Consolidated financial statements and independent auditor's report

BORETS INTERNATIONAL LIMITED

31 December 2011

Contents

Independent Auditor's Report	
Consolidated Statement of Financial Position	**1**
Consolidated Statement of Comprehensive Income	**3**
Consolidated Statement of Cash Flows	**4**
Consolidated Statement of Changes in Equity	**5**
Notes to the Consolidated Financial Statements	**7**

Accountants, Tax and Legal Advisers

Grant Thornton ZAO
32 A, Khoroshevskoye Shosse,
Moscow 123007, Russia

T +7 495 258 99 90
F +7 495 580 91 96

Аудиторы, Консультанты по налоговым и юридическим вопросам

ЗАО Грант Торнтон
Россия, 123007, Москва
Хорошевское шоссе, д.32 А

T +7 495 258 99 90
F +7 495 580 91 96

www.gtrus.ru

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
of Borets International Limited
office of Aleman,
Cordero, Galindo & Lee Trust (BVI) Limited,
PO Box 3175, Road Town, Tortola,
British Virgin Islands

We have audited the accompanying consolidated financial statements of Borets International Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

Grant Thornton
Грант Торнтон

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton ZAO

Moscow, Russian Federation
20 April 2012

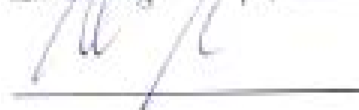
Consolidated Statement of Financial Position

	Notes	**31 Dec 2011 USD'000**	31 Dec 2010 USD'000
ASSETS			
Non-current			
Property, plant and equipment	6	**255,724**	199,126
Intangible assets and goodwill	7	**106,057**	102,809
Other non-current assets	8	**4,541**	2,856
Deferred tax assets	17	**12,135**	13,706
		378,457	318,497
Current			
Inventories	9	**147,372**	154,760
Trade and other receivables	10	**109,089**	88,330
Current tax assets		**1,507**	3,245
Other assets	11	**19,440**	20,738
Short-term investments	12	**993**	2,320
Cash and cash equivalents	13	**63,981**	44,067
		342,382	313,460
Total Assets		**720,839**	631,957

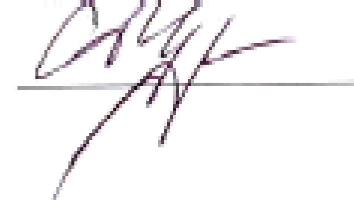
Consolidated Statement of Financial Position

	Notes	**31 Dec 2011 USD'000**	31 Dec 2010 USD'000
EQUITY			
Attributable to the shareholders of the parent company			
Share capital	14	**6**	6
Share premium	14	**209,011**	209,011
Additional paid-in capital	15	**38,129**	38,129
Asset revaluation reserve		**96,339**	33,160
Translation reserve		**(47,903)**	(35,823)
Retained earnings		**142,793**	114,445
		438,375	358,928
Non-controlling interest		**2,322**	2,126
Total Equity		**440,697**	361,054
LIABILITIES			
Non-current			
Loans and borrowings	16	**106,515**	126,955
Deferred tax liabilities	17	**22,856**	9,996
		129,371	136,951
Current			
Loans and borrowings	16	**42,292**	33,269
Trade and other payables	18	**83,895**	76,127
Current tax liabilities		**574**	809
Other liabilities	19	**24,010**	23,747
		150,771	133,952
Total Liabilities		**280,142**	270,903
Total Equity and Liabilities		**720,839**	631,957

The consolidated financial statements were signed on 20 April 2012.



Chief Executive Officer
Lev Stalberg



Chief Financial Officer
Sergei Churkin

Consolidated Statement of Comprehensive Income

	Notes	**2011 USD'000**	2010 USD'000
Sales revenue	20	**706,552**	611,062
Cost of sales	21	**(531,650)**	(443,035)
Gross profit		**174,902**	168,027
Selling and marketing expenses	22	**(7,009)**	(6,059)
Administrative expenses	23	**(103,238)**	(96,767)
Other operating expenses, net	24	**(16,150)**	(19,053)
Operating profit		**48,505**	46,148
Net finance costs	25	**(17,906)**	(17,764)
Profit before income tax		**30,599**	28,384
Income tax (expense) / benefit, net	26	**(3,688)**	5,526
Profit for the period		**26,911**	33,910
Other comprehensive income			
Changes in translation reserve		**(12,188)**	(1,689)
Changes in asset revaluation reserve due to revaluation of property, plant and equipment (net of deferred taxes)		**64,920**	–
Other comprehensive income for the period, net of tax		**52,732**	(1,689)
Total comprehensive income for the period		**79,643**	32,221
Profit for the period attributable to:			
Shareholders of parent company		**27,104**	33,992
Non-controlling interest		**(193)**	(82)
Total profit for the period		**26,911**	33,910
Total comprehensive income attributable to:			
Shareholders of parent company		**79,447**	32,353
Non-controlling interest		**196**	(132)
Total comprehensive income for the period		**79,643**	32,221

Consolidated Statement of Cash Flows

	Note	**2011 USD'000**	2010 USD'000
Cash flows from operating activities			
Profit for the period before taxation		**30,599**	28,384
Adjustments for:			
Depreciation and amortisation		**53,627**	49,544
Impairment of obsolete inventory		**5,630**	7,725
Impairment and write-off of doubtful trade and other receivables		**2,385**	2,971
Interest income		**(825)**	(675)
Interest expense		**12,377**	13,756
Revaluation of short-term investments		**712**	(336)
Loss from disposal of property, plant and equipment		**3,699**	3,078
Foreign exchange difference on loans and borrowings		**5,613**	2,148
Loss on revaluation of property, plant and equipment		**2,021**	–
		115,838	106,595
Adjustments for:			
(Increase) in inventories in course of operational activities		**(22,329)**	(40,670)
(Increase) in trade and other receivables in course of operational activities		**(28,594)**	(11,288)
Increase / (decrease) in trade and other payables in course of operational activities		**10,515**	(9,379)
Decrease in other assets and increase in other liabilities, net		**3,975**	1,383
Interest received		**825**	675
Interest paid		**(10,905)**	(12,781)
Income taxes paid		**(5,766)**	(6,641)
Net cash from operating activities		**63,559**	27,894
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(17,626)**	(35,896)
Development costs		**(8,791)**	(8,159)
Proceeds from disposal of property, plant and equipment		**637**	166
Acquisition of non-controlling interest in subsidiaries	5	**–**	(4,925)
Acquisition of subsidiaries, net of cash acquired	5	**(2,356)**	(580)
Proceeds from disposal of short-term investments		**615**	446
Investment in associate	5	**(446)**	–
Net cash used in investing activities		**(27,967)**	(48,948)
Cash flows from financing activities			
Proceeds from loans and borrowings		**21,606**	68,987
Repayment of loans and borrowings		**(33,791)**	(36,763)
Contributions to bank deposits		**124**	(253)
Net cash (used in) / from financing activities		**(12,061)**	31,971
Effect of exchange rate changes on cash and cash equivalents		**(3,617)**	(1,466)
Net increase in cash and cash equivalents		**19,914**	9,451
Cash and cash equivalents at beginning of year	13	**44,067**	34,616
Cash and cash equivalents at end of year	13	**63,981**	44,067

Consolidated Statement of Changes in Equity

	Equity attributable to shareholders of parent company								
	Share capital	Share premium	Additional paid-in capital	Asset revaluation reserve	Translation reserve	Retained earnings	**Total**	Non-controlling interest	**Total equity**
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	**USD'000**	USD'000	**USD'000**
Balance as at 1 January 2010	**6**	**209,011**	**38,129**	**34,887**	**(34,184)**	**79,183**	**327,032**	**6,726**	**333,758**
Acquisition of non-controlling interest of ZAO NPP Technologia (Note 5.4)	–	–	–	–	–	5	**5**	(8)	**(3)**
Acquisition of non-controlling interest of ZAO Centroforce (Note 5.5)	**–**	**–**	**–**	**–**	**–**	(462)	**(462)**	(4,460)	**(4,922)**
Transactions with owners	**–**	**–**	**–**	**–**	**–**	**(457)**	**(457)**	**(4,468)**	**(4,925)**
Profit for the period	–	–	–	–	–	33,992	**33,992**	(82)	**33,910**
Other comprehensive income									
Release of asset revaluation reserve	–	–	–	(1,727)	–	1,727	**–**	–	**–**
Changes in translation reserve	–	–	–	–	(1,639)	–	**(1,639)**	(50)	**(1,689)**
Total comprehensive income for the period	**–**	**–**	**–**	**(1,727)**	**(1,639)**	**35,719**	**32,353**	**(132)**	**32,221**
Balance at 31 December 2010	**6**	**209,011**	**38,129**	**33,160**	**(35,823)**	**114,445**	**358,928**	**2,126**	**361,054**

Consolidated Statement of Changes in Equity (continued)

