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

The following discussion and analysis of our financial condition and results of operations is for the years ended December 31, 2009 and 2008 (the "Report"). It should be read in conjunction with our consolidated financial statements and their related notes. Financial information as of and for the years ended December 31, 2009 and 2008 has been derived from our Audited Consolidated Financial Statements prepared in accordance with IFRS. This Report 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 Report entitled "Qualitative and Quantitative Disclosures about Market Risk" and elsewhere in this Report. References to "Integra Group", "the Group", "we", "our" and "us" are references to Integra Group and its subsidiaries and equity affiliates.

Overview

We are a leading Russian independent provider of onshore oilfield services ("OFS") and are also one of the leading manufacturers in the Russian Federation of drilling rigs with heavy lifting capacity, cementing equipment, downhole motors and certain specialized equipment used in the exploration, development and production of oil and gas. We offer drilling, workover and project management services, cementing, coil tubing, directional drilling, drill bit service, logging, coring, seismic data acquisition and interpretation, as well as other specialized services. Currently we have approximately 16,700 employees, including more than 2,000 employees located outside of Russia. Our portfolio of clients includes major Russian and international private and state-owned oil and gas companies operating in Russia and other Commonwealth of Independent States ("CIS") countries, including among others, TNK-BP, Rosneft, Gazprom, Novatek, Surgutneftegas, Lukoil, Total, Shell, and Gazprom Neft, as well as small and medium-sized independent companies, and joint ventures of major international operators in these markets. We also supply drilling equipment, tools and cementing units to the in-house service units of oil and gas companies, such as Gazprom, Rosneft and Surgutneftegaz, and independent service companies, such as SSK, Eurasia Drilling Company and others.

We manage our Russian and CIS operations from our central administrative office in Moscow and we maintain administrative offices at our regional operating bases in the Volga-Urals, Timan-Pechora, Eastern and Western Siberia and Kazakhstan. We also have representative offices in all other major oil and gas producing CIS countries.

Reflecting the products and services we offer, our business is organized in four segments, each with its own management, and corresponding to our reporting segments:

- *Drilling, Workover and Integrated Project Management ("IPM")*[1]

  Our drilling services include the drilling of vertical, deviated and horizontal exploration and development wells ranging from 700 meters to in excess of 6,000 meters in depth. In addition, we offer a specialized drilling service known as sidetracking, which is a form of directional and/or horizontal drilling used to re-enter wells to enable improved oil recovery.

  Workovers involve major maintenance or remedial treatment on oil or natural gas wells in order to increase productivity, to delay the decline of wells or to bring idle wells back into production. Our workover services include nearly all of the services required to bring wells into operation such as perforation, cased-hole and production logging, well bores cleaning, well completion, pumping, preparation for fracturing treatment, fishing jobs, squeeze cementing and well restoration, as well as abandonment.

  We currently operate a total rig fleet consisting of 18 drilling rigs and 92 workover crews in Russia. We operate 3 maintenance drilling bases and 8 maintenance workover bases.

  Our high-tech IPM services use a management model where a team of engineers acts as a general contractor or project advisor to the customer with direct responsibility for the contracting, technology selection, site supervision, performance analysis and reporting for an entire drilling or workover project. Depending on customer requirements, the service may also include supply chain management or early design, planning and engineering of a well project.

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[1] On January 1, 2009, the Group adopted IFRS 8, Segment Reporting which replaced IAS 14, Segment Reporting. IFRS 8 requires entities to identify its operating segments on the basis of the internal reports that are regularly reviewed by its chief operating decision maker in order to allocate resources to the segment and assess its performance. The change in the standard resulted in the Group separating its technology services business from the Drilling, Workover and Integrated Project Management ("IPM") segment. From January 1, 2009, the Group identified the following reportable segments: (i) Drilling, Workover and IPM, (ii) Technology Services, (iii) Formation Evaluation and (iv) OFS Equipment Manufacturing.

For the year ended December 31, 2009, we drilled 177 thousands meters and conducted 3,763 workover operations compared to 354 thousands meters drilled and 3,549 workover operations conducted for the year ended December 31, 2008, representing a decline of 50.0% and an increase of 6.0%, respectively.

- *Technology Services*

Through our technology services businesses, we offer various products supporting the development and production of oil and gas, including the manufacturing and rental of drilling tools, coil tubing, primary and remedial cementing, directional drilling, drill bit management, well logging and perforation, as well as coring and completion services.

We are one of largest manufacturers of downhole motors and turbines in Russia. We operate our drilling tools business through VNIIBT - BI LLC ("BI"). BI's core business is the manufacture, sale and leasing of downhole motors and turbines and it holds patents for various oilfield equipment and processes, including downhole piston pumps, special thread connections and a safety valve, among others.

We have a total of 4 production facilities that manufacture drilling tools, 3 repair facilities and 11 drill-bit logistics bases.

We believe that directional drilling technologies, such as measurement-while-drilling and logging-while-drilling, will form an increasing share of the market for technology services in Russia and the CIS.

Similarly, coil tubing technologies have broad application in the Russian and CIS markets and may be utilized, for example, in drilling, perforating, remedial activities, jetting and lifting operations and our management believes that the outlook for growth of coil tubing revenues and the margins for such products are strong.

For the year ended December 31, 2009, we produced 412 downhole motors and 47 turbines as compared to 904 downhole motors and 64 turbines for the year ended December 31, 2008, representing a decline of 52.2% and 26.7%, respectively. We also performed 790 cementing and 345 coil tubing operations and completed with directional drilling service 167 wells in 2009 compared to 618 cementing and 144 coil tubing operations and 85 wells in 2008, representing an increase of 27.8%, 1.4 times, and 96.5%, respectively.

- *Formation Evaluation*

Our formation evaluation businesses provide a number of seismic data acquisition, processing and interpretation services, ranging from the quality assurance of data acquisition, field and specialized seismic data processing, seismic interpretation to oil field model development and block geologizing.

Our data acquisition businesses operate over 31 seismic crews located primarily in Eastern and Western Siberia, Timan-Pechora, the Volga-Urals and in Kazakhstan. According to our estimates, we were one of the largest providers of seismic services in Russia and the leading provider in Kazakhstan at December 31, 2009.

We currently utilize the highly productive seismic data acquisition technologies 'Flip Flop' and 'Slip Sweep' which enable data recording from a series of overlapping sweeps from different groups of vibrators resulting in a significant saving in time and project costs and an increase in seismic data quality. Our business in Kazakhstan, which we operate through Azimuth, has the necessary technical and equipment facilities to use the 'Flip Flop' and 'Slip Sweep'.

Our data processing and interpretation businesses operate 4 processing centres in Moscow, Tyumen, Tomsk and Almaty. We perform onshore seismic data processing and interpretation for Eastern and Western Siberia, Timan-Pechora, the Volga-Urals and in Kazakhstan, as well as offshore seismic data processing and interpretation for the Caspian Sea, the north shelf of Norway, and in the Gulf of Mexico.

We perform seismic data processing using our special algorithms and methodological developments within the interactive interpretation system PRIME as well as other licensed seismic data processing and interpretation software developed by other companies.

For the year ended December 31, 2009, we conducted 694,487 seismic shot points compared to 782,350 for the year ended December 31, 2008, which represents a decline of 11.2%.

- *OFS Equipment Manufacturing*

We are one of the leading designers, manufacturers and suppliers of heavy drilling rigs and cementing equipment in Russia. Our primary manufacturing facilities are located in Ekaterinburg and Kostroma in the Volga-Urals region of Russia and Tyumen in Western Siberia. Both regions have well-developed industrial and transportation infrastructure and skilled labor forces.

During the year ended December 31, 2009, the OFS Equipment Manufacturing segment completed a total of 8 heavy drilling rigs and 6 drilling rig assembly units compared to 14 heavy drilling rigs and 6 drilling rig assembly units during the year ended December 31, 2008. We had 5 heavy drilling rigs and 8 drilling rig assembly units in production as of December 31, 2009 as compared to 9 heavy drilling rigs and 14 drilling rig assembly units in production as of December 31, 2008.

The Group currently has 14 principal operating subsidiaries directly involved in the provision of OFS and the manufacture of OFS equipment. We also have holding, management and finance subsidiaries that provide procurement, research, administrative and financing functions. In total, we hold equity in 49 subsidiaries, 33 of which we wholly own. We also own minority interests in 3 companies that are treated as associates in our financial statements. The results of operations of these companies are consolidated in our financial statements using the equity method.

Major Events in The Year Ended December 31, 2009

New executive appointments. Antonio Campo, a veteran oilfield services executive who spent 28 years at Schlumberger, was named Chief Executive Officer of Integra Group, effective September 1, 2009. Felix Lubashevsky, President and Chief Executive Officer of Integra since 2005, continues as President of Integra Group focusing on strategic business development and a number of long-term projects. Mr. Lubashevsky also continues to serve on the Board of Directors of Integra Group and remains the Group's largest shareholder.

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

Certain Factors Affecting our Financial Position and Results of Operations

Our financial position and the results of our operations are affected by certain economic and seasonal factors relating to our business and the markets in which we operate, the economic and legal environment in Russia and certain other CIS countries as well as, internal measures we undertake in response to and ahead of changes in the operating and market environment. The biggest factor affecting the results of our operations in 2009 were the depreciation of the Russian Ruble, lower volumes and prices for our services provided, price deflation for some materials and services used in our operations, as well as cost-cutting measures such as significant reduction of personnel and overheads, and capital optimization measures such as reduction of working capital and capital spending.

