



## Integra Group Reports 2008 Full Year Results

MOSCOW, April 30, 2009 – Integra Group (LSE: INTE), a leading Russian oilfield service provider and manufacturer of oilfield services equipment, released today its audited Consolidated Financial Statements, prepared in accordance with IFRS, for the year ended 31 December 2008.

The annual result has been significantly affected by the sharp downturn in the global commodities markets compounded by a lagged application of lower export duties which resulted in a slowdown in spending by the Russian oil and gas companies. The disruption in our markets in the fourth quarter had an unfavourable effect on the core profitability of each segment, as well as resulted in sizable extraordinary impairments and charges. Integra Group demonstrated a 22.8% year-on-year growth in revenue and a 23.4% decline in Adjusted EBITDA. Despite weaker than expected profitability in 2008, we generated a record US\$ 134.8 million in cash flow from operating activities.

Integra Group undertook measures to adjust its business and cost structure to the new economic conditions and currently the primary focus is on cash generation and further deleveraging which started in 2H 2008.

### 2008 Financial Highlights

- Sales increased by 22.8% to US\$ 1,445.9 million (vs. US\$ 1,177.2 million in 2007)
- Adjusted EBITDA<sup>1</sup> declined by 23.4 % to US\$ 161.9 million (vs. US\$ 211.3 million in 2007).
  - Adjusted EBITDA (before receivables impairment and inventory write off) rose by 3.9 % to US\$ 214.0 million (vs. US\$ 205.9 million in 2007<sup>2</sup>).
  - Adjusted EBITDA margin (before impairments and write offs) was 14.8 % (vs. 17.5% in 2007)
- Net cash flow provided by operating activities was US\$ 134.8 million (vs. negative US\$ 9.7 million in 2007)
- Impairments of goodwill and doubtful debt provisions, inventory write offs, accelerated amortization of intangibles and exchange losses amounted to US\$225.3 million (vs. US\$ 10.9 million in 2007)
- Net loss for the period amounted to US\$ 271.9 million (vs. net loss of US\$ 50.8 million in 2007)
- Capital expenditures for 2008 were US\$ 157.8 million (vs. US \$181.5 million in 2007)

### 2008 Operating Highlights<sup>3</sup>

- 354,100 meters drilled (vs. 440,000 meters during 2007)
- 3,549 workover operations conducted (vs. 1,448 workover operations during 2007)
- 782,350 seismic shot points made (vs. 677,126 seismic shot points during 2007)
- 904 downhole motors and 64 turbines produced (vs. 751 downhole motors and 24 turbines produced in 2007)
- 19 cementing units produced (vs. 11 cementing units in 2007 )
- 23 heavy drilling rigs in production at the end of 2008 (vs. 28 in production at the end of 2007), 20 new rigs commissioned (vs. 3 in 2007)

<sup>1</sup> Adjusted EBITDA represents profit (loss) before interest income (expenses), foreign exchange translation differences, income taxes, depreciation and amortization, goodwill impairment, share-based compensation, share of results in associates and minority interest.

<sup>2</sup> In 2007, Integra recorded positive US\$5.3 million doubtful debt recovery gain

<sup>3</sup> Operating results of acquired companies reflected from the time of acquisition.



**Felix Lubashevsky, Integra Group's Chief Executive Officer, commented,**

"Fiscal year 2008 was a year of profound changes in the Russian OFS market environment. We made significant progress in pursuing our target of developing Integra into an efficient and diversified industry leader able to respond to the current challenges.

The global economic slowdown had an adverse effect on our business growth and profitability expectations, as well as on the financial position of certain of our customers. We took a rigorous approach to reviewing our asset values and recognised significant impairment charges against goodwill, intangible assets, receivables and inventories. In addition to the write downs, our performance was negatively affected by exchange rate movements, cancellation of contracts and certain project accidents resulting in adjusted EBITDA of US\$ 162 million, which is well below our initial expectations.

In 2009, we have seen some signs of stabilisation of demand for our services and equipment due to the combination of more stable oil prices, favourable oil tax changes and the beneficial effect of a weaker Ruble for exporters. We have made good progress with our order book for 2009, and adjusted our cost base so that we can execute it efficiently. We continue to view the current operating environment as highly dependent on volatile commodity prices. Our plan is to focus on cashflow generation and the new business opportunities that this market may bring."

