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 year ended December 31, 2011 (the "Report"). It should be read in conjunction with our Audited Consolidated Financial Statements for the year ended December 31, 2011 and related notes. Financial information as of and for the year ended December 31, 2011 and 2010 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 but not limited to 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.

Business Overview

We are one of the leading Russian independent providers of diversified oilfield services ("OFS") and integrated solutions, and also one of the leading manufacturers in the Russian Federation of certain specialized tools and equipment used in oil & gas development and production. We offer integrated project management; well planning and design; oilfield development planning and optimization; exploration and development well drilling, well servicing and workover; well logging and well testing, cementing and perforation; coiled tubing services, directional drilling and drill bit services. We manufacture downhole motors and turbodrills, downhole tools, submersible screw pumps and multiphase pumps, and a wide range of well testing equipment. Currently we have approximately 9,000 employees. Our clients include major Russian and international private and state-owned oil and gas companies operating in Russia and other CIS countries, and the Middle East, including TNK-BP, Rosneft, Dulisma, Novatek, Tatneft, Gazpromneft, Lukoil, Alliance Oil, Nobel Oil, Russneft and Surgutneftegaz, as well as other state-owned and independent medium-sized companies, and joint ventures of international majors operating in these markets. We also sell and rent out specialized tools and equipment to large Russian oil and gas companies.

We manage our Russian and CIS operations from our central administrative office in Moscow, and maintain administrative offices at our regional operating bases in the Volga-Urals region, the Timan-Pechora region, Eastern and Western Siberia.

Reflecting the products and services we offer, our business is now organized into two segments[1], each with its own management, corresponding to our reporting segments:

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

Our drilling services include drilling of vertical, deviated and horizontal exploration and development wells ranging from 700 meters to in excess of 7,200 meters in depth. In addition, we offer a specialized drilling service known as sidetracking, a form of directional and/or horizontal drilling used to re-enter wells to improve oil recovery.

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

In 2011 we had on average 26 active drilling rigs and 77 workover crews in operation in Russia compared to 19 active drilling rigs and 87 workover crews in 2010. We operate 3 maintenance drilling bases and 4 maintenance workover bases.

Our 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 and equipment selection, site supervision, performance analysis and reporting for an entire well construction, drilling or workover project. Depending on customer

[1] In 2010, the Group disposed of its Equipment Manufacturing segment and its results are disclosed in the discontinued operations. Certain minor entities previously included in the Equipment Manufacturing segment were reclassified to the Technology Services segment, for both years ended December 31, 2011, and 2010. In 2011, the Group completed a transaction whereby Integra Group and Schlumberger Oilfield Holdings Limited and Geotech Oil Services Holdings Limited combined their seismic businesses by bringing Geotech Holding under IG Seismic Services Limited (the "combined seismic entity"). Therefore, the results of the Formation Evaluation segment are disclosed in the discontinued operations, for both years ended December 31, 2011, and 2010.

requirements, the service may also include supply chain management or early design, planning and engineering of a well project.

In the year ended December 31, 2011, we drilled 266 thousand meters compared to 288 thousand meters in the year ended December 31, 2010, (a 7.6% decrease due to the completion of a significant meter-intensive project in 2010 and a customer-driven shift in the production program from 2011 to 2012), and conducted 3,711 workover operations compared to 3,352 in 2010 (a 10.7% increase due to a higher number of short-term repairs involving equipment replacement as opposed to long term capital repairs of wells).

- *Technology Services*

Our technology services businesses offer various products and services supporting oil and gas development and production, including the manufacturing and rental of drilling tools and well testing equipment, coiled tubing, primary and remedial cementing, directional drilling, drill bit management, well logging and perforation, and well testing, as well as wireline and stickline, coring and completion services.

We are one of the largest manufacturers of downhole motors and turbodrills in Russia. We also are the number one Russian manufacturer of well testing equipment. We operate our drilling tools business through VNIIBT BI LLC (“BI”). BI’s core business is the production, sale and lease of downhole motors and turbodrills, and it holds patents for various oilfield equipment and processes, including downhole piston pumps, special thread connections and safety valves. We have a total of 3 drilling tool production facilities, 3 service business units and 10 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, coiled tubing technologies have a broad application in the Russian and CIS markets and may be utilised, for example, in drilling, perforating, remedial activities, jetting and lifting operations.

In the year ended December 31, 2011, we produced 476 downhole motors compared to 366 in the year ended December 31, 2010, (a 30.1% increase due to higher demand for smaller motors, the launch of a new diameter model and the replacement of worn out units used for renting out); we also produced 66 turbodrills compared to 73 in 2010 (a 9.6% decrease due to lower customer demand).

In the year ended December 31, 2011, we completed 425 wells with the directional drilling service compared to 256 in 2010, (a 66.0% increase owing to a higher number of active directional drilling crews and higher speed of drilling), and performed 1,144 cementing operations compared to 1,103 in 2010 (a 3.7% increase due to higher demand); we also performed 341 coiled tubing operations compared to 238 in 2010 (a 43.3% increase due to higher demand).

Group Structure

The Group currently has 7 principal operating subsidiaries directly involved in providing oilfield services and manufacturing drilling tools. We also have holding, management and finance subsidiaries that provide procurement, research and engineering, administrative and financing functions. In total, we hold interests in 43 subsidiaries, 31 of which we wholly own.

We also own minority interests in 4 companies that are treated as associates in our financial statements. The results of operations of these companies are reported in our financial statements using the equity method.

For the most significant changes in the Group structure refer to the section of this Report entitled “Major Events in the Year Ended December 31, 2011” below.

Major Events in the Year Ended December 31, 2011

Cessation of control in IGSS

In December 2011, the Group completed a transaction whereby Integra Group and Schlumberger Oilfield Holdings Limited (“SOHL”) jointly and Geotech Oil Services Holdings Limited (“GOSH”) combined their seismic businesses by bringing Geotech Holding under IG Seismic Services Limited (“IGSS”). GOSH acquired a 52% interest in the combined seismic entity and contributed its seismic business to IGSS Holding by transferring Geotech Holding and its subsidiaries, and Integra and SOHL retained a 36% and 12% interest in the combined seismic entity, respectively. As of the transaction completion date the Group ceased to exercise control over IGSS.

Acquisition of SIAM

In September 2011, the Group completed the acquisition of a 100% interest in SIAM for a consideration of RR2.1 billion, equivalent to US$65.7 million as of the completion date of September 30, 2011. The consideration was fully paid in cash in September 2011. SIAM and its subsidiaries perform hydrodynamic testing of wells, including equipment manufacturing and are included in the Group’s Technology Services segment.

Divestiture of equipment manufacturing assets

In August 2010 the Group sold its 100% interest in URBO. In December 2010, the Group decided to dispose of Stromneftemash and Tyumen Shipbuilding Plant ("TSP"), manufacturers of cementing units and other oilfield equipment. All these entities were part of the Equipment Manufacturing segment. The Group recognized Stromneftemash's and TSP's assets and liabilities as held-for-sale as of December 31, 2010. Stromneftemash and TSP represented a discontinued operation of the cementing units and other oilfield equipment that was a separate business line and cash generating unit. The Group sold Stromneftemash in April 2011 and TSP in August 2011 for US$21.8 million and US$26.8 million, respectively.

