MANAGEMENT'S DISCUSSION & ANALYSIS OF EDC's FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following report represents management's discussion and analysis of EDC's financial condition and results of operations for the twelve month period ending December 31, 2014 and is intended to help our shareholders and other users of our financial statements better understand our operations and attendant financial results and current financial condition. This information is provided as a supplement to, and should be read in conjunction with, our audited 2014 Consolidated Financial Statements and the accompanying notes, prepared in accordance with US GAAP. This discussion should not be considered all inclusive as it does not necessarily include all changes regarding general economic, political, governmental and environmental events. As used in this report, "Company", "we," "us," "our," and "EDC" means Eurasia Drilling Company Limited and, where the context requires, includes our subsidiaries.

This report contains forward-looking statements that involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

Nature of operations

We are the largest provider of onshore drilling services in Russia, as measured by the number of metres drilled, according to REnergyCo. We also provide offshore drilling services in the Caspian Sea and are the largest provider of such services in the sectors where we operate, based on the number of jack-up drilling rigs, according to Wood Mackenzie. We offer our onshore integrated well construction services and workover services to local and international oil and gas companies primarily in Russia and our offshore drilling services to Russian and international oil and gas companies in the Russian, Kazakh and Turkmen sectors of the Caspian Sea. In addition, we provide onshore drilling services in Iraq. Our total land fleet consists of 680 rigs consisting of 261 onshore drilling and sidetracking rigs and 419 workover rigs. Our offshore fleet consists of four jack-up rigs.

For the year ended December 31, 2014, we had total revenue of US$2,975 million, adjusted EBITDA of US$834 million and net income of US$421 million, compared to total revenue of US$3,478 million, adjusted EBITDA of US$940 million and net income of US$432 million for the year ended December 31, 2013.

Our business is currently organized into two main divisions: onshore and offshore drilling services. For the year ended December 31, 2014, we had total revenue of US$2,754 million from our onshore division and total revenue of US$221 million from our offshore division.

For the year ended December 31, 2014, we had an estimated market share of approximately 27% of the onshore drilling services market in Russia, as measured by the number of metres drilled, according to CDU-TEK. Our onshore fleet of 257 land drilling and sidetracking rigs is located in all major Russian oil and gas producing regions, including Western Siberia, Volga-Urals and Timan-Pechora. In all these regions we have well-established land support bases. We have expanded our Russian onshore drilling business organically since acquiring substantially all of LUKOIL's onshore drilling assets in 2004. Since our entry into the onshore drilling services market, we have transformed the business from an in-house cost center to a major independent oilfield service provider with sound finances and materially improved operating efficiency. Our onshore drilling services include the construction of production, exploration and appraisal oil and gas and certain other types of wells, including vertical, deviated and horizontal wells, ranging from a depth of approximately 1,200 to more than 6,400 metres. In addition, we provide a wide range of onshore workover and sidetracking services. As of December 31, 2014 our total workover fleet consisted of 419 workover rigs.

In April 2011, we entered into a strategic alliance in Russia and the CIS with Schlumberger, pursuant to which Schlumberger became our preferred supplier for certain drilling services for a five-year period. The transaction also involved an asset swap where we acquired Schlumberger's drilling, sidetracking and workover assets in Russia and sold them certain of our non-core drilling services businesses and assets to our services portfolio. The transaction positively contributed to our operational and financial results.

Our customers as of December 31, 2014 include a number of major Russian and international oil and gas companies operating in Russia, such as LUKOIL, GAZPROMNEFT, ROSNEFT, REPSOL, RUSVIETPETRO, TOMSKNEFT, TOMSKGAZPROM and others.

We entered the international drilling market outside the CIS for the first time in the second half of 2012. We acquired three land drilling rigs from an existing drilling contractor and late in 2012 added a fourth rig in Iraq. Our customers have included international oil and gas companies Afren, Gulf Keystone, HKN, Repsol, Marathon Oil and others.

For the year ended December 31, 2014, we were the largest offshore drilling contractor operating in the jack-up market of the Russian, Kazakh and Turkmen sectors of the Caspian Sea according to Wood Mackenzie. By the end of 2014, in these sectors there were four jack-up rigs operating and we owned three of them, namely the *ASTRA, SATURN* and *NEPTUNE*. We entered the offshore drilling business in 2006 by acquiring the *ASTRA* jack-up rig from LUKOIL. Since 2009, we have also provided drilling services on LUKOIL's marine ice-resistant fixed platform LSP-1 on the Yuri Korchagin field in the Russian sector of the Caspian Sea. In 2011, we acquired our second jack-up rig, the *SATURN*, from Transocean. Our offshore drilling services division constructs oil and gas exploration and production wells in waters with depths of up to 107 metres. Our third jack-up rig, new-build *NEPTUNE,* was commissioned in November 2013 and commenced drilling at the beginning of 2014. In addition, our fourth new-build jack-up rig, *MERCURY*, was commissioned in the end of 2014.

Our offshore customers in the Caspian Sea have included LUKOIL, Petronas Carigali, Dragon Oil, CMOC (a joint venture between Shell, KazMunayTeniz and the Oman Pearls Company Ltd), KNK and the N Operating Company (a joint venture between KazMunayGas, ConocoPhillips and Mubadala).

General overview

Demand for drilling services depends on a variety of factors, including worldwide demand for oil and gas, the ability of OPEC to set and maintain production levels and pricing, the level of production of non-OPEC countries, and the policies of various governments regarding exploration and development of their oil and gas reserves. Our results of operations depend on the levels of activity in Russia and the countries of the Caspian Sea, and the prices of crude oil and natural gas in Russia. To date most of our drilling activities have been in oil provinces rather than gas provinces. This business mix may slowly change over time if we obtain new clients whose activities are more heavily weighted to drilling natural gas wells.

The oilfield services market in Russia is robust and it is arguably the most stable land market of any size in the world. Back in 2009, onshore drilling activity (as measured by wells or metres drilled) fell only around 6%, as compared to 2008, which was substantially less than the reductions in drilling activity experienced in the world’s other large markets. Following the global recession, oil prices stabilized in 2010 and remained stable at historically high levels in 2011-2013, giving oil and gas companies confidence to increase their CAPEX budgets. Since 2009 up to 2013, the Russian drilling market has been steadily growing by 10% on average allowing the country to meet its oil production targets.

During 2014 the total drilling volumes in Russia have been lower than in 2013. This last occurred at the beginning of 2010 as a result of the economic crisis. The total drilling volumes were down 4.1% or 0.9 million metres. This decline in total metres drilled was mitigated by a significant increase in horizontal drilling volumes which were up by 33% during 2014 compared to the corresponding period of 2013. Among E&P companies, GAZPROMNEFT, ROSNEFT, SLAVNEFT, LUKOIL, and BASHNEFT accounted for the major increase in horizontal drilling.

Approximately 80% of Russia's oil production is coming from mature fields where the decline rates are significant. Compensating for output declines absorbs more than 80% of upstream oil and gas spending based on IEA estimates[1]. More investments are required every year to combat natural decline rates in these fields to maintain production levels. The shift towards more complex and higher cost drilling techniques such as horizontal drilling is among these investments.

Russia's oil production continued to grow by approximately 1% during 2014 as compared to the corresponding period of 2013. The increase, as has been the case for the past several years, is driven by the contribution from greenfields coming on stream in Eastern Siberia, Timan-Pechora, the Caspian, and Sakhalin. The output from mature fields continues to decline but is significantly mitigated by infill horizontal drilling.

During the first half of 2014 the oil prices have been supportive, remaining robust at more than US $100 per barrel, but declined significantly later in the year. This coupled to sanctions on Russia causing material ruble devaluation. A weaker ruble negatively affects our reported results of operations. In addition, E&P companies continue to re-evaluate their spending so as to target higher drilling efficiencies and caused one to increase their in-house drilling capabilities.

Operations review

The year ending December 31, 2014 was both challenging and exciting for the business as we faced a number of issues including lower oil prices, weaker ruble, political instability and changing mix of services.

