Integra Group Interim Management Statement and Financial Highlights for the 9M 2008

MOSCOW, December 11, 2008 – Integra Group (LSE: INTE), a leading Russian oilfield service provider and manufacturer of oilfield services equipment, released today its Interim Management Statement and unaudited financial highlights for the nine months period ended 30 September 2008. The financial data is based on management assessment only and has not been reviewed by external auditors.

Integra delivered a good result in the third quarter and for the nine months of 2008. We demonstrated a 45% year-on-year growth in 9M 2008 revenue and 50% growth in Adjusted EBITDA. During 9M 2008 we generated US$ 82.2 million in cash flow from operating activities, most of which was in 3Q 2008.

At the end of the third quarter and in the fourth quarter of 2008 we begun to observe increased volatility in our key markets. While both the magnitude and the length of the current downturn remain uncertain, Integra Group started number of proactive measures to minimize the negative impact of potential softening in demand for oilfield services. These measures include personnel optimization, aggressive overhead and working capital management and re-evaluation of the capital spending program. Our focus is to maintain a lean operational structure which would efficiently weather the upcoming market volatility.

9M 2008 Financial Highlights

- Sales increased by 45.3% to US$ 1,167.0 million (vs. US$ 803.0 million in 9M 2007)
- Adjusted EBITDA[1] rose by 50.1 % to US$ 192.9 million (vs. US$ 128.5 million in 9M 2007). Adjusted EBITDA margin was 16.5% (vs. 16.0% in 9M 2007)
- Net cash flow provided by operating activities was US$ 82.2 million (vs. US$ 3.9 million in 9M 2007)
- Capital expenditures for the first nine months of 2008 were US$ 137.6 million (vs. US $115.1 million in 9M 2007)
- Net Debt as of September 30, 2008 amounted to US$ 379.4 million (vs. US$ 303.3 million as of December 31, 2007)
- Gearing[2] was 37.2% at the end of 9M 2008 (vs. 21.6% at the end of 9M 2007)

9M 2008 Operating Highlights[3]

- 301,000 meters drilled (vs. 347,000 meters during 9M 2007)
- 2,542 workover operations conducted (vs. 727 workover operations during 9M 2007)
- 704,000 seismic shot points made (vs. 623 thousand seismic shot points during 9M 2007)
- 716 downhole motors and 46 turbines produced (vs. 572 downhole motors and 17 turbines produced in 9M 2007)
- 15 cementing units produced (vs. 5 cementing units in 9M 2007)
- 24 heavy drilling rigs in production at the end of 9M 2008 (vs. 21 in production at the end of 9M 2007), 18 new rigs commissioned (vs. 2 in 9M 2007)

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[1] Adjusted EBITDA represents profit (loss) before interest income (expenses), foreign exchange translation differences, income taxes, depreciation and amortization, share-based compensation, share of results in associates and minority interest.
[2] Gearing defined as: (short-term debt + long-term debt) / (short-term debt + long-term debt + equity).
[3] Operating results for 9M2008/9M2007 are presented on a consolidated basis.

Conference Call Dial-In Details

Date:	Thursday, 11 December
Time	18.00 Moscow / 15.00 London / 10.00 New York
Title:	Integra Group – IMS
Call reference:	77365971
UK local rate tel:	0808 238 0665
UK international tel:	+44 (0) 1452 568 328
US tel:	+1 866 261 3627

There will also be a playback facility available until 17 December 2008. The details are:

UK local rate tel:	0845 245 5205
UK international tel:	+44 (0) 1452 550 000
US tel:	+1866 247 4222
Access code:	77365971 #

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Discussion of Group's Financial Results

Consolidated sales during 9M 2008 increased by 45.3% to US$ 1,167.0 million compared to US$ 803.0 million during 9M 2007. The majority of the increase, US$ 261.6 million or 71.9%, was related to organic increases in sales of companies which Integra Group fully or partially consolidated at the end of 9M 2007.

Adjusted EBITDA increased by 50.1% to US$ 192.9 million from US$ 128.5 million, of which organic growth represented US$ 49.0 million or 76.1%. This organic growth was primarily attributable to improved pricing environment, expansion of the product offering as well as productivity gains. Adjusted EBITDA margin increased to 16.5% in 9M 2008 from 16.0% in 9M 2007. This increase was primarily driven by realization of better operating leverage and continued focus on SG&A reduction as a proportion of our revenues. In 3Q 2008, we saw continued improvement in operational and financial performance in our drilling subsegment, a drop in the formation evaluation profitability due to suspension of several high-margin contracts as well as anticipated decline in operating activity in rig manufacturing.