OFS Market Conditions

In the second half of 2008, our operating environment was significantly affected by the sharp global economic downturn via its material downward impact on energy prices – the key revenue driver for OFS customers. The combination of falling oil prices and a lag before key Russian oil-price-linked oil sector taxes and duties (which in Russia typically reflect prices over previous months and not spot prices) decreased to reflect lower oil prices, significantly affected the upstream economics of our key customers in Russia and increased the uncertainty over future oil and gas industry spending during the period when major contracts for the year ahead are typically negotiated and signed. This negatively affected both volumes and prices and led to cancellations or revisions of some of our signed contracts.

Independent drilling and workover oilfield services companies operating in Russia were particularly affected by the downturn as major domestic customers re-prioritized their sourcing of respective services to favor in-house subsidiaries. Sourcing of technology, seismic services, as well as manufacturing of OFS equipment were not affected by this trend due to lack of respective in-house capacity in these services.

Volumes of outsourced technology and seismic services declined driven by lower exploration and development activities. The demand for OFS equipment was reduced as the need for upgrades and replacements of existing equipment fell.

Market conditions throughout 2009 were weak, as they remained significantly affected by the factors that emerged in the second half of 2008 and have resulted in reduced oil and gas industry spending. Overall, the level of demand for oilfield services, in both physical and monetary terms, was lower than in 2008.

The market began to stabilize in the first quarter of 2009, as higher oil prices, changes in upstream and corporate taxation, and a significant depreciation of the Russian ruble (“RR”) improved the economics of the Russian oil and gas industry, allowing a moderate pickup in demand. We have observed a continued modest improvement in the upstream spending plans of our key customers in the second half of 2009, which has translated into a more favorable demand environment during the contracting period at the end of 2009 and in early 2010 for services to be provided in 2010.

Russian OFS industry demand in 2009 and beyond is expected to be driven by the pace of global economic recovery and, specifically, commodity prices.

Macroeconomic Trends

Most of our revenues are generated and most of our costs incurred in Russia and are, therefore, Russian ruble-denominated, while our reporting currency is the US dollar. As a result, Russian macroeconomic trends, in particular the RR/USUS$ exchange rate and inflation, significantly influence our financial position and results of operations. In addition, trends in the Urals oil price substantially influence the capital expenditure programs of our customers in the oil sector. We believe macroeconomic factors have been a key driver of the decrease in our revenues during the periods under review.

The table below summarizes certain key macroeconomic indicators relating to the Russian economy for the periods indicated.

	The Year Ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
GDP Growth	6.4%	7.7%	8.1%	5.6%	(7.9%)
Consumer price index	10.9%	9.0%	11.9%	13.3%	8.8%
Producer price index (manufacturing)	4.0%	3.9%	6.3%	2.1%	(10.8%)
Unemployment rate	7.2%	7.2%	6.1%	6.3%	8.4%
Average Exchange Rate (RR/US$)	28.29	27.19	25.58	24.85	31.72
Average Exchange Rate (RR/EUR)	35.19	34.12	35.02	36.43	44.14
Urals oil price Med (US$/bbl)	50.92	61.25	69.68	95.22	61.80

Sources: Ministry of Economic Development of Russian Federation; Federal State Statistics Service (Rosstat); Bloomberg.

Changes in the exchange rate of the Russian ruble to the US dollar significantly influence our reported revenues and operating costs as we have the Russian ruble as our main operating currency while our reporting currency is the US dollar. In 2009, we experienced a 42.2% decrease in our revenues and a 41.0% decrease in costs of sales denominated in US dollars in our financial reports compared to 2008; depreciation of the Russian ruble against the US dollar accounted for a 16.0% decline and a 16.3 % decline in our revenues and cost of sales, respectively.

Global Economic Conditions

The credit markets and the financial services industry continue to experience a period of significant disruption characterized by the bankruptcy, failure, collapse or sale of various financial institutions, high volatility in securities prices, severely diminished liquidity and credit availability and a significant level of intervention from governments, regulators and central banks in the United States and worldwide. Most of the world’s major economies have entered recession. The Russian and other CIS economies have slowed down significantly from the second half of 2008, and with only a few exceptions, the recession ended in December of 2009. We believe there is evidence of a properly robust recovery across numerous key markets in the near future.

Continued concerns about the systemic impact of potential long-term or widespread recession, high energy costs, geopolitical issues, the availability and cost of credit, the global commercial and residential real estate markets and related mortgage markets and reduced consumer confidence have contributed to increased market volatility and diminished expectations for most developed and emerging economies. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Renewed turbulence in the United States, Russian and international markets and economies could restrict our ability to refinance our existing indebtedness, increase our costs of borrowing, limit our access to capital necessary to meet our liquidity needs and materially harm our operations or our ability to implement our business strategy.

Seasonality

Our sales from drilling and workover services tend to be lower during the first and fourth quarters of the year, reflecting the effect of extreme winter weather in the oil and gas producing regions of Russia and the operational and contracting cycle. We generally transport a substantial portion of our materials and spare parts, including moving rigs to new sites, during the winter when the ground is sufficiently frozen to create access roads over terrain which is impassable at other times of the year (e.g., the boggy landscape typical of Western Siberia). Extreme weather can also result in a reduction in drilling and workover activity during this period. We actively monitor and manage the supply and transportation of equipment, including rigs, materials and spare parts to drilling and workover operation sites with the aim of ensuring maximum time in operation for each rig. The impact of seasonality on our drilling and workover remained relatively stable as the share of work performed during the low season was 46% of total work performed in 2009 as compared to 44% in 2008.

In the Technology Services segment the peak volumes of drilling rig production and provision of services are generated during the second and third quarters of the year, while revenue generation is lower in the fourth quarter. In the first quarter our revenues also tend to be lower due to mobilization activities and preparation for the new season. The impact of seasonality on our Technology Services segment remained relatively stable as the volume of work performed during the low season was 46% of total work in 2009 compared to 40% in 2008.

There is a limited season for providing seismic services in Siberia as we cannot access many areas during certain periods due to flooding caused by winter thawing and the unfreezing of bogs. As a result, we generate lower revenues from these services during the third quarter of the year. However, the impact of seasonality on our seismic services has decreased as the share of work performed during the low season increased to 40% of the total work performed in 2009 from 18% in 2008. This reflects a larger share of seismic services provided in areas of Kazakhstan that are accessible all year round.

In the Equipment Manufacturing segment seasonality is negligible.

We believe that the impact of seasonality on our businesses will gradually become less pronounced, particularly, in seismic services where we continue to introduce initiatives to re-deploy seismic assets to other localities during off-peak seasons in Russia.

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 new businesses we have launched, our services and product offerings have expanded from offering drilling services alone in January 2005 to offering a wide range of onshore oilfield services for the exploration, development and production of oil and gas and OFS equipment manufacturing. Consistent with our strategy, over 2008 and 2009 we have added and expanded a number of new value-added services, such as coil tubing, directional drilling, cementing and seismic data interpretation and processing, to our portfolio of services and products. Our mix of services and products over time is also influenced by the relatively fast growth of some of our businesses, such as formation evaluation and technology services, compared to others.

Significant shifts in demand for our services at the end of 2008 had a noticeable effect on the share of certain products within the mix of services we provide. In the Drilling, Workover and IPM segment, there was a significant reduction of demand for drilling in 2009, which was partially compensated for by relatively stable workover business and a moderate increase in IPM volumes. In Technology services fewer downhole motors produced were compensated by the increase in other services, such as coil tubing, cementing, and directional drilling. In the Formation Evaluation segment, we increased the share of our seismic activities conducted outside of Russia, primarily in Kazakhstan, to compensate for falling demand in Russia. In the OFS Equipment Manufacturing segment, there was very little change in the product mix. See also “Segment Results—The Year Ended December 31, 2009 Compared to The Year Ended December 31, 2008”.

Contracting

Current contracting practices in the Russian and CIS OFS sector contribute to fluctuations in our operating results and our financing needs. Most of our business is obtained through open tenders conducted annually. This process generally begins with requests for proposals in September and ends with contractual commitments being signed between December of the same year and March of the following year. As a result, a substantial portion of our activity in the first quarter consists of rig up and rig down operations and transportation of equipment and personnel to new sites and we experience a decrease in sales revenues while continuing to incur some 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. To minimize the required financing, we negotiate favorable payment terms with our customers, including, in particular, advance payments, where possible cash flow mismatches may arise.

A significant portion of our revenues is recognized on the percentage-of-completion basis (especially in equipment manufacturing, drilling and seismic contracts). IFRS require us to make estimates of expected project completion costs and profits and losses (if any) until the contract is completed.

2010 Order Book

As of April 26, 2010, the Group had signed contracts in the amount of US$662.6 million (RR 20.5 billion) in revenues for services and equipment to be delivered to customers during 2010. This amount is 9.2% lower in Russian ruble terms and 6.2% lower in US$ terms (at the 2009 exchange rate of 32.0 RR/US$) than the order book as at April 21, 2009, which was adjusted for volumes of contracts not executed in 2009 due to cancellation or postponement. The total order book, which in addition to the signed contracts includes the value of business won in tenders but not yet contracted, is US$764.7 million (RR 23.7 billion) and is 9.4% lower in Russian ruble terms (6.5% lower in US$ terms) than the 2009 order book as at April 21, 2009, which was adjusted for volumes of contracts not executed in 2009 due to cancellation or postponement. Approximately 95% of the total order book is denominated in Russian rubles.

