. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The cost of inventories excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, plant and equipment.

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation. Historical cost includes expenditures directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. 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.

Depreciation on these assets is calculated on a straight-line basis over the estimated useful lives as follows:

Buildings	10 – 50 years
Machinery and equipment	5 – 6 years
Other assets	3 – 5 years

Long-lived assets are assessed for possible impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires long-lived assets with recorded values that are not expected to be recovered through undiscounted future cash flows to be written down to current fair value.

Maintenance and repairs and minor renewals are expensed as incurred. Major renewals and improvements are capitalized and the assets replaced are retired. 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 statement of income.

Value-added tax.

The national tax authorities in the Republic of Kazakhstan and the Russian Federation 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 upon collection of receivables from customers net of VAT on purchases 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 placing property, plant and equipment into operation.

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.

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 employment of personnel and, accordingly, have been charged to the statements of income.

The companies of the Group contribute to the national state pension scheme on behalf of its employees in accordance with the state defined contribution plan. Mandatory contributions to the governmental pension scheme are accrued when incurred.

Revenue recognition.

Revenue from sales of services is recognized in the accounting period in which the services are rendered. Contract costs are recognized when incurred.

The revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Company. In the event that contract is expected to generate losses, such loss is recognized immediately in the statement of income. Costs incurred in the year in connection with future activity on a contract are presented as inventories, prepayments or other assets, depending on their nature.

Sales are shown net of VAT.

Taxes payable.

Taxes have been provided for in the financial statements in accordance with statutory legislation enacted or substantively enacted by the balance sheet date.

Income taxes.

The Company is not subject to taxation on a consolidated basis. Current income taxes are provided on the accounting profit as determined under the local accounting principles in the Republic of Kazakhstan at a rate of 30 percent and in the Russian Federation at a rate of 24 percent, as of December 31, 2005 and 2004, after adjustments for certain items which are not deductible for taxation purposes, and after consideration of different tax credits.

Deferred income taxes are determined using the asset and liability approach in accordance with SFAS No. 109, *"Accounting for Income Taxes"*. This method gives consideration to the future tax consequences based on the enacted tax rate associated with differences between the financial reporting and tax basis of assets and liabilities.

Recent accounting Pronouncements.

In March 2005, the FASB issued an interpretation of Statement No. 143, "Accounting for Asset Retirement Obligations". This interpretation clarifies that the term "conditional asset retirement obligation" as used in the Statement No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred—generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exist. Statement No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This interpretation also clarifies when an entity would have sufficient information to reasonable estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of fiscal years after December 15, 2005. Management does not expect FASB interpretation to the Statement No. 143 to have an impact to the Company's consolidated financial position or consolidated results of operations and cash flows.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." This Statement changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion 20 previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FASB Statement No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after December 15, 2005. Management does not anticipate this statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments", an amendment of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 15, 2006. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets", an amendment of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement amends Statement No. 140

(expressed in thousands of US Dollars except as indicated)

with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 15, 2006. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

NOTE 3: ACCOUNTS RECEIVABLE AND PREPAYMENTS

	September 30, 2006	December 31, 2005
Trade accounts receivable (net of allowance for doubtful accounts of USD 2,981 thousand and USD 2,981 thousand at September 30, 2006 and December 31, 2005, respectively)	4,058	3,819
Recoverable value added tax	1,113	411
Prepaid expenses and other receivables (net of allowance for doubtful accounts of USD 30 thousand and USD 2,129 thousand at September 30, 2006 and December 31, 2005, respectively)	1,109	1,534
Total accounts receivable and prepayments	**6,280**	**5,764**

NOTE 4: INVENTORIES

Inventories are stated net of provision for obsolete inventories of USD 18 thousand and USD 17 thousand at September 30, 2006 and December 31, 2005, respectively.

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Assets under construction	Other assets	Total
Cost						
At December 31, 2005	140	3,144	18,841	436	6,860	29,421
Additions	—	537	5,698	1,800	443	8,478
Disposals	—	(188)	(2,065)	(2,103)	(216)	(4,572)
At September 30, 2006	**140**	**3,493**	**22,474**	**133**	**7,087**	**33,327**
Accumulated depreciation						
At December 31, 2005	—	(972)	(15,472)	—	(4,274)	(20,718)
Charge for the period	—	(168)	(1,635)	—	(692)	(2,495)
Disposals	—	47	654	—	66	767
At September 30, 2006	**—**	**(1,093)**	**(16,453)**	**—**	**(4,900)**	**(22,446)**
Net book value at December 31, 2005	**140**	**2,172**	**3,369**	**436**	**2,586**	**8,703**
Net book value at September 30, 2006	**140**	**2,400**	**6,021**	**133**	**2,187**	**10,881**

(expressed in thousands of US Dollars except as indicated)

NOTE 6: SHORT-TERM DEBT

	September 30, 2006	December 31, 2005
ATF Bank	300	1,008
Bank Trust	280	—
Ernesthouse Holdings Limited	271	259
Texakabank	—	2,018
Demir Kazakhstan Bank	—	799
Total short-term debt	**851**	**4,084**

ATF Bank. At September 30, 2006 and December 31, 2005, the Group had a USD 300 thousand and USD 1,008 thousand, respectively, USD denominated loan from ATF Bank, bearing interest at rate of 14.0 percent per annum and collateralized by certain production equipment of the Group. The loan is due in May 2007.

Bank Trust. At September 30, 2006 the Group had an unsecured USD 280 thousand Russian Rouble denominated loan from Bank Trust, bearing interest at rate of 14.5 percent per annum and due in August 2007.

Ernesthouse Holdings Limited. At September 30, 2006 and December 31, 2005, the Group had a USD 271 thousand and USD 259 thousand, respectively, Russian Rouble denominated interest free loan from Ernesthouse Holdings, an entity affiliated with former ultimate shareholder. The loan is collateralized by the shares of Tomsk Geophysical Trust, the subsidiary of the combined entity. The fair value of the loan is USD 252 thousand and USD 217 thousand as at September 30, 2006 and December 31, 2005, respectively. The adjustment for the difference between the fair and the carrying values of the loan has not been made.

Texakabank. At December 31, 2005 the Group had an unsecured USD 2 018 thousand Kazakhstan Tenge denominated loan from Texakabank, bearing interest at rate of 16.0 percent per annum.

Demir Kazakhstan Bank. At December 31, 2005 the Group had a USD 799 thousand Kazakhstan Tenge denominated loan from Demir Kazakhstan Bank, bearing interest at rate of 13.0 percent per annum and collateralized by certain production equipment of the Group.

NOTE 7: LONG-TERM DEBT

At September 30, 2006 and December 31, 2005, the Group had a USD 1,933 thousand and USD 1,952 thousand unsecured USD denominated loan from International Energy Services, Inc., an entity affiliated with former ultimate shareholder, maturing in October 2008, bearing interest at rate of 5.0 percent per annum. The fair value of the loan is USD 1,575 thousand and USD 1,461 thousand as at September 30, 2006 and December 31, 2005, respectively. The adjustment for the difference between the fair and the carrying values of the loan has not been made.

NOTE 8: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2006	December 31, 2005
Trade accounts and notes payable	1,661	1,790
Advances from customers	1,265	59
Salaries payable	1,066	901
Dividends payable	101	101
Other payables	1,627	439
Total other accounts payable and accrued liabilities	**5,720**	**3,290**

(expressed in thousands of US Dollars except as indicated)

NOTE 9: TAXES PAYABLE

	September 30, 2006	December 31, 2005
Income tax payable	69	570
Value-added tax	171	79
Pension fund and other social taxes	173	155
Other taxes	318	227
Total taxes payable	**731**	**1,031**

NOTE 10: TAXES

The companies of the Group operate in the tax jurisdictions of the Republic of Kazakhstan and the Russian Federation. The calculations of current and deferred income taxes have been performed using enacted tax rates effective for the appropriate jurisdiction.

Reconciliation of income taxes. Presented below is a reconciliation between total income taxes expense and theoretical income tax expense determined by applying the Kazakhstan statutory tax rate to income before income tax.

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Income/(loss) before income taxes	4,681	(3,582)
Theoretical income tax (expense)/benefit at Kazakhstan statutory rate of 30 percent	(1,404)	1,075
Increase/(decrease) in the theoretical income tax expense due to:		
Income taxed at lower rate	5	(5)
Non-taxable items	121	43
Non-deductible expenses	(563)	(1,898)
Income tax expense	**(1,841)**	**(785)**

Deferred income tax reflects the impact of temporary differences between the carrying values of assets and liabilities recognized for US GAAP financial reporting purposes and such amounts recognized for statutory tax purposes.

(expressed in thousands of US Dollars except as indicated)

NOTE 11: SHARE CAPITAL

For the purpose of these combined financial statements the share capital of the Group was aggregated by adding together the share capital of the combined entities:

	September 30, 2006	December 31, 2005
AO Azimuth Energy Services		
Common shares (authorized and issued: 36 955 950 shares)	5,938	5,938
Preferred shares (authorized and issued: 33 170 shares)	5	5
Less: treasury shares (8,372,556 common shares)	(1,509)	(1,509)
Total share capital of AO Azimuth Energy Services, net of treasury shares	4,434	4,434
AO Geostan		
Common shares (authorized and issued: 8 619 064 shares)	1,555	1,555
Preferred shares (authorized and issued: 7,736 shares)	1	1
Total share capital of AO Geostan	1,556	1,556
OOO Tomsk Geophysical	1,745	1,745
Total combined share capital	**7,735**	**7,735**

NOTE 12: SALES AND OTHER OPERATING REVENUE

The Group operates in one business segment and assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole. During nine months of 2006 and 2005, sales of services and other operating revenue have been made to customers, presented in the following countries.

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
The Republic of Kazakhstan	25,255	24,319
The Russian Federation	8,712	5,756
Total sales and other operating revenue	**33,967**	**30,075**

NOTE 13: COST OF SALES

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Wages and salaries (including mandatory social contributions of USD 1 484 thousand and USD 1 627 thousand for nine months ended 30 September 2006 and 2005, respectively)	11,992	14,092
Materials	6,216	7,078
Depreciation	2,383	1,459
Other	3,607	3,995
Total operating expenses	**24,198**	**26,624**

(expressed in thousands of US Dollars except as indicated)

NOTE 14: RELATED PARTY TRANSACTIONS

The Group had certain activities with its shareholder and related companies. The Group's reported results of operations, financial position and cash flows would be different had such transactions been carried out amongst unrelated parties. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

As of September 30, 2006 and December 31, 2005, the Group had the following balances with its shareholder and other affiliated entities. These balances are included in the balance sheet within accounts receivable, accounts payable and short-term debt as appropriate.