	Equity attributable to shareholders of parent company								
	Share capital	Share premium	Additional paid-in capital	Asset revaluation reserve	Translation reserve	Retained earnings	**Total**	Non-controlling interest	**Total equity**
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	**USD'000**	USD'000	**USD'000**
Balance as at 1 January 2011	**6**	**209,011**	**38,129**	**33,160**	**(35,823)**	**114,445**	**358,928**	**2,126**	**361,054**
Profit for the period	–	–	–	–	–	27,104	**27,104**	(193)	**26,911**
Other comprehensive income									
Asset revaluation reserve recognised during revaluation of property, plant and equipment (net of deferred taxes)	–	–	–	64,423	–	–	**64,423**	497	**64,920**
Release of asset revaluation reserve	–	–	–	(1,244)	–	1,244	**–**	–	**–**
Changes in translation reserve	–	–	–	–	(12,080)	–	**(12,080)**	(108)	**(12,188)**
Total comprehensive income for the period	**–**	**–**	**–**	**63,179**	**(12,080)**	**28,348**	**79,447**	**196**	**79,643**
Balance at 31 December 2011	**6**	**209,011**	**38,129**	**96,339**	**(47,903)**	**142,793**	**438,375**	**2,322**	**440,697**

1. Background

1.1 Principal activities

The primary activities of Borets International Limited ("the Company") and its subsidiaries (together referred to as "the Group") are production and distribution of Electrical Submersible Pumps or "ESP" for oil extraction and related services. The production and sales facilities of the Group are located in Russia and in other parts of the world, mainly in the US, Canada, Egypt, Slovakia, Latin America, Middle East and China. The Group's total headcount as at 31 December 2011 was 9,026 (31 December 2010: 8,894).

The Company is a holding company incorporated and domiciled in Seychelles in November 1999. In 2008 the Company redomiciled to British Virgin Islands. The Company's registered office is office of Aleman, Cordero, Galindo & Lee Trust (BVI) Limited, PO Box 3175, Road Town, Tortola, British Virgin Islands.

The Company is ultimately owned 61,5% by several individuals through intermediate legal entities and 38,5% by Weatherford International Limited, a publicly traded company. None of shareholders individually controls or owns a 50% or more interest in the Company. From its formation, the Group has expanded substantially through acquisitions of new companies and establishment of new businesses. A list of significant subsidiaries is presented in Note 33 "Principal subsidiaries".

1.2 Operating environment of the Group

The biggest part of the Group business on production and distribution of oil extraction pumps and compressors as well as rendering of oil extraction pumps repair and maintenance services of the Group is related to the Russian Federation.

In the past several years the global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. Currently the situation is stabilising due to a range of measures, applied by the Russian Government.

The accompanying consolidated financial statements reflect current management's assessment of the impact of the current business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board (IASB).

2.2 Basis of measurement

The consolidated financial statements are prepared on the historical or amortised cost basis except that property, plant and equipment are revalued periodically, and investments in publicly traded securities designated as at fair value through profit or loss.

2.3 Functional and presentation currency

The presentation currency used in the preparation of these consolidated financial statements is United States Dollar ("USD"). Management has used the USD to manage most financial risks and exposures and to manage performance of the Group.

The functional currencies of the Group subsidiaries are chosen to reflect the economic substance of the underlying events and circumstances relevant for the given entity. Since 1 January 2007 the functional currency of Russian entities of the Group is Russian Rouble ("RUR"). Following USD/RUR exchange rates are applicable for Russia for the period ended 31 December 2011: opening rate — 30,4769, average rate — 29,3186, closing rate — 32,1961 (following USD/RUR exchange rates are applicable for Russia for the period ended 31 December 2010: opening rate — 30,2442, average rate — 30,3555, closing rate — 30,4769). The functional currencies of those subsidiaries outside Russia that carry out their operations with a significant degree of autonomy are chosen to reflect the economic substance of those operations. The functional currency of most other Group companies is USD. Financial information has been rounded to the nearest thousand USD.

2.4 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Trade and other receivables as described in Note 10 "Trade and other receivables";
- Inventory obsolescence provision as described in Note 9 "Inventories";
- Impairment of other assets as described in Note 3.9 "Impairment";
- Revaluation of property, plant and equipment as described in Note 6 "Property, plant and equipment";
- Tax contingencies as described in Note 30 "Contingencies".

2.5 Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes the realisation of assets and the settlement of liabilities in the normal course of business.

3. Summary of significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the consolidated financial statements.

3.1 Subsidiaries and associates

Subsidiaries
Subsidiaries are those enterprises and businesses controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date when control effectively commences until the date that control effectively ceases. Where necessary accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquired subsidiaries are consolidated using the purchase method of accounting. This involves the revaluation at fair value of all identifiable assets and liabilities including contingent liabilities of the subsidiary as at the acquisition date regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their revalued amounts which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. The cost of acquisition is measured at fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange including costs directly attributable to the acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired the difference is recognised directly in the consolidated statement of comprehensive income.

Associates
Associates are those enterprises and businesses over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in associate is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of investee's net assets. The profit or loss of the Group includes the Group's share of the profit or loss of the investee.

3.2 Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.3 Segment information

In accordance with the requirements of IFRS 8 "Operating segments" the Group has opted not to report segment information in the consolidated financial statements unless there will be certain circumstances in place that directly require the Group to do so (e.g., issuance of publicly traded securities).

3. Summary of significant accounting policies (continued)

3.4 Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate at the consolidated statement of financial position date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to the functional currency at the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the foreign exchange rates at the date when the fair values were determined. Foreign exchange differences arising from translation are recognised in the consolidated statement of comprehensive income.

3.5 Property, plant and equipment

Property, plant and equipment are shown at fair value, based on periodic, at least every five years, valuations by external independent appraisers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

A revaluation increase on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the consolidated statement of comprehensive income. A revaluation decrease on an item of property, plant and equipment is recognised in the consolidated statement of comprehensive income except to the extent that it reverses a previous revaluation increase recognised directly in equity.

Items of property, plant and equipment acquired after periodic revaluation are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes cost of materials, direct labour and an appropriate portion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense as incurred.

Rental tools represent property, plant and equipment (mainly Electrical Submersible Pumps) that are produced by the Group and held for use in the Group's supply of services. The recoverability of these rental tools will be through the stream of operational rent payments from customers.
Rental tools are accounted for using historical cost model.

Depreciation is charged to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of the individual assets. Land is not depreciated. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Buildings	20 – 50 years
Machinery and equipment	4 – 15 years
Rental tools	2 – 5 years
Vehicles	3 – 7 years
Furniture, fixture and fittings	2 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

3. Summary of significant accounting policies (continued)

3.6 Intangible assets

Costs associated with research activities are expensed in the consolidated statement of comprehensive income as they occur. Costs that are directly attributable to the development phase of new or substantially improved products and services are capitalised if the product or process is technically and commercially feasible, the Group has sufficient resources to complete the development and such intangible asset is likely to generate economic benefits through internal use or sale. Directly attributable costs include cost of materials, direct labour and appropriate production overheads. All other development costs are expensed as incurred.

Amortisation is charged to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Such intangible assets are systematically tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Trademarks, licenses and patents, designs and prototypes	2 – 7 years
Software	2 – 3 years

Goodwill
Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or Groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.7 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term bank deposits maturing within three months or for which the Group has a right to recall.

Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments

Financial instruments are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial instruments is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular-way purchases of financial assets are accounted for at the settlement date. Financial instruments are initially measured at their fair values plus transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities. An assessment for impairment is undertaken at least at each reporting date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial instruments at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified in this category if acquired or incurred principally for the purpose of selling or repurchasing in the near term, or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making, or is a derivative (except for a derivative that is designated and effective hedging instrument), or upon initial recognition, designated by management as at fair value through profit or loss. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Subsequent to initial recognition, the financial instruments included in this category are measured at fair value with changes in fair value recognised in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any related impairment. Any changes in their values during the period, other than from cash payments or cash receipts, are recognised in the consolidated statement of comprehensive income.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective-interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or substantially all of the risks and rewards of ownership have been transferred. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

3. Summary of significant accounting policies (continued)

3.9 Impairment

The carrying amounts of Group's financial assets carried at amortised cost/cost and non-financial assets, not including deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

Financial assets carried at amortised cost
The Group reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated. The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of loss is measured as difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivables original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

Financial assets carried at cost
Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of loans and receivables are recognised in the consolidated statement of comprehensive income and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets
Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

3. Summary of significant accounting policies (continued)

3.9 Impairment (continued)

All impairment losses in respect of non-financial assets are recognised in the consolidated statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted-average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less cost of completion and selling expenses.

3.11 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.12 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognised as interest expense.

Environmental costs
Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Warranty obligations
Provisions for the expected cost of warranty obligations are recognised at the date of sale of the relevant products, at the management's best estimate of the expenditure required to settle the Group's obligation.

3. Summary of significant accounting policies (continued)

3.13 Equity

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

The revaluation reserve comprises gains and losses due to revaluation of property, plant and equipment. The translation reserve accounts for the foreign exchange differences arising as a result of translation from functional currencies to the presentation currency.

3.14 Employee benefits

In the normal course of business the Group contributes to the statutory pension plans in the countries where the Group runs its business on behalf of its employees. The Group can also contribute to voluntary pension plans on behalf of its employees as a part of remuneration package. Contributions to the pension schemes are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the consolidated statement of comprehensive income, however, separate disclosures are not provided if these costs are not material.

