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, 2013 (the "Report"). It should be read in conjunction with our Audited Consolidated Financial Statements for the year ended December 31, 2013 and related notes. Financial information as of and for the year ended December 31, 2013 and 2012 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 nearly 7,900 employees. Our clients include major Russian and international private and state-owned oil and gas companies operating in Russia and other CIS countries. We also sell and rent out specialized tools and equipment to large Russian oil and gas companies.

Reflecting the products and services we offer, our business is organized into two segments:

- *Drilling and Workover*

Our drilling services include drilling of vertical, deviated and horizontal exploration and development wells ranging from 700 meters to in excess of 8,000 meters in depth as well 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.

We also provide drilling rig repair, maintenance and diagnostic services.

In 2013 we had on average 28 active drilling rigs and 77 workover crews in operation in Russia compared to 27 active drilling rigs and 78 workover crews in 2012. We drilled 265,000 meters in 2013 compared to 276,000 meters in 2012 (-4.0% decrease due to divestment of drilling rigs which was compensated by several new drilling rigs put into operation), and conducted 3,566 workover operations compared to 3,555 in 2012.

- *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 slickline, 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.

In 2013, we produced 537 downhole motors compared to 525 in 2012 (a 2.3% increase due to higher customer demand for the new types (upgraded) of downhole motors); we also produced 11 turbodrills compared to 48 in 2012 (a 77.1% decrease due to lower customer demand for turbodrills).

In 2013, we performed 1148 cementing operations compared to 617 in 2012 (a 86.1% increase due to a higher customer demand supported by increased production capacity from new cementing fleets put into operation) and performed 470 coiled tubing operations compared to 328 in 2012 (a 43.3% increase due to higher customer demand and increased number of coiled tubing units). We performed our directional drilling operations using 20 crews in 2013 compared to 24 crews in 2012 (a 16.7% decrease was mainly due to reduction in volumes performed with rented crews).

Major Events in 2013 and 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, 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 2013 were change in the volumes and mix of our products and services (including change due to divestment of rigs), cost inflation of some materials, fuel and third-party services used in our operations and manufacturing, limited price increases for our products and services, lower unforeseen expenses related to geological complications compared to those recognized in 2012.

Seasonality

Our sales from drilling and workover services tend to be lower in the first 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.

In the Technology Services segment, revenue generation peaks in the second and third quarters. In the first quarter, our revenues also tend to be lower due to mobilization activities and preparation for the new season.

Divestment of drilling rigs

On March 29, 2013, the Group entered into an agreement for the sale of 9 land rigs and related assets located in Irkutsk region. In 2013 the Group received RUB 1.98 bn (US$63.8 million) of the proceeds under the transaction. At the time of sale, 4 of the 9 rigs were idle and not included in the 2013 drilling program.

Unforeseen expenses caused by geological complications

As part of the well development cycle the Group may be exposed to certain unforeseen and unbudgeted expenses caused by geological complications. These additional expenses are penalties, non-performance fees and cost of non-productive time not reimbursed by customers. The Group estimates that the total amount of such unforeseen expenses related to geological complications in 2013 was US$5.8 million which compared to the unforeseen expenses of US$ 19.7 million in 2012.

Outlook

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.

2014 Order Book

As of April 15, 2014, the Group had signed contracts worth US$320.2 million (RR10.6 billion) for services and equipment to be supplied to customers during 2014. 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$495.8 million (RR16.5 billion). The total order book is 4.1% lower in Russian ruble terms and 8.1% lower in US$ terms (at an exchange rate of 33.3 RR/US$) than the 2013 order book as at April 16, 2013 (at an exchange rate of 31.8 RR/US$).

The table below shows a breakdown of our 2014 order book by segment as of April 15, 2014, with Russian ruble values converted into US$ terms at a rate of 33.3 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 and Workover	177.7	5.9	149.3	5.0	327.0	10.9
Technology Services	142.5	4.7	26.3	0.9	168.8	5.6
Total	320.2	10.6	175.6	5.9	495.8	16.5

[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.

