Integra Group Interim Management Statement and Financial Highlights for the 9M 2009

MOSCOW, December 2, 2009 – Integra Group (LSE: INTE), a leading FSU-based 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 2009. The financial data is based on management assessment only and has not been reviewed by external auditors.

Although CIS oilfield services ("OFS") demand stabilized in 9M 2009, in absolute terms it remains below the levels of 9M 2008. The lower volume of contracts signed at the end of 2008 and 1Q 2009 continues to define our operating conditions. Lower demand for exploration and development activities, which affected both the scale of our operations and our pricing, was a key factor affecting our revenues in 9M 2009. The cost-cutting measures which we undertook in 4Q 2008 and throughout this year allowed us to sustain our Adjusted EBITDA margins close to the levels of 9M 2008. 9M 2009 free cash flow generation remained positive which, combined with issue of new equity, allowed for a significant deleveraging of the Group.

9M 2009 Financial Highlights

- Sales decreased by 46.9% to US$ 620.0 million (vs. US$ 1,167.0 million in 9M 2008)
- Adjusted EBITDA[1] declined by 53.6% to US$ 89.5 million (vs. US$ 192.9 million in 9M 2008). Adjusted EBITDA margin was 14.4% (vs. 16.5% in 9M 2008)
- Net cash flow provided by operating activities was US$ 77.0 million (vs. US$ 82.2 million in 9M 2008)
- Capital expenditures for the first nine months of 2009 were US$ 28.9 million (vs. US$ 126.3 million in 9M 2008)
- Free cash flow[2] was US$ 48.1 million (vs. negative US$ 44.1 million in 9M 2008)
- Net proceeds from issue of 38 million GDR's were US$88.6 million, US$66.5 million used to prepay the EBRD facility
- Net Debt as of December 1, 2009 amounted to US$ 206.0 million (vs. US$ 335.2 million as of December 31, 2008)

9M 2009 Operating Highlights

- 141,000 meters drilled (vs. 301,000 meters during 9M 2008)
- 2,877 workover operations conducted (vs. 2,542 workover operations during 9M 2008)
- 601,970 seismic shot points made (vs. 704,183 seismic shot points during 9M 2008)
- 260 downhole motors and 9 turbines produced (vs. 716 downhole motors and 46 turbines produced in 9M 2008)
- 7 heavy drilling rigs and 10 heavy drilling rig assembly units in production at the end of 9M 2009 (vs. 20 heavy drilling rigs and 4 heavy drilling rig assembly units in production at the end of 9M 2008)
- 4 new heavy drilling rigs and 6 heavy drilling rig assembly units commissioned (vs. 4 and 14 in 9M 2008)

[1] Adjusted EBITDA represents profit (loss) before interest income (expense), foreign exchange translation differences, income taxes, depreciation and amortization, goodwill impairment, share-based compensation, share of results in associates and minority interest.
[2] Free Cash flow defined as net cash flow provided by operating activities less capital expenditures

Antonio Campo, Integra Group's Chief Executive Officer, commented,

"In the third quarter, we saw a slight pickup in absolute cash earnings and margins across nearly all of our segments. This was a result of positive seasonality, further market stabilization and our ongoing effort to align our capacity and cost base with the current business environment.

We had an exceptionally strong result in our Formation Evaluation segment as we launched our seismic projects for the large international consortia operating in Kazakhstan. Our land drilling margins also improved as we were able to reap the benefits of cost and capacity optimization implemented at the beginning of 2009.

Most of our businesses are in the active stage of contracting for the next year. Although our 2010 order book is far from being complete, we are cautiously optimistic about potential market upturn next year and already see certain areas of growth for a number of our services. Following a successful secondary public offering we believe Integra has the necessary financial flexibility to capture this growth."

