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 six-month period ending June 30, 2015 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 reviewed 2015 Interim 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 675 rigs consisting of 270 onshore drilling and sidetracking rigs and 405 workover rigs. Our offshore fleet consists of four jack-up rigs.

For the six-month period ended June 30, 2015, we had total revenue of US$923 million, EBITDA of US$225 million and net income of US$91 million, compared to total revenue of US$1,549 million, EBITDA of US$402 million and net income of US$201 million for the six-month period ended June 30, 2014.

Our business is currently organized into two main divisions: onshore and offshore drilling services. For the six-month ended June 30, 2015, we had total revenue of US$817million from our onshore division and total revenue of US$106 million from our offshore division.

For the six-month period ended June 30, 2015, we had an estimated market share of approximately 22% of the onshore drilling services market in Russia, as measured by the number of metres drilled, according to CDU-TEK. Our onshore fleet of 266 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 June 30, 2015 our total workover fleet consisted of 405 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.

In January 2015, we signed an agreement whereby Schlumberger will take a 46.65% minority shareholder in EDC with an option for 100% ownership by Schlumberger in 3 to 5 years after closure of the transaction. The transaction is awaiting the approval of the Russian Federal Anti-monopolies Services and the Commission for monitoring of foreign investment with a current long stop date of 30'th September 2015. Upon closure of the merger the EDCL GDRs will be delisted from the London Stock Exchange and a consideration of US$22 per GDR will be paid to registered shareholders.

Our customers as of June 30, 2015 include a number of major Russian and international oil and gas companies operating in Russia, such as LUKOIL, GAZPROMNEFT, ROSNEFT, BASHNEFT, 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 and Marathon Oil. Activity was virtually zero during the first half of 2015 due to security concerns and low oil prices.

For the six-month period ended June 30, 2015, 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. In these sectors there are four jack-up rigs currently operating and we own three of them, the *ASTRA, SATURN* and *NEPTUNE* jack-up rigs. There are a further two third party owned jackups under construction in the Caspian. Our fourth new jackup *MERCURY* is completed but undergoing certifications & licenses /permits to drill before startup likely to be delayed due to customers' activity changes. 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 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. *MERCURY*, was delivered on time and on budget at 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) and the N Operating Company (a joint venture between KazMunayGas, ConocoPhillips and Mubadala).

General overview

As recent history has shown, the 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 (in particular the massive growth of shale oil production in the USA), 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. Our drilling activities are mainly in oil provinces as these are much more drilling intensive than gas fields. This business mix may slowly change over time depending on the share of oil versus gas in the energy supply.

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 stabilised in 2010 and remained stable at historically high levels in 2011-2013, giving oil and gas companies confidence to increase their CAPEX budgets. From 2009 to 2013, the Russian drilling market has been steadily growing by 10% on average allowing the country to meet its oil production targets. In 2014, the total metres drilled declined 4% (1 million metres) but the share of horizontal metres increased by 33%. Horizontal wells can deliver significantly more production per metre of reservoir than vertical or deviated wells.

Once again the total drilling volumes in the first half of 2015 were up 10% or 1 million metres and horizontal metres were up 27% (730 thousand metres) compared to the corresponding period of 2014. Among E&P companies, ROSNEFT, and all Others (those excluding ROSNEFT, LUKOIL, SURGUTNEFTEGAZ and GAZPROMNEFT) had the largest increases in horizontal metres drilled. Lukoil, our largest customer, had a significant decline in activity in the first half of 2015 with total metres down by 15% and horizontal metres down by 8% versus the first half of 2014.

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 are among these investments.

Russia's oil production continued to grow by approximately 1% during the first half of 2015 as compared to the corresponding period of 2014. 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 mitigated by the drilling of infill wells, especially horizontal wells which stems the decline.

During the reporting period, the oil prices have been volatile at the beginning and end of the period, but mostly remaining around US $50 per barrel, due to market over supply. However geopolitical uncertainties & risks remain. Low oil price, geopolitical uncertainties and a weaker ruble negatively affected our reported results of operations. In addition, E&P companies continue to re-evaluate their spending so as to target higher drilling efficiencies and to review their strategy regarding in-house drilling capabilities.