- Drilling and Workover segment orders for 2014 as of April 15, 2014 are relatively flat in Russian ruble terms compared to those for 2013 as of April 16, 2013.
- Technology Services segment orders for 2014 as of April 15, 2014 are down 9.7% in Russian ruble terms compared to those for 2013 as of April 16, 2013 primarily due to lower demand for the downhole motors and directional drilling, coiled tubing and well testing services.

The outlook beyond our contracted order book remains contingent on the macroeconomic environment.

Results of Operations

In 2013, reduction in drilling capacity due to the divestment of drilling rigs and a lack of significant pricing power resulted in a decrease in ruble revenue. Group's Adjusted EBITDA and margins increased as the result of a significant reduction in the unforeseen expenses caused by geological complications. Overall Group profitability, excluding the effect of the expenses caused by geological complication, remains under pressure from unfavourable market environment and rising industry costs.

The table below summarizes our audited consolidated operating results for the year ended December 31, 2013 and 2012, respectively:

	Year ended December 31, 2013	**Year ended December 31, 2012**
	(audited)	**(audited)**
	(in thousands of US dollars)	
Continuing operations		
Sales	549,577	622,992
Cost of sales	(496,537)	(563,066)
Gross profit	**53,040**	**59,926**
Selling, general and administrative expenses	(72,915)	(91,825)
Goodwill impairment	(32,176)	(29,096)
Profit (loss) from disposal of property, plant and equipment and intangible assets, incl. profit from disposal of assets in Irkutsk region	31,187	(1,801)
Operating loss	**(20,864)**	**(62,796)**
Operating loss margin, %	*(3.8%)*	*(10.1%)*
Finance expense (net of finance income)	(21,314)	(22,067)
Other income	36	368
Loss before income tax	**(42,142)**	**(84,495)**
Income tax	(282)	(137)
Loss for the period	**(42,424)**	**(84,632)**
Discontinued operations		
Loss from discontinued operations	-	(108,782)
Loss for the period	(42,424)	(193,414)
Other comprehensive (loss) income		
Exchange (loss) gain from translation to presentation currency	(10,676)	11,275
Total comprehensive loss for the period	**(53,100)**	**(182,139)**
Comprehensive loss attributable to:		
Shareholders of Integra Group of continuing operations	**(52,002)**	**(73,954)**
Shareholders of Integra Group of discontinued operations	**-**	**(108,782)**
Non-controlling interest of continuing operations	(1,098)	597
Non-controlling interest of discontinued operations	-	-

The table below shows the reconciliation of the Group's operating loss to the Adjusted EBITDA for the year ended December 31, 2013 and 2012, respectively:

	Year ended December 31, 2013 (audited)	Year ended December 31, 2012 (audited)
	(in thousands of US dollars)	
Operating loss	(20,864)	(62,796)
Depreciation of property, plant and equipment	60,107	63,347
Amortization of intangible assets	1,217	1,133
Goodwill impairment	32,176	29,096
Profit (loss) from disposal of property, plant and equipment and intangible assets including the profit from disposal of production assets in Irkutsk region	(31,187)	1,801
Share-based compensation	9,301	4,163
Gain (loss) on disposal of shares in subsidiaries	-	964
Adjusted EBITDA	**50,750**	**37,708**
Adjusted EBITDA margin, %	*9.2%*	*6. 1%*

The Year Ended December 31, 2013, Compared to the Year Ended December 31, 2012

Sales

Our consolidated sales were US$549.6 million for the year ended December 31, 2013, down US$73.4 million from US$623.0 million for 2012. Our revenues in the reporting currency decreased by 11.8%. The decrease of 9.7% in revenues was due to business factors, such as (i) reduction in drilling volumes caused by the divestment of drilling rigs, (ii) lower volumes of directional drilling and well testing services, partially compensated by higher volumes of cementing and coiled tubing services due to capacity expansion. A further decrease of 2.1% in consolidated sales was due to depreciation of the Russian ruble to the US dollar.