3.15 Taxation

Income tax on profit for the year comprises current and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the period using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the change in the amount of income taxes payable (recoverable) in future periods in respect of the temporary taxable (deductible) differences and carry-forward of unused tax losses. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability settled based on the tax rates that have been enacted or substantively enacted at the reporting date.

3.16 Revenue

Revenue from sale of goods is recognised in the consolidated statement of comprehensive income when significant risks and rewards of ownership have been transferred to the buyer. Revenue from rendering of services is recognised in the consolidated statement of comprehensive income in proportion to the stage of completion of transactions at the reporting date.

The stage of completion is assessed by reference to acts of acceptance signed by customers. No revenue is recognised if there are significant uncertainties regarding recoverability of the consideration due, associated costs or the possible return of goods.

3. Summary of significant accounting policies (continued)

3.17 Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowing of funds. Interest expense is recognised in the consolidated statement of comprehensive income in the amount of change of the carrying amount of liability other than from cash payments or cash receipts. All interest costs incurred in connection with borrowings, which are not directly attributable to the acquisition, construction or production of qualifying assets, are expensed as incurred.

3.18 Finance costs

Finance costs comprise interest expense on borrowings, interest income on funds invested, dividend income, bank fees and foreign exchange gains and losses recognised in the consolidated statement of comprehensive income.

3.19 Changes in accounting policies

In 2011 the Group has considered a modification in its accounting policy in respect of classification of assets as "Cash and cash equivalents". The modified policy allowed classifying short-terms bank deposits maturing over three-months as cash equivalents if and only if they can be recalled by the Group without requiring the bank's consent.

This policy modification would have had no effect on the consolidated financial statements if it had been applied in previous periods.

4. New Standards and Interpretations

4.1 New standards and interpretations effective in the current period

The Group has adopted the following new or revised standards and interpretations issued by IASB and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Group's annual consolidated financial statements for the year ended 31 December 2011:

- IFRS 3 (2008) "Business Combinations" / IAS 27 "Consolidated and Separate Financial Statements" — amendments resulting from May 2010 Annual Improvements to IFRSs: 1) transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; 2) clarification on measurement of non-controlling interests;
- IFRS 7 "Financial Instruments: Disclosures" — amendments resulting from May 2010 Annual Improvements to IFRSs: clarification of disclosures and release of requirement for disclosure regarding restructured loans;
- IAS 24 "Related Party Disclosures" — (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities. The introduced disclosure exemptions do not affect the Group because the Group is not a government-related entity.

The adoption of these new or revised standards did not have material effect on the financial position or performance of the Group.

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorization of these consolidated financial statements, the following new standards, amendments and interpretations have been issued but are not yet effective, and have not been early adopted by the Group:

- IFRS 9 "Financial Instruments";
- IFRS 10 "Consolidated Financial Statements";
- IFRS 13 "Fair Value Measurement";
- IAS 1 "Presentation of Financial Statements" — amendments to revise the way other comprehensive income is presented;
- IAS 19 "Employee Benefits" — targeted amendments related to defined benefit plans;
- IAS 27 — reissued as IAS 27 "Separate Financial Statements" (as amended in May 2011);
- IAS 28 — reissued as IAS 28 "Investments in Associates and Joint Ventures" (as amended in May 2011).

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

4. New Standards and Interpretations (continued)

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group (continued)

IFRS 9 — The IASB aims to replace IAS 39 "Financial Instruments: Recognition and Measurement" in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed. The Group's management have yet to assess the impact of this new standard on the Group's consolidated financial statements. However, they do not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards

A package of consolidation standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below.

IFRS 10 — supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation — Special Purpose Entities". It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same. The Group's management do not expect these changes to have effect on the Group's financial statements.

Consequential amendments to IAS 27 "Separate Financial Statements" (IAS 27) and IAS 28 "Investments in Associates and Joint Ventures" (IAS 28) — IAS 27 now only deals with separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged. The Group's management do not expect these changes to have effect on the Group's financial statements.

IFRS 13 — does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group's management do not expect these changes to have effect on the Group's financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" — require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Group's management have yet to assess the impact of these amendments on the current presentation of items in other comprehensive income, but expect this will not affect the measurement or recognition of such items.

Amendments to IAS 19 "Employee Benefits" — include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They:

- eliminate the 'corridor method', requiring entities to recognise all gains and losses arising in the reporting period;
- streamline the presentation of changes in plan assets and liabilities;
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The amended version of IAS 19 is effective for financial years beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this revised standard on the Group's consolidated financial statements.

5. Acquisition of subsidiaries and investment in associates

5.1 Acquisition of OOO Amida and Amida Automation LLC

At the end of 2011 the Company initiated acquisition of 100% ownership in two entities: OOO Amida (Russia) and Amida Automation LLC (USA). The entities are engaged in development of the ESP related surface equipment (switchboards) and will be incorporated in the Group operational structure. The total consideration amounted to USD’000 1,950 — approximately a value of the net assets acquired as of the deal closing. The deal is effective as of 20 January 2012 with the total amount paid in advance in December 2011.

5.2 Participation in African ESP Limited

In 2011 the Group financed a 50% share in joint-stock company African ESP Limited domiciled in Dubai to further increase its presence in Middle East and North Africa. The 50% share does not provide the Group with the control over the company, so it is treated as an associate in these consolidated financial statements and is accounted for under equity method. The effect of change in associate’s net assets from the date of initial recognition of the investment recognised in accordance with equity method to the reporting date was zero.

5.3 Acquisition of capillary line business in Canada

In March 2010 the Group acquired control over assets of Carbin Energies Ltd. The business acquired comprises undertakings, properties and assets as defined in the acquisition documents. The control was acquired for a total consideration of USD’000 1,569 (CAD’000 1,651) including costs related to acquisition. This consideration consisted of USD’000 580 (CAD’000 600) paid in March 2010 and obligation to pay USD’000 989 (CAD’000 1,051) in instalments during years 2011–2013. In February 2011 payment was made in amount USD’000 406 (CAD’000 400), another payment was made in the same amount in February 2012 and the rest is to be paid in 2013.

The assessment of fair values of the acquired assets and liabilities was performed by management and the effect of this acquisition on the Group’s financial position or results of operations is disclosed accordingly. A summary of assets and liabilities acquired during 2010 is presented below:

	Fair value of assets and liabilities of capillary line business acquired as at 1 March 2010 USD’000
Assets	
Property, plant and equipment	1,307
Inventories	72
	1,379
Net identifiable assets	**1,379**
Share of the Group in the net identifiable assets	100%
Fair value of acquired net identifiable assets	**1,379**
Acquisition cost	1,569
Excess of cost over Group’s interest in the net fair value of the acquired subsidiary’s identifiable assets and liabilities	**190**
Consideration paid net of cash acquired	**580**

5. Acquisition of subsidiaries and investment in associates (continued)

5.3 Acquisition of capillary line business in Canada (continued)

The excess of cost over Group's interest in the net fair value of the acquired subsidiary's identifiable assets and liabilities was recognised as goodwill in the consolidated statement of financial position of the Group.

5.4 Acquisition of the 2,53% stake in ZAO NPP Technologia

In 2010 the Group acquired 2,53% stake in ZAO NPP Technologia for a total consideration of USD'000 3 (RUR'000 86). The excess of Group's interest in the net fair value of the acquired non-controlling interest over the cost of acquisition amounted to USD'000 5. The stake was acquired from several individuals.

5.5 Acquisition of the 33,87% stake in ZAO Centroforce

In December 2010 the Group acquired 33,87% stake in ZAO Centroforce for a total consideration of USD'000 4,922 (RUR'000 150,000). The excess of the cost of acquisition over Group's interest in the net fair value of the acquired non-controlling interest amounted to USD'000 462. The stake was acquired from OAO TNK-Nizhnevartovsk.