GDR buy-back program completion

In May 2011, the Group completed its global depository receipts (GDR) buy-back program under which it had repurchased 7,260,040 GDR for a total of US$25.3 million including transaction costs of US$0.3 million. In July 2011, the Group converted the repurchased 7,260,040 GDRs into 363,002 Class A Integra common shares and simultaneously cancelled them.

Certain Factors Affecting our Financial Position and Operating Results

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, and internal measures we undertake in response to and ahead of changes in the operating and market environment. The biggest factors affecting our operating results in 2011 were change in the volumes and mix of our products and services, higher unified social taxes, cost inflation of some materials, fuel and third-party services used in our operations and manufacturing, limited price increases for our products and services, capital optimization measures, and acquisitions of operating entities.

OFS Market Conditions

Since the beginning of 2010 oilfield services market conditions have been gradually improving due to positive oil prices and changes in upstream and corporate taxation introduced in 2009. However, despite the gradual industry recovery, the low prices established at the start of the global economic downturn have still not been reversed in 2011. The OFS industry cost base is gradually increasing due to higher employee (social) and fuel costs with only limited pricing power to compensate for this, resulting in a profit squeeze for most industry players.

Drilling and well construction activities are back at pre-crisis levels, as improved hydrocarbon prices have primarily resulted in higher demand for exploration and development. With further market stabilization in 2012, drilling services will continue to see the highest increase in demand, with associated well construction and technology services demonstrating a similar recovery in the volume of operations.

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 2011, in particular stronger ruble and low domestic inflation, significantly influenced our financial position and results of operations. In addition, trends in the Urals oil price substantially influenced the capital and operating expenditure programs of our customers in the oil sector. We believe macroeconomic factors have been a principal driver of the increase 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,				
	2007	**2008**	**2009**	**2010**	**2011**
GDP Growth	8.1%	5.6%	(7.9%)	4.3%	4.3%
Consumer price index	11.9%	13.3%	8.8%	8.8%	6.1%
Industrial production index	6.3%	2.1%	(10.8)%	8.2%	4.7%
Unemployment rate	6.1%	6.3%	8.4%	7.5%	6.6%
Average Exchange Rate (RR/US$)	25.58	24.85	31.72	30.37	29.33
Average Exchange Rate (RR/EUR)	35.02	36.43	44.14	40.30	40.88
Urals oil price Med (US$/bbl)	69.68	95.22	61.80	78.20	109.3

Sources: Ministry of Economic Development of Russian Federation.

Changes in the exchange rate of the Russian ruble to the US dollar significantly influence our reported revenues and operating costs, as the Russian ruble is our main operating currency while our reporting currency is the US dollar. In 2011, we experienced a 7.9% increase in revenues and a 12.8% increase in costs of sales, reported in US dollars in our financial reports, compared to 2010; a considerable stronger ruble against the US dollar accounted for a 3.5% and a 3.6% increase in our revenues and cost of sales, respectively.

Global Economic Conditions

The global economy grew in 2010, with most major economies showing positive growth due to a turnaround in manufacturing and a relative recovery in the financial markets and banking, with lending volumes on the up. However, the global economy in 2011 suffered a relative downturn, due to concerns over debt sustainability, persistent fiscal and financial sector imbalances and political risks. Growth in most emerging and developing economies was relatively stable, but their future growth is likely to be below the pace achieved in 2010 and 2011.

Nevertheless, global oil markets are in a period of increased scarcity, as falling demand for oil in developed markets is being offset by strong demand from emerging markets and developing countries. Although improvements in financial system robustness have been insufficient and the unstable behaviour of the main macro-indicators as well as the slow rate of the recovery of the investment sector impose a number of limitations on Russia’s short and medium-term economic development, we note that analysts predict recovery in the Russian drilling and oilfield service markets and forecast rapid growth of drilling, workover and seismic acquisition services by 2014. In addition to the ongoing drilling and maintenance activity in mature producing regions, the exploration and development of new prospective Russian frontier regions will continue.

Seasonality

Our sales from drilling and workover services tend to be lower in the first and fourth quarter 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 that 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 share of total work performed in the low season (the first and fourth quarter) was 46% for the year of 2011 compared to 44% for 2010.

In the Technology Services segment without SIAM consolidated from the fourth quarter of 2011, revenue generation peaks in the second and third quarters. In the first quarter, our revenues tend to be lower due to mobilization activities and preparation for the new season. The share of work performed in the low season (the first and fourth quarters) was 41% in 2011, compared to 43% in 2010.

Changes in the Mix of Services and Products

Our operating results 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 drilling services alone in January 2005 to a wide range of onshore oilfield services for the exploration, development and production of oil and gas and drilling tools manufacturing. In 2008 and 2009, in line with our strategy, we added and expanded various new value-adding services, such as coiled tubing, directional drilling, cementing and seismic data interpretation and processing, to our portfolio of services and products. In 2010 we finished exiting the heavy equipment manufacturing business in line with our strategy to refocus on higher margin oilfield services.

From December 2011, we no longer offer seismic services following the merger of the seismic assets of Integra Group and Schlumberger with Geotech Holding.

In September 2011, the Group completed the acquisition of a 100% interest in SIAM, which performs hydrodynamic testing of wells, including equipment manufacturing. The company's well testing products and services complement Integra's existing portfolio of technology services. Together with Integra's well logging services (Geophyzservice) they create a synergy by strengthening the Group's geographical presence and Customer access. Engineering and field development planning is another service that SIAM adds to Integra's portfolio.

Contracting

Current contracting practices in the Russian and CIS OFS markets 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 October and ends with contractual commitments being signed between December of the same year and March of the following year.

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

2012 Order Book

As of April 16, 2012, the Group had signed contracts worth US$476.0 million (RR14.9 billion) for services and equipment to be supplied to customers during 2012. 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$646.1 million (RR20.2 billion). The total order book is 17.9% higher in Russian ruble terms and 13.0% higher in US$ terms (at an exchange rate of 31.3 RR/US$) than the 2011 order book as at April 18, 2011 (at an exchange rate of 30.0 RR/US$), which was adjusted for the order book of discontinued operations (Stromneftemash, TSZ and IGSS).

The table below shows a breakdown of our 2012 order book by segment as of April 16, 2012, with Russian ruble values converted into US$ terms at a rate of 31.3 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	330.4	10.3	140.3	4.4	470.7	14.7
Technology Services	145.5	4.6	29.8	0.9	175.4	5.5
Total	476.0	14.9	170.1	5.3	646.1	20.2

[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 increasing, the outlook beyond our contracted order book remains driven by the macroeconomic environment. See also "Certain Factors Affecting our Financial Position and Results of Operations".

As of April 16, 2012, our 2012 order book shows the following dynamics in Russian ruble terms compared to the order book as at April 18, 2011:

- Drilling, Workover and IPM segment orders are up 16.4% due to increased demand for well construction services.
- Technology Services segment orders are up 22.1% due to inclusion of the order book of SIAM, which is partially offset by lower demand for drilling tools.

Results of Operations

In the year ended December 31, 2011, a continued improvement in demand resulted in an increase in our revenues, while industry-wide operating cost increases and certain one-time charges relating to our performance put pressure on the Group's Adjusted EBITDA and margins. Due to lower non-operating costs, particularly interest expenses, and recognition of a deferred tax gain, the Group recorded a net profit. Cash generated from operations was less than in the year ended December 31, 2010 due to lower earnings and higher outflow to working capital.