Cost of Sales and Other Operating Expenses

Cost of sales

Our cost of sales was U$496.5 million for the year ended December 31, 2013, down by US$66.6 million, or 11.8%, from US$563.1 million for 2012. Of this, a decrease of 9.7% was due to business factors, such as (i) an overall decrease in the volume of subcontracting, outsourcing, and equipment rental, (ii) lower unforeseen expenses caused by geological complications compared to 2012, and (iii) reduction in sales volumes in drilling, directional drilling and well testing activities, which were partially offset by (iv) increase in variable transportation costs resulted from the increased performance in the Group's cementing, coil tubing, workover and drilling tools activities. A decrease of 2.1% in cost of sales was due to depreciation of the Russian ruble to the US dollar.

The table below provides information on the major components of our consolidated cost of sales for the year ended December 31, 2013 and 2012:

	Year ended December 31, 2013 (audited)		Year ended December 31, 2012 (audited)	
	(in thousands of US dollars)			
Services	207,993	42%	262,196	47%
Employee costs (including mandatory social contributions of $30.4 million and $30.9 million for the year ended 31 December 2013 and 2012, respectively)	169,934	34%	170,797	30%
Materials and supplies	58,954	12%	67,347	12%
Depreciation of property, plant and equipment and amortization of intangible assets	58,959	12%	61,839	11%
Other	697	0%	887	0%
Total cost of sales	**496,537**	**100%**	**563,066**	**100%**

Services

Our services costs decreased by 20.7% in 2013 compared to 2012, primarily as a result of an overall decrease in the volume of subcontracting, outsourcing and equipment rental and reduced unforeseen expenses caused by geological complications, partially offset by increased pricing of the fuel-dependant services such as transportation; of this a 1.9% decrease was due to the depreciation of the Russian ruble to the US dollar.

Employee costs

Our employee costs decreased by 0.5% in 2013 compared to 2012, as a result of a 1.9% increase primarily due to increased capacity utilization and resulting headcount requirements, and a 2.4% decrease due to the depreciation of the Russian ruble to the US dollar.

Employee costs include our compulsory social payments to the state pension fund, state social insurance fund and state medical fund and totalled US$30.4 million and US$30.9 million for the years ended December 31, 2013 and 2012, respectively.

Materials and supplies

Our materials and supplies costs decreased by 12.5% in 2013, compared to 2012, as a result of a 10.4% decrease due to lower materials requirements in services with lower volumes (drilling, directional drilling and well testing), and a 2.1% decrease due to the depreciation of the Russian ruble to the US dollar.

Depreciation of property, plant and equipment

Our depreciation of property, plant and equipment (“depreciation”) in cost of sales decreased by 4.7% including the 2.3% decrease due to depreciation of the Russian ruble to the US dollar.

Selling, general and administrative expenses

Our selling, general and administrative ("SG&A") expenses are incurred on internal functions, including executive management, budget and cost control personnel, finance, treasury, accounting, legal, corporate governance as well as the costs of third-party advisors and consultants, as required.

In 2013, our SG&A expenses were US$72.9 million, down by 20.6% from US$91.8 million for 2012, as a result of a 18.7% decrease due to cost optimization measures, and a 1.9% decrease due to the depreciation of the Russian ruble to the US dollar. SG&A expenses equalled 13.3% of revenues in 2013, compared to 14.7% in 2012.

The table below provides a breakdown of SG&A expenses for the year ended December 31, 2013, and 2012:

	Year ended December 31, 2013		**Year ended December 31, 2012**	
	(audited)		**(audited)**	
	(in thousands of US dollars)			
Employee costs (including mandatory social contributions of $5.1 million and $6.7 million for the year ended 31 December 2013 and 2012, respectively)	35 708	49%	46 615	51%
Services	19 076	26%	24 591	27%
Share-based compensation expense	9 301	13%	4 163	4%
Taxes, other than income tax	3 008	4%	3 655	4%
Depreciation of property, plant and equipment and amortization of intangible assets	2 365	3%	2 641	3%
Transportation expenses	2 367	3%	2 459	2%
Receivables impairment, bad debt expense and other write-offs	1 005	2%	668	1%
Other	85	0%	7 033	8%
Total selling, general and administrative expenses	**72,915**	**100%**	**91,825**	**100%**