6. Property, plant and equipment

In thousands of USD	Land and buildings	Machinery and equipment	Rental tools	Vehicles	Fixtures and fittings	Assets under construction	Total
Cost / revalued amount							
At 1 January 2011	80,890	130,741	67,504	11,779	9,046	9,441	309,401
Additions	5,834	2,302	2,293	155	2,930	3,873	17,387
Transferred from inventory	9	22	21,828	–	15	5,118	26,992
Disposals	(800)	(3,762)	(1,240)	(1,848)	(2,253)	(1,064)	(10,967)
Transferred to inventory	–	–	(23,531)	–	–	(504)	(24,035)
Transfers	2,151	2,853	4,367	82	406	(9,859)	–
Effect of translation to presentation currency	(4,102)	(6,197)	(2,789)	(395)	(492)	(164)	(14,139)
At 31 December 2011	83,982	125,959	68,432	9,773	9,652	6,841	304,639
Depreciation and impairment							
At 1 January 2011	18,886	46,002	34,739	5,398	5,250	–	110,275
Depreciation charge	6,604	14,676	23,081	2,327	2,514	–	49,202
Disposals	(602)	(2,281)	(759)	(1,244)	(2,155)	–	(7,041)
Transferred to inventory	–	–	(17,809)	–	–	–	(17,809)
Effect of translation to presentation currency	(1,407)	(3,177)	(1,209)	(268)	(258)	–	(6,319)
At 31 December 2011	23,481	55,220	38,043	6,213	5,351	–	128,308
Carrying value At 31 December 2011 before revaluation	60,501	70,739	30,389	3,560	4,301	6,841	176,331
Revaluation	26,729	41,298	–	7,027	3,202	1,137	79,393
Revalued amounts at 31 December 2011	87,230	112,037	30,389	10,587	7,503	7,978	255,724
At 1 January 2011	62,004	84,739	32,765	6,381	3,796	9,441	199,126

6. Property, plant and equipment (continued)

In thousands of USD	Land and buildings	Machinery and equipment	Rental tools	Vehicles	Fixtures and fittings	Assets under construction	Total
Cost / revalued amount							
At 1 January 2010	69,197	121,481	53,697	10,376	8,693	6,689	270,133
Acquisition of subsidiaries	138	1,035	–	116	18	–	1,307
Additions	8,174	9,515	–	1,823	2,177	15,504	37,193
Transferred from inventory	–	–	24,928	–	–	–	24,928
Disposals	(108)	(3,006)	–	(523)	(2,160)	(1,194)	(6,991)
Transferred to inventory	–	–	(16,169)	–	–	–	(16,169)
Transfers	4,282	2,955	5,109	–	354	(11,475)	1,225
Effect of translation to presentation currency	(793)	(1,239)	(61)	(13)	(36)	(83)	(2,225)
At 31 December 2010	80,890	130,741	67,504	11,779	9,046	9,441	309,401
Depreciation and impairment							
At 1 January 2010	13,493	34,006	20,022	3,985	5,377	–	76,883
Depreciation charge	5,568	13,824	22,790	1,549	1,937	–	45,668
Disposals	(22)	(1,468)	–	(133)	(2,041)	–	(3,664)
Transferred to inventory	–	–	(8,054)	–	–	–	(8,054)
Effect of translation to presentation currency	(153)	(360)	(19)	(3)	(23)	–	(558)
At 31 December 2010	18,886	46,002	34,739	5,398	5,250	–	110,275
Carrying value							
At 31 December 2010	62,004	84,739	32,765	6,381	3,796	9,441	199,126
At 1 January 2010	55,704	87,475	33,675	6,391	3,316	6,689	193,250

Revaluation of assets

Management based their estimate of the fair value of the property, plant and equipment mostly on the results of the independent appraisals. The recent independent appraisals were performed by BDO. As at 31 December 2011 all the property, plant and equipment (except rental tools) owned by the Group were evaluated in course of periodic valuation in accordance with the adopted accounting policy.

Three methods were used during the valuation of assets: Sales comparison approach, Income capitalisation approach and Cost approach. For assets of different classes the most appropriate and reliable method was selected subject to data availability. Method selected for individual classes of assets were as follows:

- Land — primarily sales comparison approach;
- Specialised buildings, plant and equipment which are unique and are never sold separately from the business they are part of — Depreciation Replacement Cost approach specifying an upper limit based on analysis of relevant sales comparison approach for particular asset type;
- Other items of plant and equipment — primarily sales comparison approach.

6. Property, plant and equipment (continued)

The test for adequate profitability of the assets and possible impairment was performed using discounted cash flow (DCF) method. DCF model included projections over 9 year period and was based on the following main assumptions:

- Conservative scenario with no step changes or business efficiency improvements;
- Revenue growth assumption — 4,83% for earlier periods gradually decreasing to 2%;
- Macroeconomic assumptions per official government forecasts;
- Discount rate — WACC estimated at 15% applied to USD cash flows;
- EBITDA margin: 16,5–12,2%.

Historical cost

The net book value of property, plant and equipment that would have been recognised under the historical cost method is USD'000 159,290 as at 31 December 2011 (31 December 2010: USD'000 178,133).

Assets under construction and equipment awaiting installation

During the period the Group has been acquiring equipment as part of the investment program. The balance as at 31 December 2011 mainly comprises equipment in the process of installation at manufacturing sites and service bases and buildings under construction. Costs to complete the installation are not material.

Disposal of property, plant and equipment

Disposals for the reporting period (as well as for comparative period) with significant residual value at the moment of disposal mainly relate to rental program, which involves sales of the assets to the customer once they prove their efficiency while exploited as rental tools. Carrying value of the rental tools sold during 2011 was USD'000 6,048 (2010: USD'000 7,286; see Note 6).

Transfer from Intangible assets to Property, plant and equipment

Part of costs incurred in connection with development projects resulted in tangible outcome, e.g., test rigs. In 2010 qualifying amounts related to such projects were reclassified to Construction in progress or appropriate category of property, plant and equipment in total amount of USD'000 1,225.

7. Intangible assets and goodwill

In thousands of USD	Goodwill	Trademarks, licenses and patents, designs and prototypes	Software	Development costs	Total
Cost					
Cost at 1 January 2011	**82,148**	**13,295**	**3,069**	**11,800**	**110,312**
Additions	**–**	**–**	**117**	**8,791**	**8,908**
Disposals	**–**	**–**	**(454)**	**(235)**	**(689)**
Transfers	**–**	**9,327**	**–**	**(9,327)**	**–**
Effect of translation to presentation currency	**–**	**(1,351)**	**(14)**	**(155)**	**(1,520)**
At 31 December 2011	**82,148**	**21,271**	**2,718**	**10,874**	**117,011**
Amortisation and impairment					
At 1 January 2011	**–**	**6,738**	**765**	**–**	**7,503**
Amortisation charge	**–**	**3,767**	**658**	**–**	**4,425**
Disposals	**–**	**–**	**(402)**	**–**	**(402)**
Effect of translation to presentation currency	**–**	**(567)**	**(5)**	**–**	**(572)**
At 31 December 2011	**–**	**9,938**	**1,016**	**–**	**10,954**
Carrying value					
At 31 December 2011	**82,148**	**11,333**	**1,702**	**10,874**	**106,057**
At 1 January 2011	**82,148**	**6,557**	**2,304**	**11,800**	**102,809**

7. Intangible assets and goodwill (continued)

In thousands of USD	Goodwill	Trademarks, licenses and patents, designs and prototypes	Software	Development costs	Total
Cost					
Cost at 1 January 2010	81,958	7,114	515	12,160	101,747
Acquisition of subsidiaries	190	–	–	–	190
Additions	–	14	1,627	8,159	9,800
Disposals	–	(22)	(54)	–	(76)
Transfers	–	6,242	986	(8,453)	(1,225)
Effect of translation to presentation currency	–	(53)	(5)	(66)	(124)
At 31 December 2010	82,148	13,295	3,069	11,800	110,312
Amortisation and impairment					
At 1 January 2010	–	3,412	269	–	3,681
Amortisation charge	–	3,377	499	–	3,876
Disposals	–	(22)	(2)	–	(24)
Effect of translation to presentation currency	–	(29)	(1)	–	(30)
At 31 December 2010	–	6,738	765	–	7,503
Carrying value					
At 31 December 2010	82,148	6,557	2,304	11,800	102,809
At 1 January 2010	81,958	3,702	246	12,160	98,066

Transfer from Intangible assets to Property, plant and equipment

Part of costs incurred in connection with development projects resulted in tangible outcome, e.g., test rigs. In 2010 qualifying amounts related to such projects were reclassified to Construction in progress or appropriate category of property, plant and equipment in total amount of USD'000 1,225.

Goodwill

In 2008 the Group completed the purchase accounting for its acquisition of ESP business of subsidiaries of Weatherford Bermuda Holding Limited. At 31 December 2008 the carrying value of goodwill was attributed to the Group's cash-generating unit represented by acquired ESP business.

Due to high degree of cooperation within the Group achieved during 2009 and increased integrity of the business management believes that the Group now consists of only one cash-generating unit.

As described in Note 5 "Acquisition of subsidiaries and investments in associates" in March 2010 the Group acquired new business in Canada which is supplementary in respect of basic ESP business of the Group in Canada and thus relates to the same cash-generating unit.

That is why the goodwill is attributed to the Group as a whole and tested for impairment accordingly.

7. Intangible assets and goodwill (continued)

Subsequent upon the impairment test for the period ended on 31 December 2011, the carrying amount of goodwill is allocated to the following cash-generating units ("CGU"):

	At 31 December 2011 USD'000
Group as a whole	**82,148**

Management has performed goodwill impairment testing based on assumption of one CGU.

The recoverable amount of the cash-generating unit (Group as a whole) was determined based on value-in-use calculations, which uses cash flow projections based on financial forecasts covering a detailed six-year period, and a discount rate of 15% per annum.

Cash flow projections during the forecasted period are based on the same expected gross margins throughout the projected period. The cash flows beyond that six-year period have been extrapolated using a concervative 2,4% per annum growth rate assumption, which is significantly lower than management's assessment of the long-term average market growth rate. The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of cash-generating unit.