Conference Call Dial-In Details

Date:	Wednesday, 2 December 2009
Time:	17.00 Moscow / 14.00 London / 9.00 New York
Title:	Integra Group 9M09 Results
Conference ID:	44279624
UK international tel:	+44 (0) 1452 585 304

There will also be a playback facility available until December 8, 2009. The details are:

UK international tel:	+44 (0) 1452 550 000
US tel:	+1 866 247 4222
Access code:	44279624#

Contacts

Integra Group

Andrei Machanskis	Head of Investor Relations	Tel. +7 495 933 0621 amachanskis@integra.ru
Sergey Beldinsky	Head of Public Relations	Tel. +7 495 933 0621 sbeldinsky@integra.ru

Discussion of the Market and Competitive Environment

Overall, the level of demand for oilfield services in 9M 2009, in both volume and monetary terms, was lower compared to the same period in 2008 due to adverse factors which emerged in the second half of 2008 and consequently reduced oil and gas industry spending globally.

The market environment began stabilizing in 1Q 2009, as higher oil prices, changes in upstream and corporate taxation, and a significant depreciation of the Ruble improved the economics of the Russian oil and gas industry, allowing a moderate pickup in demand. In the 3Q 2009 we observed a modest improvement in upstream spending plans of our key customers. However, due to the nature of the contracting cycle in the industry, these plans are expected to translate into a more favourable demand in 2010, especially with respect to exploration activities.

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

Discussion of the Group's Financial Results

Consolidated sales during 9M 2009 decreased by 46.9% to US$ 620.0 million compared to US$ 1,167.0 million during 9M 2008. The decrease in revenue was caused by the depreciation of the Russian Ruble (the Group's functional currency), idling of a significant part of our drilling capacity, a decline in exploration demand from our key customers, moderate Ruble pricing declines for a majority of our services and the completion of a major manufacturing contract. The decline in revenue was partially offset by expansion of newly launched technology services. In the 3Q 2009 we saw revenues stabilize at the levels of 2Q 2009.

Adjusted EBITDA decreased by 53.6% to US$ 89.5 million from US$ 192.9 million. The absolute decline in Adjusted EBITDA reflects a reduction in revenues as discussed above, partially offset by a reduction in variable cost and fixed cost optimization measures such as head count reductions, renegotiation of terms and prices for supplies of materials and services. Our Adjusted EBITDA margin declined to 14.4% in 9M 2009 compared to 16.5% in 9M 2008, reflecting a smaller reduction in our fixed costs than the decline in sales as well significant severance expense incurred in 2009 due to sharp headcount reductions. Adjusted EBITDA margin in 3Q 2009 improved to 16.0% compared to 13.6% in 1H 2009 due to positive seasonality.

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Discussion of Segment Financial Results

On January 1, 2009, the Group adopted IFRS 8 Operating Segments which replaced IAS 14 Segment Reporting used by the Group in its earlier financial statements. The change in the standard resulted in the Group separating its Technology Services business from the Drilling, Workover and IPM segment and reporting certain of its service businesses under the Technology Services segment. The segment information for prior periods that is reported below has been restated to conform with the requirements of IFRS 8.

	Drilling, Workover & IPM	Tech. Services	Formation Evaluation	Equipment Manufacturing	Other revenue, overheads and eliminations	Total Group
Revenue (in US$ million)						
9M 2008	492.6	166.3	254.5	254.2	(0.6)	1,167.0
9M 2009	**262.3**	**107.8**	**145.8**	**97.5**	**6.6**	**620.0**
chg %	(46.8)	(35.2)	(42.7)	(61.6)	n/a	(46.9)
Adj. EBITDA (in US$ million)						
9M 2008	60.7	60.0	70.2	38.6	(36.6)	192.9
9M 2009	**22.9**	**38.8**	**45.6**	**14.3**	**(32.1)**	**89.5**
chg %	(62.3)	(35.3)	(35.0)	(63.0)	n/a	(53.6)
Adj. EBITDA Margin (%)						
9M 2008	12.3%	36.1%	27.6%	15.2%	n/a	16.5%
9M 2009	**8.7%**	**36.0%**	**31.3%**	**14.7%**	**n/a**	**14.4%**

Drilling, Workover & IPM (excluding Trade House)

- In the Drilling, Workover & IPM segment, 9M 2009 revenue declined by 46.8% compared to 9M 2008. This decline was primarily triggered by Ruble depreciation, a reduction in the volume of services provided due to a significant cutback in business with smaller customers and an overall decrease in demand for exploration drilling and to a lesser extent for workover services. The decline also reflects an average pricing reduction of 10% in Ruble terms. Adjusted EBITDA margin decreased from 12.3% to 8.7% due to reduced sales, one-time expenses related to segment downsizing and optimization with the largest one-time expense being severance payments. The segment's 3Q 2009 Adjusted EBITDA margin improved to 12.6% from 6.6% in 1H 2009 due to positive seasonal factors and also due to some improvements in drilling and workover economics as cost cutting benefits took full effect.