The table below shows a breakdown of our 2010 order book by segments as of April 26, 2010, with Russian ruble values converted into US$ terms at a rate of 31.0 RR/US$:

	Contracts signed[1]		**Tenders won, contracts not yet signed**		**Total order book**	
	US$ (m)	**RR (bn)**	**US$ (m)**	**RR (bn)**	**US$ (m)**	**RR (bn)**
Drilling, Workover and IPM	308.4	9.56	51.2	1.59	359.6	11.15
Technology Services	109.3	3.39	29.8	0.92	139.1	4.31
Formation Evaluation	157.5	4.89	19.3	0.60	176.8	5.48
Equipment Manufacturing	77.4	2.40	1.8	0.06	79.2	2.45
Other	9.9	0.31	0.0	0.0	9.9	0.31
Total	**662.6**	**20.53**	**102.1**	**3.16**	**764.7**	**23.70**

[1] Signed contracts may be subject to renegotiation of volumes and/or other terms or even cancellation, and both signed contracts and tenders won may not proceed as originally planned or at all.

While we see demand for our services stabilizing, the outlook beyond our contracted order book remains driven by commodity prices. See also "Certain Factors Affecting our Financial Position and Results of Operations".

As of April 26, 2010, our 2010 order book shows the following dynamics in Russian ruble terms compared to the order book as at April 21, 2009, which was adjusted for volumes of contracts that were not executed in 2009 due to cancellation or postponement:

- Drilling, Workover and IPM segment orders are up 1.1%. Despite relatively flat contracting dynamics within the segment, there is a reduction in the share of IPM orders that is more than fully compensated by strong increase in the land drilling and workover services.
- Technology Services segment orders are up 22.1% due to a pickup in demand for services across the board, due to higher capacity utilization of drilling tools and directional drilling and expansion of capacity in cementing and coil tubing.
- Formation Evaluation segment orders are down 11.9% due to lower volumes in Kazakhstan compared to 2009 following the completion of two large-scale contracts there.
- OFS Equipment Manufacturing segment orders are down 42.4% due to a lower volume of new rig orders and a lower contribution from contract volumes carried over from the previous year.

Some of the contracts included in our order book reported as of April 28, 2009 were cancelled in the second and third quarters of 2009. Adjustments were made to the order book as of April 21, 2009 used in the comparison of year-on-year contracting trends to exclude contracts not executed in 2009 due to cancellation or postponement. We do not expect the situation with contract cancellations in 2009 to recur on such a scale in 2010.

Results of Operations

The disruption in the CIS OFS markets at the end of 2008, which substantially affected the price and volume of our contracts in 2009, continues to be reflected in the operating environment and our profitability. Although we believe signs of demand stabilization are emerging, their influence on our results of operations for the year ended December 31, 2009 has been limited. Profitability of our four segments slightly recovered from 2008, and free cash flow generation was positive in 2009. Revenues were also affected by the cancellation of certain seismic contracts, a lower level of equipment manufacturing orders, one-off severance payments and other items connected with cost-cutting measures and the impact of the depreciation of the ruble on ruble-denominated revenues when reported in US dollars. However, cost-reduction measures undertaken in the fourth quarter of 2008 and the first half of 2009 coupled with changes in the market environment and a lower level of provisions allowed the Group to increase its Adjusted EBITDA margins relative to 2008, and to generate positive free cash flow in 2009. For more detailed information on the cost measures implemented, please refer to the cost of sales discussion below.

The table below summarizes our audited consolidated operating results for the years ended December 31, 2009 and 2008:

	The Year Ended December 31,	
	2009 (audited)	**2008 (audited)**
	(in thousands of US dollars)	
Sales	836,184	1,445,891
Cost of sales	(722,776)	(1,225,819)
Gross profit	**113,408**	**220,072**
Selling, general and administrative expenses	(152,148)	(315,696)
Goodwill impairment	(18,925)	(99,109)
Gain from disposal of subsidiaries	10,195	-
Impairment of property, plant and equipment	(26,296)	-
(Loss) gain from disposal of property, plant and equipment	(2,109)	1,676
Operating loss	**(75,875)**	**(193,057)**
Operating loss margin, %	*(9.1)%*	*(13.4)%*
Interest expense (net of interest income)	(50,229)	(44,530)
Exchange gain (loss)	13,699	(20,378)
Share of results of associates, net of income tax	(828)	(856)
Loss before income tax	**(113,233)**	**(258,821)**
Income tax expense	(5,645)	(13,096)
Loss for the year	**(118,878)**	**(271,917)**
Profit (loss) attributable to minority interest	181	(8,478)
Profit (loss) attributable to shareholders of Integra Group	**(119,059)**	**(263,439)**

Reconciliation of operating loss to the adjusted EBITDA		
Operating loss	(75,875)	(193,057)
Depreciation of property, plant and equipment	101,820	136,610
Amortization of intangible assets	39, 736	88,791
Share-based compensation	8,509	30,476
Goodwill impairment	18,925	99,109
(Loss) gain on disposal of subsidiaries	(10,195)	-
Impairment of property, plant and equipment	26,296	-
Adjusted EBITDA[1]	**109,216**	**161,929**
Adjusted EBITDA margin, %	*13.1%*	*11.2%*

The Year Ended December 31, 2009 Compared to The Year Ended December 31, 2008

Sales

Our consolidated sales decreased by US$609.7 million to US$836.2 million for the year ended December 31, 2009 compared to US$1,445.9 million for the year ended December 31, 2008. Our revenues declined 42.2%, of which 16.0% was due to the depreciation of the ruble (the Group's primary functional currency) and 26.2% was due to other factors, including the idling of a significant part of our drilling capacity, a decline in exploration spending by our key customers, moderate pricing declines in ruble terms for the majority of our services and a lower manufacturing order book due to the completion of a major manufacturing contract.

Cost of Sales and Other Operating Expenses

Cost of sales

The table below provides information on the major components of consolidated cost of sales for the years ended December 31, 2009 and 2008:

	The Year Ended December 31,			
	2009 (audited)		**2008 (audited)**	
	US$000'	***% of total***	**US$000'**	***% of total***
Employee costs (including mandatory social contributions)	213, 868	*30%*	356,871	*29%*
Services and other expenses	225,039	*31%*	381,044	*31%*
Materials and supplies	152,943	*21%*	282,874	*23%*
Depreciation and amortization	130,926	*18%*	205,030	*17%*
Total cost of sales	**722,776**	***100%***	**1,225,819**	***100%***

Our cost of sales decreased by US$503.0 million, or 41.0%, to US$722.8 million for the year ended December 31, 2009 compared to US$1,225.8 million for the year ended December 31, 2008. Of this decrease, 16.3% was due to the depreciation of the ruble and the remaining 24.7% was due to a reduction in the volume of our operations, a significant headcount reduction, lower pricing for certain materials used in our operations and the Group's cost-reduction and cost-optimization program.

[1] We define adjusted EBITDA as a profit (loss) before interest income (expense), exchange gains (losses), income tax, depreciation of property, plant and equipment and amortization of intangible assets, goodwill impairment and impairment of the property, plant and equipment, gains (losses) on disposal of subsidiaries, share-based compensation, share of results in associates and non-controlling interest.

Employee costs

Our employee costs declined 40.1% in the year ended December 31, 2009 compared to the year ended December 31, 2008, of which 16.6% was due to the depreciation of the ruble and 25.5% was due to a 28.2% reduction in our peak headcount level in the middle of 2008 as compared to the end of 2009, as well as a moderate reduction of the average ruble wages of our employees.

Employee costs include social costs we are required to pay to the Russian government in support of the state pension fund, state social insurance fund and the state medical fund which amounted to US$32.0 million for the year ended December 31, 2009 and US$54.0 million for the year ended December 31, 2008. Contributions are payable according to a regressive sliding scale ranging from 2% to 26% depending on the level of the salaries, wages and benefits of our employees in the Russian Federation.

In 2009 and 2008, the employee costs included one-off employee redundancy payments of US$9.5 million and US$5.7 million, respectively.

Employee costs represented 30% and 29% of our total cost of sales for the years ended December 31, 2009 and 2008, respectively.

Services and other expenses

Our services and other expenses declined 40.9% in the year ended December 31, 2009 compared to the year ended December 31, 2008, of which 16.3% was due to the depreciation of the ruble and 24.6% was due to an overall decrease in our operating activities, a reduction of our use of third-party services and a renegotiation of contracts with our subcontractors.

Services contracted from third parties and other expenses were constant at 31% of our total cost of sales for the years ended December 31, 2009 and 2008.

Materials and supplies

Our materials and supplies costs declined 45.9% in the year ended December 31, 2009 compared to the year ended December 31, 2008, of which 14.9% was due to the depreciation of the ruble and 31.0% was due to a decrease in the volume of materials and supplies procured for our manufacturing business, which is the largest consumer of materials and supplies within the Group. Furthermore, prices for certain materials used in our operations have declined in line with commodity prices.

Material and supplies costs were 21% and 23% of our total cost of sales for the years ended December 31, 2009 and 2008, respectively.

Depreciation and amortization

Our depreciation of property, plant and equipment ("depreciation") and amortization of intangible assets ("amortization") declined 36.1% in the year ended December 31, 2009 compared to the year ended December 31, 2008, of which 17.6% was due to the depreciation of the ruble and 18.5% was due to lower accelerated amortization of intangible assets in 2009 compared to 2008.