Discussion of Segment Financial Result

Sales by segment (in US $ million):

	9M 2008	9M 2007	% chg
Drilling, Workover, IPM and Technology Services	**655.2**	400.5	64%
Formation Evaluation	**270.4**	202.0	34%
Manufacturing	**254.2**	205.7	24%
Other eliminations	**(12.8)**	(5.2)	n/a
Total sales	**1,167.0**	803.0	45%

Adjusted EBITDA and margin by segment (in US $ million/ %) :

	Adj. EBITDA (US$ m)			**Adj. EBITDA Margin (%)**	
	9M 2008	9M 2007	% chg	**9M 2008**	9M 2007
Drilling, Workover, IPM and Technology Services	**133.6**	83.6	60%	**20.4%**	20.9%
Formation Evaluation	**70.7**	55.7	27%	**26.2%**	27.6%
Manufacturing	**38.7**	33.7	15%	**15.2%**	16.4%
Other (corporate)	**(50.1)**	(44.5)	13%	n/a	n/a
Total Group	**192.9**	128.5	50%	**16.5%**	16.0%

Drilling, Workover, IPM and Technology Services

- In the Drilling, Workover, IPM and Technology Services segment, the 9M 2008 revenue and adjusted EBITDA demonstrated substantial absolute growth of 63.6% and 59.8%, respectively. This growth was primarily triggered by the launch of new technology services, the acquisition of new workover assets (ONR, NKRS) and improved asset productivity. Year-on-year, margins were 0.5% lower as higher margins in drilling were diluted by addition of acquired workover revenues and launch of new technology services.

Formation Evaluation

- Our Formation Evaluation segment showed good absolute growth in the 9M 2008 with revenue and adjusted EBITDA increasing 33.8% and 27.0%, respectively. The segment benefited from favorable market conditions in Kazakhstan and fewer weather-related disruptions in 1Q 2008 compared to the same period in 2007. Adjusted EBITDA margins declined to 26.2% from 27.6% as strong profitability of 1H 2008 was offset by weaker performance in 3Q 2008 due to suspension of a few high-margin contracts at the end of 3Q 2008 following the sharp decline in the oil price.

Equipment Manufacturing

- The manufacturing segment revenue and Adjusted EBITDA increased 23.6% and 14.8%, respectively. This demonstrates decelerating revenues compared to 1H 2008 as the “lump effect” of our largest contract with Gazprom becomes less pronounced. Adjusted EBITDA margins softened, as was expected, to 15.2% in 9M 2008 from 16.4% in 9M 2007 as revenues began to moderately decline while fixed costs were not yet reduced.

Discussion of Group’s Current Financial Position, Cash Flows and Liquidity

Operating cash flow before working capital changes but after profit tax and interest paid was US$ 120.6 million in 9M 2008, compared to US$ 88.6 million in 9M 2007. Net cash generated from operating activities grew to US$ 82.2 million in 9M 2008, from US$ 3.9 million in 9M 2007. In particular, US$ 79.5 million was generated in 3Q 2008 alone, due to good operating profitability and our focused efforts on optimization of working capital. During 3Q 2008, the Group received US$ 33.6 million from improved collection of receivables significantly improving turnover ratios.

As of September 30, Integra Group had US$530.5 million of debt outstanding, including US$403.0 million of short term and US$ 127.5 million of long-term debt. Since that date, the Company has repaid a total of US $120.4 million of loans. As of December 11, 2008 the company had US$405.3 million of debt, including US$ 293.3 million of short term and US$ 112.0 million of long term debt (Ruble debt converted at RUB28/US$ exchange rate). Approximately 57% of our debt is denominated in Rubles.

The following short term debt matures in the next six months:

- US$ 170 million in total is scheduled for repayment in January, 2009.
- US$ 92 million in total mature in March, 2009.
- US$ 3.5 million loan matures in April 2009.

Integra Group is in final negotiations and documentation stages on various refinancing options for debt repayments falling due in 1Q 2009. These options include long-term syndicated debt financing led by a multilateral institution and several global banks, short-term refinancing from a Russian state bank and several other options.

Outlook

Based on the 2008 order book Management estimates full year revenue to be approximately US$ 1,500 million, of this amount US$ 1,167 million had already been recognized in 9M 2008.

For the 2009 calendar year, Integra Group has signed contracts in the amount of US$ 423 million in revenue for services and equipment to be delivered to customers. On top of this, Integra Group has won tenders, which are not yet contracted, in the amount of US$ 205 million. The order book is 93% Ruble denominated and is presented at RUB27/US$ exchange rate. The total 2009 order book to date of US$ 628 million compares to a US$ 730 million 2008 order book as of December 2, 2007.