The audited Consolidated Financial Statements for the twelve months ended December 31, 2008, can be found under the following link:

<http://www.integra.ru/eng/investors/results/>

**Conference Call Dial-In Details**

Date: Thursday, 30 April, 2009  
Time: 17.00 Moscow / 14.00 London / 09.00 New York  
Title: Integra 2008 Results  
Call reference: 97112957  
UK local rate tel: 0808 238 0673  
UK international tel: +44 (0) 1452 569 335  
US tel: +1 866 655 1591

There will also be a playback facility available until 6 May 2009. The details are:

UK international tel: +44 (0) 1452 550 000  
US tel: +1 866 247 4222  
Access code: 97112957 #

**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**

Market conditions were favorable for the first three quarters of 2008, with stable demand for exploration and development drilling, seismic services and high-tech well construction and well management services. Manufacturing demand was negatively affected by increased competition from international producers. Pricing dynamics were moderately positive during the first nine months across most of our product lines.

In the fourth quarter of 2008, falling oil prices and the lag in off-setting tax changes significantly affected the upstream economics of our key customers and increased the uncertainty over future oil and gas industry spending. This negatively affected both volumes and prices and led to cancellations or revisions of some of the signed contracts. The effective freeze of financial markets materially increased counterparty credit risk.

The market environment began stabilizing from February, 2009 as higher oil prices, changes in upstream and corporate taxation and significant devaluation of the Ruble have improved the economics of the Russian oil and gas industry. We see some improvement in the competitiveness of the manufacturing business due to the weaker Ruble. The OFS industry in 2009 is expected to be driven by commodity pricing, the outlook for which remains uncertain. This causes limited visibility on the market outlook beyond the contracted volumes of business.

### **Discussion of Group's Financial Results**

Consolidated sales during 2008 increased by 22.8% to US\$ 1,445.9 million compared to US\$ 1,177.2 million during 2007. The majority of the increase was attributable to favorable pricing and expansion of the product offering in 2008 and to a smaller extent due to acquisitions of workover assets in 2008.

Adjusted EBITDA decreased by 23.4 % to US\$ 161.9 million from US\$ 211.3 million. Our core profitability was affected by contract cancellations, certain project accidents and non-recurring expenses related to the cost reduction program launched in the wake of the financial crisis in the 4Q 2008. These expenses included severance payments and procurement of certain products and services prior to the renegotiation of lower prices with our providers. Further decrease in earnings was caused by doubtful receivables impairments and inventory write-offs of US\$52.1 million due to liquidity problems amongst some of our customers and a decline in the market value of inventories. Before these write-offs and provisions, Group's 2008 Adjusted EBITDA is estimated at US\$ 214.0 million (3.9% higher compared to 2007). Adjusted EBITDA margin decreased to 11.2 % in 2008 from 17.9% in 2007. Before extraordinary charges, Group's 2008 Adjusted EBITDA margin was 14.8 %, down from 17.5% in 2007.

In 2008, our net loss amounted to US\$ 271.9 million compared to US\$ 50.8 million in 2007. The reported net loss includes the following charges and provisions :

- Goodwill impairment of US\$99.1 million in the Group's Drilling, Workover, IPM and Technology Services segment, primarily as a result of an estimated decrease in future profitability;
- Amortization of intangible assets of US\$ 35.1 million linked to past acquisitions. In addition, the Group recorded accelerated amortization of long term customer and supplier relationships of US\$53.7 million due to termination of such relationships in 2008;
- Non-cash share based compensation expense related to management stock option plan of US\$ 30.5 million in 2008 ;
- Doubtful receivables impairments and inventory write-offs of US\$52.1;
- Foreign exchange translation loss of US\$20.4 million due to significant drop in the value of the Russian Ruble and the resulting effect on Group's US\$ denominated liabilities.

## Discussion of Segment Financial Result

	Drilling, Workover, IPM & Tech. Services	Formation Evaluation	Manufacturing	Other overheads and eliminations	Total Group
<b>Sales (in US\$ million)</b>					
2007	615.0	271.6	329.8	(39.2)	1,177.2
<b>2008</b>	<b>835.7</b>	<b>333.6</b>	<b>289.8</b>	<b>(13.2)</b>	<b>1,445.9</b>
chg %	35.9%	22.8%	(12.1%)	n/a	22.8%
<b>Adj. EBITDA (in US\$ million)</b>					
2007	127.7	69.6	74.4	(60.4)	211.3
<b>2008</b>	<b>114.3</b>	<b>78.5</b>	<b>44.2</b>	<b>(75.1)</b>	<b>161.9</b>
chg %	(10.5)%	12.8%	(40.6%)	n/a	(23.4)%
<b>Adj. EBITDA Margin (%)</b>					
2007	20.8%	25.6%	22.6%		17.9%
<b>2008</b>	<b>13.7%</b>	<b>23.5%</b>	<b>15.3%</b>		<b>11.2%</b>