Onshore business

Our 2014 onshore operating results include:

- Drilled 5.669 million total metres, 9.5% below metres drilled during the corresponding period of 2013 (6.264 million metres);
- The share of horizontal metres drilled (of total) increased to 23% during 2014 compared to 21% during the same period of 2013;
- Exploration drilling volumes increased by 6.2% during 2014 compared to the corresponding period of 2013;
- The share of our largest customer, LUKOIL, increased to 63% of our total metres drilled during 2014, as compared to 57% during 2013;
- The share of our second largest customer, GAZPROMNEFT, increased to 22% of our total metres drilled during 2014, as compared to 12% during 2013;
- The share of ROSNEFT decreased to 7% of our total metres drilled during 2014, as compared to 24% during 2013;
- Our market share was approximately 27% based on metres drilled onshore in Russia during 2014;
- Signed a long-term agreement with GAZPROMNEFT for well construction and sidetracking services for a three year period;
- Signed a Framework Agreement with BENTEC for rig manufacturing at the Company's minority owned drilling rig production facility located in Kaliningrad;
- Our rig moving crew count increased by 13.3% year-over-year;

[1] IEA, World Energy Investment Outlook, Special Report, Executive Summary, 2014 Edition, page 1

- Sidetracking activity decreased by 8.6% compared to the corresponding period of 2013 with 233 well sidetracks performed during 2014.

Our Russian onshore drilling volumes decreased by 9.5% compared to the volumes achieved during 2013 while the share of horizontal drilling increased to 23% in 2014 from 21% in 2013. The decrease in metres drilled is attributable to a number of factors including an increased number of rig moves between customers with some over very long-distances; higher contribution of horizontal and exploration drilling which are inherently more time consuming; increase in average depth of the wells drilled, and unfavorable weather conditions. All these factors led to lower metres drilled year-over-year and which was also in line with total Russian drilling market dynamics.

Lower total metres drilled were mitigated by the continued increase in the share of horizontal drilling volumes in our portfolio to 23% during 2014 from 21% during the corresponding period of 2013. On average a horizontal well takes twice as long to drill than drilling a deviated well. We accounted for approximately 32% of the horizontal metres drilled for LUKOIL, ROSNEFT and GAZPROMNEFT, estimated on the basis of CDU TEK data.

The Russian E&P market is fairly concentrated where 78% of all the volumes are drilled by four large E&P companies, ROSNEFT, SURGUTNEFTEGAS, LUKOIL and GAZPROMNEFT. The leaders of decreased drilling activity among these E&P companies were SURGUTNEFTEGAS (-17%) and ROSNEFT (-8%)[2]. We are not providing well construction to SURGUTNEFTEGAS, as the company has its own drilling rig fleet that covers its drilling needs. Early in 2014 ROSNEFT, which used to be our second largest customer, decided to expand its own in-house fleet. To date, ROSNEFT acquired two independent drilling companies, namely OOO Orenburg Drilling Company and eight companies involved in drilling operations in Russia and Venezuela from Weatherford International plc (transaction closed August 1, 2014). These transactions shrank the size of the market available to independent competition. In recent years, LUKOIL, GAZPROM, GAZPROMNEFT, BASHNEFT, and TNK-BP (before the acquisition by ROSNEFT) sold their in-house drilling fleets. LUKOIL and GAZPROMNEFT, our two largest customers, continued to increase their total drilling volumes during the first six months of 2014.

Our customer mix continues to evolve given the changes described above. The share of ROSNEFT in our portfolio decreased to 7% of our total metres drilled during 2014, as compared to 24% during the corresponding period of 2013. In EDC's portfolio ROSNEFT's drilling volumes were down 72% as we relocated 25 rigs mostly to LUKOIL and GAZPROMNEFT during 2014. Horizontal drilling volumes for this customer also decreased by 73.5% year-over-year. Most of the volumes that we drilled were in Western Siberia, which accounts for the bulk of ROSNEFT's total oil production. We expect to reallocate the remaining 5 drilling rigs from ROSNEFT's fields to our other customers during early 2015.

Our cooperation with our main customer, LUKOIL, continues to be strong as we operate under long-term Framework Agreements that govern minimum volume commitments and indicative pricing ranges. The current and third sequential three year Agreement (2013 to 2015) includes greater flexibility regarding fleet deployment and contract structures. Pursuant to the new Agreement, depending on the complexity of the drilling, our services are provided either on a general contractor "turn-key" basis or on a day rate basis. Completion services which are a part of the well construction service that we provide, pursuant to the new framework agreement, are contracted separately, given the increased complexity of such services. We drilled 3.563 million metres for LUKOIL during 2014, a moderate 0.7% increase over 2013. The majority of our drilling activity for LUKOIL, approximately 80% of total metres drilled, was done in Western Siberia, while there was a slight decrease in metres drilled in this area compared to the corresponding period of 2013. In 2014 we were awarded two new drilling contracts on the Vinogradova and Imilorskoye fields in the Khanty -

[2] TNK-BP's drilling volumes are consolidated to ROSNEFT's drilling volumes starting 2Q 2013.

Mansiysk Region, which are LUKOIL's most prospective fields in this area. The decrease in drilling activity in Western Siberia during 2014 was offset by the significant growth in drilling volumes in Volga-Urals and Timan-Pechora. The moderate increase in total drilling volumes with LUKOIL was augmented by an 11.6% increase in horizontal drilling year-over-year. LUKOIL's share in total metres drilled increased by six percentage points to 63% during 2014 compared to the corresponding period of 2013.

Our cooperation with GAZPROMNEFT continues to evolve as we were awarded our inaugural long-term Framework Agreement for well construction and sidetracking operations. The Agreement covers a three-year period, beginning January, 2014, and includes a pricing formula and minimum guaranteed number of active rigs for onshore drilling and sidetracking services in Russia. It's our strategic priority to diversify our customer base in Russia while building long-term relationships with our clients. During 2014, metres drilled for GAZPROMNEFT in our portfolio increased by 59% to 1.230 million metres drilled compared to the corresponding period of 2013. As a consequence of this progress GAZPROMNEFT has become our second largest customer. In addition, there was an increase in horizontal drilling activity of 97.9% year-over-year. Most of the growth comes from intensified drilling activity in Western Siberia and the Volga-Urals regions. In 2012 we were awarded a drilling contract on the Novopostovskoe field in the Yamalo-Nenetsk Region, one of GAZPROMNEFT's greenfield projects, where we continued to drill during 2014 and moved two additional rigs to this field. Overall the share of GAZPROMNEFT in our drilling volumes increased to 22% during 2014, compared to just 12% during 2013. In 2014 EDC provided a sizable 44% of GAZPROMNEFT's total drilling volumes in Russia, according to CDU TEK data. We are expanding collaboration in geographies of strategic importance to this customer.

During the 2014 our largest customers (LUKOIL, GAZPROMNEFT and ROSNEFT) accounted for approximately 58% of Russia's total drilling volumes, based on CDU TEK. We also continue to work for smaller oil and gas companies such as Pechoraneft, Samaranafta, Rusvietpetro, Russneft and others.

The 2014 was characterized by abnormally high rig moving activity. It was driven by rig relocation from ROSNEFT's fields and the start of the new drilling projects such as LUKOIL's Imilorskoye, Vinogradovo and Paykihinskoe fields. The longest rig move we performed to date was a move of 2,200 km from Vankor field to Novoportovskoe field. During the first quarter of 2014 our rig moving crew count increased by 26% period-over-period and since most of rig relocations were finalized by May 2014, the rig moving crew then count decreased. Rig moving crew count increased further in the fourth quarter of 2014 as we started to move the rigs for 2015 drilling program's locations.