Total SG&A expenses decreased by 20.6% due to (i) a 23.4% decrease in employee costs from headcount reductions, (ii) US $6.9 million decrease in other SG&A expenses of one-time nature, including fines, penalties and litigation expenses, (iii) a 22.4% decrease in the services due to ongoing cost optimization in the corporate headquarters, (iv) a 123.4% increase in the share-based compensation expense primarily due to granted Restricted Stock Units (RSU's) in 2013, (v) a 17.7% decrease in taxes, other than income taxes, (vi) increase in receivables impairment, bad debt expense and other write-offs of US $0.3 million and the depreciation of Russian ruble compared to the reporting currency.

Profit (loss) from disposal of property, plant and equipment

In 2013 the profit on asset disposals of US$31.2 includes a gain of US $29.2 million recognized on the sale of certain drilling rigs and other assets in the Irkutsk region and a US$2.0 gain on the sale of other assets. In 2012 the Group recognized a loss from disposal of property, plant and equipment of US$1.8 million.

Goodwill impairment

At December 31, 2013, due to changed operating conditions the Group determined that the carrying value of net assets of the Group's Siam and Workover CGUs, exceeded their estimated value in use resulting in its goodwill impairment in the amount of US$18.5 million and US$13.7 million, respectively.

Operating Loss and Operating Loss Margin

We reported an operating loss of US$20.9 million for the year ended December 31, 2013 compared to an operating loss of US$62.8 million for 2012. The decrease in operating loss was due to (i) a gain of US$29.2 million from disposal of assets in Irkutsk region, (ii) lower unforeseen expenses related to geological complications compared to 2012, (iii) a reduction in selling, general and administrative expenses, (iv) higher volumes in cementing, coiled tubing, drilling tools manufacturing. The decrease in operating loss was partially offset by (i) lower volumes in drilling, workover and well testing services, (ii) depreciation of the Russian ruble.

In 2013, our operating loss margin was 3.8% compared to 10.1% in 2012.

Finance Expense (Net of Finance Income)

Finance expense (net of finance income) 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 expense (net of finance income) decreased by US$0.8 million, or 3.8%, to US$21.3 million for the year ended December 31, 2013, compared to US$22.1 million for 2012. This decrease resulted primarily from lower interest rates.

Loss for the period

As a result of the foregoing factors, our loss was US$42.4 million and US$84.6 million for the years ended December 31, 2013 and 2012, respectively.

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, effects from 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, 2013, was US$50.8 million, up 34.7%, from US$37.7 million for 2012. This primarily resulted from (i) a reduction in selling, general and administrative expenses, (ii) lower unforeseen expenses caused by geological complications compared to 2012, (iii) higher volumes in cementing and coiled tubing services, and (iv) improved production profitability in cementing, coiled tubing and directional drilling services. The increase in Adjusted EBITDA was partially offset by (i) a continued inflation of variable cost of sales which was not compensated by increased pricing in drilling and workover, (ii) lower volumes in drilling, workover and well testing services, and (iii) depreciation of the Russian ruble to the US dollar.

Our Adjusted EBITDA margin increased to 9.2% for the year ended December 31, 2013, from 6.1% for 2012.

Segment Results

The table below provides selected information about our results by segment for the year ended December 31, 2013 and 2012.