	September 30, 2006	December 31, 2005
Short-term debt		
Ernesthouse Holdings, an entity affiliated with former ultimate shareholder	271	259
Long-term debt		
International Energy Services, Inc., an entity affiliated with former ultimate shareholder	1,933	1,952

The fair value of short term debt is USD 252 thousand and USD 217 thousand as at September 30, 2006 and December 31, 2005, respectively.

The fair value of long term debt is USD 1,575 thousand and USD 1,461 thousand as at September 30, 2006 and December 31, 2005, respectively.

Adjustments for the difference between the fair and the carrying values of the loan have not been made.

NOTE 15: COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Contractual commitments and guarantees.

At September 30, 2006 the Group had no material outstanding guarantees or contractual commitments for purchases of property, plant and equipment and intangible assets.

Environmental matters.

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

Taxation.

Tax and customs legislation both in the Republic of Kazakhstan and the Russian Federation 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 Company may be challenged by the relevant 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 September 30, 2006, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in these financial statements.

Insurance policies.

The Group holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks. Limited insurance policies exist primarily covering assets pledged against the Group's debt.

Legal contingencies.

The Group is the named defendant in a number of lawsuits as well as the named party in numerous other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a materially adverse effect on the operating results or the financial position of the Group.

NOTE 16: FINANCIAL INSTRUMENTS

Fair values.

The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realize in a current market transaction.

The net carrying values of cash and cash equivalents, accounts receivable and payable, taxes payable, accrued liabilities and short-term debt approximate their fair values because of the short maturities of these instruments.

The loan arrangements with the entities affiliated with the Company's ultimate shareholder on long-term debt do not reflect the currently available terms for similar debt. Accordingly, the carrying values of these debts differ from their fair values.

Credit risk.

The significant portion of the Group's accounts receivable is from domestic customers, and advances are made to domestic suppliers. Although collection of these amounts could be influenced by economic factors affecting these entities, management believes there is no significant risk of loss to the Group beyond the provisions already recorded, provided that the economic situation in the Republic of Kazakhstan and the Russian Federation does not deteriorate.

Interest rate risk.

All of the Group's debt is made at fixed rates. Accordingly, management believes that the Group is not significantly exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

OOO TOMSK GEOPHYSICAL COMPANY

US GAAP CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2005 AND 2004,
FOR THE YEAR ENDED DECEMBER 31, 2005
AND FOR THE SIX MONTHS ENDED DECEMBER 31, 2004

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BDO Unicon
Auditors and Consultants

Closed joint-stock company

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REPORT OF INDEPENDENT AUDITORS

To the Management and Stakeholder of
OOO Tomsk Geophysical Company

We have audited the accompanying consolidated balance sheets of OOO Tomsk Geophysical Company and its subsidiary (the "Company") as of December 31, 2005 and 2004 and the related consolidated statements of operations, cash flows and changes in stakeholder's equity for the year ended December 31, 2005 and for the six month period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the six month period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

BDO Unicon

January 12, 2007
Moscow, Russian Federation

OOO TOMSK GEOPHYSICAL COMPANY

CONSOLIDATED BALANCE SHEETS

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

	Notes	December 31, 2005	December 31, 2004
Assets			
Current assets			
Cash and cash equivalents		62	239
Accounts receivable and prepayments, net	4	1,533	834
Inventories	5	899	337
Other current assets		58	63
Total current assets		**2,552**	**1,473**
Non-current assets			
Property, plant and equipment	6	2,123	1,159
Deferred tax asset		113	45
Other non-current assets		13	—
Total non-current assets		**2,249**	**1,204**
Total assets		**4,801**	**2,677**
Liabilities and Stakeholders' Equity			
Current liabilities			
Short-term debt due to related parties	7	510	262
Accounts payable and accrued liabilities	9	1,400	1,188
Taxes payable	10	359	350
Total current liabilities		**2,269**	**1,800**
Long term liabilities			
Long-term debt due to related parties	8	1,933	—
Deferred tax liability	11	—	5
Total long-term liabilities		**1,933**	**5**
Total liabilities		**4,202**	**1,805**
Contingencies and commitments			
Stakeholders' equity			
Charter capital	13	1,745	1,745
Capital deficit	13	(1,085)	(1,085)
(Accumulated deficit) retained earnings		(24)	219
Accumulated other comprehensive loss		(37)	(7)
Total stakeholders' equity		**599**	**872**
Total Liabilities and Stakeholders' Equity		**4,801**	**2,677**

Approved and authorised for issue on 12 January 2007

Gachegov V.G.
General Director

Kartashova T.I.
Chief Accountant

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

OOO TOMSK GEOPHYSICAL COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
(expressed in thousands of US Dollars, except as indicated)

	Notes	Year ended December 31, 2005	Six months ended December 31, 2004
Sales and other operating revenues		7,955	2,075
Cost of sales	12	(7,241)	(1,745)
Gross margin		**714**	**330**
General and administrative expenses		(949)	(156)
Operating (loss) income		**(235)**	**174**
Interest expense		(26)	—
Foreign exchange (loss) gain		(60)	17
(Loss) income before income tax		**(321)**	**191**
Current income tax expense		(9)	(1)
Deferred income tax benefit		87	29
Total income tax benefit	11	**78**	**28**
Net income (loss)		**(243)**	**219**

Gachegov V.G.
General Director

Kartashova T.I.
Chief Accountant

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

OOO TOMSK GEOPHYSICAL COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(expressed in thousands of US Dollars, except as indicated)

	Year ended December 31, 2005	Six months ended December 31, 2004
Cash flows from operating activities		
Net income (loss)	(243)	219
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	332	139
Allowance for doubtful accounts	37	168
Provision for obsolete inventories	17	18
Foreign exchange loss (gain), net	60	(17)
Interest expense	26	—
Deferred income tax benefit	(87)	(29)
Changes in operating assets and liabilities:		
Increase in accounts receivable and prepayments	(741)	(568)
Increase in inventories	(592)	(31)
Decrease in other current assets	3	3
Increase in accounts payable and accrued liabilities	102	791
Increase in taxes payable	9	234
Net cash (used in) provided by operating activities	**(1,077)**	**927**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(1,383)	(236)
Proceeds from disposal of property, plant and equipment	86	42
Net cash used in investing activities	**(1,297)**	**(194)**
Cash flow from financing activities		
Proceeds from short-term debt	258	—
Repayment of short-term debt	—	(500)
Proceeds from long-term debt	1,933	—
Net cash provided by (used in) financing activities	**2,191**	**(500)**
Effect of exchange rate changes on cash and cash equivalents	**6**	**4**
Net (decrease) increase in cash and cash equivalents	**(177)**	**237**
Cash and cash equivalents, beginning of the period	239	2
Cash and cash equivalents, end of the period	**62**	**239**
Supplementary information		
Income tax paid	—	—
Interest paid	—	—

Gachegov V.G.
General Director

Kartashova T.I.
Chief Accountant

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

OOO TOMSK GEOPHYSICAL COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STAKEHOLDERS' EQUITY
(expressed in thousands of US Dollars, except as indicated)

	Charter capital	Capital deficit (Note 13)	Retained earnings (accumulated deficit)	Accumulated other comprehensive loss	Total stakeholders' equity
Balance as of July 1, 2004	**1,745**	**(1,085)**	**—**	**—**	**660**
Net income	—	—	219	—	219
Currency translation adjustment	—	—	—	(7)	(7)
Total other comprehensive income					212
Balance as of December 31, 2004	**1,745**	**(1,085)**	**219**	**(7)**	**872**
Net loss	—	—	(243)	—	(243)
Currency translation adjustment	—	—	—	(30)	(30)
Total other comprehensive loss					(273)
Balance as of December 31, 2005	**1,745**	**(1,085)**	**(24)**	**(37)**	**599**

Gachegov V.G.
General Director

Kartashova T.I.
Chief Accountant

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in thousands of US Dollars except as indicated)

NOTE 1: ORGANIZATION AND PRINCIPAL ACTIVITIES

OOO Tomsk Geophysical Company ("TGC") and its subsidiary (jointly referred to as the "Company") engage in seismic data processing and interpretation and the provision of topographic, cartographic, and other research and development services to the petroleum industry in the Russian Federation.

TGC was incorporated in Russia in January 2005 by Ernersthouse Holdings Limited (Cyprus), as a limited liability company to exercise control over ZAO Tomsk Geophysical Trust ("TGT"). Ernersthouse Holdings Limited contributed all its TGT shares into share capital of TGC.

TGT was established in July 2003 and in June 2004 was acquired by Ernersthouse Holdings Limited, the subsidiary of International Energy Services Inc.

In December 2006, Integra Group ("Integra") acquired a 100 percent stake in the Company. Accordingly, from December 2006, Integra is the Company's ultimate controlling stakeholder.

The Company operates in one business segment which is the provision of services to the petroleum industry within the Russian Federation. The Group assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole.

NOTE 2: BASIS OF PRESENTATION

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Company maintains its accounting records and prepare its statutory financial statements in accordance with the Russian accounting and reporting regulation. The accompanying consolidated financial statements have been prepared from these accounting records and are adjusted as necessary to comply with US GAAP.

The accompanying consolidated financial statements of the Company have been prepared under the assumption that the Company as a whole consolidated entity taken separately will operate as a going concern in the foreseeable future, and that assets will be realized and liabilities settled in due course.

Predecessor Accounting.

In January 2005, Ernersthouse Holdings Limited transferred to TGC 100 percent of its shares of TGT. In these consolidated financial statements, the Company accounted for this business combination amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, the carrying value of the assets and liabilities of the TGT were accounted for at their value as reported on a historical cost basis by Ernersthouse Holdings Limited in its US GAAP financial statements. The information in respect of the comparative period has been restated as if the business combination took place at the beginning of the earliest period presented.

For accounting purposes, TGT is presented as the predecessor company and the 2004 financial statements reflect its operating results and cash flows commencing on July 1, 2004, the date on which Ernersthouse Holdings Limited acquired TGT.

Reporting and Functional Currency.

The Russian Rouble (RR) is the functional currency (primary currency in which business is conducted) for the Company operations which are conducted within the Russian Federation. The Company uses the US Dollar as its reporting currency.

The transactions and balances in the accompanying consolidated financial statements have been translated into US Dollars as follows: assets and liabilities are translated at closing exchange rates;

(expressed in thousands of US Dollars except as indicated)

the statements of operations and cash flows have been translated using average exchange rates approximating the exchange rates effective at the dates on which transactions are recognized. Translation differences resulting from the use of these exchange rates have been included as a component of stakeholder's equity.