The availability of rigs is one of the keys to being a successful drilling company. Our rig fleet as of December 31, 2014 totaled 261 onshore drilling and sidetracking rigs. The rig count was higher than that as of December 31, 2014 in the amount of 255 rigs as we put into operation more rigs than we have yet to retire. During 2014 we put into operation 11 onshore drilling rigs with capacity ranging from 200 to 450 tonnes and retired 5 stationary drilling rigs. We are expecting the delivery of a total of 14 new modern rigs and retirement of 20 rigs in 2015.

Our rigs are located in most major oil and gas provinces of Russia and we continue to invest in modernisation of our rig fleet. Management believes that the effective age of our rig fleet is less than Russia's average. As per management estimations, the average age of our rig fleet as of December 31, 2014 was 14 years old with 50% of our rigs being less than 15 years old. Besides new rig additions, our rig modernization program involves upgrade of the existing rigs that improves the average age of our fleet. During 2014 we performed 8 rig upgrades.

Our land rigs are capable of drilling a wide range of oil and gas wells, including vertical, deviated, horizontal, and extended-reach wellbores up to 6,400 metres (21,000 feet) in total length. More than half of our rigs are configured for pad drilling, the method that we believe will continue to dominate future developments due to Russia's geography.

In Russia, as in the rest of the world, unexploited oil and gas reserves increasingly occur in more challenging environments, both geographically and geologically. The services market in Russia is evolving toward higher technological content and advanced techniques. As technology applications advance, so do the costs of bringing a barrel of hydrocarbons to market. To justify the higher costs, technologies must deliver greater efficiency and production potential to the oil and gas producers. To satisfy this requirement, and to ensure the stability and further growth of oil production in Russia, we forecast an increasing requirement for new modern rigs. We continue to deliver on our five year rig fleet upgrade and modernisation plan, developed in 2010 and add new drilling rigs and modernize some of the existing ones. The drilling rigs that we are ordering are produced by Russian and Chinese manufacturers at prices significantly lower than the peak prices suffered in 2008, with considerably shorter lead times.

Our onshore workover and sidetracking operations continue to be an important part of our business. Our workover fleet as of December 31, 2014 totaled 419 workover rigs, as compared to 427 rigs the previous year. The decrease is due to the retirements of older rigs. Growth in our total workover jobs performed during 2014 has been quite steady with workover job count increasing 9.6%. Sidetracking job count decreased 8.6% due to increased mobile rig movement between projects.

We commenced drilling operations in Iraq in June 2012 by acquiring three land drilling rigs from an existing drilling contractor and added a fourth rig in Iraq later in 2012. We manage our operations through two offices and a rig yard in Iraq. We operate four single well drilling rigs capable of drilling wells of up to 5,000 metres in depth. During 2014 two rigs were employed by international oil and gas companies while the other two were undergoing planned refurbishment and recertification. Rig utilisation was also lower than planned in 2014 due to issues with security (Islamic State invading Iraq) and KRG funding to our customers.

Offshore business

Our 2014 offshore operating results include:

- Our *ASTRA* jack-up rig was on paid stand-by for most of the first quarter 2014, drilled and tested two exploration wells for LUKOIL and one exploration well for KNK in the Russian and Kazakh sectors of the Caspian Sea, respectively;
- Our *SATURN* jack-up rig continued its operations for PETRONAS Carigali (Turkmenistan) Sdn Bhd (Petronas) in the Turkmen waters of the Caspian Sea; four geological sidetracks were performed;
- We drilled and completed three wells on LUKOIL's Yuri Korchagin field platform in the Caspian Sea, all of which were extended-reach horizontal development wells;
- The new-build *NEPTUNE* jack-up rig drilled four wells for Dragon Oil in Turkmen waters of the Caspian Sea;
- Our fourth new-build jack-up, *MERCURY*, was completed with all required equipment and was being commissioned at year end 2014.

Our offshore operations remained strong during 2014. Our crews remained active on LUKOIL’s Yuri Korchagin field platform, drilling three wells including one challenging extended reach development (ERD) well and commencing drilling of another extended-reach horizontal development well. ERD on Yuri Korchagin is expected to continue. To date the longest ERD well drilled by us offshore on this field was 8.3 km.

Our *ASTRA* jack-up, after a paid stand-by, was deployed in the Russian waters of the Caspian Sea drilling and testing an exploration well for LUKOIL. During the middle of the year the rig moved to Kazakh waters of the Caspian Sea where an exploration well was drilled for KNK. After which the rig retuned to the Russian waters of the Caspian Sea and drilled another exploration well for LUKOIL.

Our *SATURN* jack-up continues operations for Petronas in Turkmenistan. Effective from January 9, 2013, *SATURN* is contracted for a three-year period. The award marks a continuation of several previous multi-year contracts starting in 2003, working almost entirely throughout this period in Turkmenistan. In June 2012 the *SATURN* achieved a major milestone of working continuously for five years without a Lost Time Incident (LTI). During 2014 the *SATURN* continued to operate without any LTIs. During 2014 the *SATURN* completed four geological sidetrack wells.

Our *NEPTUNE* jack-up started drilling its first ever well in the Cheleken Contract Area, Turkmenistan in the Caspian Sea for Dragon Oil in February 2014. The hull and related components were pre-fabricated by Lamprell in its Sharjah facility, while the remaining component fabrication, final assembly, and commissioning were performed at a shipyard in the Caspian Sea. This new build LeTourneau designed Super 116E jack-up is designed to operate in water depths of up to 350 feet (107 metres), and has a rated drilling depth of 30,000 feet (9,150 metres). At the end of 2013 Dragon Oil plc awarded us a three year contract for drilling services in the Turkmen sector of the Caspian Sea. Under this contract *NEPTUNE* drilled and completed four wells in 2014.

In April 2012 we ordered a fourth jack-up rig *MERCURY* for our Caspian Sea operations from Lamprell; this rig will be another LeTourneau Super 116E like *NEPTUNE*. Assembly of *MERCURY's* new-build jack-up first blocks commenced in a shipyard in the Caspian Sea during 2013 and *MERCURY* was completed late 2014 and was being commissioned at year end. *MERCURY* will provide well drilling services to Dragon Oil plc in the Cheleken Contract Area, Turkmenistan in the Caspian Sea replacing *NEPTUNE* for the remainder of the 3 year contract mentioned above.

Non-US GAAP Measure

Reconciliation of Net Income to EBITDA

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA), a non-GAAP financial measure, is computed with reference to the Company's net income for year ending December 31, 2014 and the year ending December 31, 2013 as follows (in thousands of US dollars, unaudited):

	2014*	**2013***
Net income	**420,788**	**432,082**
Income tax expense	114,929	150,381
Loss (gain) on disposal of PP&E	218	(1,608)
Foreign currency exchange rate loss	12,700	705
Litigation settlement	2,607	50,996
Other (income) expense	(1,113)	929
Interest income	(27,110)	(17,189)
Interest expense	33,266	58,254
Depreciation	278,126	265,929
Adjusted EBITDA	**834,411**	**940,479**

**- 2014 & 2013 EBITDA is adjusted for litigation settlement in the amount of US$2.6 million and US$51.0 million respectively*

Our adjusted EBITDA in dollar terms decreased by US$ 106.1 million during 2014 as compared to 2013 due to a depreciation of the Russian ruble against the US dollar. At the same time the adjusted EBITDA margin increased to 28.0% from 27.0% achieved during 2013 due to a number of factors including contribution to

EBITDA from new-build jack-up *NEPTUNE* (commenced drilling early in 2014), lower amount of pass-through costs, increased higher-value horizontal drilling and sustained cost controls by our management team. Our workover and sidetracking operation also positively contributed to 2014 adjusted EBITDA by lower non-productive time compared to 2013. Among the factors that constrained the adjusted EBITDA margin expansion were significant one off rig redeployment costs resulting from changes in the customer mix and unfavorable weather conditions.

OUTLOOK

The fundamentals of the Russian OFS markets remains unchanged, with more than 80% of production coming from declining mature fields, so the drilling intensity needs to be maintained to sustain Russian oil production levels. Despite the drop in total metres drilled onshore Russia in 2014, the total oil production increased 1% year on year in part due to the 33% increase in the more productive horizontal metres drilled. We therefore expect that total metres drilled in Russia will be flat or slightly lower in 2015, but the amount of horizontal metres is expected to increase.