The table below summarizes our audited consolidated operating results for the year ended December 31, 2011 and 2010[1], respectively:

	Year Ended December 31, 2011 (audited)	Year Ended December 31, 2010 (audited)
	(in thousands of US dollars)	
Continuing operations		
Sales	615,773	570,690
Cost of sales	(504,978)	(447,612)
Impairment of property, plant and equipment	(1,207)	(4,438)
Gross profit	**109,588**	**118,640**
Selling, general and administrative expenses	(98,167)	(100,312)
Loss from disposal of property, plant and equipment and intangible assets	(1,890)	(1,718)
Operating profit	**9,531**	**16,610**
Operating profit margin, %	*1.5%*	*2.9%*
Finance expense (net of finance income)	(20,504)	(32,281)
Exchange gain	919	4,107
Share of results of associates	(891)	1,512
Loss before income tax	**(10,945)**	**(10,052)**
Income tax benefit (expense)	18,892	(15,046)
Profit (loss) for the period from continuing operations	**7,947**	**(25,098)**
Discontinued operations		
Profit (loss) from discontinued operations	37,611	(17,595)
Profit (loss) for the period	**45,558**	**(42,693)**
Other comprehensive income (loss)		
Effect from foreign exchange hedge	-	(1,816)
Exchange gain (loss) from translation to presentation currency	(24,744)	(4,816)
Total comprehensive profit (loss) for the period	**20,814**	**(49,325)**
Comprehensive gain (loss) attributable to:		
Shareholders of Integra Group of continuing operations	**(12,741)**	**(31,430)**
Shareholders of Integra Group of discontinued operations	**40,943**	**(14,337)**
Non-controlling interest of continuing operations	(245)	448
Non-controlling interest of discontinued operations	(7,143)	(4,006)

[1] The continuing operations exclude the results of ZAO URBO, OOO Stromneftemash and CJSC Tyumen Shipbuilding Plant and entities previously included in the Formation Evaluation Segment. These entities are included in Profit (loss) from discontinued operations. See "Results of Operations—Profit (loss) from discontinued operations" for further details.

The table below shows the reconciliation of operating profit (loss) to the adjusted EBITDA for the year ended December 31, 2011 and 2010, respectively:

	Year Ended December 31, 2011 (audited)	Year Ended December 31, 2010 (audited)
	(in thousands of US dollars)	
Operating profit (loss)	9,531	16,610
Share of results in associates	(891)	1,512
EBIT	**8,640**	**18,122**
Depreciation of property, plant and equipment	58,065	52,732
Amortization of intangible assets	872	3,874
Impairment of property, plant and equipment	1,207	4,438
Loss from disposal of property, plant and equipment and intangible assets	1,890	1,718
SIAM acquisition transaction costs	530	-
Loss on restructuring	-	228
Share-based compensation	6,135	12,975
Share of results in associates	891	(1,512)
Adjusted EBITDA from continuing operations[1]	**78,230**	**92,575**
Adjusted EBITDA from continuing operations margin, %	*12.7%*	*16.2%*
Adjusted EBITDA from discontinued operations	***33,843***	***40,290***

The Year Ended December 31, 2011, Compared to the Year Ended December 31, 2010

Sales

Our consolidated sales were US$615.8 million for the year ended December 31, 2011, up US$45.1 million from US$570.7 million for the year ended December 31, 2010. Our revenues increased by 7.9%, of which an increase of 3.5% was due to the stronger ruble and 4.4% was due to business factors, such as an increase in the volume of operations across both of our business segments due to higher exploration and development spending by our key customers, a result of the continuing increase in oil prices and due to the consolidation of SIAM in the fourth quarter of 2011. Overall, the pricing factor had a neutral effect on consolidated sales.

[1] Adjusted EBITDA is calculated as profit (loss) from continuing operations before finance income (expense), exchange gains (losses), current and deferred income taxes, depreciation and amortization, impairment, write-off or disposal of property, plant and equipment or intangible assets, gains (losses) on acquisition and disposal of any interest in the Group’s subsidiaries or associates, impairment of goodwill, share of results in associates, share-based compensation and profit (loss) attributable to non-controlling interest.

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 year ended December 31, 2011 and 2010:

	Year Ended December 31, 2011 (audited)		Year Ended December 31, 2010 (audited)	
	US$000'	*% of total*	US$000'	*% of total*
Services and other expenses	224,552	*44%*	190,616	*43%*
Employee costs (including mandatory social contributions of US$27.4 million and US$19.6 million for the twelve months ended December 31, 2011 and 2010, respectively)	149,457	*30%*	131,719	*29%*
Materials and supplies	74,765	*15%*	71,615	*16%*
Depreciation and amortization	56,204	*11%*	53,662	*12%*
Total cost of sales	**504,978**	***100%***	**447,612**	***100%***

Our cost of sales was US$505.0 million for the year ended December 31, 2011, up by US$57.4 million, or 12.8%, from US$447.6 million for the year ended December 31, 2010. Of this, an increase of 3.6% was due to the fluctuation in the value of the Russian ruble, and 9.2% due to business factors, such as (i) the consolidation of SIAM, (ii) an increase in the volume of operations, (iii) a significant increase in mandatory social contributions due to changes in the social tax rate, (iv) higher prices for services procured from third parties (particularly transportation), (v) higher fuel and energy prices, and (vi) the utilisation of leased equipment on certain projects.

Services and other expenses

Our services and other expenses costs increased by 17.8% in the year ended December 31, 2011 compared to the same period of 2010, of which an increase of 3.8% was due to the strengthening of the Russian ruble and 14.0% was due to an overall increase in the volume of our operations and resulting requirements for subcontracting, outsourcing, and equipment rental, as well as higher transportation and mobilization costs due to rising fuel prices.

Services contracted from third parties and other expenses made up 44% and 43% of our total cost of sales for the year ended December 31, 2011 and 2010, respectively.

Employee costs

Our employee costs increased by 13.5% in the year ended December 31, 2011 compared to the same period of 2010, of which an increase of 3.7% was due to the strengthening of the Russian ruble, 5.2% was due to higher social costs and 4.6% was due to a headcount increase following the consolidation of SIAM in the fourth quarter of 2011 and in drilling in connection with the increased number of active rigs.

Employee costs include our compulsory social payments in support of the state pension fund, state social insurance fund and state medical fund. This figure amounted to US$27.4 million for the year ended December 31, 2011 and US$19.6 million for the year ended December 31, 2010. Contributions are payable according to a regressive sliding scale up to a maximum of 34% depending on the level of the salaries, wages and benefits of our employees in the Russian Federation.

Employee costs made up 30% and 29% of our total cost of sales for the year ended December 31, 2011 and 2010, respectively.

Materials and supplies

Our materials and supplies costs increased by 4.4% in the year ended December 31, 2011, compared to the same period of 2010. Of this, an increase of 3.4% was due to the strengthening of the Russian ruble, and 1.0% was due to an increase in the cost of metal in Drilling Tools Manufacturing which was partially offset by lower volumes of metal required.

Material and supplies costs made up 15% and 16% of our total cost of sales for the year ended December 31, 2011 and 2010, respectively.