Operations review

The first six months of 2015 were challenging as we faced the issues listed above. These issues required us to respond and manage rig and crew deployment as a function of changing client plans. We mobilised rigs to new customers such as Bashneft and others.

Onshore business

Our first half 2015 onshore operating results include:

- Drilling output of 2.388 million metres, 13% below the output achieved in the corresponding period of 2014 (2.754 million metres);
- Horizontal metres drilled during 1H 2015 were up 23% compared to 1H 2014 and account for 31% of total metres we drilled compared to 22% during 1H 2014;

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

- Exploration drilling volumes increased by 1.2% during the first half of 2015 compared to the corresponding period of 2014;
- The share of our largest customer, LUKOIL, decreased to 56% of our total metres drilled during the first half of 2015, as compared to 63% during the corresponding period of 2014;
- The share of GAZPROMNEFT, now our second largest customer, increased to 32% of our total metres drilled during the first half of 2015, as compared to 18% during the corresponding period of 2014;
- The share of ROSNEFT decreased to 1.2% of our total metres drilled during the first half of 2015, as compared to 11% during the corresponding period of 2014;
- Our rig moving crew count decreased by 23% period-over-period;
- Our market share was approximately 22% based on metres drilled onshore in Russia during 1H 2015;
- Signed an agreement with BASHNEFT for well construction and workover services;
- Sidetracking activity significantly decreased by 30% compared to the corresponding period of 2014 with 76 well sidetracks performed during the first half of 2015 (versus 108 in H1 2014);
- Our workover activity increased by 4% with 7,045 workovers completed in H1 2015.

Our Russian onshore drilling volumes decreased by 13% compared to the volumes achieved during the first half of 2014 while horizontal drilling was up 23%. The decrease in metres drilled is attributable mainly to a significant drop in Lukoil's drilling activity period over period. This was not typical for the rest of the market place where metres drilled increased. This also impacted our market share of the total Russian market, resulting in a drop of 6 percentage points. Our Western Siberian operations continue to contribute the majority of our drilling volumes but were marked with a 16% decline in metres drilled during the first half of 2015 compared to the corresponding period of 2014. All other of our drilling divisions saw a reduction in metres drilled period-over-period, except for the Yugansk region which saw a 19% increase period over period.

Lower total metres drilled were mitigated by the continued increase in the share of horizontal drilling volumes in our portfolio to 31% during the first half of 2015 from 22% during the corresponding period of 2014. On average a horizontal well takes two times longer to drill than drilling a deviated well. This increase in horizontal metres drilled came primarily from GAZPROMNEFT (+256%) but also from Other smaller clients (+99%).

The Russian E&P market is fairly concentrated where 77% of all the volumes drilled in H1 2015 were by the four large E&P companies, ROSNEFT, SURGUTNEFTEGAS, LUKOIL and GAZPROMNEFT (note this is down versus the 81% in H1 2014). The total metres drilled by company in H1 2015 versus H1 2014 was as follows: ROSNEFT+ 28%, SURGUTNEFTEGAS +6%, LUKOIL -15%, GAZPROMNEFT -7% and all OTHERS +30% . The Horizontal metres share of total drilled in Russia increased to 33% from 29% period over period. The Horizontal metres drilled by company in H1 2015 versus H1 2014 was as follows: ROSNEFT+43%, Surgutneftegas +81%, LUKOIL -8%, GAZPROMNEFT +9% and all OTHERS +44%.

Our customer mix continues to evolve. The share of ROSNEFT in our portfolio decreased to 1% of our total metres drilled during the first half of 2015, as compared to 11% during the corresponding period of 2014. We mobilised 6 rigs to BASHNEFT, a new customer, in H1 2015.
Comparing H1 2015 versus H1 2014; our share of LUKOIL's activity declined 8 percentage points to 81%, while our share of GAZPROMNEFT's activity increased by 22 percentage points to 56%.