For the purpose of translating the Russian Rouble activities to US Dollars the following official rates have been used:

	Balance sheet, at date RR/USD
December 31, 2005	28.78
December 31, 2004	27.75

	Statements of operations and cash flows, average RR/USD
December 31, 2004 – December 31, 2005	28.29
July 1, 2004 – December 31, 2004	28.85

Foreign currency transactions.

Monetary assets and liabilities held by the Company as of December 31, 2005 and 2004 and denominated in foreign currencies are translated into the functional currency of the respective entity using the official exchange rate of Central Bank of the Russian Federation, respectively, at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized as exchange gains or losses in the statements of operations.

Management Estimates.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the revenues and expenses during the reporting periods. Certain significant estimates and assumptions for the Company include: recoverability and lives of long-term assets, provisions for uncollectible accounts receivable and obsolete inventories; legal and tax contingencies and other commitments. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting for subsidiaries.

Subsidiary undertakings are consolidated when the parent company 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. All transactions, balances and unrealised gains on transactions between the parent company and its subsidiary are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Transfers of subsidiaries from parties under common control.

Contributions to share capital of shares in subsidiaries from parties under common control are accounted for in a manner similar to a pooling of interest. Under this method, the financial statements of the combined entity are presented as if the business had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's historical carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital contributed is accounted for in these consolidated financial statements as an adjustment to equity.

Cash and cash equivalents.

Cash and cash equivalents include cash in hand and deposits held at call with banks. The Company considers all investments acquired having a maturity of three months or less to be a cash equivalent.

Trade receivables.

Trade receivables are presented at net realizable value. Allowances are provided for estimated uncollectible amounts. The estimate is made on the basis of receivables' aging per contractual obligations, past history of settlements with the customer and an evaluation of the customer's current financial position. Changes in allowances for uncollectible amounts are recorded in income within selling, general and administrative expenses.

Inventories.

Inventories are recorded at the lower of cost and net realizable value. The materials are accounted for at their cost of purchase, which comprises the purchase price, import duties and other taxes (other than those subsequently recoverable from the tax authorities), and transport, handling and other directly attributable costs. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The cost of inventories excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, plant and equipment.

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation. Historical cost includes expenditures directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. 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.

Depreciation on these assets is calculated on a straight-line basis over the estimated useful lives as follows:

Buildings	10 – 50 years
Machinery and equipment	5 – 6 years
Other assets	3 – 5 years

Long-lived assets are periodically assessed for possible impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires long-lived assets with recorded values that are not expected to be recovered through undiscounted future cash flows to be written down to current fair value. In the period in which such a determination is made, the impairment loss is measured based on the excess of the carrying amount of the asset over the asset's fair value, generally determined based upon discounted estimates of future cash flows.

Maintenance and repairs and minor renewals are expensed as incurred. Major renewals and improvements are capitalized and the assets replaced are retired. 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 statement of income.

Value-added tax.

The tax authorities in the Russian Federation 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 upon collection of receivables from customers net of VAT on purchases 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 placing property, plant and equipment into operation.

In July 2005, new amendments to the Tax Code of the Russian Federation were adopted changing the tax rules with respect to VAT. Effective January 1, 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.

Employee benefits.

The Company incurs employee costs related to the provision of benefits such as health insurance. These amounts principally represent an implicit cost of employment of personnel and, accordingly, have been charged to the statements of operations.

The Company contributes to the state pension scheme on behalf of its employees in accordance with the state defined contribution plan. Mandatory contributions to the governmental pension scheme are accrued when incurred. Contributions in 2005 and 2004 totaled $280,755 and $71,396.

Revenue recognition.

Revenue from sales of services are recognized in the accounting period in which the services are rendered. Contract costs are recognized when incurred.

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Company. In the event that contract is expected to generate losses, such loss is recognized immediately in the statement of operations. Costs incurred during the year in connection with future activity on a contract are presented as inventories, prepayments or other assets, depending on their nature.

Sales are shown net of VAT.

Income taxes.

The Company is not subject to taxation on a consolidated basis. Current income taxes are provided on the accounting profit as determined under the local accounting principles at a rate of 24%, as of December 31, 2005 and 2004, after adjustments for certain items which are not deductible for taxation purposes, and after consideration of different tax credits.

Deferred income taxes are determined using the asset and liability approach in accordance with SFAS No. 109, *“Accounting for Income Taxes”*. This method gives consideration to the future tax consequences based on the enacted tax rate associated with differences between the financial reporting and tax basis of assets and liabilities.

Recent accounting pronouncements.

In March 2005, the FASB issued an interpretation of Statement No. 143, “Accounting for Asset Retirement Obligations”. This interpretation clarifies that the term “conditional asset retirement obligation" as used in the Statement No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred—generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exist. Statement No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This interpretation also clarifies when an entity would have sufficient information to reasonable estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of fiscal years after December 14, 2005. Management does not expect FASB interpretation to the Statement No. 143 to have an impact to the Company's consolidated financial position or consolidated results of operations and cash flows.

In December 2004, SFAS No.123(R), Share-Based Payment, a replacement of SFAS No. 123, Accounting for Stock-Based Compensation and rescission of APB Opinion No. 25, Accounting for Stock Issued to Employees, ("SFAS 123(R)") was issued. SFAS No. 123(R) requires compensation costs related to share-based payment transactions to be recognized in the consolidated financial statements. With limited exceptions, the amount of compensation cost will be measured based upon the grant date fair value of the equity or liability issued. In addition, liability awards will be remeasured each reporting period and compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS 123(R) is effective for the Company beginning on January 1, 2006. As the Company has not historically relied on stock-based compensation schemes in rewarding its employees, the Company does not believe that SFAS 123(R) will have a significant impact on its financial statements.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." This Statement changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion 20 previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FASB Statement No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after December 15, 2005. Management does not anticipate this statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments", an amendment of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 15, 2006. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

(expressed in thousands of US Dollars except as indicated)

In March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets", an amendment of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement amends Statement No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 15, 2006. Management does not anticipate this Statement will impact the Company's consolidated financial position or consolidated results of operations and cash flows.

NOTE 4: ACCOUNTS RECEIVABLE AND PREPAYMENTS, NET

	December 31, 2005	December 31, 2004
Trade accounts receivable	1,090	548
Prepayments to suppliers and contractors	189	271
Recoverable value added tax	216	—
Other receivables	38	15
Total accounts receivable and prepayments, net	**1,533**	**834**

Trade accounts receivables are presented net of an allowance for doubtful accounts of $205 and $168 at December 31, 2005 and 2004, respectively.

NOTE 5: INVENTORIES

	December 31, 2005	December 31, 2004
Materials (net of provision for obsolete inventories of $35 and $18 at December 31, 2005 and 2004, respectively)	899	337
Total inventories	**899**	**337**

(expressed in thousands of US Dollars except as indicated)

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Assets under construction	Other assets	Total
Cost					
At July 1, 2004	495	899	—	—	1,394
Additions	29	38	42	127	236
Disposals	(19)	(1)	—	(105)	(125)
At December 31, 2004	**505**	**936**	**42**	**22**	**1,505**
Additions	28	125	1,229	1	1,383
Transfers	—	835	(835)	—	—
Disposals	(25)	(80)		(14)	(119)
At December 31, 2005	**508**	**1,816**	**436**	**9**	**2,769**
Accumulated depreciation					
At July 1, 2004	(69)	(221)	—	—	(290)
Charge for the period	—	(139)	—	—	(139)
Disposals	15	68	—	—	83
At December 31, 2004	**(54)**	**(292)**	**—**	**—**	**(346)**
Charge for the period	(47)	(286)	—	—	(333)
Disposals	3	30	—	—	33
At December 31, 2005	**(98)**	**(548)**	**—**	**—**	**(646)**
Net book value at July 1, 2004	426	678	—	—	1,104
Net book value at December 31, 2004	451	644	42	22	1,159
Net book value at December 31, 2005	**410**	**1,268**	**436**	**9**	**2,123**

NOTE 7: SHORT-TERM DEBT DUE TO RELATED PARTIES

	December 31, 2005	December 31, 2004
Azimuth Energy Services	258	—
Ernersthouse Holdings Limited	252	262
Total short-term debt	**510**	**262**

Azimuth Energy Services. At December 31, 2005 the Company had a $258 Russian Rouble denominated interest free loan from Azimuth Energy Services, an entity affiliated with the ultimate stakeholder. The loan is collateralized by the shares of Tomsk Geophysical Trust, the Company's subsidiary. The fair value of the loan approximates it carrying value as the repayment date per this loan is March 2006.

Ernersthouse Holdings Limited. At December 31, 2005 and 2004, the Company had a $252 and $262, respectively, Russian Rouble denominated interest free loan from Ernersthouse Holdings Limited, an entity affiliated with former ultimate stakeholder. The loan is collateralized by the shares of Tomsk Geophysical Trust, the Company's subsidiary. The fair value of the loan is $217 and $196 as at December 31, 2005 and 2004 respectively. The adjustment for the difference between the fair and the carrying values of the loan has not been made.

NOTE 8: LONG-TERM DEBT DUE TO RELATED PARTIES

At December 31, 2005 the Company had a $1,933 unsecured US Dollar denominated loan from International Energy Services, Inc., an ultimate stakeholder, maturing in October 2008, bearing interest at rate of 5.0 percent per annum. The fair value of the loan is $1,461 at December 31, 2005. The adjustment for the difference between the fair and the carrying values of the loan has not been made. Interest expense related to this loan totaled $ 4 in 2005.

(expressed in thousands of US Dollars except as indicated)

NOTE 9: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2005	December 31, 2004
Trade accounts and notes payable	871	84
Advances from customers	268	923
Salaries payable	206	175
Other payables	55	6
Total accounts payable and accrued liabilities	**1,400**	**1,188**

NOTE 10: TAXES PAYABLE

	December 31, 2005	December 31, 2004
Personal income tax withheld	144	32
Value-added tax	79	279
Pension fund contributions	46	—
Pension fund and other social taxes	18	23
Other taxes	72	16
Total taxes payable	**359**	**350**

NOTE 11: INCOME TAXES

Presented below is a reconciliation between total income taxes expense and theoretical income tax expense determined by applying the Russian statutory tax rate to income before income tax.