	Year ended December 31, 2013 (audited)	Year ended December 31, 2012 (audited)
	(in thousands of US dollars)	
Drilling and Workover		
Continuing operations		
Sales	342,704	402,202
Cost of sales	(345,218)	(393,316)
Gross (loss) profit	**(2,514)**	**8,886**
Selling, general and administrative expenses	(22,431)	(37,445)
Goodwill impairment	(13,650)	(1,916)
Profit from disposal of property, plant and equipment and Intangible assets	2,243	-
Operating loss	**(36,352)**	**(30,475)**
Operating profit margin, %	-10.6%	-7.6%
Adjusted EBITDA	**12,907**	**12,490**
Adjusted EBITDA margin, %	3.8%	3.1%
Technology services		
Continuing operations		
Sales	221,051	225,407
Cost of sales	(172,064)	(175,690)
Gross profit	**48,987**	**49,717**
Selling, general and administrative expenses	(24,928)	(26,528)
Goodwill impairment	(18,526)	(27,180)
Loss from disposal of property, plant and equipment and Intangible assets	(496)	(748)
Operating profit	**5,037**	**(4,739)**
Operating profit margin, %	2.3%	-2.1%
Adjusted EBITDA	**50,798**	**46,367**
Adjusted EBITDA margin, %	23%	20.6%
Discontinued operations	**-**	**(108,782)**
Corporate and other		
Sales	**6,967**	**5,028**
Cost of sales	(4,101)	(4,337)
Gross profit	**2,866**	**691**
Selling, general and administrative expenses	(26,142)	(28,581)
Profit from disposal of property, plant and equipment and Intangible assets, incl. profit from disposal of production assets in Irkutsk region	29,441	-
Operating profit (loss)	**6,165**	**(27,890)**
Adjusted EBITDA	**(13,660)**	**(22,510)**

The Year Ended December 31, 2013, Compared to the Year Ended December 31, 2012

Drilling and Workover

Sales

Drilling and Workover sales made up 60.1% of our total sales (before inter-segment eliminations) for the year ended December 31, 2013, compared to 63.6% for 2012. Sales in this segment decreased by US$59.5 million, or 14.8%, to US$342.7 million for 2013, from US$402.2 million for 2012, including a 12.7% decrease primarily due to reduction in drilling volumes caused by the divestment of rigs, and a 2.1% decrease due to the depreciation of the Russian ruble to the US dollar.

Cost of sales

Cost of sales for Drilling and Workover decreased by US$48.1 million, or 12.2%, to US$345.2 million for 2013, from US$393.3 million for 2012. Key cost components and their share in this segment's cost of sales for the year ended December 31, 2013, were as follows: services procured from third parties: 53%; employee costs: 30%; depreciation and amortization: 11%; and materials: 6%. A decrease of 10.1% in cost of sales was due to: (i) an overall decrease in the volume of subcontracting, outsourcing, and equipment rental, (ii) lower unforeseen expenses caused by geological complications compared to 2012, and (iii) reduction in sales volumes. The depreciation of the Russian ruble to the US dollar decreased cost of sales in the reporting currency by 2.1%.

Adjusted EBITDA and Adjusted EBITDA margin

For 2013, Adjusted EBITDA in the Drilling and Workover segment increased by 3.2% to US$12.9 million compared to US$12.5 million for 2012. Compared to 2012, the increase in Adjusted EBITDA was primarily due to reduction in selling, general and administrative expenses and lower unforeseen expenses caused by geological complications. The increase in Adjusted EBITDA was partially offset by (i) a continued inflation of variable cost of sales which was not compensated by increased pricing, and (ii) lower volumes. Further 2.5% decrease in Adjusted EBITDA was caused by the depreciation of the Russian ruble to the US dollar.

For 2013, our Adjusted EBITDA margin in Drilling and Workover increased to 3.8% from 3.1% for 2012.

Technology Services

Sales

Technology Services sales made up 38.7% of our total sales (before inter-segment eliminations) for the year ended December 31, 2013, compared to 35.6% for 2012. Sales in this segment decreased by US$4.3 million, or 1.9%, to US$221.1 million for 2013 from US$225.4 million for 2012 primarily due to the depreciation of the Russian ruble to the US dollar.

Cost of sales

Cost of sales for Technology Services decreased by US$3.6 million, or 2%, to US$172.1 million for 2013, from US$175.7 million for 2012 primarily due to the depreciation of the Russian ruble accounted for a 2.4% decrease in cost of sales. The key cost components and their share in this segment's cost of sales for the year ended December 31, 2013, were as follows: employee costs: 40%; services procured from third parties: 23%; materials: 22%; depreciation and amortization: 15%.

Adjusted EBITDA and Adjusted EBITDA margin

For 2013, Adjusted EBITDA in the Technology Services segment increased by 9.5% to US$50.8 million compared to US$46.4 million for 2012. The increase in Adjusted EBITDA was primarily due to increased volumes and production profitability in cementing, coiled tubing and directional drilling which were partially offset by lower volumes in well testing services. Further 2.7% decrease in Adjusted EBITDA was caused by the depreciation of the Russian ruble to the US dollar.