However, due to the current oil price of around $50 per barrel, coupled to the increased cost of financing due to sanctions, we believe oil & gas companies could be economical in their capital expenditures in 2015 despite the mitigating support provided by the weaker ruble. The E&P companies will concentrate on projects & developments that have higher rates of return and new, higher infrastructure cost, greenfield developments will be delayed.

For EDC we expect another challenging year due to the impact of low oil price, the financial sanctions on our customers (both direct & indirect-soft sanctions) and the weaker ruble (approximately 90% of our revenues is ruble based). We expect this to impact rig utilisation for both our onshore & offshore operations as customers have to update plans which will affect drilling schedules. Activity in Iraq is also impacted by low oil price, which limits customer’s funding and the security risks continue.

We continue to invest in our rig fleet so we can retire old land rigs with efficient new rigs. We will receive up to 14 new rigs in 2015.

We expect another soft year for onshore drilling activity in Russia for the reasons noted above. EDC’s total metres drilled and the number of sidetracks are expected to be lower year on year but horizontal metres will increase. Our customer mix will continue with GAZPROMNEFT displacing ROSNEFT as our #2 client and we have been awarded work with new clients, the largest of which is BASHNEFT.

Our Offshore business now has four jack-ups in the Caspian Sea. The smallest of these *ASTRA* will have paid stand-by in Q1 until ice clears at its next drilling location in the Russian sector. *SATURN* & *NEPTUNE* will continue to drill in the Kazakh waters for Petronas & Dragon oil. Our fourth jack-up *MERCURY* was commissioned & moved to Kazakh waters of the Caspian Sea at the beginning of the year. It was due to replace *NEPTUNE* so it could be released to drill in Russian waters, but due to changes in customers’ activity plans, *NEPTUNE* continues to drill and *MERCURY*’s start date has been delayed until mid-year.

We have negotiated minor price increases in rubles for our land operations in 2015. However, our absolute revenue in US$ will be lower based on the expected weaker ruble versus 2014. Our capital expenditures in US$ are also expected to decrease due to weaker ruble and prudent investment decisions. This will be mitigated by our US$ based revenues from our offshore activities in the Caspian Sea.

Certain Factors Affecting our Results of Operations

Macroeconomic Factors Affecting Oil Companies' Capital Expenditure Programs

Our results of operations are subject to the business cycles of our customers in the oil and gas sector and, more specifically, on their planned capital expenditure programs and their ability to execute them. Oil and gas companies rely on their cash flows from operating activities to finance significant portions of their capital expenditures. Such cash flows depend heavily on the global prices for crude oil and natural gas, which affect the prices that our customers receive for sales of their products. Accordingly, oil and gas companies' budgets are normally based on assumptions of expected crude oil and natural gas prices for the relevant periods. Lower prices may reduce the amount of oil and gas that our customers can produce economically or reduce the economic viability of projects, both planned and in development. A substantial or extended decline in crude oil and natural gas prices could result in lower capital expenditures by our customers, and, consequently, lead to a reduction in the number of wells they commission to be drilled. Fluctuations in our customers' capital expenditures have caused the results of our drilling operations to vary from year to year.

World prices for crude oil are characterized by significant fluctuations determined by the global balance of supply and demand, expectations regarding future supply and demand, the condition of the world economy and geopolitical events, prices of, demand for and availability of alternative fuels and many other factors beyond our control. Natural gas prices in Russia are regulated by the Russian government. While Russian natural gas prices have increased in recent years, and are expected to continue to rise to a level closer to parity with export netbacks, they are still significantly below world levels.

Change in Mix of Services

Because margins can vary significantly amongst the services we provide, our results of operations are affected by changes in the mix of onshore and offshore drilling and workover services we provide to our customers. The services we provide in our onshore division have expanded from offering primarily conventional production and exploration drilling services in January 2005 to offering a wider range of drilling and workover services, including sidetracking, horizontal, and underbalanced drilling.

For example, in 2014 we drilled 1,285,200 metres utilizing horizontal drilling techniques, representing 23% of our total drilling volumes, while in 2013 our horizontal drilling operations were 1,296,143 metres, or approximately 21% of total drilling volumes. Unexploited oil and gas reserves in Russia increasingly occur in more challenging environments, both geographically and geologically, and drilling is getting increasingly complex. "Easy to access" reservoirs that were intensively developed during past decades are no longer capable of delivering appropriate flow rates using conventional drilling techniques. As existing brownfield resources deplete, particularly in such mature oil production provinces as Western Siberia and Volga Urals, the period of sustainable production growth from conventional oil is ending and oil companies are being pushed to develop less explored regions where the complexity of drilling and, accordingly, its costs, are usually higher. Additionally, Russia's strategic goal to maintain oil production at least at current levels is driving higher drilling complexity as oil becomes harder to extract from maturing brownfields. Looking forward we see an increase in horizontal drilling as our customers report higher flow rates from wells drilled horizontally. In many instances vertical wells are not economically feasible due to low flow rates. The horizontal drilling technique is especially beneficial when used to drill reservoirs with a greater horizontal dimension than vertical thickness. Douglas-Westwood estimates that horizontal drilling could improve initial well flow rates by two to seven times in some reservoirs.

Our margins are also affected by the level of pass-through third party services in our expenses and revenue. Under most of our onshore drilling contracts, we act as a general contractor and are contractually responsible for managing all aspects of the drilling process, including certain services we do not perform ourselves. Therefore, historically, some of the revenue has related to pass-through third party services and products sold to our customers with little or no related mark-up (such as, for example, telemetry and technology services for horizontal drilling). The corresponding payments we make to third party service providers are recorded under services of subcontractors. In 2012 and during 1H 2013, we experienced a decrease in pass-through services with our largest customer, LUKOIL-West Siberia, as they began to contract for telemetry services directly with third party providers starting in May 2012 as well as due to certain other non-recurring factors. During 2014, we experienced a further decrease in pass-through services as we decreased amount of work for ROSNEFT in their Western Siberian fields.

Productivity

Our results of operations are affected by the productivity of our crews, which in turn depends on a number of factors. These factors include crew training and incentives, operating procedures, fleet upgrades and modernization, logistics flow and mix of services.

Over the medium-term to long-term we expect our productivity to improve due to the ongoing implementation and utilization of more advanced drilling technologies and the application of new standards to our drilling operations. Advanced crew training and application of innovative technologies have allowed us to both improve rates of penetration and reduce non-productive time. Examples of technological advancements include wider usage of polycrystalline diamond compact drill bits, introduction of new generation drilling motors, optimization of bottom-hole assembly and mud programs/properties, and real-time drilling navigation. The use of top-drives and four-step drilling mud cleaning systems on our high specification rigs further improves penetration rates and efficiency in the increasingly challenging wells we are drilling.

During the last several years we have witnessed a number of factors that could moderate the rate of productivity improvement when measured on a per metre basis. All these factors can be broadly described as changing the mix of services that we provide to our customers. Horizontal wells are inherently more time consuming to drill than comparable deviated wells. Our productivity as measured in metres drilled per crew per day decreased by 6% during 2014 as compared to the corresponding period 2013 on the back of higher share of horizontal drilling and higher rig moving activity. Another factor that affects our crew productivity is seasonality described in more detail below.