Depreciation and amortization

Our depreciation of property, plant and equipment ("depreciation") and amortization of intangible assets ("amortization") in cost of sales increased by 4.7%. Of this, a 3.4% increase was primarily due to the strengthening of the Russian ruble, and a 1.3% increase was primarily due to the acquisition of SIAM.

Depreciation and amortization made up 11% and 12% of our total cost of sales for the years ended December 31, 2011 and 2010, respectively.

Impairment of property, plant and equipment

Impairment of property, plant and equipment totalled US$1.2 million for the year ended December 31, 2011, compared to US$4.4 million total impairment for the year ended December 31, 2010. The impairment accrued in 2011 mainly relates to certain obsolete production property, plant and equipment held by the Group as of the reporting dates.

Selling, general and administrative expenses

A significant portion of our total selling, general and administrative ("SG&A") expenses is incurred by the corporate function, including 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 required.

For the year ended December 31, 2011, our SG&A expenses were US$98.2 million, down by 2.1% from US$100.3 million for the year ended December 31, 2010. Of this an increasing effect of 3.2% was due to the strengthening of the Russian ruble, and a decreasing effect of 5.3% was due to lower costs. SG&A expenses equalled 15.9% of revenues in the year ended December 31, 2011, compared to 17.6% in the year ended December 31, 2010.

The table below provides a breakdown of SG&A expenses for the year ended December 31, 2011, and 2010:

	Year Ended December 31, 2011 (audited)		**Year Ended December 31, 2010 (audited)**	
	US$000'	***% of total***	**US$000'**	***% of total***
Employee costs (including mandatory social contributions of US$5.1 million and US$4.0 million for the twelve months ended December 31, 2011 and 2010, respectively)	46,958	48%	46,690	47%
Services	27,230	28%	32,156	32%
Share-based compensation expense	6,135	6%	12,975	13%
Taxes, other than income tax	4,189	4%	3,504	3%
Depreciation and amortization	2,733	3%	2,944	3%
Receivables impairment, bad debt expense and other write-offs	4,320	4%	(1,081)	-1%
Transportation expenses	1,749	2%	2,132	2%
Inventories impairment and obsolete stock write-offs and income from inventory disposals	(370)	0%	456	0%
Other	5,223	5%	536	1%
Total selling, general and administrative expenses	**98,167**	100%	**100,312**	100%

Total SG&A costs decreased by 2.1%, due to (i) a 52.7% decrease in the share-based compensation expense primarily due to a reduction in the number of unvested stock options and Restricted Stock Units (RSUs), (ii) a 15.3% decrease in the services was due to higher utilisation of in-house capacities and expertise, (iii) a more than 1.8 times decrease in the inventories impairment and obsolete stock write-offs, a (iv) 7.2% decrease in the depreciation and amortization relating to corporate headquarters. These decreases were partially offset by (v) an almost 5.0 times increase in the receivables impairment, bad debt and other write-offs was mainly due to unique and non-recurring nature of such provisions, (vi) a more than 8.7 times increase in other SG&A expenses of one-time nature (fines, penalties and litigation expenses), (vii) a 19.5% increase in the taxes, other than income taxes was due to higher property tax payments, (viii) a 0.6% increase in employee costs, and (ix) strengthening of Russian ruble had an overall offsetting effect on the decrease in reporting currency.

Loss from disposal of property, plant and equipment

The loss on asset disposals of US$1.9 million and US$1.7 million for the years ended December 31, 2011 and 2010, respectively, reflects the effects of unamortized amounts on the disposal exceeding the scrap value of the unused assets disposed.

Operating Profit and Operating Profit Margin

We reported an operating profit of US$9.5 million for the year ended December 31, 2011 compared to US$16.6 million for the year ended December 31, 2010. The decrease in operating profit was due to (i) an increase in cost of sales, primarily employee costs (social taxes costs), rental expenses, energy/fuel and transportation expenses, (ii) lower profitability of drilling tools manufacturing triggered by lower pricing, and (iii) certain one-time costs such as receivables impairments, M&A related expenses, fines and penalties, which were partially offset by (iv) an increase in the volume of operations, (v) a decrease in corporate overheads, and (vi) lower impairment of PP&E.

For the year ended December 31, 2011, our operating profit margin was a positive 1.5% compared to a positive 2.9% for the year ended December 31, 2010.

Other Non-operating Expenses

Finance expense (net of finance income)

Finance 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, and finance charges in respect of finance leases recognized.

Finance expense (net of finance income) decreased by US$11.8 million, or 36.5%, to US$20.5 million for the year ended December 31, 2011, compared to US$32.3 million for the year ended December 31, 2010. This decrease resulted primarily from incurrence of one-off fees on prepayment of the EBRD syndicated loan in the amount of US$2.1 million in 2010 and a general reduction in the borrowing rates.

Exchange gain (loss)

We incur foreign exchange differences primarily on US dollar-denominated monetary items (including borrowings) in entities whose functional currency is the Russian ruble. Transactions denominated in US dollars and other foreign currencies are translated into rubles, using the exchange rate as at the date of the transaction and the carrying values of monetary items are re-translated based on the exchange rate at the reporting date, with the difference being brought to our profit and loss component of the audited consolidated statement of comprehensive income. We do not incur exchange gains/losses on US dollar-denominated items at the Integra Group level as its functional currency is the US dollar.

We recognized net foreign exchange gain of US$0.9 million during the year ended December 31, 2011, compared to a net foreign exchange gain of US$4.1 million during the year ended December 31, 2010, primarily as a result of the change in the exchange rates applied to the borrowings net of cash (both denominated in US dollars) and other US dollar-denominated settlements outstanding in 2010.

Share of results of associates

We hold interests in OAO Nizhnevartovskneftegeophyzika, ZAO Neftegeotechnology, OOO Research Center Gazinformplast and OOO Siam Nefteservice. Their operating results are reported in our financial statements using the equity method.

Our share of results in our associates, net of income tax, decreased to negative US$0.9 million for the year ended December 31, 2011, from positive US$1.5 million for the year ended December 31, 2010.

Income Tax

In the year ended December 31, 2011 we reported a total income tax benefit of US$18.9 million primarily after one-off recognition of deferred tax asset in Integra Drilling because the utilisation of Integra Drilling's accumulated tax loss became probable against the future profits generated by Integra Drilling following the merger of our integrated project management business into it. In the year ended December 31, 2010, the Group recognized an income tax expense of US$15.0 million.

Overall, our effective tax rate excluding the effect of the one-off deferred tax asset recognition described above was significantly higher than the Russian corporate tax rate of 20% in the year ended December 31, 2011, because Russian law does not allow the consolidation of losses and profits in different subsidiaries, and specifies that certain expenses and charges are not tax-deductible.

Profit (Loss) from Continuing Operations

As a result of the foregoing factors, our profit from continuing operations increased by US$33.0 million, to US$7.9 million for the year ended December 31, 2011, from a loss of US$25.1 million for the year ended December 31, 2010.

Discontinued Operations and Assets Held for Distribution

Following a strategic review of the Group's asset portfolio in 2010-2011, operations under Formation Evaluation and Equipment Manufacturing segments were discontinued. In 2010, the Group made a profit of US$2.4 million on the disposal of its major manufacturing business and also incurred losses of US$20.0 million from the remaining manufacturing and seismic businesses disposed of in 2011 resulting in an overall gain of US$37.6 million in 2011.