2009 Order book (as of December 2, 2008)

US$ million (at RUB27 /US$ rate)	Contracts signed*	Tenders won, contracts not yet signed	Total order book
Drilling, Workover, IPM, Tech. services	211	91	302
Formation Evaluation	130	71	201
Equipment manufacturing	82	43	125
TOTAL	423	205	628

*Signed contracts may be subject to renegotiation of volumes or even cancellation in exceptional cases

Commenting on the outlook, Felix Lubashevsky, Integra's Chief Executive Officer, said:
"We believe it is still too early to predict exactly to what extent the global slowdown will affect energy demand and our customers' spending budgets. We expect only limited impact on the 2008 full year revenues from the recent market downturn, however the effect on Group's operating profitability is likely to be more pronounced.

"For 2009, we are observing factors which may cause revenues to contract. This would greatly depend on the dynamics of global and domestic energy prices, level of Ruble depreciation and the outcome of the ongoing government discussion on potential amendments to the upstream tax system.

"We had good operational progress, in the 9M 2008. Our task is to preserve these profitability gains, albeit on a potentially lower volume of business. We are determined to achieve this objective by taking a number of proactive cost and capital spending optimization measures."

<u>Proactive cost and spending reduction measures</u>

Employee cost reduction

- Reduction of personnel across all business units. Total headcount reduction in 2008 is expected to be 10% with another 10% reduced in 1H 2009. Optimization beyond 1H 2009 will be dependant on the ultimate size of 2009 order book;
- Reduction of labor costs in several businesses;
- Transition to a 3-4 day working week in businesses or functions where higher intensity operation is not required.

Materials cost optimization

- Taking advantage of lower inflationary pressures by seeking to benefit from lower material costs such as steel and fuel as well as third party services;
- Switching to more fuel efficient technologies and measures;
- Maintaining lower raw material inventories ahead of potential slump in demand;

Selling, General and Administrative cost reduction

- Curtailment of travel and transportation budgets both for office and field personnel;
- Reduction of outsourcing and volume of consultant services;
- Reduction of office rental and related expenses.

Capital expenditures reduction

- Full year 2008 capital expenditures spending is currently estimated at around US$170 million. In 2009 a nearly 75% cut in capex is expected to take place with approved budget of between US$40-50 million focused primarily on asset maintenance.

Working capital reduction

- The group currently has a positive net working capital as its receivables and inventories significantly exceed the amount of payables. In the event of declining revenue a material cash flow should be received from reduction in working capital in addition to the ongoing inflows from turnover optimization measures.

Risks and uncertainties for the next six months:

- Liquidity risk: an inability to refinance short term debt, pressure on operating cash flows and working capital;
- Top line uncertainty risk: an inability to maintain a consistent level of orders given potential reduction in spending by our key customers;
- Non-payment and collection risk from some of our smaller customers, resulting in additional expenses related to managing our working capital or additional bad debt provisions;
- Failure to adjust our fixed operating cost structure in line with potentially weaker 2009 revenue, resulting in pressure on profitability;
- Further weakening of the Russian Ruble could potentially have a significant impact on our reported financial results. Although it will have insignificant impact on the Ruble denominated economics of the business given a matching currency of revenues and costs.

Important recent developments

In November 2008, Dmitry Avdeev, Chief Financial Officer, was appointed to the Integra Group Board of Directors.

In November 2008, Mark Sadykhov resigned from the position of First Deputy Chairman of the Management Board (First Deputy CEO) and from the Integra Group Board of Directors.

Director's responsibility statement

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

Notes to editors:
Integra Group is a leading Russian independent provider of onshore oilfield services and is also a leading manufacturer in the Russian Federation of drilling rigs with heavy lifting capacity, cementing equipment and certain specialized equipment used in the exploration, development and production of oil and gas.

Integra Group operates in the drilling, workover, seismic and geophysics sectors and manufactures oilfield services equipment. Integra Group has oilfield services operations in all major oil and gas producing regions in Russia and in many other CIS countries. Its customer base includes major Russian and international oil and gas companies operating in Russia and CIS.

Established in March 2004, Integra Group has, through 17 strategic acquisitions, become one of the leading companies in the oilfield services and equipment manufacturing sectors of the Russian market and employs around 22 000 people. Since February 27, 2007, Integra Group has traded on the London Stock Exchange under the ticker symbol “INTE”.

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