	Year ended December 31, 2005	Six months ended December 31, 2004
(Loss) income before income tax	(321)	191
Theoretical income tax (expense)/benefit at statutory rate (24% in 2005 and 2004)	77	(46)
Increase (decrease) due to:		
Utilization of tax loss carried forwards previously unrecognized	1	79
Non-deductible expenses	—	(5)
Income tax benefit	**78**	**28**

Deferred income tax reflects the impact of temporary differences between the carrying values of assets and liabilities recognized for US GAAP financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred income tax assets (liabilities) are comprised of the following at December 31, 2005 and 2004:

	December 31, 2005	December 31, 2004
Property, plant and equipment	51	—
Accounts receivable and prepayments	50	41
Inventories	12	4
Deferred income tax assets	**113**	**45**
Property, plant and equipment	—	(5)
Deferred income tax liability	**—**	**(5)**
Net deferred income tax assets	**113**	**40**

(expressed in thousands of US Dollars except as indicated)

NOTE 12: COST OF SALES

	Year ended December 31, 2005	Six months ended December 31, 2004
Materials	1,673	782
Wages	2,108	601
Social contributions	354	103
Transportation	443	65
Depreciation, depletion and amortization	332	139
Third parties services	1,439	—
Other	892	55
Total cost of sales	**7,241**	**1,745**

NOTE 13: SHARE CAPITAL

$1,745 was paid in kind by shares in the Company's subsidiary TGT. Because of application of predecessor accounting, US GAAP carrying value of the contributed assets was $660. The difference of $1,085 between the nominal value of share capital paid and the US GAAP carrying value of the contributed assets has been recorded within capital deficit of the stakeholders' equity.

NOTE 14: RELATED PARTY TRANSACTIONS

During the years ended December 31, 2005 and six months ended December 31, 2004, the Company had certain activities with its stakeholder and related companies. The Company's reported results of operations, financial position and cash flows would be different had such transactions been carried out amongst unrelated parties. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

As of December 31, 2005 and 2004, the Company had the following balances with its stakeholder and other affiliated entities. These balances are included in the balance sheet within accounts receivable, accounts payable and short-term debt as appropriate.

	December 31, 2005	December 31, 2004
Accounts receivable from		
Azimuth Energy Services, an entity affiliated with the Company's ultimate stakeholder	14	100
Accounts payable to		
Azimuth Energy Services, an entity affiliated with the Company's ultimate stakeholder	71	—
Short-term debt from		
Azimuth Energy Services, an entity affiliated with the Company's ultimate stakeholder	258	—
Ernersthouse Holdings Limited, the Company's stakeholder	252	262
Long-term debt from		
International Energy Services Inc., the Company's ultimate stakeholder	1,933	—

(expressed in thousands of US Dollars except as indicated)

During the year ended December 31, 2005 and for the six months period ended December 31, 2004, the Company had the following transactions with its affiliated entities. These transactions are included in the consolidated statements of operations within sales and cost of sales as appropriate.

	Year ended December 31, 2005	Six months ended December 31, 2004
Geophysical and seismic surveys purchased by the Company		
Azimuth Energy Services, an entity affiliated with the Company's ultimate stakeholder	—	61
Rental income recognized by the Company		
Azimuth Energy Services, an entity affiliated with the Company's ultimate stakeholder	482	221

NOTE 15: COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Contractual commitments and guarantees.

At December 31, 2005 the Company had no material outstanding guarantees or contractual commitments for purchases of property, plant and equipment and intangible assets.

Environmental matters.

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

Taxation.

Tax and customs legislation in the Russian Federation 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 Company may be challenged by the relevant 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 December 31, 2005, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in these financial statements.

Insurance policies.

The Company holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks. Limited insurance policies existed primarily covering assets pledged against the Company's debt.

Operating Environment.

While there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in any countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

(expressed in thousands of US Dollars except as indicated)

Legal contingencies.

The Company is the named defendant in a number of lawsuits as well as the named party in numerous other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a materially adverse effect on the operating results or the financial position of the Company.

NOTE 16: FINANCIAL INSTRUMENTS

Fair values.

The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market transaction.

The net carrying values of cash and cash equivalents, accounts receivable and payable, taxes payable, accrued liabilities and short-term debt approximate their fair values because of the short maturities of these instruments.

The loan arrangements with the entities affiliated with the Company's ultimate stakeholder on long-term debt do not reflect the currently available terms for similar debt. Accordingly, the carrying value of this debt differs from its fair value.

Credit risk.

The significant portion of the Company's accounts receivable is from domestic customers, and advances are made to domestic suppliers. Although collection of these amounts could be influenced by economic factors affecting these entities, management believes there is no significant risk of loss to the Company beyond the provisions already recorded, provided that the economic situation in the Russian Federation does not deteriorate.

Interest rate risk.

All of the Company's debt is borrowed at fixed rates. Accordingly, management believes that the Company is not significantly exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

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JSC GEOSTAN

US GAAP FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2005 AND 2004,
FOR THE YEAR ENDED DECEMBER 31, 2005
AND FOR THE PERIOD COMMENCING APRIL 5, 2004 (INCEPTION DATE)
AND ENDED DECEMBER 31, 2004

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REPORT OF INDEPENDENT AUDITORS

To the Management and Shareholders of JSC Geostan

We have audited the accompanying balance sheets of JSC Geostan (the "Company") as of December 31, 2005 and 2004, and the related statements of operations, cash flows and changes in shareholder's equity for the year ended December 31, 2005 and for the period commencing April 5, 2004 (inception date) and ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the period commencing April 5, 2004 (inception date) and ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

BDO Unicon

January 12, 2007
Moscow, Russian Federation

JSC GEOSTAN

BALANCE SHEETS

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

	Notes	December 31, 2005	December 31, 2004
Assets			
Current assets			
Cash and cash equivalents		115	119
Accounts receivable and prepayments, net	4	408	240
Income tax prepayments		67	46
Inventories		36	43
Total current assets		**626**	**448**
Non-current assets			
Property, plant and equipment	5	1,378	1,008
Intangible assets		569	90
Total non-current assets		**1,947**	**1,098**
Total assets		**2,573**	**1,546**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	6	328	125
Other taxes payable	7	23	95
Short-term borrowings due to related parties	8	6	12
Total current liabilities		**357**	**232**
Non-current liabilities			
Long-term borrowings due to related parties	8	19	100
Deferred tax liability	7	70	2
Long-term payables	9	126	—
Total non-current liabilities		**215**	**102**
Total liabilities		**572**	**334**
Contingencies and commitments			
Shareholders' equity			
Common shares (8,619,064 authorized and issued at December 31, 2005)		1,555	1,555
Preferred shares (7,736 authorized at December 31, 2005 and 2004)		1	1
Shares subscription accounts receivable		—	(308)
Accumulated other comprehensive income		125	79
Retained earnings/(accumulated deficit)		320	(115)
Total shareholders' equity		**2,001**	**1,212**
Total liabilities and shareholders' equity		**2,573**	**1,546**

Approved and authorised for issue January 12, 2007

Sirazhev A.N.
Management Committee Chairman

Kuklina T.V.
Chief Accountant

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

JSC GEOSTAN

STATEMENTS OF OPERATIONS

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

	Notes	Year ended December 31, 2005	For the period commencing April 5, 2004 and ended December 31, 2004
Sales and other operating revenues		2,412	1,096
Cost of sales	10	(1,415)	(877)
Gross margin		**997**	**219**
General and administrative expenses	11	(385)	(256)
(Loss) gain on disposal of property, plant and equipment		(19)	1
Operating income (loss)		**593**	**(36)**
Foreign exchange loss		—	(77)
Income (loss) before income tax		**593**	**(113)**
Current income tax expense		(90)	—
Deferred income tax expense		(68)	(2)
Total income tax expense	7	**(158)**	**(2)**
Net income (loss)		**435**	**(115)**

Sirazhev A.N.
Management Committee Chairman

Kuklina T.V.
Chief Accountant

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

JSC GEOSTAN
STATEMENTS OF CASH FLOWS
(expressed in thousands of US dollars, except as indicated)

	Notes	Year ended December 31, 2005	For the period commencing April 5, 2004 and ended December 31, 2004
Cash flows from operating activities			
Net income (loss)		435	(115)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization		256	171
Bad debt provision		2	1
Loss (gain) on disposal of property, plant and equipment		19	(1)
Foreign exchange loss, net		—	77
Deferred income tax expense	7	68	2
Changes in operating assets and liabilities:			
Increase in accounts receivable and prepayments		(169)	(241)
Decrease (increase) in inventories		7	(43)
Increase in income taxes prepayments		(21)	(46)
Increase in accounts payable and accrued liabilities		203	125
(Decrease) increase in other taxes payable		(72)	95
Net cash provided by (used in) operating activities		**728**	**25**
Cash flows from investing activities			
Purchase of property, plant and equipment		(250)	(93)
Purchase of intangible assets		(495)	(33)
Net cash used in investing activities		**(745)**	**(126)**
Cash flows from financing activities:			
Proceeds from short-term borrowings		6	12
Repayments of short-term borrowings		(12)	—
Proceeds from long-term borrowings		19	100
Repayments of long-term borrowings		(100)	—
Net cash provided by (used in) financing activities		**(87)**	**112**
Effect of exchange rates changes on cash and cash equivalents		100	108
Net (decrease) increase in cash and cash equivalents		(4)	119
Cash and cash equivalents, beginning of the period		119	—
Cash and cash equivalents, end of the period		**115**	**119**
Non-cash transactions			
Non-cash acquisition of property, plant and equipment		84	—
Contribution of assets into share capital:			
– property, plant and equipment		308	1,086
– other assets		—	162
Supplementary information			
Income tax paid		113	46
Interest expense paid		—	—

Sirazhev A.N.
Management Committee Chairman

Kuklina T.V.
Chief Accountant

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

JSC GEOSTAN

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in thousands of US dollars, except as indicated)

	Common shares	Preferred shares	Accumulated other comprehensive income	Shares subscription accounts receivable	Retained earnings/ (Accumulated deficit)	Total equity
Balance as of April 5, 2004 (inception date)	**1,555**	**1**	**—**	**(308)**	**—**	**1,248**
Net loss	—	—	—	—	(115)	(115)
Currency translation adjustment	—	—	79	—	—	79
Total other comprehensive loss						(36)
Balance as of December 31, 2004	**1,555**	**1**	**79**	**(308)**	**(115)**	**1,212**
Net income	—	—	—	—	435	435
Currency translation adjustment	—	—	46	—	—	46
Total other comprehensive income						481
Property contribution	—	—	—	308	—	308
Balance as of December 31, 2005	**1,555**	**1**	**125**	**—**	**320**	**2,001**

Sirazhev A.N.
Management Committee Chairman

Kuklina T.V.
Chief Accountant

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

NOTES TO FINANCIAL STATEMENTS
(expressed in thousands of US dollars, except as indicated)

1 GENERAL INFORMATION

JSC Geostan ("Geostan" or the "Company"), engages in seismic data processing and interpretation to the petroleum industry in the Kazakhstan. Geostan was incorporated in Kazakhstan as an open joint stock company in April 2004 pursuant to the approval by the Ministry of justice of Kazakhstan.