The depreciation and amortization comprised 18% and 17% of our total cost of sales for the years ended December 31, 2009 and 2008, respectively.

Selling, general and administrative expenses

For the year ended December 31, 2009, our selling, general and administrative ("SG&A") expenses decreased to US$152.1 million from US$315.7 million in the corresponding period of 2008. SG&A expenses, as a proportion of revenues, declined to 18.2% in the year ended December 31, 2009 compared to 21.8% in the year ended December 31, 2008.

The table below provides a breakdown of SG&A expenses for the years ended December 31, 2009 and 2008:

	The Year Ended December 31,			
	2009 (audited)		2008 (audited)	
	US$000'	*% of total*	US$000'	*% of total*
Employee costs (including mandatory social contributions)	75, 435	*50%*	112,238	*36%*
Services and other expenses	49,215	*32%*	87,520	*28%*
Share-based compensation expense	8,509	*6%*	30,476	*10%*
Taxes, other than income taxes	9,331	*6%*	13,024	*4%*
Depreciation and amortization	10,630	*7%*	20,391	*6%*
Inventories impairment and obsolete stock write-offs	3,266	*2%*	9,496	*3%*
Receivables impairment, bad debt and other write-offs	(4,238)	*(3)%*	42,551	*13%*
Total selling, general and administrative expenses	**152,148**	***100%***	**315,696**	***100%***

A significant portion of our total SG&A expenses is generated by our corporate office, and includes executive management, finance and accounting staff, legal and corporate governance, budget and cost control personnel, corporate finance and treasury management compensation and the costs of third-party advisors and consultants, as needed.

SG&A costs fell by 51.8% due to (i) a reduction in headquarters personnel, (ii) a significant reduction in the consumption of third-party services by the Group, (iii) a reduction in transportation expenses and a reduction in rental costs for our Moscow headquarters, (iv) a significant reduction in costs related to our share-based compensation program by 72.1% reflecting a significant historic fair value of the share-based compensation program already charged to profit and loss in previous periods and cancellation of a share of stock options due to their forfeiture or replacement with Restricted Stock Units (RSUs), and (v) the reversal of certain receivables impairment, bad debt and other write-offs totaling US$4.2 million for the amounts collected from its accounts receivable and change in the estimates of the uncollectable amounts.

In 2009 and 2008, the employee costs included one-off employee redundancy payments of US$1.8 million and US$1.0 million, respectively.

SG&A expenses also include similar costs at each of our subsidiaries. We expect such costs to remain roughly stable or even decrease as the impact of our cost optimization program becomes visible after one-time optimization charges, like severance payments and early contract termination fees.

Goodwill impairment

At December 31, 2009 the Group impaired the goodwill at US$18.9 million, of which US$14.2 resulted from the termination of the Group's third party supply and procurement business through Trade House, and the remaining US$4.7 million was due to the excess of the carrying value of Stromneftemash's net assets (belonging to OFS Equipment Manufacturing segment) over its estimated value-in-use due to lower expected demand and profitability in this business.

At December 31, 2008 the Group impaired the goodwill at US$99.1 million due to the excess of the net assets carrying values of Drilling, Workover and IPM segment over its estimated value-in-use as a result of an estimated significant decrease in sales volumes and profit margins and increase in discount rates used in future cash flows, resulting from significant deteriorations and a decrease in demand for oil field services in the Russian financial market in 2008.

Gain from disposal of subsidiaries

In 2009 the Group sold certain companies operating within the Group's Trade House Division. This resulted in a US$10.2 million gain, which was recognized in the profit and loss component of the consolidated statement of comprehensive income.

Impairment of property, plant and equipment

At December 31, 2009, the Group impaired certain property, plant and equipment in the total amount of US$26.3 million which was expensed in the profit and loss component of the consolidated statement of comprehensive income. The impairment included the part of Stromenftemash's property, plant and equipment at US$21.8 million, some drilling rigs used by the Group's drilling, workover and IPM segment at US$2.2 million and miscellaneous property, plant and equipment used by the Group's formation evaluation segment at US$2.3 million.

Loss (gain) from disposal of property, plant and equipment

The results of asset disposals both the loss of US$2.1 million for the year ended December 31, 2009 and the gain of US$1.7 million for the year ended December 31, 2008 reflect the effects of commercial trade of unused production capacities.

Operating Profit and Operating Profit margin

We reported an operating loss of US$75.9 million the year ended December 31, 2009 compared to an operating loss of US$193.1 million for the year ended December 31, 2008. This decrease primarily resulted from a reduction in our sales, which was matched by a similar reduction in our costs and offset by lower non-cash non-recurring charges, such as impairment of goodwill and accelerated amortization of intangible assets. In the year ended December 31, 2009 the operating result was negatively affected by the following non-recurring items (i) impairment of property, plant and equipment of US$26.3 million, (ii) impairment of goodwill of US$18.9 million, (iii), accelerated amortization of intangible assets of US$26.9 million.

For the year ended December 31, 2009, our operating profit margin was a negative 9.1% compared to an operating profit margin of a negative 13.4% for the year ended December 31, 2008.

Other Non-operating Expenses

Interest expense (net of interest income)

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.

Interest expense (net of interest income) increased by US$5.7 million, or 12.8%, to US$50.2 million for the year ended December 31, 2009 compared to US$44.5 million for the year ended December 31, 2008. This increase resulted primarily from an increase in the interest rate following the financial crisis from 9.7% for the year ended December 31, 2008 to 13.5% for the year ended December 31, 2009, normal and accelerated amortization of the borrowing costs from entering new loan facilities in the total amount of US$11.9 million recognized on loan prepayments ahead of schedule and costs of US$1.0 million incurred on restructuring of our bonds in December 2010.

Exchange gain (loss)

We incur foreign exchange differences on US dollar-denominated monetary items (including borrowings) where functional currency for reporting purposes is the Russian ruble. Transactions denominated in US dollars and other foreign currencies are translated into rubles on incurrence and the carrying values of monetary items are re-translated based on the exchange rate at the reporting date, with the difference being shown in our profit and loss component of the consolidated statement of comprehensive income. 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 net foreign exchange gains of US$13.7 million during the year ended December 31, 2009 compared to net foreign exchange losses of US$20.4 million during the year ended December 31, 2008, primarily as a result of retranslation of our US dollar-denominated borrowings after strengthening of the ruble relative to US dollar.

Share of results of associates

We hold interests in OAO Nizhnevartovskgeophysika ("NNGF"), OAO Stavropolneftegeophysika ("SNGF") and ZAO Neftegeotechnology ("NGT-G"). The results of operations of these companies are consolidated in our financial statements using the equity method.

Our share of results in our associates, net of income tax, slightly increased to a loss of US$0.8 million for the year ended December 31, 2009 from a loss of US$0.9 million for the year ended December 31, 2008.

Income Tax

Our total income tax expense decreased by US$7.5 million, or 57.3% to US$5.6 million for the year ended December 31, 2009 from US$13.1 million for the year ended December 31, 2008, as a result of the reduction of the statutory income tax rate in Russian Federation from 24% to 20% effective from January 1, 2009. In Kazakhstan, the statutory income tax rate decreased from 30% to 20%.

The decrease in income tax also resulted from a decrease in losses not expected to be utilized against future profits, non-tax deductible and other expenses and other causes.

Overall, our effective tax rate was significantly higher than the Russian corporate tax rate of 20% and 24% in 2009 and 2008, respectively, because Russian law does not allow the consolidation of losses and profits in different subsidiaries, and specifies that certain expenses and charges are non-tax deductible.

Net income

As a result of the foregoing factors, our net loss decreased by US$153.0 million, or 56.3%, to a negative US$118.9 million for the year ended December 31, 2009 from a negative US$271.9 million for the year ended December 31, 2008.

Depreciation and Amortization

Our depreciation expenses (including those recorded under cost of sales and SG&A) decreased to US$101.8 million for the year ended December 31, 2009 compared to US$136.6 million for the year ended December 31, 2008. Of this decrease, 20.6% was due to the depreciation of the Russian ruble and 4.9% was due to a decrease in investment in the property, plant and equipment by US$114.2 million to US$43.6 million for the year ended December 31, 2009 from US$157.8 million for the year ended December 31, 2008.

Our amortization decreased by US$49.1 million, or by 55.3%, to US$39.7 million for the year ended December 31, 2009 from US$88.8 million for the year ended December 31, 2008. Of this decrease, 12.4% was due to the depreciation of the Russian ruble and 42.9% was attributable to a decrease in accelerated amortization of certain long-term customer and supplier relationship intangible assets by US$26.8 million to US$26.9 million for the year ended December 31, 2009 from US$53.7 million for the year ended December 31, 2009.

Adjusted EBITDA and Adjusted EBITDA Margin

We define Adjusted EBITDA as profit (loss) before interest income (expense), exchange gains (losses), income tax, depreciation of property, plant and equipment and amortization of intangible assets, goodwill impairment and impairment of the property, plant and equipment, gains (losses) on disposal of subsidiaries, share-based compensation, share of results in associates and non-controlling interest.

Adjusted EBITDA decreased by 32.6% to US$109.2 million for the year ended December 31, 2009 from US$162.0 million for the year ended December 31, 2008. The absolute decline in Adjusted EBITDA reflects a reduction in revenues as discussed above, partially offset by a reduction in variable costs and fixed cost optimization measures, such as headcount reductions, renegotiation of terms and prices for supplies of materials, as well as lower consumption of third-party services.