For 2013, our Adjusted EBITDA margin in Technology Services increased to 23% from 20.6% for 2012.

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, 2013 and 2012:

	Year ended December 31, 2013 (audited)	Year ended December 31, 2012 (audited)
	(in thousands of US dollars)	
Operating cash flows before working capital changes, interest and income taxes	51,554	37,839
Net change in working capital	15,242	63,724
Income tax and finance expense paid	(26,263)	(25,184)
Net cash provided by operating activities	40,533	76,379
Net cash used in investing activities	(9,015)	(49,571)
Net cash provided by (used in) financing activities	-	(9,539)
Cash and cash equivalents at the beginning of the period	31,503	13,791
Effect of exchange differences on cash balances	(3,553)	443
Cash and cash equivalents at the end of the period	**59,468**	**31,503**

Operating activities

Net cash provided by operating activities decreased by US$35.9 million to US$40.5 million in 2013, from US$76.4 million in 2012. Free cash flow, defined as net cash provided by operating activities, less purchases of property, plant and equipment and intangible assets, was negative US$29.4 million, decreasing from a US$19.4 million in 2012. The decrease in free cash flow primarily was due to increased expenditures for purchase of property, plant and equipment and intangible assets partially financed from reduced net cash flows generated from the operating activities.

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, 2013, we had negative working capital of US$6.4 million, representing a decrease of US$33.9 million from our positive working capital figure of US$27.5 million as of December 31, 2012, including (i) a 9.9% decrease of accounts receivable and a 16.4% decrease in inventories mainly due to sale of assets on disposal of Irkutsk branch of Integra Drilling, and (ii) a 5.2% increase in accounts payable and accrued liabilities due to matching of our payables and receivable cycles where possible.

Investing activities

Net cash used in investing activities, excluding the proceeds from disposal of assets in Irkutsk region, was US$72.4 million and US$49.6 million for the years ended December 31, 2013, and 2012, respectively.

Our capital expenditures, representing the purchase of property, plant and equipment and intangible assets during 2013, and 2012 amounted to the following:

	Year ended December 31, 2013	**Year ended December 31, 2012**
	(audited)	**(audited)**
	(in millions of US dollars)	
Additions to property, plant and equipment of continuing operations	61.5	69.8
Additions to intangible assets of continuing operations	2.2	2.9
Additions to non-current assets of continuing operations	63.7	72.7
Net change in accounts receivable and payable for purchases of property, plant and equipment	6.3	(15.7)
Cash paid for purchase of property, plant and equipment intangible assets	**70.0**	**57.0**

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

Of the total US$63.7 million of additions to non-current assets in 2013:

- US$37.3 million, or 59%, related to Drilling and Workover, of which 69% went on sustaining capital expenditure and 31% was invested in development projects.
- US$25.8 million, or 41%, related to Technology Services, of which 52% was invested in increasing production capacity and business development and 48% was spent on sustaining projects.
- US$ 0.6 million related to our corporate offices.

During 2013, we received US$65.1 million from the disposal of property, plant and equipment and intangible assets (including proceeds from disposal of assets in Irkutsk region).

Financing activities

There was no net cash used in or generated from financing activities in the year ended December 31, 2013 compared to negative net cash of US$9.5 million paid in 2012. In 2013, we both raised new bank borrowings and repaid outstanding borrowings in the amount of US$87.5 million.

Recent Borrowings and Debt Repayments

As of December 31, 2013, our total outstanding debt was US$182.3 million. We had cash and cash equivalents of US$59.5 million and our net debt was US$122.9 million. The table below shows our total outstanding debt, cash and cash equivalents and net debt for the periods indicated:

	December 31, 2013 (audited)	December 31, 2012 (audited)
	(in thousands of US dollars)	
Long-term debt	182,345	196,266
Less: Cash and cash equivalents	59,468	*31,503*
Net debt	**122,877**	**164,763**

Short-term borrowings

The Group did not have any outstanding balance as of 31 December 2013 in short-term borrowings.