During its incorporation the Company has issued ordinary and preferred shares. In accordance with Kazakhstan legislation, preferred shareholders have privilege rights to receive dividends. The guaranteed amount of dividends on preferred shares is equaled to 20 per cent of the nominal value of the share, but not less than the dividends declared on ordinary shares. Preferred shareholders do not exercise voting rights except for the re-organization or liquidation of the company and cases when the shareholders meeting votes on matters which can confine rights of owners of preferred shares. The voting rights of the preferred shareholders are restored if the company does not pay dividends on the preferred shares during three months since the date when the dividends are declared.

In December 2006, Integra Group ("Integra") acquired a controlling stake in the Company. Accordingly, from December 2006, Integra is the Company's ultimate controlling shareholder.

The Company operates in one business segment which is the provision of services to the petroleum industry within Kazakhstan. The Company assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation. The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Company maintains its accounting records and prepares its statutory financial statements in accordance with Kazakhstan national accounting and reporting regulations. The accompanying financial statements have been prepared from these accounting records and adjusted as necessary to comply with US GAAP.

The accompanying financial statements of the Company have been prepared under assumption that the Company will operate as a going concern in the foreseeable future, and that assets will be realized and liabilities settled in due course.

2.2 Functional and presentation currency. The Kazakh Tenge ("KZT") is the functional currency of Geostan. The Company uses the US Dollar as its reporting currency. The transactions and balances in the accompanying financial statements have been translated into US Dollars as follows: assets and liabilities are translated at closing exchange rates; the statements of operations and cash flows have been translated using average exchange rates approximating the exchange rates effective at the dates on which transactions are recognized. Translation differences resulting from the use of these exchange rates have been included as a component of shareholder's equity.

The Kazakhstan Tenge exchange rate was 133.77 and 130.00 to one US dollar as of December 31, 2005 and 2004, respectively.

2.3 Intangible assets. 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 intangible assets that are acquired separately or in a business combination.

Intangible assets primarily include 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. The computer software have definite lives and are amortised using the straight-line method over their useful lives equalling ten years. The annual charge of the intangible assets amortization for each of the five consecutive year following from December 31, 2005 is equal to $63.

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

2.4 Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation. Historical cost includes expenditures directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. 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.

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

Buildings	10 – 50 years
Machinery and equipment	5 – 6 years
Other assets	3 – 5 years

Long-lived assets are assessed for possible impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires long-lived assets with recorded values that are not expected to be recovered through undiscounted future cash flows to be written down to current fair value.

Maintenance and repairs and minor renewals are expensed as incurred. Major renewals and improvements are capitalized and the assets replaced are retired. 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 statement of operations.

2.5 Inventories. Inventories are recorded at the lower of cost and net realizable value. The materials are accounted for at their cost of purchase, which comprises the purchase price, import duties and other taxes (other than those subsequently recoverable from the tax authorities), and transport, handling and other directly attributable costs. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The cost of inventories excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.6 Trade receivables. Trade receivables are presented at net realizable value. Allowances are provided for estimated uncollectible amounts. The estimate is made on the basis of receivables' ageing per contractual obligations, past history of settlements with the customer and its current financial position. Changes in allowances for uncollectible amounts are recorded in income within selling, general and administrative expenses.

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

2.8 Value-added tax. The national tax authorities in the Republic of Kazakhstan 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 upon collection of receivables from customers net of VAT on purchases 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 placing property, plant and equipment into operation.

In July 2005, new amendments to the Tax Code of the Kazakhstan were adopted changing the tax rules with respect to VAT. Effective January 1, 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.

2.9 Borrowings and other financial liabilities. Borrowings and other financial liabilities are recognized initially at fair value, net of transaction costs incurred. Such liabilities are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognized in the statement of operations over the period of the borrowings using the effective interest rate method.

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

Trade payables are accrued when the counterparty has performed its obligations under the contract.

Unless disclosed otherwise, the borrowings effective interest rates approximated the contractual interest rates at the reporting dates.

2.10 Deferred income taxes. Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, in accordance with SFAS No. 109 Accounting for Income Taxes. Deferred income tax assets and liabilities are measured using enacted tax rates in the years in which temporary differences are expected to reverse.

Deferred income tax assets are recognized 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, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.11 Provisions. Provisions are recognized when the Company 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 recognized 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. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.12 Share capital. Common shares and 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.

2.13 Employee benefits. The Company incurs employee costs related to the provision of benefits such as health insurance. These amounts principally represent an implicit cost of employment of personnel and, accordingly, have been charged to the statements of operations.

The Company contributes to the Kazakhstan state pension scheme on behalf of its employees in accordance with the state defined contribution plan. Mandatory contributions to the governmental pension scheme are accrued when incurred. During 2005 and 2004, contributions made to this pension scheme were $13,000 and $9,000.

2.14 Revenue recognition. Revenue from sales of services are recognized in the accounting period in which the services are rendered. Contract costs are recognized when incurred. Sales are shown net of VAT.

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Company. In the event that contract is expected to generate losses, such loss is recognized immediately in the statement of operations. Costs incurred during the year in connection with future activity on a contract are presented as inventories, prepayments or other assets, depending on their nature.

2.15 Taxes payable. Taxes have been provided for in the financial statements in accordance with Kazakh legislation enacted or substantively enacted by the balance sheet date.

2.16 Recent accounting pronouncements. In March 2005, the FASB issued an interpretation of Statement No. 143, "Accounting for Asset Retirement Obligations". This interpretation clarifies that the term "conditional asset retirement obligation" as used in the Statement No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred—generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exist. Statement No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This interpretation also clarifies when an entity would have sufficient information to reasonable estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of fiscal years after December 15, 2005. Management does not expect FASB interpretation to the Statement No. 143 to have an impact to the Company's financial position or results of operations and cash flows.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." This Statement changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion 20 previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FASB Statement No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after December 15, 2005. Management does not anticipate this statement will impact the Company's financial position or results of operations and cash flows.

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments", an amendment of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 15, 2006. Management does not anticipate this Statement will impact the Company's financial position or results of operations and cash flows.

In March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets", an amendment of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement amends Statement No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 15, 2006. Management does not anticipate this Statement will impact the Company's financial position or results of operations and cash flows.

3 CRITICAL ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the revenues and expenses during the reporting periods. Certain significant estimates and assumptions for the Group include: recoverability and lives of long-term assets, provisions for uncollectible accounts receivable; legal and tax contingencies and other commitments. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

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 estimates and actual experience may result in losses in future periods and changes in any of these conditions or estimates may cause adjustments to future depreciation rates.

Impairment of assets. At each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company's assets has declined below their carrying values. In conducting such assessment the management uses both externally and internally available information, including independent appraisals and business performance results. If such indications exist, the management conducts the analysis to determine whether the assets are impaired by making assessments of the recoverable amount, which is the higher of the fair value less cost to sell and the value in use.

Should management judgment used to determine whether or not the indicators of impairment existed at reporting dates change, the carrying values of the assets could be impaired resulting in impairment charge being recognized in the Company's statement of income.

Fair values of financial assets and liabilities. 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 management using available market information, where it exists, and appropriate valuation methodologies where no market information is available.

Cash and cash equivalents are carried at fair value.

The net carrying values of cash and cash equivalents, accounts receivable and payable, taxes payable, accrued liabilities and short-term debt approximate their fair values because of the short maturities of these instruments.

Trade and other receivables, short-term borrowings, accounts payable and accrued liabilities are carried at amortized cost, net of provisions, as appropriate. Discount rates which have been used for assessing of the fair value of the assets and liabilities ranged from 7 percent to 8 percent. At December 31, 2005 and 2004, the fair values did not materially differ from the respective carrying values.

The loan arrangements with the entities affiliated with the Company's ultimate shareholder on long-term debt do not reflect the currently available terms for similar debt under the general market terms. As of December 31, 2005 and 2004, respectively, the carrying value of that debt approximated its fair value estimated based on the average market interest rate for a debt with similar terms and conditions.

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

4 ACCOUNTS RECEIVABLE AND PREPAYMENTS, NET

	December 31, 2005	December 31, 2004
Trade receivables (net of provision for impairment of $3 and $1 at December 31, 2005 and 2004, respectively)	395	213
Prepayments to suppliers	8	15
Prepaid expenses and other receivables	5	12
Total accounts receivable and prepayments, net	**408**	**240**

5 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery & equipment	Other	Total
Cost					
Balance as of April 5, 2004	**—**	**—**	**—**	**—**	**—**
Additions	—	—	1,083	96	1,179
Disposals	—	—	—	(1)	(1)
Balance as of December 31, 2004	**—**	**—**	**1,083**	**95**	**1,178**
Additions	20	360	257	5	642
Disposals	—	—	(25)	(3)	(28)
Balance as of December 31, 2005	**20**	**360**	**1,315**	**97**	**1,792**
Accumulated depreciation					
Balance as of April 5, 2004	**—**	**—**	**—**	**—**	**—**
Depreciation charge	—	—	(164)	(6)	(170)
Disposals	—	—	—	—	—
Balance as of December 31, 2004	**—**	**—**	**(164)**	**(6)**	**(170)**
Depreciation charge	—	(3)	(242)	(8)	(253)
Disposals	—	—	8	1	9
Balance as of December 31, 2005	**—**	**(3)**	**(398)**	**(13)**	**(414)**
Net Book Value					
Balance as of December 31, 2004	**—**	**—**	**919**	**89**	**1,008**
Balance as of December 31, 2005	**20**	**357**	**917**	**84**	**1,378**

Following the shareholders decision in April 2004 JSC Geostan was established and shareholders contributed property amount equivalent to $1,112 (in year ended December 31, 2005: $308) into the share capital of JSC Geostan. The property, plant and equipment mainly comprised computers and other office equipment. The carrying values of the assets were carried over from the predecessor accounts.