Seasonality and Extreme Weather Conditions

Our results of operations in both our onshore and offshore segments have, and will continue to experience, seasonal fluctuations in revenue and expenses as a result of weather conditions. Our revenue from onshore and offshore drilling services can be negatively affected by particularly severe winter weather in certain regions of Russia that may make oil and gas operations difficult and potentially non-operational during that season. Our revenue from onshore drilling services may also be negatively affected by spring thawing because drilling rigs, equipment, and materials situated in certain regions can only be transported during winter when the ground is sufficiently frozen to create access roads. As a result, a portion of our business activity in the fourth and first quarters of each year is devoted to transportation of drilling rigs, equipment, and materials and we experience a decrease in revenue while continuing to incur costs. If we fail to complete a drilling contract on time or are unable to move our equipment due to adverse weather conditions our ability to commence drilling on a timely basis at another site may be impeded. However, the effect of severe weather conditions on our operations depends on the specific type of service being provided. For instance, our onshore exploration drilling services are most affected by adverse weather conditions, as our drilling rigs, equipment, material and crews that are required for such services are mobilized to remote locations accessible only by winter roads or helicopters. On the other hand, onshore production drilling services tend to be less affected by adverse weather conditions due to the cluster drilling method we utilize, which involves drilling multiple wells from a single drilling pad. However, also when using this drilling method, our operations may be temporarily disrupted by adverse weather conditions such that we are unable to operate our rigs or mobilize required supplies to rig sites. With respect to our offshore division, we are generally unable to perform drilling services in the Russian sector of the Caspian Sea during winter months due to the presence of ice. However, the Yuri Korchagin platform is ice-resistant, which allows us to drill there year-round.

Operating Capacity

Our revenue growth can be negatively affected by the number of drilling rigs and drilling crews available to us. Our ability to increase our onshore business or maintain its current level depends on our ability to procure a sufficient number of new drilling rigs and modernize our existing ones. Importantly, since the wells we drill are getting deeper we anticipate increased demand for heavier rigs. In 2010, we developed a five-year plan for the delivery of new rigs and since then we have ordered 49 new rigs and taken delivery of 33 up to the end of 2014. These new purchases were either for heavy rigs, i.e., 320 ton hook load, equivalent to 1,500 horsepower or greater, or medium rigs with 250 ton hook load. This new rigs are in the order of 30% more efficient than the older rigs they replaced. As of December 31, 2014, approximately 24% of our drilling rigs were in the heavy class.

At the end of 2014 we believed we had sufficient operating capacity with the addition of the new rigs to our drilling fleet and our increased drilling productivity to drill approximately 7.3 million metres on an annual basis.

Additionally, our results of operations can be affected by the amount of capital expenditures we are required to undertake in order to modernize and renovate our drilling rig fleet periodically and to satisfy applicable equipment certification requirements. As of December 31, 2014, approximately 43% of our drilling rigs were more than 20 years old.

Foreign Currency Fluctuations

Our audited consolidated financial statements are presented in US dollars, which is the Group's reporting currency. The functional currency of most of our operating entities is the Russian ruble as this is the currency of the primary economic environment in which they operate and in which cash is generated and expended. Foreign exchange gains and losses result from converting monetary assets and liabilities denominated in Russian rubles into US dollar occurs at each balance sheet date.

The Group has currency exposure on the carrying amount of the rig fleet, which is reflected as a Russian ruble asset in the accounting records of the Group's Russian subsidiaries and then translated into US dollars in the Group's audited consolidated financial statements. A strengthening of the Russian ruble against the US dollar means a higher US dollar carrying amount of the Group's rig fleet and vice versa. At the same time, as of December 31, 2014, 91% of our long and short-term debt was denominated in US dollars. Accordingly, the translation effect of the assets is not balanced by a similar translation effect of the liabilities. However, our projected dollar based cash flows, principally from our offshore operations, are expected to reduce our dollar denominated debt as it matures.

Revenues

We generate our revenues primarily from the sale of onshore drilling services, as well as from offshore drilling services and certain other services.
The following table sets forth a breakdown of our revenues by type of services provided and as a percentage of total revenues for the period indicated.

	Year ended December 31,			
	2014		2013	
	(in thousands of US$, except percentages)			
Drilling and related services	2,972,336	99.9%	3,473,555	99.9%
Other sales and services	2,875	0.1%	4,569	0.1%
Total revenues	**2,975,211**	**100%**	**3,478,124**	**100%**

Our revenues from drilling and related services represented approximately 99.9% of our total revenues for the years ended December 31, 2014 and 2013. Related services include our workover and sidetracking operations.

A significant portion of our revenues from drilling and related services is derived from LUKOIL, which, for the 12-month period ended December 31, 2014, accounted for approximately 74.6% of our total revenues. We provide our onshore drilling services to LUKOIL on the basis of long-term three-year onshore drilling services framework agreement (the "Framework Agreement"), under which we are required to provide a guaranteed scope of drilling and well construction services to LUKOIL. Pursuant to the Framework Agreement, EDC enters into annual contracts with companies in the LUKOIL group which contain detailed information on the numbers and locations of the wells to be drilled during the relevant year, as well as the basis on which our services are provided. Depending on the complexity of the drilling, our services are provided either on a general contractor "turn-key" basis or on a day rate basis. Completion services which are a part of the well construction service that we provide are contracted separately, given the increased complexity of such services.

In addition, in 2010 we entered into a five-year workover framework agreement with LUKOIL. This workover framework agreement includes a guaranteed volume of workover services to be provided during the five-year term. LUKOIL also represents a significant part of our offshore drilling business, as we have a multi-year agreement for our services on the LSP-1 platform in the Yuri Korchagin field in the Caspian Sea.

In 2014 we signed an inaugural long-term three-year onshore drilling and sidetracking services framework agreement with GAZPROMNEFT, which includes a pricing formula and minimum guaranteed number of active rigs.

With respect to our other customers and the companies of the LUKOIL group with which we enter into contracts outside of the scope of the Framework Agreement, contracts are typically for a period of one year. We generally contract to provide our onshore drilling services on the basis of agreed procedures and prices, as a general contractor and, to a limited extent, on a day rate basis.

Current contracting practices in the Russian drilling market contribute to fluctuations in revenue. We obtain a significant part of our business through open tenders. Most tenders are conducted annually through a process that begins with requests for proposals in September and ends with signed contractual commitments generally between December and March. As a result, a portion of our business activity in the winter months is generally devoted to rig up and rig down operations and transportation of equipment and personnel required for our onshore drilling services.

Cost of Services

Our cost of services comprises five primary cost categories: services of subcontractors, staff cost (including social contribution), materials, depreciation and other.
The table below sets forth the costs associated with each category in dollars and as a percentage of the cost of services for the periods indicated.

	Year ended December 31,			
	2014		2013	
	(in thousands of US$, except percentages)			
Cost of services	**2,251,860**	**100%**	**2,621,945**	**100%**
Services of subcontractors	905,194	40.2%	1,017,119	38.8%
Staff cost, including social contributions	603,861	26.8%	669,598	25.5%
Materials	394,126	17.5%	577,331	22.0%
Depreciation	278,126	12.4%	265,929	10.1%
Other	70,553	3.1%	91,968	3.5%

Services of Subcontractors

Under most of our onshore drilling contracts, we act as a general contractor and are contractually responsible for managing all aspects of the drilling process, including certain services we do not perform ourselves. In our onshore division, services contracted from third parties include subcontracting for technological services, transportation services, preparatory services, well facility services, petrophysical services, well services, drilling motor and drilling navigation services, cementing services, drilling bit services, and current repair & maintenance expenses for fixed assets. Subcontractor services were the largest component of our cost of services for the years ended December 31, 2014 and 2013. Services of subcontractors include certain reimbursable services the cost of which is passed through to our customers at little or no mark-up. The reimbursements for such services that we receive from our customers are recorded as revenue.

Staff cost, including Social Contributions

Staff cost, including social contributions, include costs of our personnel directly engaged in providing onshore and offshore drilling and other services. Staff cost include amounts we pay in support of our private employee insurance and medical funds, contributions to pension funds or social taxes, other employee benefits.

Materials

Expenditures for materials have been driven primarily by our customers' particular drilling programs and projects. Materials for our onshore and offshore drilling divisions primarily include spare parts, tubular goods, mud chemicals, cement, and drilling tools. Materials also include fuel and energy costs consisting primarily of oil, lubricants, and electricity.

Depreciation

Depreciation is calculated using the straight-line method over the useful lives of assets which are estimated to the best knowledge and experience of our management team.