As a result of these calculations, management arrived at the value of the Group that is significantly higher then the net assets value and therefore no impairment of goodwill was recognised as at 31 December 2011.

8. Other non-current assets

Other non-current assets mostly represent advances paid to suppliers for property and equipment (31 December USD'000 1,450; 31 December 2010: USD'000 2,078) and prepayment made at the end of 2011 for acquisition of a subsidiary in amount of USD'000 1,950 (see Note 5.1 "Acquisition of OOO Amida and Amida Automation LLC" and 34 "Events after the reporting period").

9. Inventories

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Raw materials and consumables	**79,224**	94,883
Work in progress	**18,012**	14,997
Finished goods and goods for resale	**65,022**	62,797
	162,258	172,677
Allowance for obsolete inventory	**(14,886)**	(17,917)
Total inventories	**147,372**	154,760

Group's core business is continuously changing subject to rapid technology changes, which may cause inventory obsolescence. Provision is determined based on management assessment of inventory realisable value. In determining net selling prices of inventory, management has taken into account the most reliable evidence available at the times the estimates were made.

9. Inventories (continued)

Movements in the allowance for obsolete inventory are as follows:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Balance at the beginning of the period	**17,917**	10,202
Charge for the period	**5,630**	7,725
Write-offs during the period	**(8,378)**	(8)
Translation to presentation currency	**(283)**	(2)
Balance at the end of the period	**14,886**	17,917

10. Trade and other receivables

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Trade receivables	**104,632**	89,384
Allowance for doubtful trade receivables	**(4,798)**	(5,383)
Trade receivables, net	**99,834**	84,001
Other receivables	**9,255**	4,362
Allowance for doubtful other receivables	**–**	(33)
Other receivables, net	**9,255**	4,329
Total trade and other receivables	**109,089**	88,330

Trade receivables are on average settled within 46 days and do not bear any effective interest rate. There is a significant concentration of credit risk, as the amounts recognised mostly relate to a limited number of receivables from larger customers mostly based in Russia (see Note 29.2 "Credit risk analysis").

The maximum exposure to credit risk at the reporting date is the carrying value of receivables mentioned above. The Group does not hold any collateral as security over these balances.

Trade receivables that are past due but less than 6 months are not considered impaired unless there is indication that such impairment exists. The aging analysis of trade receivables that are overdue but not impaired is as follows:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Not more than 6 months	**19,109**	18,736
More than 6 months but not more than 1 year	**4,770**	4,528
More than 1 year	**1,612**	2,589
Total	**25,491**	25,853

10. Trade and other receivables (continued)

All of the Group's trade receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and as at 31 December 2011 an allowance for doubtful trade receivables in amount of USD'000 4,798 was created (31 December 2010: USD'000 5,383). The impaired trade receivables are mostly due from the entities that are experiencing financial difficulties or went bankrupt. The aging of these trade receivables is as follows:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Not more than 6 months	**93**	255
More than 6 months but not more than 1 year	**273**	419
More than 1 year	**4,432**	4,709
Total	**4,798**	5,383

Movements in the allowance for doubtful trade receivables are as follows:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Balance at the beginning of the period	**5,383**	3,091
Charge for the period	**1,879**	2,513
Recovered during the period	**(179)**	(64)
Write-offs during the period	**(2,265)**	(157)
Translation to presentation currency	**(20)**	–
Balance at the end of the period	**4,798**	5,383

11. Other assets

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Prepayments for materials and supplies	**10,866**	10,733
VAT to be reclaimed	**7,448**	9,401
Other tax prepayments	**1,045**	604
Other	**81**	–
Total other assets	**19,440**	20,738

In 2011 Group entered into several index forward contracts with a related party for purchase of copper, nickel and lead to hedge against unfavourable fluctuations of market prices of the metals. According to the contracts agent is obligated to pay to the Group positive difference between market price at the moment of full or partial execution of the contract and forward price fixed at the inception of the contract multiplied by the execution amount. Otherwise Group is obligated to pay difference to the agent.

11. Other assets (continued)

According to IFRS the forward contracts are accounted as financial assets/liabilities at fair value through profit or loss. Outstanding balances of the forward contracts - financial assets are included in Other assets. The forward contracts are revalued at each reporting date using open market data. Any gain or loss related to change of fair value of the forward contracts is recognised in "Other operating expenses" in the consolidated statement of comprehensive income.

Below are the details of the forward contracts - financial assets held by the Group as at 31 December 2011:

Underlying commodity	**Outstanding amount, tonnes**	**Financial asset, USD'000**
Lead	1,600	29
Nickel	210	41
Copper	750	11
Total financial assets		**81**

12. Short-term investments

In February 2009 the Group purchased 169,600 shares of Weatherford International Limited for the price of USD 9.544 per share. The investment was designated as at fair-value through profit or loss. The shares are revalued at every reporting date using open market data. Differences between market value of shares and their book value are recognised in "Other operating expenses" in the consolidated statement of comprehensive income. In subsequent periods the Group sold 101,760 shares (33,920 shares each year). Below are the details of short-term investments held by the Group as at 31 December 2011:

Type of investment	**Number of shares**	**Market price, USD**	**Fair value, USD'000**
Weatherford International Limited shares	**67,840**	**14.640**	**993**
Total short-term investments			**993**

Below are the details of short-term investments held by the Group as at 31 December 2010:

Type of investment	Number of shares	Market price, USD	Fair value, USD'000
Weatherford International Limited shares	101,760	22.800	2,320
Total short-term investments			2,320

13. Cash and cash equivalents

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Cash at bank	**44,607**	46,755
Overdraft utilised facility	**(3,140)**	(2,925)
Term deposit	**22,219**	200
Cash in hand	**295**	37
Total cash and cash equivalents	**63,981**	44,067

As at 31 December 2011 the Group's cash and cash equivalents comprised overdraft and deposits.

As at 31 December 2011 the Group had the overdraft facility bearing interest 1 month LIBOR + 1,80% per annum with the limit of USD'000 3,500 is utilised for the amount of USD'000 3,140.

As at 31 December 2011 the Group had USD-denominated term deposits in Alef-Bank in the total amount of USD'000 21,000 generating 3,34% interest per annum, one of which amounting USD'000 10,000 was closed in January 2012.

As at 31 December 2011 the Group had USD-denominated term deposit in Venecredit Bank & Trust in the amount of USD'000 1,000.

As at 31 December 2011 the Group had USD-denominated term deposit in Chase Bank in the amount of USD'000 200.

14. Share capital

As at 31 December 2011 authorised and issued share capital of the Company consisted of 6,048 ordinary shares with the nominal value of 1 USD each.

The 5,000 shares issued initially were issued at nominal value. An additional 448 shares were issued on 4 January 2008 for consideration of USD'000 90,000. An additional 600 shares were issued on 29 September 2009 for consideration of USD'000 119,012. The excess of consideration received over nominal value was accounted for as share premium.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company. No dividends have been declared for 2011 and 2010.

15. Additional paid-in capital

Additional paid-in capital represents amounts contributed by shareholders to support operating and investing activities of the Group, which are not convertible into share capital.

16. Loans and borrowings

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Non-current		
Loans received	**106,515**	126,955
Total non-current borrowings	**106,515**	126,955
Current		
Loans received	**42,292**	33,269
Total current borrowings	**42,292**	33,269
Total loans and borrowings	**148,807**	160,224

Terms and repayment schedule are as follows:

Loans outstanding as at 31 December 2011:

Loan	Lender	Currency	Primary / outstanding principal USD'000	Nominal annual interest rate	Effective interest rate	Year of maturity (primary/ actual)
Loan received	European Bank for Reconstruction and Development	USD	100,000 / 76,923	6 month LIBOR + 5,5%	6,94%	2016
Loan received	Syndicate of banks (Alliance, ING)	USD	40,000 / 16,000	6 month LIBOR + 5,0%	7,52%	2012
Loan received	Alef-bank (Note 31)	USD	10,000 / 4,000	6 month LIBOR + 5,0%	6,56%	2012
Loan received	International Finance Corporation	USD	30,000 / 30,000	6 month LIBOR + 6,0%	7,56%	2017
Loan received	Venezolano de Credito	VEF	1,977/ 1,977	18%	18%	2012
Loan received	International Finance Corporation (Standby loan)	USD	20,000 / 20,000	6 month LIBOR + 5,5%	7,21%	2017

Loans outstanding as at 31 December 2010:

Loan	Lender	Currency	Primary / outstanding principal USD'000	Nominal annual interest rate	Effective interest rate	Year of maturity (primary/ actual)
Loan received	European Bank for Reconstruction and Development	USD	100,000 / 92,308	6 month LIBOR + 5,5%	8,08%	2016
Loan received	Syndicate of banks (Alliance, ING)	USD	40,000 / 32,000	6 month LIBOR + 5,0%	7,64%	2012
Loan received	Alef-bank (Note 31)	USD	10,000 / 8,000	6 month LIBOR + 5,0%	6,78%	2012
Loan received	International Finance Corporation	USD	30,000	6 month LIBOR + 6,0%	8,70%	2017

16. Loans and borrowings (continued)

Loans received
In 2009 the Group received the Loan facility from European Bank of Reconstruction and Development and syndicate of banks in total amount of USD'000 140,000. The first tranche under the loan facility in amount of USD'000 100,000 was drawn down on 8 December 2009. The rest of the loan principal was drawn down on 2 March 2010. The repayment in full of the loan received from the European Bank of Reconstruction and Development is scheduled for 2016. The full repayment of the loan received from the syndicate of banks is scheduled for 2012.