### Drilling, Workover, IPM and Technology Services

- In the Drilling, Workover, IPM and Technology Services segment, the 2008 revenue demonstrated absolute growth of 35.9%. This growth was primarily triggered by the launch of new technology services, the acquisition of new workover assets (ONR, NKRS) and higher utilization of our capacity. Adjusted EBITDA decreased by 10.5%. Year-on-year, margins were 710 bps lower, primarily due to dilution of margins by lower yielding workover services, sharp deterioration of drilling economics in 4Q 2008 which was caused by increased down time and significant receivables impairment and inventory write offs of US \$ 41.3 million. Before these extraordinary impairments, the Adjusted EBITDA was US\$155.6 and the margin was 18.6%

### Formation Evaluation

- Our Formation Evaluation segment showed absolute revenue growth of 22.8% in 2008. Segment revenues benefited from favorable market conditions in Kazakhstan and fewer weather-related disruptions compared to 2007. Adjusted EBITDA increased only by 12.8% due to a receivables impairment and inventory write off of US\$ 2.0 million, caused by a suspension and subsequent non-payment under material projects in 3Q-4Q 2008. As a result, Adjusted EBITDA margin declined 210 bps.

### Equipment Manufacturing

- The manufacturing segment revenue decreased by 12.1% demonstrating the decreasing revenues in the segment as the effect from the major Gazprom contract becomes less pronounced and new smaller size contracts do not compensate this decrease. Adjusted EBITDA decreased by 40.6% primarily driven by lower revenues, while adjusted EBITDA margins softened to 15.3% as revenues declined 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\$ 106.4 million in 2008, compared to US\$ 137.8 million in 2007. Net cash generated from operating activities grew to US\$ 134.8 million in 2008, from negative US\$ 9.7 million in 2007. In particular, US\$ 132.1 million were generated in 2H 2008 alone, mostly due to focused efforts on optimization of working capital. This strong cash flow has been primarily directed at reducing the Group's short term borrowings at the end of 2008.

As of December 31, 2008 the Group had US\$ 397.6 million of debt outstanding, including US\$ 394.5 million of short term and US\$ 3.1 million of long-term debt. Since December 31, the Group has repaid or refinanced a total of US \$ 253.4 million of loans, primarily through US \$250 million loan facility arranged by the EBRD and a consortium of commercial banks. As of April 29, 2009 the company had US\$ 356.6 million of debt, including US\$ 139.1 million of short term and US\$ 217.5 million of long term debt (Ruble debt converted at RUB 33.55/US\$ exchange rate). The debt includes the following loans and bonds:

- US\$ 240 million<sup>4</sup> loan from the EBRD, with multiple tranches maturing in December, 2011 and December, 2013
- RUB 600 million (US\$17.9 million) loan from Sberbank maturing in October, 2009;
- RUB 3 billion (US\$ 89.4 million) 2<sup>nd</sup> tranche of Russian Ruble bonds, maturing in 2011 with a one-time put option in December, 2009; and
- US\$ 9.3 million other short term and long debt.

The Group was not in compliance with one of its covenants (Total Indebtedness to Tangible Net Worth) under the EBRD facility as of December 31, 2008. The Group has received a waiver from the EBRD for the violation of the covenant, which extends until the end of 2009. Based on current projections, the Group has also notified the EBRD of the potential breach of other covenants, including measures of trailing profitability at 30 June 2009. The Group expects to receive a waiver for such covenant violations, should they occur.

---

<sup>4</sup> Excludes US\$10 million of undrawn portion of the loan

## Order book outlook

The Group has signed contracts in the amount of US\$ 700 million (RUB 24.5 billion) in revenue for services and equipment to be delivered to customers during 2009. This amount is 1.7 % lower in Ruble terms compared to the 2008 order book calculated at the same time one year ago and 29.8% lower in US dollar terms. The total order book, which on top of the signed contracts includes the value of business won in tenders but not yet contracted, is US\$ 803 million (RUB 28.1 billion) and is 11.8 % lower in Ruble terms (37.0 % lower in US\$ terms) compared to the 2008 order book as of April 21, 2008. Approximately 93 % of the order book is denominated in Rubles and is presented at RUB35/US\$ for information purposes. The composition of our order book has changed as the share of customers unaffiliated with state or major Russian and international oil and gas producers has decreased to 9.5% from 23.2% in 2008. This implies higher reliability in our contracts and lower counterparty credit risk.

### 2009 Order book (as of April 28, 2009)

	Contracts signed*		Tenders won, contracts not yet signed		Total order book	
	USD (m)	RUB (bn)	USD (m)	RUB (bn)	USD (m)	RUB (bn)
Drilling, Workover, IPM, Tech. services	424	14.8	53	1.9	477	16.7
Formation Evaluation	147	5.2	35	1.2	182	6.4
Equipment manufacturing	129	4.5	15	0.5	144	5.0
<b>TOTAL</b>	<b>700</b>	<b>24.5</b>	<b>103</b>	<b>3.6</b>	<b>803</b>	<b>28.1</b>

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

Markets continue to be turbulent and although we saw some signs of stabilization in the 1Q 2009, demand for our services remains highly uncertain and driven by volatile commodity prices. For 2009, we are observing factors which may cause our US\$ denominated revenues to contract compared to 2008. The level of such contraction depends on the dynamics of global and domestic energy prices, and, above all, the level of Ruble depreciation.