Technology Services

- In the Technology Services segment, 9M 2009 revenue declined by 35.2% compared to 9M 2008. The decline was primarily triggered by Ruble depreciation, reduction in the volume of drilling tools manufactured due to overall lower demand for drilling services and discontinuation of certain minor technology services. The decline was partially offset by an increase in sales of certain services launched during 1H 2008 such as cementing, coil tubing and directional drilling. There was no material change in 9M 2009 adjusted EBITDA margin which equaled 36.0% compared to 36.1% in 9M 2008 as higher margin in cementing and coil tubing services compensated lower profitability in drilling tools manufacturing. The segment's 3Q 2009 Adjusted EBITDA margin of 33.6% decreased slightly from 37.6% in 1H 2009.

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Formation Evaluation

- In the Formation Evaluation segment, 9M 2009 revenue declined by 42.7% compared to 9M 2008. Apart from Ruble depreciation, segment revenues suffered from a 15% decrease in the volume of seismic surveys conducted in both Russia and Kazakhstan as compared to 9M 2008. Adjusted EBITDA margin increased to 31.3% in 9M 2009 from 27.6% in 9M 2008 (25.4% before one-time gain on disposal of assets of US$5.5 million in 2Q 2008) due to strong efficiency gains at our projects in Kazakhstan. The segment's 3Q 2009 Adjusted EBITDA margin of 45.4% significantly improved from 26.5% in 1H 2009 due to better seismic shot-point-per-crew productivity and more favorable pricing in Kazakhstan compared to Russia and stringent cost control.

Equipment Manufacturing

- In the Equipment Manufacturing segment, 9M 2009 revenue declined by 61.6% compared to 9M 2008 due to decreased volumes caused by a reduction in the size of contracts and Ruble depreciation. As a result of optimization of the segment's cost structure to account for lower production volumes, Adjusted EBITDA margins were not significantly affected by lower segment revenues, declining slightly to 14.7% (15.2% in 9M 2008). There was an immaterial change in 3Q 2009 adjusted EBITDA margin of 14.6% compared to 1H 2009 result of 14.7%, although within the segment there has been a moderate pickup in margins in the rig modernization which was offset by slightly lower margins in new rig manufacturing. Equipment Manufacturing division is finalizing a process initiated in 2008 to re-brand from "Uralmash" trademark to the new "URBO" name. The rebranding was launched to differentiate from other equipment manufacturers using a similar name.

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

Net cash generated from operating activities declined slightly to US$ 77.0 million in 9M 2009, from US$ 82.2 million in 9M 2008 which primarily resulted from a drop in cash earnings and significant upfront fees related to US $250 million EBRD facility. This decline was partially offset by better working capital management. In 9M 2009, US$ 47.6 million was provided by a cash inflow from working capital reduction, compared to a cash outflow to working capital of US$ 38.4 million in 9M 2008.

Free cash flow (defined as net cash generated from operating activities, less purchases of property, plant and equipment) was positive at US$48.1 million in 9M 2009, compared to negative US$ 44.1 million in 9M 2008, as the Group significantly reduced its expansion capex.

Since December 31, 2008, the Group has repaid or refinanced a total of US $ 341.5 million of borrowings through syndicated loan facilities, issue of new equity and cash flow generation. As of December 1, 2009 the Group had about US$ 322.9 million of debt, including US$ 193.6 million of debt payable in the next 12 months. The short term debt includes RUB 3 billion (US$ 102.8 million) Second Ruble Bond with a one time put option for early repayment on December 3, 2009. The Group has accumulated funds for the entire prepayment of the bond issue. Funds in the amount of the nominal value of bonds not submitted for repayment under the put option will be directed to partial prepayment of the EBRD facility.