Our Adjusted EBITDA margin increased to 13.1% for the year ended December 31, 2009 from 11.2% for the year ended December 31, 2008, reflecting a lower reduction in Adjusted EBITDA than the decline in sales, decline in the share of costs and improved mix of our services, including a larger offering of high-margin services in 2009 as compared to 2008.

Our fourth quarter 2009 Adjusted EBITDA margin declined to 9.1% compared to 16.0% in the third quarter of 2009, due to a lower share of high-margin contracts, specifically in Formation Evaluation, due to their completion in the third quarter of 2009, seasonality factors and rollover of certain projects until 2010.

Segment Results

The table below provides selected information about our results by segments for the years ended December 31, 2009 and 2008.

	The Year Ended December 31,	
	2009	**2008**
	(audited)	**(audited)**
	(in thousands of US dollars)	
Drilling, Workover and IPM		
Sales	**339,983**	**619,428**
Cost of sales	(332,678)	(585,262)
Gross profit	7, 305	34,166
Selling, general and administrative expenses	(26,125)	(91,650)
Other expenses	(4,457)	(101,152)
Operating profit (loss)	**(23,277)**	**(158,636)**
Operating profit margin, %	*(6.8)%*	*(25.6)%*
Adjusted EBITDA	**28,595**	**30,957**
Adjusted EBITDA margin, %	*8.4%*	*5.0%*
Technology services		
Sales	**139,616**	**223,078**
Cost of sales	(103,900)	(139,930)
Gross profit	35,716	83,148
Selling, general and administrative expenses	(18,764)	(35,360)
Other expenses	618	(1,916)
Operating profit (loss)	**17, 570**	**45,872**
Operating profit margin, %	*12.6%*	*20.6%*
Adjusted EBITDA	**44,584**	**70,379**
Adjusted EBITDA margin, %	*31.9%*	*31.5%*
Formation Evaluation		
Sales	**197,076**	**312,280**
Cost of sales	(160,780)	(290,009)
Gross profit	36,296	22,271
Selling, general and administrative expenses	(23,792)	(30,615)
Other expenses	(2, 436)	4,953
Operating profit (loss)	**10,068**	**(3,391)**
Operating profit margin, %	*5.1%*	*(1.1)%*
Adjusted EBITDA	**56,247**	**78,947**
Adjusted EBITDA margin, %	*28.5%*	*25.3%*

Equipment Manufacturing		
Sales	**151,974**	**289,844**
Cost of sales	(118,962)	(226,394)
Gross profit	33,012	63,450
Selling, general and administrative expenses	(18,613)	(33,867)
Other expenses	(26,638)	901
Operating profit (loss)	**(12,239)**	**30,484**
Operating profit margin, %	*(8.1)%*	*10.5%*
Adjusted EBITDA	**27,510**	**44,197**
Adjusted EBITDA margin, %	*18.1%*	*15.2%*

Other		
Sales	**22,186**	**60,496**
Cost of sales	(21,043)	(41,336)
Gross profit	1,143	19,160
Selling, general and administrative expenses	(9,939)	(16,774)
Other expenses	(3,675)	-
Operating profit	**(12,471)**	**2,386**
Operating profit margin, %	*(56.2)%*	*3.9%*
Adjusted EBITDA	**(3,227)**	**12,156**
Adjusted EBITDA margin, %	*(14.6)%*	*20.1%*

Corporate		
Sales	**-**	**-**
Cost of sales	-	-
Gross profit	-	-
Selling, general and administrative expenses	(54,938)	(107,742)
Other income / (expenses)	(22)	(949)
Operating profit (loss)	**(54,960)**	**(108,691)**

Elimination of inter-segment sales		
Sales	**(14,651)**	**(59,235)**
Cost of sales	14,587	57,112
Gross profit	(64)	(2,123)
Selling, general and administrative expenses	23	312
Other income / (expenses)	(525)	730
Operating profit (loss)	**(566)**	**(1,081)**

The Year Ended December 31, 2009 Compared to The Year Ended December 31, 2008

Drilling, Workover and IPM

Sales

Drilling, Workover and IPM sales made up 40.7% of our total sales (before inter-segment eliminations) for the year ended December 31, 2009, compared to 42.8% for the year ended December 31, 2008. Sales in this segment decreased by US$279.4 million, or 45.1%, to US$340.0 million for the year ended December 31, 2009 from US$619.4 million for the year ended December 31, 2008. The decline in sales was driven by the depreciation of the ruble against the US dollar, a reduction in the volume of services provided due to a significant reduction of business with smaller customers, a reduction in prices due to increased competition in drilling and workover markets, and an overall decrease in demand for exploration drilling as compared to 2008.

The decrease was also caused, in part, by an average 10% decline in prices in ruble terms in 2009 relative to 2008. In the first half of 2009, demand improved for our IPM services which partially offset the decrease in segment sales as a result of the aforementioned factors.

We provide approximately 53% of our drilling services to third parties under fixed price turnkey contracts where we assume the risk of performing a service according to customer specification within a defined budget and timeframe. Our turnkey contracts typically take a period of one year to execute. We typically contract workover services on an hourly rate basis. The contracting process for the drilling and workover services generally begins with requests for proposals in September and ends with signed contractual commitments between December of the same year and March of the following year. Payment terms for drilling services provided on a turnkey basis often include an advance payment for mobilization and demobilization activities.

Cost of sales

Cost of sales for Drilling, Workover and IPM fell by US$252.6 million, or 43.2%, to US$332.7 million for the year ended December 31, 2009, from US$585.3 million for the year ended December 31, 2008. Key cost components and their share in this segment's cost of sales for the year ended December 31, 2009 were as follows: services procured from third parties: 48.6%; employee costs: 26.6%; depreciation and amortization: 13.9%; and materials: 10.7%. The decrease in the segment cost of sales was primarily driven by a reduction of variable costs due to a number of cost-reduction measures, such as a 33.3% headcount reduction in 2009 compared to 2008. The relative decrease in cost of sales is smaller than the relative decrease in sales due to recognition of certain one-time expenses related to segment downsizing and optimization. Such one-time expenses include severance payments, drilling base conservation expenses and the cost of merging our workover subsidiaries NKRS and ONR.

Operating profit and operating profit margin

For the year ended December 31, 2009, operating loss in Drilling, Workover and IPM decreased by US$135.3 million, or 85.3%, to negative US$23.3 million from negative US$158.6 million for the year ended December 31, 2008. The decrease in operating loss was a result of the depreciation of the ruble, reduction in the volume of services provided due to a significant reduction of business with smaller customers and lower impairment of receivables and inventory write-offs in 2009 compared to 2008.

Operating profit margin in this segment improved to a negative 6.8% for the year ended December 31, 2009 from a negative 25.6% for the year ended December 31, 2008.

Adjusted EBITDA and Adjusted EBITDA margin

For the year ended December 31, 2009, Adjusted EBITDA in the Drilling, Workover and IPM segment fell 7.7% to US$28.6 million compared to US$31.0 million for the year ended December 31, 2008. The fall in Adjusted EBITDA resulted from the depreciation of the ruble against the US dollar, a reduction in the volume of services provided, a slight decline in prices in Russian ruble terms, partially offset by a decline in both operating expenses and certain one-time expenses related to segment downsizing and optimization.

For the year ended December 31, 2009, our Adjusted EBITDA margin in Drilling, Workover and IPM increased to 8.4% from 5.0% for the year ended December 31, 2008.

Technology Services

Sales

Technology Services sales made up 16.7% of our total sales (before inter-segment eliminations) for the year ended December 31, 2009, compared to 15.4% for the year ended December 31, 2008. Sales in this segment decreased by

US$83.5 million, or 37.4%, to US$139.6 million for the year ended December 31, 2009 from US$223.1 million for the year ended December 31, 2008. The decline in sales resulted from the depreciation of the ruble against the US dollar, a reduction in the drilling tools production and services volumes due to lower demand, the disposal of the packer business, moderately lower pricing, and the suspension of certain minor technology services which were to be carried out under a joint venture with Smith International. The decline was partially offset by an increase in sales of certain services, such as coiled tubing, cementing and directional drilling launched in the second quarter of 2008.

We sell our technology services and products either on a stand-alone basis for a fixed amount based on specific services to be performed or products to be delivered as part of a turnkey contract for the provision of drilling or IPM services. We generally fulfill contracts to supply drilling tools within an average of 30 – 45 days. Our drilling tools are primarily manufactured according to standard industry specifications and 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.

Cost of sales

Cost of sales for the Technology Services segment fell by US$36.0 million, or 25.7%, to US$103.9 million for the year ended December 31, 2009 from US$139.9 million for the year ended December 31, 2008. The key cost components and their share in this segment's cost of sales for the year ended December 31, 2009 were as follows: employee costs: 28.9%; materials: 28.3%; depreciation and amortization: 25.2%; and services procured from third parties: 17.0%. The decrease in the segment's cost of sales was primarily driven by a reduction in variable costs in proportion to declining revenues and by a number of cost-cutting measures (e.g., reducing headcount by 12.7%, renegotiating purchasing process for materials and reducing the segment's SG&A). There was a significant increase in the segment's depreciation charges in 2009 related to the launch of new equipment for directional drilling and coiled tubing services.