Other

The remaining portion of our cost of services which we categorize as "other" includes license fees, insurance expenses, safety and environmental expenses, leasing and rent, and various local taxes, such as property, road, and other small regional taxes.

Results of Operations

The table below sets forth a summary of our operating results in dollars and as a percentage of total revenues for the periods indicated. In absolute terms, all of our 2014 operating results set forth below were affected by the 17.1% depreciation of the Russian ruble against the US dollar during the year ended December 31, 2014 as compared to 2013.

	Year ended December 31,			
	2014		**2013**	
	(in thousands of US$, except percentages)			
Total revenues	**2,975,211**	**100.0%**	**3,478,124**	**100%**
Cost of services	(2,251,860)	(75.7%)	(2,621,945)	(75.4%)
Selling, general and administrative expenses	(168,122)	(5.7%)	(186,608)	(5.4%)
(Loss) gain on disposal of property, plant and equipment	(218)	(0.0%)	1,608	0.0%
Gain on disposal of materials	1,056	0.0%	4,979	0.1%
Litigation settlement	(2,607)	(0.1%)	(50,996)	(1.5%)
Other income (expense)	1,113	0.0%	(929)	(0.0%)
Income from operating activities	**554,573**	**18.6%**	**624,233**	**17.9%**
Interest expense	(33,266)	(1.1%)	(58,254)	(1.7%)
Interest income	27,110	0.9%	17,189	0.5%
Foreign currency exchange rate loss	(12,700)	(0.4%)	(705)	(0.0%)
Income before income taxes	**535,717**	**18.0%**	**582,463**	**16.7%**
Income tax expense	(114,929)	(3.9%)	(150,381)	(4.3%)
Net income	**420,788**	**14.1%**	**432,082**	**12.4%**

Revenues

Revenues decreased by US$502.9 million, or 14.5%, to US$2,975.2 million for 2014 from US$3,478.1 million for 2013 due to 17.1% depreciation of the Russian ruble against the US dollar in 2014. Increase in revenues from workover & sidetracking operations and higher revenues from our offshore business as our new-build jack-up *NEPTUNE* commenced operations in March 2014 were partially netted off by changes in our client mix and related increase in rig redeployment.

Cost of Services

Cost of services decreased by US$370.1 million, or 14.1%, to US$2,251.9 million for 2014 from US$2,621.9 million for 2013. Cost of services as a percentage of total revenues slightly increased from 75.4% for 2013 to 75.7% for 2014. The decrease in absolute terms was due to depreciation of the Russian ruble. Despite higher transportation costs due to increase in rigs redeployment and higher depreciation due to arrival of new rigs and change in drilling pipe life estimation, as a percentage of total revenues cost of services remained almost on the same level which was primarily attributable to efforts by the Group's management to control costs.

For 2014, services of subcontractors were US$905.2 million, or 40.2% of total cost of services as compared to US$1,017.1 million, or 38.8% of total cost of services for 2013. The decrease in absolute terms was due to depreciation of the Russian ruble. The increase as a percentage of total cost of services was due to increased transportation costs related to rigs redeployment caused by changes in the client mix and due to a significant decrease in the share of materials in total cost of services as to be described further below, causing the relative share of other constituents of our cost of services to increase.

Staff cost, including social contributions for 2014 were US$603.9 million, or 26.8% of total cost of services as compared to US$669.6 million, or 25.5% of total cost of services for 2013. The decrease in absolute terms was driven by depreciation of the Russian ruble which was partially netted off by annual salary indexation, formation of additional drilling crew for our offshore operations on *NEPTUNE* and increase in workover and rig-moving crew count. The increase in wages and salaries as a percentage of total cost of services resulted from a decrease in the share of reimbursable materials in total cost of services, as described above, causing the relative share of other constituents of our cost of services to increase as well as increase in workover and rig-moving activities where staff cost, including social contribution, are a comparatively larger component of cost of services.

For 2014, cost of materials was US$394.1 million, or 17.5% of total cost of services as compared to US$577.3 million, or 22.0% of total cost of services for 2013. The decrease in both absolute terms and a percentage of total cost of services despite higher prices for the fuel and energy was caused by decrease in reimbursable pass-through materials (casing pipe) as a result of declining activity with ROSNEFT. Change in absolute figures was also affected by depreciation of the Russian ruble.

Depreciation for 2014 was US$278.1 million, or 12.4% of total cost of services as compared to US$265.9 million, or 10.1% of total cost of services for 2013. In absolute terms, the increase due to change in estimate of the useful life of the drilling pipe from 2-3 years to 2 years and depreciation of *NEPTUNE* after commencing operations in 2014 was partially netted of by ruble devaluation. Change in the drilling pipe useful life estimation increased our depreciation in 2014 by US$20.8 million. In addition to these factors, the increase in a percentage of total cost of services was also caused by a decrease in the share of reimbursable materials.

For 2014, other expenses were US$70.6 million, or 3.1% of total cost of services compared to US$92.0 million, or 3.5% of total cost of services for 2013. The decrease in both absolute terms and as a percentage of total cost of services was due to the discontinuance of certain leases and rent in respect of drilling equipment and a decrease in insurance. Change in absolute figures was also affected by depreciation of the Russian ruble.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by US$18.5 million, or 9.9%, to US$168.1 million for 2014, as compared to US$186.6 million for 2013. The decrease in absolute terms was driven by depreciation of the Russian ruble. As a percentage of total revenues, Selling, general and administrative expenses increased from 5.4% for 2013 to 5.7% for 2014.

(Loss) gain on Disposal of Property, Plant and Equipment

Loss on the disposal of property, plant and equipment amounted to US$0.2 million for 2014, as compared to a gain of US$1.6 million for 2013. This difference was primarily due to the timing of opportunistic sales of unneeded or obsolete equipment.

Gain on Disposal of Materials

Gain on the disposal of materials amounted to US$1.1 million for 2014, as compared to US$5.0 million for 2013. This difference was primarily due to the timing of opportunistic sales of unneeded or obsolete materials.

Litigation Settlement

Litigation settlement amounted to US$2.6 million for 2014, as compared to US$ 51.0 million for 2013. In 2013 financial statements we recognized a claim provision as a result of a decision rendered on March 7, 2014 by the arbitration tribunal before the Stockholm Chamber of Commerce between China Petrochemical International Company Limited (CPIC) and a Group company. During the reporting period an amount of US$

53.6 was paid to CPIC as a final settlement of the arbitration award. For more details please refer to the commitments disclosure in the notes to our 2014 consolidated financial statements.

Other Income (Expense)

Amounts in this category represent unusual income or expense not resulting from our ordinary course of business activities. In 2014 we recognized income in the amount of US$1.1 million as compared to a loss of US$0.9 million during 2013.

Income from Operating Activities

Income from operating activities decreased by US$69.7 million, or 11.2%, to US$554.6 million for 2014, as compared to US$624.2 million for 2013. The decrease in absolute terms was due to the ruble depreciation. As a percentage of total revenue, income from operating activities increased from 17.9% for 2013 to 18.6% in 2014. Positive impacts from our offshore business, workover & sidetracking operations, continued increase in share of higher-value horizontal drilling, sustained cost controls by our management team as well as decrease in litigation settlement were partially netted off by change in the client mix, rig redeployment and increase in depreciation.

Interest Expense

Interest expense decreased by US$25.0 million, or 42.9%, to US$33.3 million for 2014, compared to US$58.3 million for 2013. The decrease in interest expense was attributable to significant one-off fees recognized in 2013 (Raiffeisenbank commissions for early repayment of the US$220 million facility and UniCredit Bank commissions for opening the US$227 million facility), the lower weighted average interest rate on our debt and higher amount of capitalized interest (including adjustment of prior year).

Interest Income

Interest income increased by US$9.9 million, or 57.7%, to US$27.1 million for 2014 from US$17.2 million for 2013. The increase was primarily due to improvements in our cash management practices and better terms of overnight deposits.