Cessation of control in IGSS. In December 2011, the Group completed a transaction whereby Integra and SOHL jointly and GOSH combined their seismic businesses by bringing Geotech Holding under IGSS (the "combined seismic entity"). GOSH acquired a 52.0% interest in the combined seismic entity and contributed its seismic business into IGSS by transferring Geotech Holding and its subsidiaries, and Integra and SOHL retained 36.0% and 12.0% interest in the combined seismic entity, respectively. As of the transaction completion date the Group ceased to exercise control in IGSS resulting in a US$36.2 million gain recognized in the Group's statement of comprehensive income. Subsequent to the transaction completion date the Group exercises significant influence in the combined seismic entity and has recognized the remaining 36.0 % interest as an asset held for distribution to Integra's shareholders.

Other disposals. In August 2010 the Group sold its 100% interest in URBO. In December 2010, the Group decided to dispose of Stromneftemash and Tyumen Shipbuilding Plant ("TSP"), manufacturers of cementing units and other oilfield equipment. The Group completed the sale of Stromneftemash in April 2011 and TSP in August 2011 for US$21.8 million and US$26.8 million, respectively. All these entities were part of the Equipment Manufacturing segment.

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

	Stromneftemash	**TSP**	**IGSS**	**Total**
Cash and cash equivalents	584	823	5,010	6,417
Trade and other receivables	10,393	22	98,904	109,319
Inventories	10,037	602	23,250	33,889
Property, plant and equipment	11,803	13,851	129,118	154,772
Intangible assets	107	15	7,877	7,999
Goodwill	-	-	34,546	34,546
Other non-current assets	3	189	2,162	2,354
Total assets	**32,927**	**15,502**	**300,867**	**349,296**
Accounts payable and accrued liabilities	8,910	13	38,473	47,396
Taxes payable	2,925	-	15,357	18,282
Borrowings	-	-	31,366	31,366
Deferred tax liability	8	-	1,995	2,003
Total liabilities	**11,843**	**13**	**87,191**	**99,047**
Net assets	**21,084**	**15,489**	**213,676**	**250,249**

Additional information on discontinued operations may be found in our Audited Consolidated Financial Statements for the year ended December 31, 2011.

Profit (Loss) for the period

As a result of the foregoing factors, our net profit (loss) for the year ended December 31, 2011, was US$45.6 million, up US$88.3 million, from negative US$42.7 million for the year ended December 31, 2010.

Other comprehensive loss

The US$18.1 million increase in other comprehensive loss in 2011 to US$24.7 million loss from US$6.6 million loss primarily relates to the translation of the Group's assets and liabilities from functional to presentation currencies due to depreciation of the exchange rate of the Russian ruble to the US dollar.

Depreciation and Amortization

Our depreciation expenses from continuing operations (including those recorded under cost of sales and SG&A) for the year ended December 31, 2011, were US$58.1 million, up US$5.4 million, or 10.2%, from US$52.7 million for the year ended December 31, 2010. Of this, an increase of 3.4% was due to the strengthening of the Russian ruble, and an increase of 6.8% was primarily due to the increased investment by the Group in its property, plant and equipment mentioned in the "Cost of sales" section above.

Our amortization for the year ended December 31, 2011, was US$0.9 million, down US$3.0 million, or 76.9%, from US$3.9 million for the year ended December 31, 2010. This decrease was primarily due to completion of amortization of long-term customer / supplier relationships and certain other intangible assets in 2010.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA is calculated as profit (loss) from continuing operations before finance income (expense), exchange gains (losses), current and deferred income taxes, depreciation and amortization, impairment, write-off or disposal of property, plant and equipment or intangible assets, gains (losses) on acquisition and disposal of any interest in the Group's subsidiaries or associates, impairment of goodwill, share of results in associates, share-based compensation and profit (loss) attributable to non-controlling interest.

Adjusted EBITDA for the year ended December 31, 2011, was US$78.2 million, down 15.6%, from US$92.6 million for the year ended December 31, 2010. This resulted from (i) an increase in cost of sales, primarily employee costs (social tax costs), rental expenses, energy/fuel and transportation expenses, (ii) lower profitability of drilling tool manufacturing triggered by lower pricing, and (iii) certain one-time costs such as receivables impairments, fines and penalties, which were partially offset by (iv) an increase in the volume of operations, and (v) a decrease in corporate overheads.

Our Adjusted EBITDA margin decreased to 12.7% for the year ended December 31, 2011, from 16.2% for the year ended December 31, 2010, reflecting a higher proportional increase in cost of sales than in sales primarily due to a lack of a significant pricing power.

Adjusted EBITDA from discontinued operations for the year ended December 31, 2011, was US$33.8 million and US$40.3 million for the year ended December 31, 2010.

Segment Results

The table below provides selected information about our results by segment for the year ended December 31, 2011 and 2010.

	Year Ended December 31, 2011	**Year Ended December 31, 2010**
	(audited)	**(audited)**
	(in thousands of US dollars)	
Drilling, Workover and IPM		
Continuing operations		
Sales	**409,524**	**384,565**
Cost of sales	(356,192)	(324,018)
Impairment of property, plant and equipment	(876)	(1095)
Gross profit	**52,456**	**59,452**
Selling, general and administrative expenses	(35,183)	(28,566)
Loss (gain) from disposal of property, plant and equipment and Intangible assets	(626)	336

Operating profit	**16,647**	**31,222**
Operating profit margin, %	*4.1%*	*8.1%*
Corporate overheads directly allocated to segments	(3,976)	(4,186)
EBIT	**12,671**	**27,036**
Adjusted EBITDA	**51,453**	**63,725**
Adjusted EBITDA margin, %	*12.6%*	*16.6%*
Technology services		
Continuing operations		
Sales	**213,528**	**190,926**
Cost of sales	(156,436)	(128,854)
Impairment of property, plant and equipment	(331)	(3,375)
Gross profit	**56,761**	**58,697**
Selling, general and administrative expenses	(16,947)	(16,024)
Loss from disposal of property, plant and equipment and Intangible assets	(1,239)	(150)
Operating profit	**38,575**	**42,523**
Operating profit margin, %	*18.1%*	*22.3%*
Corporate overheads directly allocated to segments	(3,410)	(3,209)
Share of results of associates	(891)	1,512
EBIT	**34,274**	**40,826**
Adjusted EBITDA	**56,990**	**61,776**
Adjusted EBITDA margin, %	*26.7%*	*32.4%*

Discontinued operations (Formation Evaluation and Equipment Manufacturing)		
Discontinued operations	**37,611**	**(17,595)**
Adjusted EBITDA	**33,843**	**40,290**

Corporate		
Sales	**-**	**-**
Cost of sales	-	-
Gross profit	**-**	**-**
Selling, general and administrative expenses	(46,010)	(54,007)
Gain (loss) from disposal of property, plant and equipment and Intangible assets	160	(1,809)
Operating loss	**(45,850)**	**(55,816)**
Corporate overheads directly allocated to segments	7,386	7,395
EBIT	**(38,464)**	**(48,421)**
Adjusted EBITDA	**(30,565)**	**(31,678)**

Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Drilling, Workover and IPM

Sales

Drilling, Workover and IPM sales made up 64.9% of our total sales (before inter-segment eliminations) for the year ended December 31, 2011, compared to 66.2% for the year ended December 31, 2010. Sales in this segment increased by US$24.9 million, or 6.5%, to US$409.5 million for the year ended December 30, 2011 from US$384.6 million for the year ended December 31, 2010. Of this, an increase of 3.4% was due to the strengthening of the Russian ruble and 3.1% was primarily due to the higher revenue from drilling related services being offset by lower revenue from Workover services. Between the types of drilling related services there was a relative increase in revenues from drilling and IPM turnkey services compared to drilling services on a day rate basis.