Operating profit and operating profit margin

Operating profit in Technology Services segment fell by US$28.3 million, or 61.7%, to US$17.6 million for the year ended December 31, 2009 from US$45.9 million for the year ended December 31, 2008. The decrease in operating profit resulted from the depreciation of the ruble against the US dollar, a reduction in the drilling tool production and services volumes due to lower demand, the disposal of the packer business, and moderately lower pricing, as well as higher depreciation charges related to the new services launched in 2008, such as coiled tubing and directional drilling.

Operating profit margin in this segment decreased to 12.6% for the year ended December 31, 2009 from 20.6% for the year ended December 31, 2008.

Adjusted EBITDA and Adjusted EBITDA margin

For the year ended December 31, 2009, Adjusted EBITDA in Technology Services fell 36.6% to US$44.6 million from US$70.4 million for the year ended December 31, 2008. The decline in Adjusted EBITDA resulted from the depreciation of the ruble against the US dollar and a reduction in the drilling tool production and services volumes, the disposal of the packer business, and moderately lower pricing. This was partially offset by increased earnings from newly launched services and cost-reduction measures taken to optimize the segment's cost structure.

For the year ended December 31, 2009, our Adjusted EBITDA margin in the Technology Services segment slightly increased to 31.9% from 31.5% for the year ended December 31, 2008.

Formation Evaluation

Sales

Formation Evaluation sales made up 23.6% of our total sales (before inter-segment eliminations) for the year ended December 31, 2009 compared to 21.6% for the year ended December 31, 2008. Sales in this segment decreased by US$115.2 million, or 36.9%, to US$197.1 million for the year ended December 31, 2009 from US$312.3 million for the year ended December 31, 2008. The decline resulted from the depreciation of the ruble against the US dollar, as well as from a decrease in the volume of seismic surveys conducted in Russia by 35% compared to 2008 due to a decrease in demand for seismic services. This was partially offset by a 35% increase in seismic volumes in Kazakhstan in 2009 due to two major contracts with KPO and TCO.

We generally contract our seismic services on a turnkey basis and typically receive a larger part of the service fee following the completion of services, such as delivering a seismic survey and accompanying report. Nearly all turnkey contracts are for a period of one year, though some are for a two-year period. The contracting process for seismic services in Russia generally begins with tenders held between May and September with the receipt of signed contractual commitments between July and October. Seasonality in other localities is less pronounced.

The payment terms of our contracts vary by customer. In majority of contracts with major customers there is a minimum provision for prepayment, while the contracts with smaller and medium-sized companies usually include a provision for a prepayment of up to 30% of the overall contract price. Customers may also pay separately for every work stage completed (i.e., mobilization, line clearing, drilling, recording and demobilization). We work with our customers on payment terms and contract settlement conditions in order to optimize our cash flows. We experienced a tightening of payment terms in 2009, resulting in a decrease in down payments and expect this trend to continue further in 2010.

Cost of sales

Cost of sales for the Formation Evaluation fell by US$129.2 million, or 44.6%, to US$160.8 million for the year ended December 31, 2009 from US$290.0 million for the year ended December 31, 2008. Our key cost components and their share in this segment's cost of sales for the year ended December 31, 2009 were as follows: employee costs: 42.9%; depreciation and amortization: 26.2%; services procured from third parties: 21.0%; and materials: 9.3%. Approximately 75% of cash costs in the segment are variable and therefore depend on the volume of operations. The decline in the segment cost of sales was primarily the result of the depreciation of the ruble against the US dollar, a reduction of variable costs in line with decreasing sales and a number of implemented cost-cutting measures (e.g., headcount reduction and reduction of the segment's SG&A).

Operating profit and operating profit margin

For the year ended December 31, 2009, operating profit in Formation Evaluation increased by US$13.5 million to a positive US$10.1 million from a negative US$3.4 million for the year ended December 31, 2008. The increase in operating profit reflects the result of the cost-optimization program and the completion of high-margin contracts in Kazakhstan as well as an increase in the productivity of the seismic crews in Russia.

Operating profit margin in this segment increased to positive 5.1% for the year ended December 31, 2009 from negative 1.1% for the year ended December 31, 2008.

Adjusted EBITDA and Adjusted EBITDA margin

For the year ended December 31, 2009, Adjusted EBITDA in Formation Evaluation fell 28.8% to US$56.2 from US$78.9 million for the year ended December 31, 2008. The decrease in Adjusted EBITDA resulted from the depreciation of the ruble against the US dollar and a reduction in the volume of seismic surveys conducted, which was partially compensated for by improved profitability due to cost-optimization measures and the favorable economics of seismic contracts in Kazakhstan. The decline also reflects a one-time US$5.5 million gain on the sale of an asset in the second quarter of 2008.

For the year ended December 31, 2009, our Adjusted EBITDA margin in the Formation Evaluation segment increased to 28.5% from 25.3% for the year ended December 31, 2008.

OFS Equipment Manufacturing

Sales

OFS Equipment Manufacturing segment sales made up 18.2% of our total sales (before inter-segment eliminations) for the year ended December 31, 2009, compared to 20.0% for the year ended December 31, 2008. Sales in the OFS Equipment Manufacturing segment decreased by US$137.9 million, or 47.6%, to US$152.0 million in the year ended December 31, 2009 from US$289.8 million in the year ended December 31, 2008. The decrease primarily resulted from a lower volume of rig orders as a result of smaller contracts and completion of contracts rolled over from 2007-2008. The depreciation of the ruble against the US dollar had an additional impact on sales in US dollar terms.

The contract terms vary according to the type of equipment being sold and the manufacturing cycle for such equipment. New-built rigs represent the majority of orders, which are usually signed for from 9 months up to 3 years.

We generally obtain OFS equipment manufacturing contracts for drilling rigs through tenders or direct negotiations with our customers. For drilling rig manufacturing, we typically receive an advance of 25% of the total contract price, with the remaining 75% being paid after delivery. In cementing equipment manufacturing, the tendering process is substantially with the primary difference being shorter production periods for the cementing units. We recognize revenue in the OFS Equipment Manufacturing segment on a percentage-of-completion basis which may result in revenues in the period when equipment is completed being lower than cash flows if a portion of the revenue has been recognized in prior periods.

Cost of sales

Cost of sales for OFS Equipment Manufacturing fell by US$107.4 million, or 47.5%, to US$119.0 million for the year ended December 31, 2009 from US$226.4 million for the year ended December 31, 2008. The key cost components and their share in this segment's cost of sales in the year ended December 31, 2009 were as follows: material costs: 55.9%; employee costs: 21.8%; services procured from third parties: 12.3%; and depreciation and amortization: 9.6%. Approximately 80% of the segment's cash cost in the segment are variable and therefore depend on the volume of operations. The decline in the segment cost of sales was primarily driven by a reduction of variable costs in line with the decrease in sales, the depreciation of the ruble and fixed-cost optimization.

Operating profit and operating profit margin

For the year ended December 31, 2009, operating profit in OFS Equipment Manufacturing fell by US$42.7 million, to a negative US$12.2 million from a positive US$30.5 million for the year ended December 31, 2008. The decline in operating profit resulted from the depreciation of the ruble against the US dollar, a reduction in the volume of orders, and smaller falls in fixed costs such as the segment's SG&A and depreciation relative to the decline in sales. Also, the operating result was negatively affected by the following non-recurring items: (i) impairment of property, plant and equipment of US$21.8 million and (ii) impairment of goodwill of US$4.7 million.

For the year ended December 31, 2009, operating profit margin in this segment fell to a negative 8.1% from a positive 10.5% for the year ended December 31, 2008.

Adjusted EBITDA and Adjusted EBITDA margin

For the year ended December 31, 2009, Adjusted EBITDA in OFS Equipment Manufacturing fell by 37.8% to US$27.5 million from US$44.2 million for the year ended December 31, 2008. The fall resulted from the depreciation of the ruble and a reduction in the volume of manufacturing orders.

For the year ended December 31, 2009, our Adjusted EBITDA margin in the OFS Equipment Manufacturing segment increased to 18.1% from 15.2% for the year ended December 31, 2008, reflecting a lower reduction in Adjusted EBITDA than the decline in sales and the measures taken to adjust this segment's cash cost structure to lower production volumes.

Liquidity and Capital Resources

Cash Flows

The table below shows our net cash flows from operating, investing and financing activities for the years ended December 31, 2009 and 2008:

	The Year Ended December 31,	
	2009 (audited)	**2008 (audited)**
	(in thousands of US dollars)	
Operating cash flows before working capital changes, interest and income taxes	110,192	213,667
Net change in working capital	67,434	28,554
Operating cash flow before interest and income taxes	177,626	242,221
Net cash generated from operating activities	117,517	134,891
Net cash used in investing activities	(54,658)	(186,912)
Net cash generated from financing activities	(96,991)	33,130
Cash and cash equivalents at the end of the period	**37,272**	**62,393**

Operating activities

As of December 31, 2009, we had cash and cash equivalents of US$37.3 million compared to US$62.4 million as of December 31, 2008.

Net cash generated from operating activities declined to US$117.5 million in the year ended December 31, 2009, from US$134.9 million in the year ended December 31, 2008. Of this, US$67.4 million in 2009 was provided by a cash inflow from working capital reduction which compared to US$28.6 million in 2008. In 2009, operating cash flow was affected by significant upfront fees related to the EBRD loan, as well as by high interest rates and early prepayment fees on some of the loans repaid during 2009. Free cash flow (defined as net cash generated from operating activities, less purchases of property, plant and equipment) was positive at US$74.0 million in 2009, compared to a negative US$22.9 million in 2008.