Our order book currently indicates the following dynamics in Ruble terms compared to 2008 order book:

- In Drilling, Workover, IPM, and Tech. Services segment orders are 5% lower. Within the segment there is a substantial reduction of the land drilling capacity which is partially compensated by moderately higher volume of orders for workovers and certain technology services like directional drilling;
- In Formation Evaluation segment orders are 14% lower due to lower seismic demand in Russia, which is only partially offset by relatively stable demand in Kazakhstan;
- In Equipment Manufacturing segment orders are 26% lower due to lower size of new rig orders and lower contribution from volumes carried from the previous years.

## Cost and spending outlook

Recognizing the early warning signs of the economic slowdown we successfully implemented a number of cost optimization measures which have already created a much leaner structure.

### Employee cost:

- Our total headcount was reduced 18 % from the peak of mid-2008;
- Several business units are operating on a reduced working week of 3-4 days.
- Executive compensation structure was amended from 2Q 2009 and is now split into fixed and variable components which are linked to the free cash flow generation of individual business units. The fixed compensation component was reduced by 30-50%;

### Selling, General and Administrative costs:

- Nearly 30% headcount reduction in the corporate center;
- Outsourcing and consultant services have been reduced to essential minima;
- Office rental contracts have been renegotiated with roughly one third of the office space in Moscow headquarters relinquished.

### Materials cost:

- On average, we saw some price reduction for the key 3<sup>rd</sup> party services and materials used in our operations. Additionally, we renegotiated more favorable payments terms with our contractors and suppliers;
- We continue our investment into more energy efficient technologies and equipment which is expected to result in further cost optimization.

### Capital expenditures:

- In 2009 capex is cut nearly 75% to approximately US\$40 million. These stringent measures are not expected to obstruct the growth of the business going forward as substantial investments of 2007-2008 have already laid a solid and sufficient groundwork to support future growth.

## Risks and uncertainties for the next six months:

- Further expansion of our order book is subject to the uncertainty in the energy markets and the resulting spending levels pattern of our key customers;
- Credit risk from some of our smaller customers in case of further deterioration of market liquidity resulting in additional bad debt provisions and longer than expected collection times from our larger counterparts resulting in additional expenses related to managing our working capital;
- Risk of potential breach of our debt covenants under the EBRD facility due to insufficient earnings in case of a sharp market downturn;
- Weakening of the Russian Ruble could potentially have a significant impact on our reported financial results. Although it would have insignificant impact on the Ruble denominated economics of the business, given that around 93% of revenue is in Rubles.

## Important recent developments

In February 2008, the Group finalized a US\$ 250 million financing deal with the European Bank for Reconstruction and Development and a group of commercial banks. The proceeds from the deal were used to fully refinance the Group's short term debt as well as to fund capital expenditures and the Environmental Action Plan.

## Director's responsibility statement

The attached annual financial 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 Annual Financial 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 annual figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## Disclosure of Related party transactions

In 2H 2008, the Group advanced a loan totalling US\$11.0 million to Starway Finance Limited (SFL), an entity beneficially owned by the Group's CEO through Starway Partners LDC (SPL). The loan was made on a secured basis, at a commercial margin to the Group's highest borrowing cost and was approved by the Group's board of directors. Proceeds were used to repay personal loans secured against Integra GDR's.

In December 2008, the outstanding loan and accrued interest in the total amount of US\$11.5 million were discharged in full by increasing the conversion price for 740,000 Class B common shares (14,800,000 GDR equivalents) held by SPL which are convertible into Integra Group's Class A common shares from US\$12.00 per share to US\$34.39 per share. The vesting provisions of these shares were modified such that 370,000 shares vest in December 2009 and 370,000 shares vest in December 2010 so long as the CEO continues to be employed by the Group.

Following this reclassification, should SPL choose to convert into Class A common shares it would have to pay an exercise price US\$16.6 million higher than the initial terms, which will cover the loan and interest of US\$11.5 million and the net present value adjustment of US\$5.1 million.

The loan was carefully considered by the board of directors and was approved in order to prevent management instability, prevent possible stock overhang from the potential sale of pledged shares held by SPL and to reinforce the retention structure for the CEO, which the board believes is critical to the business.

\*\*\*\*

*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.*

*This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities of Integra Group, nor shall any part of it nor the fact of its distribution form part of or be relied on in connection with any contract or investment decision relating thereto, nor does it constitute a recommendation regarding the securities of Integra Group.*

*This communication is directed only at (i) persons who are outside the United Kingdom or (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") and (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this document or any of its contents.*