Cost of sales

Cost of sales for Drilling, Workover and IPM grew by US$32.2 million, or 9.9%, to US$356.2 million for the year ended December 31, 2011, from US$324.0 million for the year ended December 31, 2010. Key cost components and their share in this segment's cost of sales for the year ended December 31, 2011, were as follows: services procured from third parties: 53.4%; employee costs: 26.9%; depreciation and amortization: 10.2%; and materials: 9.4%. The increase in the segment's cost of sales was higher than the increase in segment's revenues. An increase of 3.5% in cost of sales was due to the strengthening of the Russian ruble, and 6.4% due to: (i) a proportional increase in variable costs, (ii) a significant increase in mandatory social contributions due to change in the social tax rate, (iii) utilisation of leased equipment on certain projects, and (iv) an increase in fuel and energy prices and transportation costs.

Operating profit and operating profit margin

For the year ended December 31, 2011, operating profit in Drilling, Workover and IPM fell by US$14.6 million, or 46.8%, to US$16.6 million from US$31.2 million for the year ended December 31, 2010. This decrease was due to: (i) higher revenue being offset by an increase in segment's cost of sales, as described above (ii) one-time receivables impairments and write-offs, (iii) one-time penalties, and fines relating to untimely delivery of services.

The operating profit margin in this segment decreased to 4.1% for the year ended December 31, 2011 from 8.1% for year ended December 31, 2010.

Adjusted EBITDA and Adjusted EBITDA margin

For the year ended December 31, 2011, Adjusted EBITDA in the Drilling, Workover and IPM segment decreased by 19.2% to US$51.5 million compared to US$63.7 million for the year ended December, 2010. The decrease in Adjusted EBITDA was due to higher revenue being offset by higher cost of sales, primarily employee costs/social costs, rental expenses, energy/fuel and transportation expenses and also certain one-time costs such as receivables impairments, fines and penalties.

For the year ended December 31, 2011, our Adjusted EBITDA margin in Drilling, Workover and IPM decreased to 12.6% from 16.6% for the year ended December 31, 2010.

Technology Services

Sales

Technology Services sales made up 33.8% of our total sales (before inter-segment eliminations) for the year ended December 31, 2011, compared to 32.8% for the year ended December 31, 2010. Sales in this segment increased by US$22.6 million, or 11.8%, to US$213.5 million for the year ended December 30, 2011 from US$190.9 million for the year ended December 31, 2010. Of this, an increase of 9.4% was due to the consolidation of SIAM, 3.6% was due to the strengthening of the Russian ruble, and a decrease of 1.2% was primarily due to offsetting revenue dynamics in core technology services. Higher revenues from cementing, coiled tubing, and directional drilling services were entirely offset by a decrease in drilling tool revenues due to lower pricing for downhole motors and lower demand for turbodrills. Well logging services were affected by lower demand.

Cost of sales

Cost of sales for Technology Services rose by US$27.5 million, or 21.3%, to US$156.4 million for the year ended December 31, 2011, from US$128.9 million for the year ended December 31, 2010. The key cost components and their share in this segment's cost of sales for the year ended December 31, 2011 were as follows: employee costs: 34.8%; materials: 26.5%; services procured from third parties: 25.5%; depreciation and amortization: 12.7%. Of the 21.3% increase, 17.4% was primarily driven by (i) the consolidation of SIAM, (ii) higher materials costs in Drilling Tools and Coiled Tubing, (ii) higher labour costs proportionally to increased capacity in certain services and due to a higher social tax, (iii) higher fuel and energy prices, and (iv) higher transportation costs due to additional mobilization expenses in remote projects caused by the early spring thaw. An increase of 3.9% in cost of sales was due to the strengthening of the Russian ruble.

Operating profit and operating profit margin

For the year ended December 31, 2011, operating profit in Technology Services fell by US$3.9 million, or 9.2%, to US$38.6 million from US$42.5 million for the year ended December 31, 2010. This decrease was due to higher revenues being more than offset by an increase in cost of sales, primarily energy, fuel and employee costs/social costs and lower pricing in Drilling Tools.

The operating profit margin in this segment decreased to 18.1% for the year ended December 31, 2011 from 22.3% for year ended December 31, 2010.

Adjusted EBITDA and Adjusted EBITDA margin

For the year ended December 31, 2011, Adjusted EBITDA in the Technology Services segment decreased by 7.8% to US$57.0 million compared to US$61.8 million for the year ended December, 2010. The decrease in Adjusted EBITDA was due to higher revenues being more than offset by an increase in cost of sales, primarily energy, fuel, transportation and employee costs/social costs and lower pricing in Drilling Tools.

For the year ended December 31, 2011, our Adjusted EBITDA margin in Technology Services decreased to 26.7% from 32.4% for the year ended December 31, 2010.

Liquidity and Capital Resources

Cash Flows

The table below shows our net cash flows from operating, investing and financing activities for the year ended December 31, 2011 and 2010:

	Year Ended December 31, 2011 (audited)	**Year Ended December 31, 2010 (audited)**
	(in thousands of US dollars)	
Operating cash flows before working capital changes, interest and income taxes	111,424	123,001
Net change in working capital	(54,138)	(21,709)
Income tax and finance expense paid	(32,547)	(48,414)
Net cash provided by operating activities	24,739	52,878
Net cash used in investing activities	(112,079)	(24,543)
Net cash provided by (used in) financing activities	49,535	(11,620)
Cash and cash equivalents at the beginning of the period	54,841	37,272
Effect of exchange differences on cash balances	(3,245)	854
Cash and cash equivalents at the end of the period	**13,791**	**54,841**

Operating activities

Net cash provided by operating activities declined by US$28.1 million to US$24.7 million in the year ended December 31, 2011, from US$52.9 million for the same period of 2010. Free cash flow (defined as net cash provided by operating activities, less purchases of property, plant and equipment and intangible assets) was negative US$58.5 million in 2011, compared to positive US$0.3 million for in 2010. The decline in free cash flow was triggered by cash outflow to working capital and higher capital expenditures, which was partially offset by lower finance expenses paid.

We define working capital as current assets less current liabilities, excluding cash and cash equivalents and short-term debt and assets and liabilities of the disposal group classified as held-for-sale. As of December 31, 2011, we had positive working capital of US$97.9 million, representing a decrease of US$26.8 million from our positive working capital figure of US$124.7 million as of December 31, 2010, including US$64.1 million in positive working capital of Formation Evaluation operations (deconsolidated in 2011). Working capital of continuing operations has increased by US$37.3 million or 61.6%, of which 7.0% was due to the consolidation of SIAM in the fourth quarter of 2011, 39.8% to a stock increase in line with the increased number of turn-key remote projects in drilling, cementing and coil tubing and 14.8% to increased accounts receivable in drilling and IPM – a result of a delay in meeting turnkey project payment milestones owing to a shift in the client's production program, as well as of delayed advance payments for subsequent stages – partially offset by increased accounts payable. The additional effect on increased accounts receivable in Drilling and IPM is due to a higher share of turn-key contracts compared to day rate contracts, which has led to an increase in the amount of recognized but not yet billed revenues.