We define working capital as current assets less current liabilities, excluding cash and cash equivalents and short-term debt. As of December 31, 2009, we had positive working capital of US$97.9 million, representing a decrease of US$58.6 million from our positive working capital position of US$156.5 million as of December 31, 2008. The decrease in working capital resulted from a 27.1% decrease in receivables due to better collection rates, a 32.7% decrease in inventories due to an overall decrease in our operating activities, partially offset by a 19.7% decrease in accounts payable and accrued liabilities and a 28.3% decrease in other taxes payable, due to a reduction of the tax base.

Investing activities

Net cash used in investing activities was US$54.7 million and US$186.9 million for the year ended December 31, 2009 and 2008, respectively.

Our capital expenditures, including acquisitions of property, plant and equipment and intangible assets during the year ended December 31, 2009 and 2008 amounted to the following:

	The Year Ended December 31,	
	2009	**2008**
	(audited)	**(audited)**
	(in millions of US dollars)	
Increase in the non-current assets, total for the period	35.0	175.9
Change in accounts payable for the capital expenditure in the current / (previous) period	8.5	(18.1)
Capital expenditure, total for the period	**43.5**	**157.8**

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 OFS equipment. Current constrained access to capital, however, limits any significant growth in investment during 2009.

Of the total US$35.0 million of the increase in net assets in 2009:

- US$7.1 million, or 20.3%, was attributable to Drilling, Workover and IPM as sustaining capital expenditure
- US$8.8 million, or 25.1%, was attributable to Technology Services, of which US$5.1 million (in addition to US$29.3 million in 2008) was spent on developing our coil tubing, cementing, directional drilling and drilling tools services
- US$16.3, or 46.6%, was attributable to Formation Evaluation, of which US$14.2 million (compared to US$12.8 million in 2008) was spent on field and land equipment for seismic projects (e.g., geophone channels, geophones, vibrators and other equipment)
- US$2.1 million, or 6.0%, was attributable to OFS Equipment Manufacturing, of which US$0.7 million was spent on new equipment to expand our drilling rig manufacturing capacity
- US$0.1 million, or 0.3%, was attributable to our corporate offices

During the years ended December 31, 2009 and 2008, we spent US$16.2 million and US$40.9 million, respectively, on the purchase of interest in companies, net of cash acquired.

We also disposed of certain property, plant and equipment worth US$2.9 million in 2009 as compared to US$13.1 million in 2008.

Financing activities

Net cash generated from financing activities was a negative US$97.0 million and a positive US$33.1 million for the years ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2009, we raised US$255.4 million in new bank borrowings and repaid outstanding borrowings of US$441.0 million. We also raised US$88.5 million from issuance of shares, net of transaction costs.

Borrowings

As of December 31, 2009, our total outstanding debt was US$212.7 million. We had cash and cash equivalents of US$37.3 million and our net debt was US$175.4 million. The table below shows our total outstanding debt, cash and cash equivalents and net debt for the periods indicated:

	December 31,	
	2009	**2008**
	(audited)	**(audited)**
	(in millions of US dollars)	
Short-term debt	70.2	394.5
Long-term debt	142.5	3.1
Cash and cash equivalents	37.3	62.4
Restricted cash committed for payments under contracts with the Group's counterparties	-	0.1
Net debt	**175.4**	**335.1**

Below is a discussion of our significant borrowing arrangements. For additional information, please refer to the notes to our Audited Consolidated Financial Statements.

Recent Borrowings and Debt Repayments

Between December 31, 2008 and December 31, 2009, we entered into a number of financing agreements, each of which is summarized below. Through these agreements, we raised the equivalent of US$255.4 million, net of borrowing costs of 14.7 million. During the same period, we repaid US$441.0 million of borrowings.

In January 2009, we fully repaid a US dollar-denominated US$30.0 million loan from Amsterdam Trade Bank.

In January 2009, we fully repaid a US dollar-denominated US$5.0 million loan facility from Credit Europe bank.

In December 2008, we signed an agreement (the terms of which were amended and restated in February 2009) and obtained a loan of US$250.0 million arranged by the EBRD and a consortium of commercial banks (the "EBRD loan"). In September and December 2009, we repaid US$66.5 million and US$90.2 million of the EBRD loan, respectively, from the proceeds of the equity raising in September 2009 and money accumulated but not used for the redemption of the bonds in December 2009, respectively. The loan was repaid in full in April 2010.

In February 2009, we repaid in full the remaining balance of US$135.0 million of a US dollar-denominated syndicated loan arranged by ABN AMRO Bank and ING Bank. The payment was made using the proceeds of the EBRD loan.

In March 2009, we fully repaid a ruble-denominated US$18.9 million loan from Bank Uralsib.

In March 2009, we fully repaid ruble-denominated bonds of US$59.0 million.

In June 2009 we signed an agreement with Sberbank for a one year ruble-denominated credit line of RR 360.0 million (the equivalent of US$11.9 million at December 31, 2009) and utilized US$9.8 million of it. In January 2010, we utilized the remaining balance of US$1.7 million. The loan was repaid in full in April 2010.

In March and September 2009, we signed two short-term US dollar-denominated agreements with Aljba Alliance for US$3.0 million and US$4.5 million, respectively. These loan facilities were repaid in full in September 2009 and January, 2010.

In October 2009, we made a partial repayment of ruble-denominated US$3.2 million loan obtained from Sberbank in October 2008. We rolled over the remaining amount of RR 500 million (the equivalent US$16.5 million at December 31, 2009) until October 2010.

In December 2006, the Group issued ruble-denominated bonds with a total nominal value of RR 3.0 billion maturing in November 2011. Under the terms of the bonds, each bondholder was entitled to exercise a one-time put option on December 03, 2009. As a result of a new offer with more attractive terms most bondholders chose to keep the bonds till November 2011 and the issuer repaid a total of 361,014 bonds with a total value of RR 361.0 million (the equivalent of US$11.9 million) which represents 12.0% of the bond issue.

Between December 31, 2008 and December 31, 2009, we raised the equivalent of US$2.8 million and repaid the equivalent of US$18.4 million in other loans. This resulted in a net decrease of US$15.6 million in liabilities.

Overview of Borrowings

Our borrowings as of December 31, 2009 and December 31, 2008 are shown in the table below:

	December 31,	
	2009	**2008**
	(audited)	**(audited)**
	(in thousands of US dollars)	
ABN AMRO & ING (US$)	-	135,000
Amsterdam Trade Bank (US$)	-	30,000
Sberbank (RR)	26,778	21,103
Uralsib (RR)	-	20,422
Alfa-Bank (RR)	-	3,404
Other	6,731	6,789
Subtotal	**33,509**	216,718
Less: Current portion of long-term borrowings	36,718	177,784
Total short-term borrowings and current portion of long-term borrowings	**70,227**	**394,502**
EBRD syndicated loan (US$)	89,392	-
Bonds (RR)	87,256	169,305
Sberbank (RR)	2,393	3,916
Commerzbank Eurasia (EUR)	-	3,726
Other	151	3,890
Subtotal	179,192	180,837
Less: current portion of long-term borrowings	(36,718)	(177,784)
Total long-term borrowings	**142,474**	**3,053**

Short-term ruble-denominated borrowings

Sberbank. In May and October 2008, the Group entered into a ruble-denominated loan facility agreements with Sberbank for RR 20.0 million and RR 600.0 million (US$0.7 million and US$20.4 million at December 31, 2008, respectively). The RR 20.0 million loan bore a fixed annual interest rate of 15.2% and was repaid in full in May 2009. The RR 600.0 million loan was partially repaid and the balance of RR 500.0 million (US$16.5 million at December 31, 2009) bears a fixed annual interest rate of 16.0% payable monthly and matures in October 2010.

In June 2009, the Group entered into a loan facility agreement with Sberbank for RR 360.0 million (US$11.9 million at December 31, 2009), of which RR 309.9 million (US$10.2 million at December 31, 2009) had been withdrawn by December 31, 2009. The loan facility bears a fixed annual interest rate of 18.5% payable monthly and matures in June 2010.

Long-term ruble-denominated borrowings

Bonds. In December 2006, the Group issued ruble-denominated bonds with a total nominal value of RR 3.0 billion (US$99.2 million). Initially the bonds bore a fixed interest of 10.7% per annum, payable semi-annually. In December 2009, in the bond-restructuring process the Group repurchased 361.0 thousand of the bonds for RR 361.0 million (US$11.9 million), while it increased the fixed interest rate for the remaining RUB 2.6 billion ($87.3m) of the bonds, to 16.75% per annum payable semi-annually and extended their maturity till November 2011. Following the significant modification of the terms of the bonds the Group recognized in the interest expenses both the unamortized amount of the initial borrowing costs and the transaction costs incurred in the bond-restructuring totaling US$1.0 million. In January 2009, the Group repurchased 20,000 bonds maturing in November 2011 for RR 16.3 million (US$0.5 million).

At December 31, 2009 and 2008, the outstanding bond balances of US$87.3 million and US$169.3 million were recognized net of the unamortized amounts of the borrowing costs of nil and US$0.9 million, respectively.