6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2005	December 31, 2004
Trade payables	213	53
Advances from customers	—	15
Accrued salaries and wages	107	54
Accrued liabilities and other creditors	8	3
Total accounts payable and accrued liabilities	**328**	**125**

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

7 TAXES

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

	Year ended December 31, 2005	For the period commencing April 5, 2004 and ended December 31, 2004
Income (loss) before income tax	593	(113)
Theoretical income tax (expense) benefit at statutory rate of 30 percent	(178)	34
Change on allowance for loss carried forward	14	(14)
Non deductible expenses	6	(22)
Total income tax expense	**(158)**	**(2)**

For the period commencing April 5, 2004 and ended December 31, 2004 the company incurred tax losses. Management of the Company did not recognize deferred tax assets on tax loss carried forward as at the time of finalization of financial statements for the year ended December 31, 2004 evidence of future ability to utilize tax loss against tax profits was not available. For the year ended December 31, 2005 Company had enough tax profits to fully utilize tax losses carried forward. As of December 31, 2005 there are no unutilized tax losses.

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

Movements in deferred income tax assets and liabilities during the period ended December 31, 2005 and 2004 were as follows:

	December 31, 2005	Income statement effect	December 31, 2004	Effect on statement of operations	April 5, 2004
Accounts receivable	1	1	—	—	—
Provision for vacation	15	15	—	—	—
Taxes	3	—	3	3	—
Total deferred tax assets	**19**	**16**	**3**	**3**	**—**
Property, plant and equipment	(89)	(84)	(5)	(5)	—
Total deferred tax liabilities	**(89)**	**(84)**	**(5)**	**(5)**	**—**
Net deferred income tax liability	**(70)**	**(68)**	**(2)**	**(2)**	**—**

The temporary differences on property, plant and equipment primarily result from differences in the timing and the amount of depreciation recognized for tax and accounting purposes. The total net deferred tax income statement effects of minus $68 and minus $2 include effects from retranslation of the deferred tax assets and liabilities amounting to $1.0 and $0.1 for year ended December 31, 2005 and for the period from inception ended December 31, 2004.

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

Other taxes payable. Current taxes payable at December 31, 2005 and 2004 are detailed below.

	December 31, 2005	December 31, 2004
Value-added tax	—	78
Unified social tax	17	8
Personal income tax withheld	6	5
Other taxes	—	4
Total other taxes payable	**23**	**95**

8 BORROWINGS

Short-term borrowings due to related parties. Short-term borrowings were received from JSC Azimuth Energy Services, company which is under common control with the Company. Short-term borrowings from Azimuth Energy Services were non-interest bearing. Fair values of these borrowings approximate their carrying values as of December 31, 2005 and 2004.

Long-term borrowings due to related parties. The Company's long-term borrowings at December 31, 2005 and 2004 are outlined below.

	December 31, 2005	December 31, 2004
International Energy Services Inc. ("IESI"), the Company's ultimate shareholder	—	100
JSC Azimuth Energy Services, an entity affiliated with the Company's ultimate shareholder	19	—
Total long-term borrowings	**19**	**100**

Long-term borrowings from Azimuth Energy Services and IESI were non-interest bearing.

Fair value of these borrowings is $14 and 87 at December 31, 2005 and 2004, respectively.

Scheduled maturities of long-term borrowings outstanding at December 31, 2005 and 2004 were as follows:

	December 31, 2005
2006	—
2007	19
Total long-term borrowings	**19**

The loan received from IESI was repaid before scheduled maturity as according to terms of the agreement the Company had the right to settle the liability at any time without penalties.

9 LONG TERM PAYABLES

Company acquired software for the amount of $448 from ROY International Consultancy, Inc. Part of the consideration in the amount $163 was a deferred payment comprising quarterly installments beginning 2007 until the first quarter of 2008. The fair values of the Company's long term payables were estimated based upon rates available to the Company on similar instruments of similar maturities. Discount rates which have been used for assessing of the fair value of the liabilities equaled to 16 percent. The amount of the discount recognized is equal to $37.

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

10 COST OF SALES

	Year ended December 31, 2005	For the period commencing April 5, 2004 and ended December 31, 2004
Employee costs (including mandatory social contributions of $82 and $57 for the years ended December 31, 2005 and the period commencing April 5, 2004 and ended December 31 2004, respectively)	798	558
Depreciation and amortization	247	165
Third parties services	239	78
Materials	36	34
Other	95	42
Total cost of sales	**1,415**	**877**

11 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2005	For the period commencing April 5, 2004 and ended December 31, 2004
Employee costs (including mandatory social contributions of $21 and $16 for the years ended December 31, 2005 and the period commencing April 5, 2004 and ended December 31 2004, respectively)	222	152
Services	92	62
Materials	34	22
Taxes other than income tax	10	6
Depreciation	9	6
Bank charges	8	5
Provision for impairment of receivables	2	1
Other	8	2
Total general and administrative expenses	**385**	**256**

12 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Contractual commitments and guarantees. At December 31, 2005 and 2004 the Company had no outstanding guarantees or contractual commitments for purchases of property, plant and equipment and intangible assets.

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

Taxation. Kazakh tax 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 Company may be challenged by the relevant regional and federal authorities. Recent events within Kazakhstan 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. The areas that could be challenged include but are not limited by transfer pricing issues, the economic substance of transactions, compliance with customs and currency regulations. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities with respect to taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

As of December 31, 2005, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in these financial statements.

Insurance policies. The Company holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks. Limited insurance policies existed primarily covering assets pledged against the Company's borrowings.

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

13 FINANCIAL RISKS

The Company's activities expose it to a variety of financial risks, including the credit risk. The Company's overall risk management objective is to reduce potential adverse effects of the above risks on the financial performance of the Company, however the Company's management currently does not maintain any formal risk management programs beyond management of the credit risks.

Credit risks. Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company 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 (Note 4) and balances on accounts with banks, net of provision for impairment, represents the maximum amount exposed to credit risk.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision already recorded.

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

During 2005, a significant proportion of the Company's sales were made to Kazakh oil and gas companies. The related revenues and balances as of and for the two years ended December 31, 2005 and 2004 are presented below.

	Sales for the year ended December 31, 2005	Net amount due from at December 31, 2005	Sales for the period commencing April 5, 2004 and ended December 31, 2004	Net amount due from at December 31, 2004
Azimuth Energy Services	374	6	604	154
Sagiz Petroleum Company	259	18	46	—
Adai Petroleum Company	107	19	41	—
Meridian Service	99	—	52	44
Liman Caspian	35	—	118	1
Petro Kazakhstan	30	17	26	13

14 RELATED PARTY TRANSACTIONS

JSC Azimuth Energy Services and OOO Tomsk Geophysical Company are related parties of the Company as they were entities under common control of the same principal shareholder before the acquisition by Integra.

For the year ended December 31, 2005 and for the period commencing April 5, 2004 and ending December 31, 2004 the Company did not have any operations or settlements with OOO Tomsk Geophysical Company.

For details of operations and settlements with JSC Azimuth Energy Services refer to notes 8 and 13.

JSC GEOSTAN

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JSC AZIMUTH ENERGY SERVICES

US GAAP FINANCIAL STATEMENTS
as of and for each of the Two Years
ended December 31, 2005 and 2004

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REPORT OF INDEPENDENT AUDITORS

To the Management and Shareholders of
JSC Azimuth Energy Services

We have audited the accompanying balance sheets of JSC Azimuth Energy Services (the "Company") as of December 31, 2005 and 2004, and the related statements of operations, cash flows and changes in shareholder's equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BDO Unicon

January 12, 2007
Moscow, Russian Federation

CONTENTS

JSC AZIMUTH ENERGY SERVICES

BALANCE SHEETS

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

	Note	December 31, 2005	December 31, 2004
Assets			
Current assets			
Cash and cash equivalents		2,323	373
Accounts receivable and prepayments, net	4	3,843	6,603
Inventories		1,589	1,788
Total current assets		**7,755**	**8,764**
Non-current assets			
Property, plant and equipment	5	5,202	9,117
Other non-current assets		606	75
Total non-current assets		**5,808**	**9,192**
Total assets		**13,563**	**17,956**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	6	1,647	3,047
Income tax payable		570	35
Other taxes payable	7	79	347
Short-term borrowings	8	3,825	4,227
Total current liabilities		**6,121**	**7,656**
Non-current liabilities			
Deferred tax liability	7	140	—
Total non-current liability		**140**	**—**
Total liabilities		**6,261**	**7,656**
Contingencies and commitments			
Shareholders' equity			
Common shares (36,955,950 authorized and issued as of December 31, 2005 and 2004)		5,938	5,938
Preferred shares (33,170 authorized and issued as of December 31, 2005 and 2004)		5	5
Additional paid in capital		225	225
Treasury shares	9	(1,509)	(24)
Accumulated other comprehensive income		2,744	3,139
Retained earnings/(accumulated deficit)		(101)	1,017
Total shareholders' equity		**7,302**	**10,300**
Total liabilities and shareholders' equity		**13,563**	**17,956**

Approved and authorized for issue on January 12, 2007

Larionov N.I.
Management Committee Chairman

Toktamysova K.B.
Finance Manager

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

JSC AZIMUTH ENERGY SERVICES

STATEMENTS OF OPERATIONS
(expressed in thousands of US Dollars, except as indicated)

	Note	Year ended December 31, 2005	Year ended December 31, 2004
Sales and other operating revenues		31,702	25,256
Cost of sales	10	(24,825)	(21,923)
Gross margin		**6,877**	**3,333**
General and administrative expenses	11	(6,728)	(5,013)
Net gain on disposal of property, plant and equipment		1,449	337
Operating income (loss)		**1,598**	**(1,343)**
Interest expense		(489)	(648)
Foreign exchange (losses) gains		(31)	368
Income (loss) before income tax		**1,078**	**(1,623)**
Current income tax expense		(2,055)	(770)
Deferred income tax (expense) benefit	7	(140)	30
Total income tax expense		**(2,195)**	**(740)**
Net loss		**(1,117)**	**(2,363)**

Larionov N.I.
Management Committee Chairman

Toktamysova K.B.
Finance Manager

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

JSC AZIMUTH ENERGY SERVICES

STATEMENTS OF CASH FLOWS

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

	Year ended December 31, 2005	Year ended December 31, 2004
Cash flows from operating activities		
Net loss	(1,117)	(2,363)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,386	4,083
Gain on disposal of property, plant and equipment	(1,449)	(337)
Change in provisions	3,686	1,079
Foreign exchange loss (gain), net	31	(368)
Change in operating assets and liabilities, excluding cash and debt:		
Increase in accounts receivable and prepayments	(1,597)	(49)
Decrease in inventories	199	326
(Decrease) increase in accounts payable and accrued liabilities	(1,454)	458
Increase in taxes payable	267	122
Net cash provided by operating activities	**1,952**	**2,951**
Cash flows from investing activities		
Purchase of property, plant and equipment	(812)	(1,416)
Proceeds from the disposal of property, plant and equipment	1,305	61
Net cash provided by (used in) investing activities	**493**	**(1,355)**
Cash flows from financing activities		
Proceeds from short-term borrowings	7,207	4,390
Repayments of short-term borrowings	(7,561)	(5,894)
Dividends paid	(1)	(233)
Net cash used in financing activities	**(355)**	**(1,737)**
Effect of exchange rate changes on cash and cash equivalents	(140)	55
Net increase (decrease) in cash and cash equivalents	1,950	(86)
Cash and cash equivalents, beginning of the year	373	459
Cash and cash equivalents, end of the year	**2,323**	**373**
Non cash transaction		
Transfer of assets in exchange for shares of JSC Geostan	**308**	**1,248**
Non-cash additions of property, plant and equipment	**—**	**228**
Supplemental information		
Income tax paid	**1,585**	**805**
Interest paid	**503**	**653**