Investing activities

Net cash used in investing activities was US$112.1 million and US$24.5 million for the year ended December 31, 2011 and 2010, respectively.

Our capital expenditures, representing purchase of property, plant and equipment and intangible assets during the year ended December 31, 2011 and 2010 amounted to the following:

	Year Ended December 31, 2011	**Year Ended December 31, 2010**
	(audited)	**(audited)**
	(in millions of US dollars)	
Additions to property, plant and equipment of continuing operations	60.2	50.7
Additions to intangible assets of continuing operations	2.6	1.4
Additions to non-current assets of continuing operations	62.8	52.1
Additions to non-current assets of discontinued operations	33.9	16.2
Additions to intangible assets of continuing operations	(2.6)	(1.4)
Net change in accounts receivable and payable for purchases of property, plant and equipment	(10.9)	(14.3)
Cash paid for purchase of property, plant and equipment	**83.2**	**52.6**

Our business is capital intensive and we have to regularly upgrade our manufacturing facilities and to maintain, replace and add to equipment portfolio.

Of the total US$62.8 million of additions to non-current assets in the year ended December 31, 2011:

- US$32.4 million, or 51.6%, related to Drilling, Workover and IPM, of which 38.9% was sustaining capital expenditure and 12.7% was invested in development projects.
- US$28.4 million, or 45.2%, related to Technology Services (without SIAM consolidated from the fourth quarter of 2011), of which 30.3% was invested in production capacity increase and business development and 14.9% was spent on sustaining projects including 5.7% of own construction of down hole motors for renting.
- US$1.9 million, or 3.0%, related to our corporate offices.

During the year ended December 31, 2011 we received US$14.4 million from the disposal of Stromneftemash, US$26.0 million from the disposal of TSP, and US$4.5 million from the disposal of other property, plant and equipment. Proceeds from loan repayments amounted to US$3.0 million.

Financing activities

Net cash (used in) generated from financing activities amounted to a positive US$49.5 million compared to negative net cash of US$11.6 million provided for the year ended December 31, 2011 and 2010, respectively. In 2011, we raised US$310.9 million in new bank borrowings and repaid outstanding borrowings of US$251.7 million.

For the year ended December 31, 2011, net cash proceeds from the disposal of a non-controlling interest amounted to US$8.2 million.

In May 2011, the Group completed its global depository receipts (GDR) buy-back program. During the year ended December 31, 2011 the Group had repurchased its GDR for the total amount of US$19.1 million. In July 2011, the Group converted the repurchased 7,260,040 GDR into 363,002 Integra's Class A common shares and simultaneously cancelled them.

Borrowings

As of December 31, 2011, our total outstanding debt was US$195.4 million. We had cash and cash equivalents of US$13.8 million and our net debt was US$181.6 million. The table below shows our total outstanding debt, cash and cash equivalents and net debt for the periods indicated:

	December 31, 2011	**December 31, 2010**
	(audited)	**(audited)**
	(in millions of US dollars)	
Short-term debt	**0.1**	**35.4**
Long-term debt	**195.3**	**131.1**
(Less: Cash and cash equivalents)	13.8	54.8
Net debt	**181.6**	**111.7**

Recent Borrowings and Debt Repayments

Between December 31, 2010 and December 31, 2011, we entered into a number of financing agreements summarized below.

In April 2010, the Group entered into a renewable US dollar-denominated loan facility with VTB Bank (Germany), US$8.0 million was drawn in March 2011 and repaid in April 2011. In April 2011, the Group increased the maximum amount of the credit line from US$50.0 million to US$100.0 million and extended the facility's maturity from November 2012 to April 2016. At December 31, 2011 the loan balance was US$25.8 million net of the borrowing costs of US$0.2 million. The loan was fully repaid in April 2012.

In April 2010, the Group entered into a Russian ruble-denominated loan facility with Sberbank under which as of December 31, 2010 the remaining nominal repayable balance of the loan was RR1.32 billion (US$43.2 million equivalent as of December 31, 2010) and non-amortized borrowing costs were RR22.7 million (US$0.8 million equivalent as of December 31, 2010). The loan was fully prepaid in August 2011.

In July 2010, the Group entered into a Russian ruble-denominated loan facility with Alfa Bank under which the outstanding amount as of December 31, 2010 was RR2.2 billion (US$72.5 million equivalent at December 31, 2010). The loan was fully prepaid in August 2011.

In September 2010, the Group entered into one year revolving credit line with Unicreditbank for a total of RR450 million (US$14.0 million equivalent at December 31, 2011). In 2011 there were several drawdowns and repayments. In August 2011, the Group repaid in full and terminated an existing revolving credit line with Unicreditbank and entered into a new one for a total of RR500.0 million (US$15.5 million equivalent at December 31, 2011). Under this line there were several utilisations and several repayments and as of December 31, 2011 the outstanding balance was US$0.1 million.

In October 2010, the Group entered into a Russian ruble-denominated renewable loan facility with Sberbank for a maximum of RR600.0 million (US$19.7 million as of December 31, 2010) of which RR589.1 million (US$19.3 million equivalent as of December 31, 2010) was outstanding as of December 31, 2010. In 2011 there were several drawdowns and repayments. The loan pertained to IGSS and was derecognized within the net assets on the cessation of control in IGSS.

In August 2011, the Group entered into a seven year Russian ruble-denominated non-renewable loan facility with Sberbank for a maximum of RR6.0 billion (US$186.4 million equivalent as of December 31, 2011). The loan proceeds were partially used to fully prepay the aforementioned loan balances of RR2.2 billion and RR1.34 billion received from

Alfa Bank and Sberbank and RR1.95 billion was used for the acquisition of SIAM. As of December 31, 2011, the loan balance amounted to US$169.5 million, net of borrowing costs of US$1.5 million.

In October 2011, the Group repaid in full SIAM loans in the amount of RR72.8 million.

In November 2011, the Group repaid in full the remainder of 147,605 bonds with a total nominal value of RR147.6 million.

Overview of Borrowings

Our borrowings as of December 31, 2011 and December 31, 2010 are shown in the table below:

	December 31, 2011	December 31, 2010
	(audited)	(audited)
	(in thousands of US dollars)	
Unicreditbank	143	-
Add: Current portion of long-term borrowings	-	35,393
Total short-term borrowings and current portion of long-term borrowings	**143**	**35,393**
Sberbank	169,500	63,343
VTB Bank	25,774	25,633
Alfa bank	-	72,530
Bonds	-	4,843
Other	-	151
Subtotal	**195,274**	**166,500**
(Less: current portion of long-term borrowings)		(35,393)
Total long-term borrowings	**195,274**	**131,107**

Short-term ruble-denominated borrowings

Unicreditbank. In August 2011, the Group entered into a renewable credit line facility with Unicreditbank, which was limited to RR500.0 million as of December 31, 2011 (US$15.5 million equivalent at December 31, 2011). As of December 31, 2011 and 2010, the outstanding balances were US$0.1 million and nil, respectively. As of December 31, 2011, the loan bore a monthly payable floating interest equivalent to 9.0%.