Long-term borrowings

The borrowings due after more than one year include the following:

	December 31, 2013 (audited)	December 31, 2012 (audited)
	(in thousands of US dollars)	
Total long-term borrowings, Sberbank	**182,345**	**196,266**

Sberbank. In August 2011, the Group entered into a Russian rouble-denominated non-renewable loan facility with Sberbank for a maximum amount of RR 6.0 billion (a $183.3 million equivalent as of 31 December 2013). As of reporting dates, the loan balances were equivalent to $182.3 million and $196.3 million, respectively, net of borrowing costs of $1.0 million and $1.2 million, respectively.

In August 2012, the parties signed an addendum whereby from September 2012 to April 2014 the interest rate varies between 9.95 percent and 11.95 percent depending on the net debt / adjusted EBITDA ratio. As of the reporting dates, the interest rate was equivalent to 10.15 percent and 11.0 percent, respectively.

The principal of the loan becomes repayable in quarterly installments from September 2015 to August 2018.

Interest Rates

The following table summarizes the Group’s current and non-current borrowings by major currency and weighted average fixed and floating interest rates as of 31 December 2013 and 2012:

	Average interest rate	Amount
	(audited) (in thousands of US dollars)	
31 December 2013:		
Amounts due after more than one year. Russian rouble-denominated, fixed rate	**10.7%**	**182,345**
31 December 2012:		
Amounts due after more than one year. Russian rouble-denominated, fixed rate	**11.0%**	**196,266**

Debt Maturity Schedule

The scheduled maturities of long-term borrowings outstanding at December 31, 2013, and payments of interest arising after the reporting date, were as follows:

	December 31, 2013 (audited) (in thousands of US dollars)
12 months ended 31 December:	
2014	18,361
2015	47,788
2016	72,863
2017	66,898
2018	34,908
Total long-term borrowings	**240,818**

For purposes of this disclosure, the cash flows are presented in undiscounted nominal terms and the interest payable on the borrowings to maturity was calculated using the rates in existence as of 31 December 2013.

Material subsequent events

Alfa-bank loan. In February 2014, the Group entered into a renewable credit line facility with Alfa-bank for a maximum amount of RR 1.5 billion bearing a monthly payable floating interest rate of MosPrime1M plus 4.0 percent fixed margin.

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. The Group has not used any financial risk management instruments in this or prior periods to hedge against this exposure.

The Group maintains accounts only 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, 2013, and December 31, 2012.

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.

Interest rate and currency risks

As of the reporting dates, the Group was not exposed to interest rate risk.

As of 31 December 2013, the Group was exposed to currency exchange risk mainly from cash balances denominated in US dollars whereas the functional currency of most Group companies is the Russian rouble. The Group assesses the currency risk by reference to market information about ranges of changes in exchange rates of the Russian roubles to the US dollar of both actual movements during the reporting period and reasonably possible changes in the year thereafter. In 2013, the Group assessed the ranges of reasonably possible exchange rate sensitivity as two Russian roubles to one US dollar exchange rate and determined that if the exchange rates increased or decreased by two Russian roubles, with all other variables held constant, the Group's profit (loss) would have changed from the retranslation of the assets denominated in US dollars existing as of 31 December 2013 using a sensitivity of two Russian roubles to one US dollar as follows:

	31 December 2013
Incremental pre-tax profit from increase of the RR / $ exchange rate by two Russian rouble for 2013	1,891
Incremental pre-tax loss from decrease of the RR / $ exchange rate by two Russian rouble for 2013	(2,010)

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 the total borrowings divided by capital.

The Group's gearing ratio was 57.5 % and 55.1 % as of December 31, 2013 and 2012, respectively.

Legal proceedings

As of December 31, 2013 and 2012, the Group was involved in a number of court proceedings, both as a plaintiff and a defendant, arising in the ordinary course of business. The Group management believes that there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations or financial position of the Group and which have not otherwise been accrued or disclosed in these consolidated financial statements.

Directors' Responsibility Statement

The report and the attached 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.