Larionov N.I.
Management Committee Chairman

Toktamysova K.B.
Finance Manager

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

JSC AZIMUTH ENERGY SERVICES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in thousands of US Dollars, except as indicated)

	Common shares	Additional paid in capital	Preferred shares	Treasury shares (Note 9)	Accumulated other comprehensive income	Retained earnings/ (accumulated deficit)	Total equity
Balance at December 31, 2003	**5,938**	**225**	**5**	**(24)**	**1,522**	**3,381**	**11,047**
Loss for the year	—	—	—	—	—	(2,363)	(2,363)
Currency translation adjustment	—	—	—	—	1,617	—	1,617
Total other comprehensive loss							(746)
Dividends declared	—	—	—	—	—	(1)	(1)
Balance at December 31, 2004	**5,938**	**225**	**5**	**(24)**	**3,139**	**1,017**	**10,300**
Loss for the year	—	—	—	—	—	(1,117)	(1,117)
Currency translation adjustment	—	—	—	—	(395)	—	(395)
Total other comprehensive loss							(1,512)
Acquisition of treasury shares	—	—	—	(1,485)	—	—	(1,485)
Dividends declared	—	—	—	—	—	(1)	(1)
Balance at December 31, 2005	**5,938**	**225**	**5**	**(1,509)**	**2,744**	**(101)**	**7,302**

During the years ended December 31, 2005 and 2004, the Company declared dividends totaling US Dollars 0.04 per share for preferred shares.

Larionov N.I.
Management Committee Chairman

Toktamysova K.B.
Finance Manager

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

1 GENERAL INFORMATION

JSC Azimuth Energy Services ("AES" or the "Company"), engages in seismic data processing and interpretation and the provision of topographic, cartographic, and other research and development services to the petroleum industry in the Kazakhstan. AES was incorporated in Kazakhstan as an open joint stock company in June 2000 pursuant to the approval by the Ministry of Justice of Kazakhstan.

During its incorporation the Company has issued ordinary and preferred shares. In accordance with Kazakhstan legislation, preferred shareholders have privilege rights to receive dividends. The guaranteed amount of dividends on preferred shares is equaled to 20 per cent of the nominal value of the share, but not less than the dividends declared on ordinary shares. Preferred shareholders do not exercise voting rights except for the re-organization or liquidation of the company and cases when the shareholders meeting votes on matters which can confine rights of owners of preferred shares. The voting rights of the preferred shareholders are restored if the company does not pay dividends on the preferred shares during three months since the date when the dividends are declared.

The Company's main operations are located in Kazakhstan. The structure of AES includes four branches located in different regions of Kazakhstan, branch located in Libya and representative office located in Azerbaijan.

In December 2006, Integra Group ("Integra") acquired a controlling stake in the Company. Accordingly, from December 2006, Integra is the Company's ultimate controlling shareholder.

The Company operates in one business segment which is provision of services to the petroleum industry within Kazakhstan. The Company assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation. These financial statements are prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP"). AES maintains its accounting records in Kazakhstan Tenge ("KZT") and prepare its statutory financial statements in accordance with the Regulations on Accounting and Reporting of Kazakhstan ("Kazakhstan GAAP"). Statutory accounting principles and procedures in Kazakhstan differ from accounting principles generally accepted under US GAAP. Accordingly, the accompanying financial statements reflect adjustments necessary for such financial statements to be presented in accordance with US GAAP.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the Financial Statements and revenues and expenses during the reporting year. Accordingly, actual results could differ from those estimates and affect the results reported in these financial statements.

2.2 Functional and presentation currency. The accounting records of the Company operating in Kazakhstan are maintained in Kazakhstan Tenge ("KZT"). The Company has determined that the functional currency is KZT in accordance with US Statement of Financial Accounting Standards ("SFAS") No. 52 *Foreign Currency Translation*, based on the economic substance of the underlying events and circumstances relevant to the entities within the Company.

For the purposes of presenting financial statements prepared in conformity with US GAAP, the US Dollar is considered to be the reporting currency of the Company.

For presentation purposes, the financial statements are translated into US Dollars using the current-rate method. Accordingly, assets and liabilities are translated at rates of exchange in effect at the balance sheet date. Capital accounts are translated at their historical exchange rates when the capital stock was issued. Retained earnings are translated at the translated amount at the end of the prior period, plus the translated amount of the net income for the period, less the translated amount of any dividends declared during the current period. Revenues and expenses are translated at average rates of exchange in effect during reporting period. Differences arising from the translation are included in accumulated other comprehensive income as a separate component of shareholders' equity.

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

For translation purposes the Company has used the closing exchange rates of US Dollar 1 to KZT 133.77 and 130.00 as of December 31, 2005 and 2004 respectively.

2.3 Property, plant and equipment. All additions to property, plant and equipment are recorded at historical cost. Historical cost includes expenditures directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. 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.

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

Buildings	10 - 50 years
Machinery and equipment	5 - 6 years
Motor vehicles	5 - 6 years
Other assets	3 - 5 years

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 statement of income.

2.4 Impairment of assets. Fixed assets of the Company are evaluated periodically for impairment when events or circumstances indicate that carrying value of the fixed assets may not be recovered. If the sum of expected undiscounted future cash flows are less than net book value, unamortized costs of other fixed assets will be reduced to a fair value, which is estimated based on discounted future cash flows.

2.5 Inventories. Inventories mainly include materials and spare parts and are stated at lower of cost or net realizable value. Cost of materials is determined using the FIFO method. The materials are accounted for at their cost of purchase, which comprises the purchase price, import duties and other taxes (other than those subsequently recoverable from the tax authorities), and transport, handling and other directly attributable costs. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The cost of inventories excludes borrowing costs. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

2.6 Trade receivables. Trade receivables are initially recorded at fair value and subsequently measured at amortized cost using the original effective interest method, net of any provision for impairment. A provision for impairment of trade receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is in the income statement.

Accounts receivable and prepaid expenses are stated at their net realizable values after deducting provisions for uncollectable amounts. Such provisions reflect either specific cases or estimates based on evidence of collectability. The fair value of accounts receivable and prepaid expense accounts approximates their carrying amounts due to their short-term maturity.

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

2.8 Borrowings and other financial liabilities. Borrowings and other financial liabilities are recognized initially at fair value, net of transaction costs incurred. Such liabilities are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognized in the statement of operations over the period of the borrowings using the effective interest rate method.

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

Trade payables are accrued when the counterparty performed its obligations under the contract.

Unless disclosed otherwise, the borrowings effective interest rates approximated the contractual interest rates at the reporting dates.

2.9 Deferred income taxes. The Company accounts for income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on previously recorded deferred tax assets and liabilities resulting from a change in tax rates is recognized in earnings in the period in which the change is enacted.

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

2.10 Provisions. Provisions are recognized when the Company 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 recognized 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. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.11 Share capital. Common shares and 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 additional paid in capital.

2.12 Dividends. Dividends are recognized as a liability and deducted from shareholders' equity at the balance sheet date. In accordance with legislation of Kazakhstan a company has obligation to pay dividends on preferred shares.

2.13 Revenue recognition. Revenue from sales of services are recognized in the accounting period in which the services are rendered. Contract costs are recognized when incurred.

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Company. In the event that contract is expected to generate losses, such loss is recognized immediately in the statement of operations. Costs incurred during the year in connection with future activity on a contract are presented as inventories, prepayments or other assets, depending on their nature.

Sales are shown net of VAT.

2.14 Taxes payable. Taxes have been provided for in the financial statements in accordance with Kazakhstan legislation enacted or substantively enacted by the balance sheet date.

2.15 Recent accounting pronouncements. In March 2005, the FASB issued an interpretation of Statement No. 143, "Accounting for Asset Retirement Obligations". This interpretation clarifies that the term "conditional asset retirement obligation" as used in the Statement No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred—generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exist. Statement No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This interpretation also clarifies when an entity would have sufficient information to reasonable estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of fiscal years after December 15, 2005. Management does not expect FASB interpretation to the Statement No. 143 to have an impact to the Company's financial position or results of operations and cash flows.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." This Statement changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion 20 previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FASB Statement No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. This statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after December 15, 2005. Management does not anticipate this statement will impact the Company's financial position or results of operations and cash flows.

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments", an amendment of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 15, 2006. Management does not anticipate this Statement will impact the Company's financial position or results of operations and cash flows.

In March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets", an amendment of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement amends Statement No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective for accounting changes and corrections of errors made in fiscal periods that begin after September 15, 2006. Management does not anticipate this Statement will impact the Company's financial position or results of operations and cash flows.

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

3 CRITICAL ESTIMATES AND JUDGMENTS

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments 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 judgments, apart from those involving estimates, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities are outlined below.

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 estimates and actual experience may result in losses in future periods and changes in any of these conditions or estimates may cause adjustments to future depreciation rates.

Impairment of property, plant and equipment. At each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company's assets has declined below their carrying values. In conducting such assessment the management uses both externally and internally available information, including independent appraisals and business performance results. If such indications exist, the management conducts the analysis to determine whether the assets are impaired by making assessments of the recoverable amount, which is the higher of the fair value less cost to sell and the value in use.

Should management's judgment used to determine whether or not the indicators of impairment existed at reporting dates change, the carrying values of the assets could be impaired resulting in an impairment charge being recognized in the Company's statement of operations.

Fair values of financial assets and liabilities. 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 management using available market information, where it exists, and appropriate valuation methodologies where no market information is available.

Cash and cash equivalents are carried at fair value.

Trade and other receivables, short-term borrowings, accounts payable and accrued liabilities are carried at amortized cost, net of provisions, as appropriate. Discount rates which have been used for assessing of the fair value of the assets and liabilities ranged from 7.67 percent to 12.0 percent as of December 31, 2005 and 2004.