Foreign Currency Exchange Rate Loss

Foreign currency exchange rate loss amounted to US$12.7 million for 2014, as compared to US$0.7 million in 2013 due to the fluctuations in the ruble/USD exchange rates and significant depreciation of the Russian ruble in Q4 2014.

Income before Income Taxes

Income before income taxes decreased by US$46.7 million, or 8.0%, to US$535.7 million for 2014, compared to US$582.5 million for 2013. The decrease in income before income taxes was attributable to the ruble depreciation and factors described in more detail above.

Income Tax Expense

Income tax expense decreased by US$35.5 million, or 23.6%, to US$114.9 million for 2014, compared to US$150.4 million for 2013. The decrease was partially due to a lower tax base. Our effective tax rate decreased to 21.5% in 2014 from 25.8% in 2013. This decrease in effective tax rate is attributable to higher non-deductible expenses in 2013 (mainly due to a litigation settlement claim provision) and a higher withholding tax accrued in 2013 due to a change of intercompany dividend policy.

Net Income

As a result of the foregoing factors, despite the ruble devaluation net income decreased only by US$11.3 million, or 2.6%, to US$420.8 million for 2014, compared to US$432.1 million for 2013.

Liquidity and Capital Resources

The Company's primary sources of liquidity are cash generated from operating activities and debt financing. The Company's plan going forward is to finance its capital expenditures, interest payments and dividends primarily out of operating cash flows, as well as to finance a portion of its capital expenditures through existing and prospective credit facilities.

Cash flows

The table below shows our net cash flows from operating, investing and financing activities for the years ended December 31, 2014 and 2013.

	Year ended December 31,	
	2014	2013
	(in thousands of US$)	
Net cash provided by operating activities	641,117	751,053
Net cash used in investing activities	(533,859)	(496,236)
Net cash (used in) provided by financing activities	(361,262)	248,667

Operating Activities

Net cash provided by operating activities amounted to US$641.1 million for 2014, as compared to US$751.1 million for 2013. This decrease is attributable to the Russian ruble devaluation as well as the US$ 53.6 claim paid to CPIC in 2014 as a final settlement of the arbitration award.

Investing Activities

Net cash used in investing activities amounted to US$533.9 million for 2014, as compared to US$496.2 million for 2013. Investing activities in 2013 were positively impacted by the return of restricted cash in the amount of US$45.4 million which was posted as collateral for the issuance of a commercial letter of credit to Lamprell; no such transaction took place in 2014. Capital expenditures during 2014 amounted to US$530.5 million (including US$138 million offshore capital expenditures out of which US$19 million is capitalized interest) as compared to capital expenditures, excluding changes in restricted cash, of US$553.1 million (including US$120 million offshore capital expenditures out of which US$15 million is capitalized interest) in 2013. There were no strategic acquisitions during 2014 and 2013.

Financing Activities

Net cash used by financing activities amounted to US$361.3 million for 2014, compared to US$248.7 million provided by financing activities for 2013. During both periods, certain debt was redeemed in accordance with its terms. In 2013 we raised US$600 million through a Eurobond offering and US$210.8 million through a new credit line facility with UniCredit Bank and made an early repayment of our Raiffeisenbank facility in the amount of US$220 million and OAO Sberbank of Russia facility for our workover division in the amount of US$25 million. In 2014 there were no early repayments and only US$36.2 million was raised (US$ 16.2 million through existing UniCredit Bank facility and US$ 20.0 million through a new facility with BNP Paribas).

Also, in 2014 the Group paid dividends to its shareholders for both FY 2013 (in January 2014) and for FY 2014 (in December 2014) while in 2013 there was only one dividend payment for FY 2012.

Liquidity

As of December 31, 2014 we had cash and cash equivalents of US$327.1 million compared to US$777.8 million at December 31, 2013.

	At December 31, 2014	At December 31, 2013
	(in thousands of US$)	
Cash held in banks – Russian rubles	119,440	231,178
Cash held in banks – US dollars	107,080	249,630
Short term deposit – Russian rubles	98,761	285,770
Short term deposit - US dollars	1,699	11,113
Other	45	101
Total cash and cash equivalents	**327,055**	**777,792**

Our cash flow in the short term can be negatively affected by the level of expenditures we are required to make in the fourth and first quarters of each year to mobilize our rigs, crews and equipment to drilling sites.

Capital Expenditures

Our business is capital intensive and expenditures are primarily required to (i) purchase new drilling rigs and other equipment and (ii) upgrade and modernize the technical characteristics of our existing drilling rigs and equipment.

For the years ended December 31, 2014 and 2013 advances given for property, plant and equipment amounted to the following:

	At December 31, 2014	At December 31, 2013
	(in thousands of US$)	
Advances given for property, plant and equipment	36,820	90,493

The amounts represent cash advances for property, plant and equipment purchased but for which we have not yet taken delivery. The decrease in advances given for property, plant, and equipment in 2014 was attributable to the arrival of onshore drilling rigs and equipment and devaluation of the Russian ruble.

The table below presents the amounts invested in construction still in progress for the periods indicate:

	At December 31, 2014	At December 31, 2013
	(in thousands of US$)	
Construction in progress	405,591	494,735

The decrease in construction in progress in 2014 is mostly due to our new-build jack-up *NEPTUNE* being put in service and commencing operations in March 2014. During the reporting period we made two final instalment payments to Lamprell in the amount of US$90.8 million for the construction of our second new-build jack-up rig, *MERCURY*.

Capital Resources

For the year ended December 31, 2014 and for the year ended December 31, 2013 our short-term and long-term debt amounted to the following:

	At December 31, 2014	At December 31, 2013
	(in thousands of US$)	
Current portion of long-term debt	69,219	70,369
Non-current long-term debt	906,640	963,569

As of December 31, 2014, our long term debt comprised of the following:

Long-term debt	Final maturity date	Currency	Interest Rate	Outstanding debt *(in thousands of US$)*	Security
Debt of the Company					
ZAO UniCredit Bank	2017	USD	LIBOR + 3.3%	227,000	Property, plant and equipment
Loans from stockholders	2015	USD	5.8%	40,000	None
Debt of our subsidiaries					
Bank loans					
BNP PARIBAS SA	2019	USD	LIBOR + 4%	19,983	None
Eurobonds	2020	USD	4.875%	600,000	None
Russian ruble bonds	2018	RUB	8.4%	88,876	None
Total long-term debt				**975,859**	
Total non-current long-term debt				**906,640**	

EDC also has long-term liability for property, plant and equipment (PP&E) which represents accounts payable to OOO Rushong-Hua for onshore drilling rigs purchased by instalments in three years. As of December 31, 2014 long-term liability for PP&E amounted to US$ 143.5 million compared to US$ 80.5 million as of December 31, 2013.

We believe we have sufficient working capital to meet our requirements for at least the next 12 months. We also expect to meet our contractual payment obligation requirements for at least the next 12 months with cash flows from our operations, other financing arrangements and our available working capital.

The following table summarizes the principal maturities of our long-term debt and long term liabilities for PP&E, including their current portion, as of December 31, 2014. We expect to meet our debt and long term liabilities payment requirements with cash flows from our operations and other financing arrangements.

	Payments due by period						
	Total	**2015**	**2016**	**2017**	**2018**	**2019**	**2020 and thereafter**
	(in thousands of US$)						
Contractual Obligations							
Long-term debt	975,859	69,219	193,762	104,884	3,997	3,997	600,000
Long-term liabilities for PP&E	143,544	57,232	53,849	32,463			

Our long-term debt and first two overdraft lines from ZAO UniCredit are secured by certain property, plant and equipment with a carrying amount of US$76.9 million as of December 31, 2014. At the same time, our secured debt represented approximately 23% of our total long and short-term debt.

Off-Balance Sheet Arrangements

The Company does not have off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, revenue, expenses, results of operations, liquidity, capital expenditures or capital resources.