On 24 November 2009 the Group received the loan from Alef-bank in amount USD'000 10,000. The repayment in full of all the above loans is scheduled for 2012.

All the above loans bear nominal interest payable semi-annually, dependant on market interest rates. The objective of receiving these loans is financing promissory notes final repayment and financing working capital and production modernisation program of the Group.

In December 2009 the Company has reached a general agreement with International Finance Corporation (IFC) under which it can borrow USD'000 30,000. On 15 March 2010 the Group received the loan from IFC in amount USD'000 30,000. The repayment in full of the loan is scheduled for 2017. At the inception of the loan agreement in 2010 the Company has obtained an option of receiving another USD'000 20,000. The Company utilised this option in the second half of 2011. The objective of receiving these loans is to finance working capital and production modernisation program of the Group.

In August 2011 the Group received loan from Venezolano de Credito in amount USD'000 1,977 (VEF'000 8,500) to finance working capital.

In these consolidated financial statements the loans received are carried at amortised cost which accounts for costs incurred by the Group directly attributable to receiving of the loans. The loans received from European Bank of Reconstruction and Development and syndicate of banks are secured by pledge of shares of the Group companies and guarantees provided by the Group companies. The Loan Agreements impose financial covenants tested on half-year basis. Based on these consolidated financial statements the Group has successfully met these covenants.

17. Deferred tax assets and liabilities

	Assets		Liabilities		Net	
In thousands of USD	**31 Dec 2011**	31 Dec 2010	**31 Dec 2011**	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
Property, plant and equipment	**1,203**	1,162	**(28,555)**	(13,939)	**(27,352)**	(12,777)
Inventories	**3,254**	4,001	**(352)**	(592)	**2,902**	3,409
Receivables and prepayments	**464**	846	**(225)**	(84)	**239**	762
Payables and accruals	**2,349**	2,522	**(806)**	(879)	**1,543**	1,643
Tax losses carried forward	**11,947**	10,673	**–**	–	**11,947**	10,673
	19,217	19,204	**(29,938)**	(15,494)	**(10,721)**	3,710

17. Deferred tax assets and liabilities (continued)

The applicable income tax rate for the Russian Group companies is 20%. This rate has been used in the calculation of deferred tax assets and liabilities. Foreign subsidiaries pay income tax in accordance with the legislative requirements of their tax jurisdictions. For the entity located in the USA the tax rate varies from 15% to 35%. Management decided to use 15% rate for the purposes of deferred tax asset calculation For the entity located in China the applicable tax rate is the corporate income tax rate of 25%.

Deferred tax assets and liabilities shown above are netted-off within each legal entity. Sum of positive net balances resulted in USD'000 12,135 of deferred tax asset, sum of negative net balances resulted in USD'000 22,856 of deferred tax liability, as shown in the consolidated statement of financial position as at 31 December 2011.

Movements in deferred taxes during the reporting period were as follows:

In thousands of USD	**Property, plant and equipment**	**Inventories**	**Receivables and prepayments**	**Payables and accruals**	**Tax losses carried forward**	**Total**
Balance as at 1 January 2011	**(12,777)**	**3,409**	**762**	**1,643**	**10,673**	**3,710**
Recognised in income — origination and reversal of timing differences	**1,399**	**(446)**	**(536)**	**57**	**1,133**	**1,607**
Recognised in equity due to revaluation of property, plant and equipment	**(16,494)**	**–**	**–**	**–**	**–**	**(16,494)**
Translation to presentation currency	**520**	**(61)**	**13**	**(157)**	**141**	**456**
Balance as at 31 December 2011	**(27,352)**	**2,902**	**239**	**1,543**	**11,947**	**(10,721)**

Movements in deferred taxes during the previous year were as follows:

In thousands of USD	Property, plant and equipment	Inventories	Receivables and prepayments	Payables and accruals	Tax losses carried forward	Total
Balance as at 1 January 2010	(15,147)	1,226	617	1,656	3,524	(8,124)
Recognised in income — origination and reversal of timing differences	2,137	2,219	156	10	7,147	11,669
Translation to presentation currency	233	(36)	(11)	(23)	2	165
Balance as at 31 December 2010	(12,777)	3,409	762	1,643	10,673	3,710

18. Trade and other payables

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Trade payables	**40,487**	34,584
Wages, salaries and other related accruals	**19,580**	21,353
Other payables	**23,828**	20,190
Total trade and other payables	**83,895**	76,127

19. Other liabilities

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
VAT payable	**8,963**	10,283
Advances from customers	**6,400**	5,202
Other taxes payable	**6,920**	6,942
Warranty provisions	**1,575**	1,320
Other	**152**	–
Total other liabilities	**24,010**	23,747

Outstanding balances of the forward contracts — financial liabilities are included in Other liabilities (See also Note 11 "Other assets").

Below are the details of the forward contracts — financial liabilities held by the Group as at 31 December 2011:

Underlying commodity	Outstanding amount, tonnes	Financial liability, USD'000
Copper	100	152
Total financial liabilities		**152**

20. Sales revenue

	2011 USD'000	2010 USD'000
Revenue from sale of goods	**474,606**	397,566
Revenue from rendering of services	**231,946**	213,496
Total sales revenue	**706,552**	611,062

21. Cost of sales

	2011 USD'000	2010 USD'000
Raw materials and components used in production	**308,343**	250,381
Wages, salaries and related social costs	**144,697**	127,438
Depreciation	**51,003**	46,627
Production overheads	**31,150**	30,245
Transportation	**23,602**	18,370
Rental tools sold (Note 6)	**6,048**	7,286
Conversion and contractor services	**1,332**	1,304
Change in stock of work in progress and finished goods other than related to acquisition and disposal of subsidiaries	**(8,653)**	(6,723)
Work performed capitalised	**(25,872)**	(31,893)
Total cost of sales	**531,650**	443,035

22. Selling and marketing expenses

	2011 USD'000	2010 USD'000
Transportation	**6,405**	5,533
Advertisement	**420**	490
Commission	**184**	36
Total selling and marketing expenses	**7,009**	6,059

23. Administrative expenses

	2011 USD'000	2010 USD'000
Wages, salaries and related social costs	**64,690**	62,189
Management fee (Note 31.1)	**10,000**	10,000
Rent expenses	**8,691**	7,861
Consulting, audit and legal expenses	**4,388**	5,017
Depreciation and amortisation	**2,624**	2,917
Travel expenses	**2,920**	2,314
Telecommunication expenses	**2,242**	2,042
Repairs and maintenance	**748**	958
Other expenses	**6,935**	3,469
Total administrative expenses	**103,238**	96,767

24. Other operating expenses, net

	2011 USD'000	2010 USD'000
Impairment of inventory	**5,630**	7,725
Loss from disposal of property, plant and equipment and intangible assets	**3,699**	3,078
Impairment and write-off of doubtful trade and other receivables	**2,385**	2,971
Devaluation of property, plant and equipment due to appraisal	**2,021**	–
Additional liability recognised in connection with prior periods' acquisitions (Note 31)	**–**	4,622
Other	**2,415**	657
Total other operating expenses, net	**16,150**	19,053

25. Net finance costs

	2011 USD'000	2010 USD'000
Interest income	**(825)**	(675)
Foreign exchange losses, net	**4,896**	3,283
Bank and other transaction fees	**1,458**	1,400
Interest expense — EBRD & bank syndicate	**8,386**	10,028
Interest expense — IFC	**2,668**	1,968
Interest expense — Alef-bank (Note 31)	**440**	1,009
Interest expense — Venezolano de Credito	**119**	–
Interest expense on other payables	**703**	669
Interest expense — bank overdraft facilities drawn down	**61**	82
Total finance costs, net	**17,906**	17,764

26. Income tax expense/(benefit), net

	2011 USD'000	2010 USD'000
Current		
Current income tax expense	**5,295**	6,143
Deferred		
Effect of utilisation and origination of tax losses carried forward	**(1,133)**	(7,147)
Origination and reversal of temporary differences	**(474)**	(4,522)
Total income tax expense / (benefit), net	**3,688**	(5,526)

26. Income tax expense/(benefit), net (continued)

Reconciliation of theoretical income tax expense with actual income tax expenses:

	2011 USD'000	2010 USD'000
Profit before tax	**30,599**	28,384
Income tax using the BVI tax rate (zero %)	**–**	–
Tax expense at tax rates applicable in foreign jurisdictions	**(3,151)**	(1,604)
Adjustment for tax exempt income and non-deductible expenses	**6,839**	(3,922)
Total income tax expense / (benefit) in the consolidated statement of comprehensive income	**3,688**	(5,526)

The applicable income tax rate for the Russian Group companies is 20%. This rate has been used in the calculation of deferred tax assets and liabilities. Foreign subsidiaries pay income tax in accordance with the legislative requirements of their tax jurisdictions. For the entity located in the USA the tax rate varies from 15% to 35%. Management decided to use 15% rate for the purposes of deferred tax asset calculation For the entity located in China the applicable tax rate is the corporate income tax rate of 25%.