Sberbank. In December 2007, the Group entered into a ruble-denominated loan facility with Sberbank for RR 115.0 million (US$3.8 million at December 31, 2009). Initially, the loan bore a fixed interest rate of 11.0% per annum payable monthly, and in September 2008 the Group agreed with Sberbank to increase the fixed interest rate to 13.0% per annum through December 2008 and 16.0% per annum thereafter. The loan matures in April 2011. At December 31, 2009 and 2008, the Group had some of its property, plant and equipment, with carrying value equivalent to US$2.4 million and US$2.8 million, respectively, pledged as collateral to the loan.

Long-term US dollar-denominated borrowings

EBRD syndicated loan. In December 2008, the Group entered into a loan agreement with the European Bank for Reconstruction and Development ("EBRD"), which acts as a lender of record on behalf of a consortium of certain banks. Between February 2009 and May 2009, the Group received US$250.0 million of the loan in several tranches that are repayable in certain installments from March 2010 to December 2013. In September 2009 and December 2009, the Group prepaid US$66.5 million and US$90.2 million, respectively, and the remaining loan balance of US$93.3 million is repayable in installments from March 2010 to December 2013.

The loan tranches bear floating interest rates of London Inter Bank Offer Rate ("LIBOR") plus the respective margins shown in the table below. In April 2009, the Group entered into an interest rate swap transaction agreement with BNP Paribas maturing in December 2011, under which the Group effectively converted the floating interest rates under the EBRD loan into fixed rates for the loan amount of US$71.3 million, net of the borrowing costs of US$3.3 million. In October 2009 and December 2009, following the loan prepayments, the terms of the swap were modified and at 31 December 2009, the fixed rates were as follows:

Description	Final installment maturity	Tranche amount	Interest margin	From December 2009 to June 2010	From June 2010 to December 2010	From December 2010 to December 2011
Loan A, Tranche 1	December 2013	18,662	8.00%	9.75%	10.15%	10.62%
Loan A, Tranche 2	December 2013	9,331	12.00%	13.75%	14.15%	14.62%
Loan B	December 2011	65,316	7.00%	8.75%	9.15%	9.62%
Total		**93,309**	**7.70%**	**9.45%**	**9.85%**	**10.32%**

In October 2009, the Group hedged against the variability in the US dollar-denominated repayments of the loan principal and payments of the interest for a total amount of US$60.5 million, made from March 2010 to June 2011 and fixed those amounts at the total of RR 1.9 billion.

The loan is secured by a pledge of 99.97% of Integra Group Holding Limited's shares along with the shares of certain Group's subsidiaries and certain property, plant and equipment for a total amount of US$109.4 million at December 31, 2009 and an assignment of monetary claims under certain services contracts.

On December 18, 2009, the EBRD absolved the Group of the requirement to comply with a certain financial covenant at December 31, 2009.

Interest rates

The average interest rates of our outstanding borrowings by currency at December 31, 2009 and December 31, 2008, are outlined in the table below:

	December 31, 2009		December 31, 2008	
	Average interest rate	Amount (in thousands of US dollars)	Average interest rate	Amount (in thousands of US dollars)
Russian ruble-denominated borrowings	12.8%	65,727	11.6%	220,777
US dollar-denominated borrowings	16.0%	4,500	7.2%	170,000
Other	-	-	5.1%	3,725
Total amounts due within one year	**13.0%**	**70,227**	**9.7%**	**394,502**
Russian ruble-denominated borrowings	15.6%	106,211	12.9%	3,053
US dollar-denominated borrowings	9.4%	36,263	-	-
Total amounts due after more than one year	**14.0%**	**142,474**	**12.9%**	**3,053**
Total borrowings	**13.5%**	**212,701**	**9.7%**	**397,555**

Debt Maturity Schedule

Scheduled maturities of current financial liabilities outstanding at December 31, 2009 were as follows:

	December 31, 2009 (in thousands of US dollars)
Within 90 days	15,813
91 to 180 days	19,253
181 to 365 days	35,161
Total short-term borrowings	**70,227**

Scheduled maturities of long-term borrowings outstanding at December 31, 2009 were as follows:

	December 31, 2009 (in thousands of US dollars)
Twelve months ended December 31:	
2010	-
2011	141,504
2012	10,556
2013	9,622
Total long-term borrowings	**161,682**

For purposes of this disclosure, the cash flows are presented in undiscounted nominal terms and the interest payable on floating rate debt has been calculated using rates as at December 31, 2009.

Issuance of new shares

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

Issuance of Class A common shares to management. In both of 2009 and 2008, the Group issued 5,000 Class A common shares to certain management as compensation for services, with a total grant date fair value of US$0.2 million and US$0.8 million, respectively.

Issuance of Class A common shares from conversion of restricted share units. In December 2009, a total of 112,756 restricted share units were converted one-to-one into the Class A common shares.

Off-balance Sheet Arrangements

As of December 31, 2009, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements. We do not have any off-balance-sheet leasing facilities.

Qualitative and Quantitative Disclosures about Market Risk

The Group's activities expose it to a variety of market risks including credit, interest rate, currency and other risks arising from adverse movements in the price of oil, foreign currency exchange rates and changes in interest rates. Our overall risk management objective is to reduce the potential adverse effects of these risks on our financial performance.

Credit Risk. Credit risk (associated in particular with some of our smaller customers) could, in the event of an unforeseen deterioration of market liquidity result in bad debt provisions, and longer-than-expected collection times, resulting in additional expenses related to managing our working capital.

For the year ended December 31, 2008, the Group recorded a net bad debt provision of US$42.6 million and for the year ended December 31, 2009 a net bad debt provision reversal of US$4.2 million We have not used any financial risk management instruments, in this or prior periods, to hedge against this exposure.

The Group regularly monitors and assesses the likelihood of collection on a customer-by-customer basis in order to mitigate its exposure to potential material losses from uncollected accounts. The Group believes that its financial receivables that are neither past due nor impaired have a low credit risk.

At December 31, 2009 and 2008, the Group believed and continues to believe that its maximum exposure to credit risk was the carrying value of its financial assets recognized in the consolidated statement of financial position.

Foreign Currency risk. The Group is exposed to currency exchange risk from borrowings denominated in US dollars whereas the functional currency of most of the Group companies is the ruble. As of December 31, 2009, approximately 19.2% of our short and long-term borrowings were denominated in US dollars. For the year ended December 31, 2008, we recognized exchange losses of US$20.4 million, largely as a result of appreciation of the ruble relative to the US dollar. For the year ended December 31, 2009, we recognized exchange gains of US$13.7 million.

The weakening of the ruble could have a significant impact on our reported financial results. However, we believe it would have an insignificant impact on the ruble-denominated economics of the business, given that approximately 95% of revenue is in rubles matched by a similar share of costs in rubles.

Customer concentration risk. We depend on a small number of key customers for a significant percentage of our revenues. The loss of one or more of our key customers could have a material adverse effect on our business, financial condition and results of operations. 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.

Order book sustainability. It is generally difficult to predict whether the contracts with our customers or tender processes we have won will proceed as originally planned. Factors beyond our control such as market and weather conditions and governmental approvals required by our customers may result in the renegotiation, delay or cancellation of projects in our order book. If the contracts we enter into with our customers are delayed or canceled and we are unable to perform our work within the timeframe agreed or at all, our work flow may be interrupted and our financial position and results of operations may be adversely affected. Further expansion of our order book is subject to the uncertainty in the energy markets and the resulting spending levels of our key customers.

Capital risk management. The Group's objectives when managing its capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure to reduce its costs. The optimal mix of debt and equity may vary depending upon changing market conditions and investment opportunities.

After entering into the EBRD loan, one of the Group's key objectives in managing its debt has been to maintain covenants relating to certain financial ratios in order to comply with the loan agreement.

The Group's current policy is not to pay dividends and its subsidiaries only pay dividends on their preferred shares. At December 31, 2009 and 2008, neither the Group nor any of its subsidiaries were subject to externally imposed capital requirements.

Subsequent Events

Management changes

Dmitry Avdeev will resign as the Company's Chief Financial Officer, effective June 7, 2010 to become a Co-head of the Investment Banking Division at Morgan Stanley (Russia). Mr. Avdeev will also resign from the Company's Board of Directors as of June 3, 2010. A search is currently underway to identify a successor.

New borrowings and debt repayments

In January, 2010 we obtained a ruble-denominated RR 600.0 million (the equivalent of US$20.2 million) loan from Bank Uralsib. The loan shall be repaid in full by September 2010.

In March 2010, we repaid US$9.3 million of the EBRD loan.

In April 2010, we entered into a ruble-denominated loan facility with Sberbank for RR 2.5 billion (the equivalent of US$84.9 million). The loan is repayable in installments from March 2011 to April 2013.

In April 2010, the Group repaid the remaining US$84.0 million of the EBRD loan through the proceeds of the loan facility with Sberbank.

In April 2010, we signed an agreement with VTB Bank (Deutschland) AG for a US dollar-denominated two year unsecured revolving credit line of US$40.0 million, of which US$26.0 million was utilized on April 13, 2010. The loan facility matures in April 2012.

After December 31, 2009, we raised the equivalent of US$3.8 million and repaid the equivalent of US$19.6 million in other loans. This resulted in the a decrease in liabilities by US$15.7 million.

Director's responsibility statement

The attached report, including the financial information contained herein, is the responsibility of, and has been approved by, the directors of Integra Group. The directors are responsible for ensuring that management prepares the Full Year Financial Report in accordance with the Listing Rules of the Financial Services Authority and the requirements of IAS 34 which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding interim accounts except where any changes, and the reasons for them, are disclosed.