Overview of Other Matters

Dividend Policy and Year-End Dividend Declaration

Our ability to pay dividends depends primarily on the amount of cash we have on-hand and on the receipt of dividends and distributions from our subsidiaries. The payment of dividends by our subsidiaries is contingent upon the sufficiency of their earnings, cash flows, and distributable reserves and the ability of our subsidiaries to make, in accordance with relevant legislation, Company law, exchange controls and contractual restrictions, dividend payments and other types of distributions to us.

In August 2007, we adopted a dividend policy according to which we expect to declare and pay dividends each year based on the Company's earnings and the cash needs of the business.

Our results of operations and cash generating capacity continue to be strong, which allows us both to invest in our growing business and to increase dividend payments to our shareholders. The decision of the Board of Directors on the amount of dividends to pay depends on many factors, including, but not limited to, the financial situation and results of the Company, its capital needs for the support of business growth, the overall macroeconomic and market environment, and tax and legislative issues.

For the year ended December 31, 2014 a dividend was declared by the Board of Directors on October 31, 2014 in the amount of US$1 per share, or US$145 million which was paid in December 2014. For 2013 a dividend of 92 cents per share, or US$135 million, was declared in December 2013 and paid early in 2014.

Treasury Shares

In February 2014, we announced that we may buy back up to US $200 million of our GDRs commencing April 2, 2014 for a period of six months. In September 2014, the Share Repurchase Program was extended for an additional six month period starting October 2, 2014, once the prior Share Repurchase Program expired. The amount authorized for the extended share repurchase was up to US $200 million in addition to the amount spent for the existing Share Repurchase Program. The second Share Repurchased Programs expired April 2, 2015. In total 2,026,145 GDRs were repurchased at total cost of US 57,046 thousand dollars. The GDRs repurchased under the Share Repurchase Programs are held by EDC Incentive Plan Limited, a subsidiary of the Company. Also during 2014 15,983 shares were transferred to Directors in lieu of cash for their services. As of December 31, 2014 there were 2,064,037 shares held in treasury.

Earnings per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the reporting periods.

The calculation of earnings per share for the periods indicated was as follows:

	Year ended December 31,	
	2014	**2013**
Net income available for common stockholders	420,788	432,082
Weighted average number of outstanding shares	145,665,352	146,778,795
Basic and diluted earnings per share of common stock (US dollars)	2.89	2.94

Basic and diluted earnings per share were US$2.89 for 2014, compared to US$2.94 for 2013. This decrease in earnings per share was attributable to the decrease in net income by 2.6%.

Related Party Transactions

Shareholder Loans

In the period from November 2006 through March 2007 the Company entered into loan agreements with its shareholders to partially fund the investment programme of our onshore drilling services division and the purchase of our offshore drilling services business. The aggregate principal amount of such loans was US$40 million and US$50 million as of December 31, 2014 and December 31, 2013 respectively. These loans are denominated in US dollars and bear interest at 5.8% per annum with the maturity date on December 31, 2015.

US$2.5 million interest and US$2.9 million was recognised and paid on these loans during the years ended on December 31, 2014 and 2013. Management believes the terms of these loans are no more onerous than those that would have been negotiated in an arms-length negotiation.

Legal Services

The Company's General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm (the Firm). During the years ended December 31, 2014 and 2013 the Firm billed EDC for costs and expenses of US$2.2 million and US$3.9 million, respectively. All services were billed at a discount to the Firm's normal billing rates, while expenses were billed at their actual cost. In addition the amounts paid to The Stinemetz Law Firm include considerable third party expenses and charges for the services of other lawyers. Mr. Stinemetz is not otherwise paid for his services as the Company's General Counsel. Management believes the amounts paid for these legal services are no more onerous than those that would have been negotiated in an arms-length negotiation for a similar level of service and expertise.

Transactions with the Associate Company

In 2014 the Company issued a short-term loan of US$0.6 million to an associate company OOO Kliver. The loan was denominated in Russian rubles, bore interest at 10% and was fully paid back as of December 31, 2014. Additionally in 2014 EDC acquired equipment from OOO Kliver in the total amount of US$23.3 million compared to US$6.3 million in 2013. As of December 31, 2014 and 2013 advances paid to OOO Kliver amounted to US$1.7 million and US$2 million, respectively.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from adverse movements in foreign currency exchange rates and changes in interest rates on our obligations. Our overall risk management objective is to reduce the potential adverse effects of these risks on our financial performance; however, we do not maintain any formal hedging programs beyond management of credit risk.

Credit Risks

Financial assets which potentially subject our entities to credit risk consist principally of trade receivables. We have policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Credit risks related to accounts receivable are systematically monitored and are considered when impairment provisions are created. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk.

A significant proportion of our operations are with LUKOIL Group companies and ROSNEFT Group companies and as such the Company has significant concentrations of credit risk with these clients.

Included in our sales and accounts receivables are the following transactions and balances with these major customers:

	2014	**2013**
	(in thousands of US$)	
Revenues from LUKOIL Group for the year ended December 31	2,220,821	2,291,461
Revenues from ROSNEFT Group for the year ended December 31	170,126	649,673
Accounts receivable from LUKOIL Group as of December 31	229,170	221,354
Accounts receivable from ROSNEFT Group as of December 31	17,040	74,426

The LUKOIL Group made up approximately 74.6% and 65.9% of our sales for the years ended December 31, 2014 and 2013, respectively. The ROSNEFT Group made up approximately 5.7% and 18.7% of our sales for the years ended December 31, 2014 and 2013, respectively. In order to reduce exposure to this credit risk we have been increasing our business with other, unrelated customers and continue to monitor our account receivable balances closely. We perform periodic credit checks on our customers and, as a result, did not have any material bad debt expense from our operations during the six-month periods ended June 30, 2014 and 2013. Our allowance for doubtful accounts stood at US$7.0 million on December 31, 2014, which amount was considered adequate. Our cash and cash equivalents are placed with major banks of Russia, Switzerland, Austria and the United Kingdom.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our long-term and short-term debt. The table below presents scheduled long-term debt maturities in US dollars and related weighted-average interest rates as of December 31, 2014:

	Scheduled Maturity (in millions of US$, except percentages)							**Fair Value**
	2015	**2016**	**2017**	**2018**	**2019**	**2020 and Thereafter**	**Total**	**December 31, 2014**
Total long term debt	69.2	193.8	104.9	4.0	4.0	600.0	975.9	716.5
Fixed rate	39.0	88.9				600.0	728.9	511.4
Average interest rate	5.4%	5.3%	4.9%	4.9%	4.9%	4.9%		
Variable rate*	29.2	104.9	104.9	4.0	4.0		247.0	205.1
Average interest rate	3.6%	3.6%	3.6%	4.4%	4.4%			

* Based on the LIBOR rate at the end of 2014 which rate may fluctuate in later periods.

Currency Risk

We are exposed to foreign currency exchange rate risks. The currency giving rise to these risks is primarily the Russian ruble. We use the Russian ruble for the majority of our operations, while the US dollar is our reporting currency. Foreign exchange gains and losses result from converting monetary and certain nonmonetary assets and liabilities denominated in the Russian ruble into US dollar amounts at each balance sheet date. This includes any borrowings in a foreign currency. As of December 31, 2014 we had US$88.9 million of a total of US$975.9 million of our long and short-term debt denominated in the Russian ruble. As of December 31, 2013 we had US$173.1 million of a total of US$1,033.9 million of our long and short-term debt denominated in the Russian ruble. In addition, the results of our operations are impacted by transactions entered into in currencies other than the Russian ruble, and a fluctuation in the Russian ruble versus US dollar exchange rates will result in a change in the recognized revenue and expenses associated with such transactions. Furthermore, while the majority of our revenue are denominated in the Russian ruble, some of our costs, including some of those associated with purchases of foreign manufactured land and offshore drilling rigs, are denominated in the US dollar and other currencies. Any further significant foreign currency exchange rate fluctuations (both short- and long-term) could have a material adverse effect on our business, financial condition and results of operations.