27. Consolidated EBITDA reconciliation

	2011 USD'000	2010 USD'000
Consolidated profit for the period	**26,911**	33,910
Adjustments for:		
Income tax expense / (benefit)	**3,688**	(5,526)
Interest expense, net	**11,552**	13,081
Management fee (Note 31.1)	**10,000**	10,000
Consolidated EBIT	**52,151**	51,465
Adjustment for depreciation and amortisation	**53,627**	49,544
Adjustment for extraordinary item (devaluation of property, plant and equipment due to appraisal)	**2,021**	–
Consolidated EBITDA	**107,799**	101,009

28. Capital risk management

The Group's policy is to maintain a strong capital base so as to ensure investor and creditor confidence and to sustain future development of the business. The policy includes compliance with certain internally imposed minimum capital requirements. The Group's management constantly monitors profitability and gearing ratios and compliance with the minimum capital requirements. The Group uses the return on assets ratio which is defined as operating profit divided by total assets (averaged over the measurement period) and the gearing ratio calculated as net debt, comprising of long-term and short-term indebtedness less cash and cash equivalents divided by equity. The level of dividends is also monitored by the Board of Directors of the Group.

There were no changes in the Group's approach to capital management during the period. The return on assets ratios for the reporting and comparative periods were as follows:

	2011 USD'000	2010 USD'000
Operating profit	**48,505**	46,148
Total averaged assets	**676,398**	602,337
Return on assets ratio for the year	**7%**	8%

The decrease in ROA ratio is due to the increase of total assets due to revaluation of property, plant and equipment (i.e. the ROA remains 8% outside revaluation effect).

The gearing ratios were as follows:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Loans and borrowings	**148,807**	160,224
Less: Cash and cash equivalents	**(63,981)**	(44,067)
Net debt	**84,826**	116,157
Total equity	**440,697**	361,054
Equity	**440,697**	361,054
Gearing ratio	**19%**	32%

The decrease in gearing ratio is due to increase in cash, partial debt repayment (see Note 16 "Loans and borrowings") and the Equity increase due to revaluation of property, plant and equipment .

29. Financial risk management

Exposure to credit, liquidity and market risk (including currency, fair value interest rate risk and price risk) arises in the normal course of the Group's business. Risk management is carried out by a central treasury department.

The Group does not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. The most significant financial risks to which the Group is exposed are described below.

These risks are attributable to the following categories of financial instruments:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Financial assets		
Trade and other receivables	**109,089**	88,330
Current tax assets	**1,507**	3,245
Other assets net of prepayments made	**8,574**	10,005
Cash and cash equivalents	**63,981**	44,067
Financial liabilities		
Loans and borrowings	**148,807**	160,224
Trade and other payables	**83,895**	76,127
Current tax liabilities	**574**	809
Other liabilities net of advances from customers and warranty provision	**16,035**	17,225

29.1 Currency exchange rate risk

The Group has monetary assets and liabilities denominated in several contractual currencies. The Group does not use any derivative financial instruments to hedge currency exchange rate risk exposure. Management uses USD to analyse currency exchange rate risk.

Contractual currency analysis of monetary assets and liabilities is as follows:

	31 December 2011				
	USD USD'000	**RUR USD'000**	**EUR USD'000**	**Other USD'000**	**Total USD'000**
Monetary assets					
Trade and other receivables	**34,124**	**64,949**	**846**	**9,170**	**109,089**
Current tax assets	**–**	**1,499**	**–**	**8**	**1,507**
Other assets net of prepayments made	**456**	**5,948**	**493**	**1,677**	**8,574**
Cash and cash equivalents	**37,378**	**23,828**	**163**	**2,612**	**63,981**
Total monetary assets	**71,958**	**96,224**	**1,502**	**13,467**	**183,151**
Monetary liabilities					
Loans and borrowings	**(146,830)**	**–**	**–**	**(1,977)**	**(148,807)**
Trade and other payables	**(34,301)**	**(41,824)**	**(1,312)**	**(6,458)**	**(83,895)**
Current tax liabilities	**(229)**	**(342)**	**–**	**(3)**	**(574)**
Other liabilities net of advances from customers and warranty provision	**(1,071)**	**(14,221)**	**(66)**	**(677)**	**(16,035)**
Total monetary liabilities	**(182,431)**	**(56,387)**	**(1,378)**	**(9,115)**	**(249,311)**
Net position	**(110,473)**	**39,837**	**124**	**4,352**	**(66,160)**

29. Financial risk management (continued)

29.1 Currency exchange rate risk (continued)

	31 December 2010				
	USD USD'000	RUR USD'000	EUR USD'000	Other USD'000	Total USD'000
Monetary assets					
Trade and other receivables	33,428	49,155	136	5,611	88,330
Current tax assets	–	3,245	–	–	3,245
Other assets net of prepayments made	58	8,620	925	402	10,005
Cash and cash equivalents	24,753	18,831	(2,844)	3,327	44,067
Total monetary assets	58,239	79,851	(1,783)	9,340	145,647
Monetary liabilities					
Loans and borrowings	(160,224)	–	–	–	(160,224)
Trade and other payables	(32,123)	(36,695)	(1,200)	(6,109)	(76,127)
Current tax liabilities	(244)	(528)	(36)	(1)	(809)
Other liabilities net of advances from customers and warranty provision	(731)	(16,281)	(106)	(107)	(17,225)
Total monetary liabilities	(193,322)	(53,504)	(1,342)	(6,217)	(254,385)
Net position	(135,083)	26,347	(3,125)	3,123	(108,738)

The following table details the Group's sensitivity to a 10% change in the USD rates against the other currencies. 10% is the sensitivity rate used when reporting currency exchange rate risk internally to key management personnel and represents management assessment of the reasonably possible change in currency exchange rates. The analysis was applied to monetary items at the reporting date denominated in respective contractual currencies.

If the USD strengthened against the RUR, Euro and other currencies by 10% then this would have the following impact on comprehensive income:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Foreign currency		
RUR	**(3,984)**	(2,635)
EUR	**(12)**	313
Other	**(435)**	(312)

If the USD weakened against the RUR, Euro and other currencies by 10% then this would have the equal but opposite effect on the amounts shown above being the other variables remain constant.

29. Financial risk management (continued)

29.2 Credit risk analysis

Credit risk is the risk that counterparty may default or not meet its obligations to the Group when contractually due leading to financial losses of the Group.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. If such customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

At the reporting date there was a significant concentration of credit risk. Trade receivables consist of a small number of customers, primarily operating in the oil industry in the Russian Federation. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks.

The maximum exposure to credit risk for trade receivables including trade receivables from related parties at the reporting date relates to counterparties operating in the Russian Federation and other countries mainly in oil production industry. The Group does not require collateral in respect of the majority of its financial assets.

The table below represents five largest balances of accounts receivable from the major counterparties as at the reporting date:

	31 Dec 2011 USD'000
OAO "TNK-BP Holding"	**11,601**
OAO "Gazpromneft-Noyabrskneftegaz"	**5,859**
OOO "RN-Yuganskneftegaz"	**5,488**
Petroleo de Venezuela S.A.	**5,344**
OAO "TNK-Nizhnevartovsk"	**4,191**

	31 Dec 2010 USD'000
OAO "TNK-BP Holding"	10,765
OAO "Samotlorneftegaz"	4,600
OOO "RN-Yuganskneftegaz"	4,511
Apache Corporation	3,303
Qarun Petroleum Company	3,134

29. Financial risk management (continued)

29.3 Interest rate risk

Interest rate risk is the risk that movements in market interest rates will adversely impact the financial results of the Group.

Interest rates on the Group's debt finance are either fixed or variable, at a fixed spread over LIBOR for the duration of each interest-setting period (6 months). Changes in market interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans and borrowings, management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Fixed rate instruments		
Term deposits (Note 13)	**22,219**	200
Loans received (Note 16)	**(1,977)**	–
	20,242	200
Variable rate instruments		
Loans received (Note 16)	**(146,830)**	(160,224)
	(146,830)	(160,224)

29.4 Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities when they are contractually due.

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due by preparing annual budgets, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following are the contractual maturities of financial liabilities. Contractual cash flows represent undiscounted cash flows of financial liabilities based on earliest date on which the Group can be required to pay and include both the principal and interest cash flows.