The short-term borrowings include the current portion of long-term borrowings with total amounts of nil and US$35.4 million as of December 31, 2011 and 2010, respectively.

Long-term ruble-denominated borrowings

In August 2011, the Group entered into a Russian ruble-denominated non-renewable loan facility with Sberbank for a maximum of RR6.0 billion (US$186.4 million equivalent as of December 31, 2011). The loan bears a fixed annual interest rate of 9.95% payable quarterly with the principal payable in quarterly instalments from September 2015 to August 2018. The loan proceeds were partially used to fully prepay the loan balances of RR2.2 billion and RR1.34 billion received from Alfa bank and Sberbank, respectively, and RR1.95 billion was used for the acquisition of SIAM. As of December 31, 2011, the loan balance was US$169.5 million, net of borrowing costs of US$1.5 million. As of December 31, 2011, the Group had certain of its property, plant and equipment with a carrying value equivalent to US$ 5.2 million pledged as collateral to the loan.

Long-term US dollar-denominated borrowings

VTB Bank. In April 2010, the Group entered into a renewable US dollar-denominated loan facility with VTB Bank (Germany). In April 2011, the Group increased the maximum amount of the credit line from US$50.0 million to US$100.0 million and extended the facility's maturity from November 2012 to April 2016. On inception the loan bore a floating interest payable quarterly at a rate consisting of a 7.0% fixed margin above the variable LIBOR rate; in January 2011, the fixed margin was reduced to 5.75% and in April 2011 it was further reduced to 5.0%. The Group deemed these modifications to the initial loan terms insignificant and continued to amortize the unamortized borrowing costs incurred at inception through the remaining new life of the loan. At December 31, 2011 and 2010, the loan balances were US$25.8 million and US$25.6 million, respectively, net of borrowing costs of US$0.2 million and US$0.4 million, respectively.

Interest Rates

The average interest rates of our outstanding borrowings by currency at December 31, 2011, and at December 31, 2010, are outlined in the table below:

	December 31, 2011 (audited)		December 31, 2010 (audited)	
	Average interest rate	**Amount (in thousands of US dollars)**	**Average interest rate**	**Amount (in thousands of US dollars)**
Russian ruble-denominated borrowings due within one year	**9.0%**	**143**	**12.4%**	**35,393**
Russian ruble-denominated borrowings	9.95%	169,500	10.7%	105,474
US dollar-denominated borrowings	5.4%	25,774	7.3%	25,633
Total amounts due after more than one year	**9.3%**	**195,274**	**10.1%**	**131,107**
Total borrowings	**9.3%**	**195,417**	**10.6%**	**166,500**

Debt Maturity Schedule

Scheduled maturities of current financial liabilities outstanding at December 31, 2011, were as follows:

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

The scheduled maturities of long-term borrowings outstanding at December 31, 2011 and payments of interest arising after the reporting date, were as follows:

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

The scheduled maturities of long-term borrowings outstanding at December 31, 2010 and payments of interest arising after the reporting date, were as follows:

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

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

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

The Group only maintains accounts with reputable banks and financial institutions and therefore believes that it does not have a material credit risk in relation to its cash or cash equivalents. The Group focuses on servicing large independent and Russian state-owned oil and gas exploration and production customer groups that management considers creditworthy. The Group monitors and assesses regularly the likelihood of collection on a customer-by-customer basis in order to mitigate exposure to potential material losses from uncollected accounts.

The Group believes that its financial receivables that are neither past due nor impaired represent low exposure to credit risk and that its maximum exposure to credit risk is the carrying value of its financial assets recognized in the consolidated statement of financial position as of both December 31, 2011 and 2010.

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

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

In December 2011, the Group obtained a waiver from VTB Bank (Deutschland) AG in relation to the potential breach of certain debt covenants arising under a long-term loan. The Group expects to maintain the debt covenants after the waiver expires and continues to recognize the loan as long-term as of December 31, 2011.

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

	December 31,	
	2011	**2010**
Total amount of credit facilities available for withdrawal	301,888	84,452
Amounts withdrawn	(197,134)	(45,328)
Amount available for withdrawal	**104,754**	**39,124**

Interest rate risk. The Group is exposed to cash flow interest rate risk from its variable interest rate borrowings, which was not hedged as of December 31, 2011. The Group assesses interest rate risk by reference to market information on variance in floating interest rates (for both actual movements in the year prior to the reporting period and reasonably likely changes in the year thereafter).

Currency risk. The Group is exposed to currency exchange risk mainly from borrowings denominated in US dollars whereas the functional currency of most Group companies is the Russian ruble. The Group assesses the currency risk by reference to market information on variance in the exchange rate of the Russian rubles to the US dollar (for both actual movements in the reporting period and reasonably likely changes in the year thereafter).

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

The Group considers capital to be the sum of short-term and long-term borrowings and total equity. The Group currently monitors capital risk on the basis of a range of financial ratios relevant to the debt markets including, but not limited to, gearing ratio, referred to as total borrowings divided by capital. As of December 31, 2011 and 2010, the Group's gearing ratio was 32.2% and 26.6%, respectively. The Group considers that the long-term optimal gearing ratio lies between 35.0% and 40.0%. The current policy of the Group and its subsidiaries is not to pay dividends and its subsidiaries only pay dividends on their preferred shares. As of December 31, 2011 and 2010, neither the Group nor any of its subsidiaries were subject to externally imposed capital requirements.

Subsequent Events

Executive Management changes and appointments

Following the successful reorganization of the diversified oilfield services business, Mr. Antonio Campo stepped down and was replaced as Chief Executive Officer by Mr. Felix Lubashevsky, effective March 6, 2012. Mr. Robert Whalley, who joined Integra in mid-2011 from Schlumberger, was promoted to Chief Operating Officer effective March 6, 2012 and will continue to focus on day-to-day operations.

Elena Kim was promoted to Deputy Chief Financial Officer, effective from April 2, 2012. Ms. Kim previously worked in the company as Vice President for Reporting and Taxation since 2006. As Deputy Chief Financial Officer she is responsible for a broad range of functions including accounting & reporting, capital management, corporate finance, and investor relations and will replace Integra Group's current CFO Yuri Baidoukov, who plans to leave the Company in May 2012.

New debt borrowings and repayments

In February 2012, the Group entered into a new revolving credit line with Unicreditbank for a maximum of RR300 million. As of April 17, 2012 the outstanding balance was RR225.5 million.

Under Unicreditbank line for a maximum amount of RR500 million there were several drawdowns and repayments. As of April 17, 2012 the outstanding balance was RR454.8 million.

In April 2012, the Group drew down the remaining available amount under a seven year Russian ruble-denominated non-renewable loan facility from Sberbank. As of April 17, 2012 the outstanding balance was RR6.0 billion.

In April 2012, the Group repaid in full a loan from VTB (Germany) in the amount of US$26.0 million.

Directors' Responsibility Statement

The report and the attached Audited Consolidated Financial Statements, including the financial information contained herein, are the responsibility of, and have been approved by, the directors of Integra Group. The directors are responsible for ensuring that management prepares the Financial Report in accordance with the IFRS and the Listing Rules of the Financial Services Authority.