On September 22, 2009 Integra Group issued and placed 1,900,000 new Class A common shares in the form of 38,000,000 GDRs (21% of equity post issue) at US$2.50 per GDR. Gross proceeds from the offering were US$ 95 million, net proceeds were US$88.6 million. Seventy per cent of the gross proceeds (US$66.5 million) were used for a partial prepayment of the US$ 250 million EBRD facility. The remaining thirty per cent of the gross proceeds will be primarily used for capital expenditure and general corporate purposes.

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Order book update

Based on the 2009 order book Management estimates 2009 full year revenue to be approximately US$ 828 million, of this amount US$ 620 million had already been recognized in 9M 2009.

As of November 30, 2009, the Group had signed contracts in the amount of US$ 270.3 million (RR 8.4 billion) in revenue for services and equipment to be delivered to customers during 2010. The total order book, which in addition to the signed contracts includes the value of business won in tenders but not yet contracted, is US$ 426.1 million (RR 13.7 billion). Approximately 81 % of the total order book is denominated in Rubles. Share of customers unaffiliated with state or major Russian and international oil and gas producers has been relatively stable at 10.2 % compared to 9.5 % in 2009 following the effort to minimize counterparty credit risk.

We are in the most active stage of our contracting for 2010 which implies that current order book does not yet provide any indication of revenues in 2010. There are a number of substantial product lines which have applied for tenders or are in the process of service contracts renewals for 2010.

2010 Order book (as of November 30, 2009)

FX 31RR/$	Contracts signed*		Tenders won, contracts not yet signed		Total order book	
	US$ (m)	RR (bn)	US$ (m)	RR (bn)	US$ (m)	RR (bn)
Drilling, Workover, IPM	147.9	4.6	57.5	1.7	205.4	6.6
Technology Services	1.7	0.1	3.2	0.1	4.9	0.2
Formation Evaluation	78.0	2.4	57.8	1.8	135.9	4.2
Equipment Manufacturing	41.0	1.3	14.4	0.4	55.4	1.7
Other	1.6	0.0	22.9	0.7	24. 5	0.8
TOTAL	**270.3**	**8.4**	**155.8**	**4.6**	**426.1**	**13.7**

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

Risks and uncertainties for the next six months:

- The Group is exposed to currency exchange risk from US dollar borrowings whereas the functional currency of most of the Group companies is the Ruble. Weakening of the Ruble could have a significant impact on our reported financial results. However, we believe it would have an insignificant impact on the Ruble-denominated economics of the business. Foreign currency risk was partially hedged by US$60.5 million RR/USD forward contracts.
- We depend on a small number of key customers for a significant percentage of our revenues. The loss of one or more of our key customers could have a material adverse effect on our business, financial condition and results of operations. To the extent that industry consolidation continues within the Russian oil and gas sector, we expect that the percentage of sales attributable to our largest customers will continue to increase, making us more dependent on these key customer relationships.
- Factors outside of our control such as market and weather conditions may result in the delay or cancellation of projects in our order book. If we are unable to perform our work within the time frame agreed or at all, our work flow may be interrupted and our financial position and results of operations may be materially adversely affected.
- Risk of potential breach of our debt covenants under the EBRD facility. Based on current projections, the Group expects to be in non-compliance with one of its covenants (Consolidated EBITDA to Consolidated Interest Payable) under the EBRD facility as of December 31, 2009 due to accelerated recognition of upfront fees associated with early prepayment of a significant part of this loan. The Group notified the EBRD of the potential breach and applied for a waiver for such covenant violation.

Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of Integra Group. You can identify forward-looking statements by terms such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “will,” “could,” “may” or “might,” or the negative of such terms or other similar expressions. These statements are only predictions and actual events or results may differ materially. Integra Group does not intend to or undertake any obligation to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in Integra Group’s projections or forward-looking statements, including, among others, general economic and market conditions, Integra Group’s competitive environment, risks associated with operating in Russia, rapid technological and market change, and other factors specifically related to Integra Group and its operations.

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