29. Financial risk management (continued)

29.4 Liquidity risk (continued)

31 December 2011	Carrying amount USD'000	Contractual cash flows: 6 months or less USD'000	6 – 12 months USD'000	1 – 2 years USD'000	More than 2 years USD'000	Total contractual cash flows USD'000
Financial liabilities						
Loans received	**148,807**	**24,995**	**26,357**	**29,550**	**94,290**	**175,192**
Trade and other payables and other monetary liabilities	**100,504**	**100,471**	**33**	**–**	**–**	**100,504**
Total financial liabilities	**249,311**	**125,466**	**26,390**	**29,550**	**94,290**	**275,696**

31 December 2010	Carrying amount USD'000	Contractual cash flows: 6 months or less USD'000	6 – 12 months USD'000	1 – 2 years USD'000	More than 2 years USD'000	Total contractual cash flows USD'000
Financial liabilities						
Loans received	160,224	22,537	21,990	48,639	103,506	196,672
Trade and other payables and other monetary liabilities	94,161	93,451	56	402	252	94,161
Total financial liabilities	254,385	115,988	22,046	49,041	103,758	290,833

29.5 Fair value of financial instruments

Management of the Group consider that the carrying amounts of the financial instruments approximate their fair values.

The estimated fair values of financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date. The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of assets or settlement of liabilities.

30. Contingencies

30.1 Insurance

The Group maintains adequate insurance cover for its property, plant and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to Group's operations.

30.2 Litigation

From time to time and in the normal course of business, claims against the Group are received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred. Matters arising from litigation on tax issues are described in Note 30.3.

30.3 Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretations by different authorities. Taxes are subject to audit and investigation by a number of authorities of different levels, which are empowered by law to impose severe fines, penalties and interest charges for late payments.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for the tax liabilities based on its interpretation of the tax legislation. However, the relevant tax authorities may have different interpretations and the effects could be significant.

The way the Group has structured its activities can be challenged by the tax authorities of the Russian Federation, which may result in additional tax payments being required.

Thus, in 2010–2011 Russian tax authorities finalised the field tax audits of the Group's Russian subsidiaries for the 2006–2009 financial years. As a result of those tax audits, the tax authorities believed that additional tax in the amount of USD'000 36,533 might be imposed on the Group. This amount comprised mainly income and value added taxes excluding any related fines and penalties.

Group's management disagreed with the approach of the tax authorities and appealed directly to the relevant tax authorities and courts. Up to the moment of signing of these consolidated financial statements the Group has won all material cases.

Management of the Group believes that the accumulated potential amount of additional tax payments being required will not exceed USD'000 105 as at 31 December 2011 (USD'000 70,029 as at 31 December 2010), and comprise mainly income and value added taxes excluding any related fines and penalties.

30. Contingencies (continued)

30.4 Environmental matters

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

31. Related-party transactions

The Group has related-party relationship with its shareholders, directors, senior officers and some other parties.

31.1 Transactions with shareholders

Weatherford Bermuda Holding Limited and Weatherford International Limited

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Period-end balances		
Short-term investments	**993**	2,320
Short-term payables	**2,622**	4,622
Other receivables and prepayments	**1,745**	1,964
Trade and other payables	**871**	2,471

	2011 USD'000	2010 USD'000
Sales and purchases of goods and services		
Sales of goods and services to other related parties (net of VAT)	**848**	1,544
Purchases of services, materials and fixed assets (net of VAT)	**260**	718

Tangent Fund Limited

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Period-end balances		
Short-term payables	**15,000**	10,000

	2011 USD'000	2010 USD'000
Purchases of services, interest expense		
Management fee	**10,000**	10,000
Interest expense on other payables	**704**	669

31.2 Transactions with key management personnel

Remuneration paid to key management personnel in 2011 was USD'000 5,981 (in 2010: USD'000 7,170).

31. Related-party transactions (continued)

31.3 Transactions with other related parties

In the normal course of its business activities the Group purchases services and raw materials or fixed assets, and makes sales to related parties other than disclosed above. Transactions with those related parties were as follows:

	2011 USD'000	2010 USD'000
Sales and purchases of goods and services, interest expense		
Sales of goods and services to other related parties (net of VAT)	**27,257**	154
Interest expense	**440**	1,009
Purchases of materials and fixed assets (net of VAT)	**9,482**	2,205
Purchases of services (net of VAT)	**9,542**	8,519
Acquisition of non-controlling interest in ZAO Centroforce	**–**	4,941

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Period-end balances		
Cash at bank and short-term deposits	**44,803**	19,498
Other receivables and prepayments	**8,940**	1,764
Loan received	**3,993**	7,934
Trade and other payables	**9,283**	312
Receivables arising from settlements related to carve-out agreement	**416**	448

32. Commitments

32.1 Capital commitments

The Group has the following capital commitments at the reporting date:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Capital construction and purchase of fixed assets	**3,072**	3,043
Total capital commitments	**3,072**	3,043

32. Commitments (continued)

32.2 Operating leases

The Group has the following commitments on rent of premises at the reporting date:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Rent expenses for the period up to 12 months	**1,717**	2,262
Rent expenses for the period from 1 to 5 years	**1,310**	2,169
Rent expenses for the period over 5 years	**77**	188
Total commitments on rent of premises	**3,104**	4,619

32.3 Purchase of raw materials and spare parts

At the reporting date the Group has the following commitments on purchase of raw materials and spare parts which are mostly related to Borets-Weatherford US, Inc:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Purchase of raw materials, spare parts and services	**2,292**	5,334
Total commitments on purchases of raw materials, spare parts and services	**2,292**	5,334

32.4 Commitments to customers

By 31 December 2011 the Group has won a number of tenders for supply of the electrical submersible pumps (ESP) to the major Russian and international oil-production enterprises. The exact contractual amounts will be agreed after defining and contracting detailed customer requirements.

As at 31 December 2011 the Group had signed a number of contracts for supply of the compressor's equipment.

As at 31 December 2011 the Group had several contracts for the ESP service and maintenance. The exact value of the service charge is calculated on the base of the actual number of days of normal operating of the oil wells.

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Tenders for supply of the ESP to the major Russian oil-production enterprises	**140,882**	191,080
ESP service and maintenance contracts in Russia	**176,916**	186,351
ESP service and maintenance contracts for International oil-production Companies	**35,618**	24,395
International tenders for supply of the ESP to oil-production Companies	**33,860**	15,346
Contracts for supply of the compressor's equipment	**6,341**	16,622
Total commitments to customers	**393,617**	433,794

32. Commitments (continued)

32.4 Commitments to customers (continued)

Management believes that the costs to fulfil the commitments to customers will be as follows:

	31 Dec 2011 USD'000	31 Dec 2010 USD'000
Tenders for supply of the ESP to the major Russian oil-production enterprises	**84,529**	114,648
ESP service and maintenance contracts in Russia	**159,225**	167,716
ESP service and maintenance contracts for International oil-production Companies	**28,494**	19,516
International tenders for supply of the ESP to oil-production Companies	**20,316**	9,208
Contracts for supply of the compressor's equipment	**5,326**	13,962
Total costs to fulfil commitments to customers	**297,890**	325,050

33. Principal subsidiaries

The following comprise the list of the principal Group subsidiaries as at 31 December 2011.

Entity	Principal activities	Country of incorporation	Control, % **31 Dec 2011**	Control, % 31 Dec 2010
OOO Proizvodstvennaya Kompaniya Borets	Production, Trading	Russia	100	100
OOO Lemaz	Production	Russia	100	100
OOO Lysvaneftemash	Production	Russia	100	100
OAO Compressor Plant	Production	Russia	100	100
OOO Kontekko	Production	Russia	100	100
OOO Kurgansky Kabelny Zavod	Production	Russia	100	100
ZAO NPP Technologia	Production	Russia	85,71	85,71
OOO Servisnaya Kompaniya Borets	Service	Russia	100	100
ZAO Centroforce	Service	Russia	83,95	83,95
OOO Borets Muravlenko	Service	Russia	100	100
OOO Borets Servis-Nefteyugansk	Service	Russia	100	100
OOO CBPO PREPU	Service	Russia	100	100
OOO Torgovaya Kompaniya Borets	Trading	Russia	100	100
OOO Borets-Nizhnevartovsk	Asset holder	Russia	100	100
OOO Meilin	Asset holder	Russia	100	100
Borets-Weatherford US, Inc	Trading	USA	100	100
Borets-Weatherford Canada Limited	Trading, Service	Canada	100	100
Weatherford Oilfield Equipment Shanghai Co Limited	Production	China	100	100
Borets-Weatherford (UK) Limited	Production	UK	100	100
ZTS-Kabel sro	Production	Slovakia	100	100
Hultic Limited	Trading, Service	Seychelles	100	100
Borets-Weatherford FZE	Trading, Service	UAE	100	100
Borets Venezuela, S.A.	Trading, Service	Venezuela	100	100
Borets-Weatherford do Brasil Limited	Trading, Service	Brazil	100	100
Borets Seven Seas LLC	Trading	Oman	60,0	60,0
Oilfield Equipment Development Center Limited	Asset holder	Seychelles	100	100
Borets International Levant and Africa Ltd	Trading, Service	UAE	100	100

34. Events after the reporting period

As described in Note 5.1, in the beginning of 2012 the Group acquired 100% share in OOO Amida (Russia) and Amida Automation LLC (USA). The companies are engaged in development of the ESP related surface equipment (switchboards) and will be incorporated in the Group operational structure. The total consideration amounted to USD'000 1,950 — approximately a value of the net assets acquired as of the deal closing.

There have been no other material events requiring disclosure subsequent to the reporting date.