The fair values of the Company's long-term borrowings were estimated based upon rates available to the Company on similar instruments of similar maturities. As of December 31, 2005, and 2004, the carrying values of total long-term borrowings approximated their fair values.

4 ACCOUNTS RECEIVABLE AND PREPAYMENTS, NET

	December 31, 2005	December 31, 2004
Trade receivables (net of provision for impairment of $2,941 and $952 as of December 31, 2005 and 2004, respectively)	2,334	2,603
Prepayments to suppliers	27	543
Prepaid expenses and other receivables (net of provision for impairment of $2,129 and $432 as of December 31, 2005 and 2004, respectively)	1,287	3,457
VAT receivables	195	—
Total accounts receivable and prepayments, net	**3,843**	**6,603**

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

5 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machines and equipment	Motor Vehicles	Other	Total
Cost						
Balance as of December 31, 2003	114	2,638	19,125	5,681	996	28,554
Additions	60	364	934	123	163	1,644
Disposals	(4)	(290)	(134)	(144)	(74)	(646)
Balance as of December 31, 2004	170	2,712	19,925	5,660	1,085	29,552
Additions	—	91	254	360	107	812
Disposals	(50)	(527)	(4,469)	(406)	(52)	(5,504)
Balance as of December 31, 2005	**120**	**2,276**	**15,710**	**5,614**	**1,140**	**24,860**
Accumulated depreciation						
Balance as of December 31, 2003	—	(881)	(12,310)	(3,014)	(606)	(16,811)
Depreciation charge	—	(185)	(3,469)	(379)	(50)	(4,083)
Disposals	—	196	101	105	57	459
Balance as of December 31, 2004	—	(870)	(15,678)	(3,288)	(599)	(20,435)
Depreciation charge	—	(194)	(2,446)	(689)	(57)	(3,386)
Disposals	—	193	3,598	324	48	4,163
Balance as of December 31, 2005	**—**	**(871)**	**(14,526)**	**(3,653)**	**(608)**	**(19,658)**
Net Book Value						
Balance as of December 31, 2004	170	1,842	4,247	2,372	486	9,117
Balance as of December 31, 2005	120	1,405	1,184	1,961	532	5,202

As of December 31, 2005 and 2004 certain property, plant and equipment with a net book value of $3,694 and $4,180, respectively, were pledged as collateral for the Company's borrowings (Note 8).

6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2005	December 31, 2004
Trade payables	791	726
Advances from customers	51	754
Dividends payable	101	101
Accrued salaries and wages	588	1,257
Accrued liabilities and other creditors	116	209
Total accounts payable and accrued liabilities	**1,647**	**3,047**

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

7 TAXES

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

	Year ended December 31, 2005	Year ended December 31, 2004
Income (loss) before income tax	1,078	(1,623)
Theoretical income tax benefit (expense) at statutory rate of 30 percent	(323)	487
Non-deductible expenses	(1,872)	(1,227)
Total income tax expense	**(2,195)**	**(740)**

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

Movements in deferred income tax assets and liabilities during 2005 and 2004 were as follows:

	As of December 31, 2005	Income statement effect	As of December 31, 2004	Income statement effect	As of December 31, 2003
Property, plant and equipment	(365)	(365)	—	30	(30)
Intangible assets	225	225	—	—	—
Net deferred tax liabilities	**(140)**	**(140)**	**—**	**30**	**(30)**

Other taxes payable. Current taxes payable as of December 31, 2005 and 2004 are detailed below.

	December 31, 2005	December 31, 2004
Value-added tax	—	195
Unified social tax	36	65
Personal income tax withheld	38	65
Other taxes	5	22
Total other taxes payable	**79**	**347**

8 SHORT-TERM BORROWINGS

	Maturity	Interest rate (per cent per annum)	December 31, 2005	December 31, 2004
Texakabank	March 2006	16	2,018	—
ATF bank	June 2006	14	1,008	3,846
Demir Kazakhstan bank	March 2006	13	799	381
Total short-term borrowings			**3,825**	**4,227**

As of December 31, 2005 and 2004 all short-term borrowings were denominated in Kazakhstan Tenge, except for borrowing from ATF bank denominated in US Dollar and were collateralized by certain production equipment of the Company.

All short-borrowings balances were repaid in accordance with scheduled maturities.

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

9 TREASURY SHARES

	Number of treasury shares	Cost of shares acquired
Treasury shares held as of December 31, 2003	139,308	24
Treasury shares held as of December 31, 2004	139,308	24
Treasury shares acquired through creation of JSC Geostan	8,233,248	1,485
Treasury shares held as of December 31, 2005	**8,372,556**	**1,509**

The Company's treasury stock consists of shares repurchased or shares received through various agreements with third parties.

Treasury shares received during creation of JSC Geostan. In January 2004, the shareholders of the Company elected to spin off a portion of the business into a newly created entity named JSC Geostan. 100 percent of the shares of JSC Geostan were issued to all existing shareholders of the Company in exchange for 8,619,064 ordinary and 7,736 preferred shares of the Company. Accordingly, following the exchange, all shareholders of the Company were shareholders of JSC Geostan in the same ownership composition.

During the establishment of JSC Geostan two transfers of property as contribution into share capital have been made with assets comprising mainly inventory, computers and software. Carrying value of assets contributed in 2005 and in 2004 was equaled to $308 and $1,248, respectively, comprising the total of $1,556 of property contributions. On the transfer the Company initially recorded accounts receivable from shareholders on property contributions and then when the shares swap agreements were signed decreased the amount of outstanding accounts receivable and recorded balance of treasury shares. As of December 31, 2005 and 2004 accounts receivable due from shareholders on property contributions were equaled to $71 and $1,248, respectively. As of December 31, 2005 and 2004 the balance of treasury shares acquired through creation of JSC Geostan equaled $1,485 and Nil, respectively.

10 COST OF SALES

	Year ended December 31, 2005	Year ended December 31, 2004
Employee costs (including mandatory social contributions of $146 and $84 for the years ended December 31, 2005 and 2004, respectively)	8,317	6,878
Materials	5,620	3,939
Third parties services	4,839	4,712
Depreciation	3,284	3,985
Repair expenses	379	420
Other	2,386	1,989
Total cost of sales	**24,825**	**21,923**

11 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2005	Year ended December 31, 2004
Employee costs (including mandatory social contributions of $27 and $17 for the years ended December 31, 2005 and 2004, respectively)	1,501	1,919
Provision for impairment of receivables	3,686	1,079
Taxes other than income tax	154	195
Depreciation	102	98
Bank charges	109	186
Travel expenses	63	195
Research expenses	18	392
Other	1,095	949
Total general and administrative expenses	**6,728**	**5,013**

12 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Contractual commitments and guarantees. As of December 31, 2005 and 2004 the Company had no outstanding guarantees or contractual commitments for purchases of property, plant and equipment and intangible assets.

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

Taxation. Kazakhstan tax 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 Company may be challenged by the relevant regional and federal authorities. Recent events within the Kazakhstan 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. The areas that could be challenged include but are not limited by transfer pricing issues, the economic substance of transactions, compliance with customs and currency regulations. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities with respect to taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As of December 31, 2005, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax and customs positions will be sustained and tax assessments will not result in additional cash outflows beyond the amounts that have already been accrued in these financial statements.

Insurance policies. The Company holds no insurance policies in relation to its operations, or in respect of public liability or other insurable risks. Limited insurance policies exist primarily covering assets pledged against the Company's borrowings.

Legal proceedings. As of December 31, 2005, the Company 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 Company.

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

13 FINANCIAL RISKS

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

Credit risks. Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The Company 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 (Note 4) and balances on accounts with banks, net of provision for impairment, represents the maximum amount exposed to credit risk.

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

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision already recorded.

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

During 2005 a significant proportion of the Company's sales were made to Kazakhstan oil and gas companies. The related revenues and balances as of and for the two years ended December 31, 2005 and 2004 are presented below.

	Sales for the year ended December 31, 2005	Net amount due as of December 31, 2005
Sagiz Petroleum Company	4,608	826
Liman Caspian Oil	2,639	2,876
Precaspian Petroleum	5,984	338
Aral Petroleum Capital	3,294	—

	Sales for the year ended December 31, 2004	Net amount due as of December 31, 2004
Orient Petroleum LLP	1,612	—
Liman Caspian Oil	1,749	1,010
Ay-Dan- Munai	4,898	180
TRAO	3,158	—
Aral Petroleum Capital	2,390	328
Koljan Oil	1,763	1

Interest rate risk. All of the Company's borrowings are made at fixed rates. Accordingly, management believes that the Company is not significantly exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

14 RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if they meet the definition of related party as determined in FAS 57, *Related Party Disclosures*. Under the definitions therein, parties are 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. Principal owners, management and immediate families and affiliates also are considered related parties.

The Company rendered service to Potential LLC. The revenue for the year ended December 31, 2004 totaled $1,528. There were no related party transactions in 2005. One of AES shareholders was an owner of Potential LLC as of December 31, 2004 and 2005.

The Company had outstanding balances receivable from shareholders $71 and $1,248 as of December 31, 2005 and 2004, respectively. These balances arise during transfer of assets to shareholders for contribution to Charter Capital of JSC Geostan (Note 9). Non cash transaction on the creation of JSC Geostan are disclosed in Statements of Cash Flows.

Included into other non current assets is the long term loan for the amount of $19 issued during 2005 to JSC Geostan, the company commonly controlled by shareholders of Azimut as of December 31, 2005 and 2004. The loan does not bear any interest and is repayable in 2007. The fair value of the loan is $14. No adjustment was booked for the difference between the carrying value of the loan given and it is fair value.

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

As of December 31, 2005 and 2004, the Company had the following balances with Tomsk Geophysical Company. These balances are included in the balance sheet within accounts receivable, accounts payable and short-term debt as appropriate.

	December 31, 2005	December 31, 2004
Accounts payable to		
Tomsk Geophysical Company, an entity affiliated with the Company's ultimate stakeholder	14	100
Trade accounts receivable from		
Tomsk geophysical company, an entity affiliated with the Company's ultimate stakeholder	71	—
Other accounts receivable on the loan given to		
Tomsk geophysical company, an entity affiliated with the Company's ultimate stakeholder	258	—

	Year ended December 31, 2005	Year ended December 31, 2004
Geophysical and seismic surveys sales rendered by the Company to		
Tomsk Geophysical Company, an entity affiliated with the Company's ultimate stakeholder	—	61
Rent expenses of the Company on transactions with		
Tomsk Geophysical Company, an entity affiliated with the Company's ultimate stakeholder	482	221

JSC AZIMUTH ENERGY SERVICES

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