We continue to operate under long term framework agreements with our major customers' LUKOIL and GAZPROMNEFT. We are currently negotiating a rollover of the Framework Agreement with LUKOIL for the next three years commencing January 2016. We are in year two of our inaugural Framework Agreement with GAZPROMNEFT. We drilled 1.347 million metres for LUKOIL during the first half of 2015, a decrease of 22%

over the first half of 2014 due to activity reduction across all LUKOIL's divisions. Horizontal drilling for LUKOIL was also down by 17% period over period. We drilled 773 thousand metres for GAZPROMNEFT (up 55% period over period), 303 thousand of which were horizontal (up 256% period over period).

We continue with our strategic priority to diversify our customer base in Russia and to build long-term relationships with our clients. During the first half of 2015 we signed our first agreement with Bashneft and mobilised 4 rigs to their Trebs & Titov field and several more for drilling and workover operations in Bashkortostan.

We also continue to work for other smaller oil and gas companies such as Pechoraneft, Samaranafta, Rusvietpetro, Russneft and others. Our metres drilled with these smaller clients increased by 13% in H1 2015 versus H1 2014.

The first half of 2015 was characterized by continued growth in Horizontal metres drilled up +23% versus a drop of -13% in the total metres we drilled. Exploration activity was up 1.2%, the number of wells sidetracked was down 9% and workover jobs were up 4%.

The availability of rigs is one of the keys to being a successful drilling company. Our rig fleet as of June 30, 2015 totaled 270 onshore drilling and sidetracking rigs. The rig count was higher than that as of June 30, 2014 in the amount of 261 rigs as we put into operation more new rigs than we have yet to retire. During the first half of 2015 we put into operation 4 new land drilling rigs with capacity ranging from 200 to 450 tonnes and retired 2 stationary drilling rigs. We plan the delivery of a total of 9 new rigs and retirement of up to 20 rigs in 2015. In addition, as we continue to deliver on our rig modernization plan and will upgrade 4 rigs during in the second half of 2015. At present we have a further 2 new drilling rigs on order with delivery due in 2016 (postponed from 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 of 16 years, as per Douglas Westwood estimates. As per management estimations, the average age of our rig fleet as of December 31, 2014 was 14 years old with 42% of our rigs being less than 10 years old. Besides new rig additions, our rig modernization program involves upgrade of the existing rigs that improves the average age of our fleet. We expect the average age to drop in the next couple of years as we continue to retire old rigs.

Our 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. The drilling rigs that we are ordering are produced by Russian and Chinese manufacturers at prices significantly lower than the peak prices of 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 June 30, 2015 totaled 405 workover rigs, as compared to 419 rigs the previous year. The decrease is due to the planned retirement of older workover rigs. Growth in our total workover jobs performed during the first half of 2015 has been quite steady with workover count increasing 4%. Sidetracking well count decreased 30% mainly due to cut back in activity by LUKOIL.

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 the first half of 2015 one rig was employed by international oil and gas companies while the other three were stacked due to low oil price and security unrest. We expect this situation to continue for the rest of 2015.

Offshore business

Our first half of 2015 offshore operating results include:

- We drilled and completed three wells on LUKOIL's Yuri Korchagin field platform in the Caspian Sea;
- *ASTRA* jack-up drilled 2 wells in H1 2015, one each in Kazakh & Russian waters;
- *SATURN* jack-up drilled, completed & tested two wells for PETRONAS Carigali (Turkmenistan) Sdn Bhd (Petronas) in the Turkmen waters of the Caspian Sea;
- *NEPTUNE* jack-up drilled 3 wells for Dragon Oil in Turkmen waters of the Caspian Sea;
- *MERCURY*, mobilised to the Turkmen waters and undergoing certification, permitting and license to drill confirmation before startup based on customer's drilling plans in Turkmen, Kazakh & Russian sectors.

On the Yuri Korchagin field platform, we drilled and completed 3 wells before commencing coiled tubing workover operations on a 4'th well at the end of H1.

Our *ASTRA* jack-up, drilled a well for N Operating Company in the Kazakh sector at the start of 2015. After some winter standby for ice clearance, it then deployed to the Russian waters of the Caspian Sea and drilled a well in the Rakushechnaya field for LUKOIL; It ended H1 with maintenance & standby before moving back to Kazakh waters in H2.

SATURN jack-up continues operations with drilling two wells for Petronas in Turkmenistan. We are currently negotiating the rollover of the current 3 year contract which expires in Q1 2016.

NEPTUNE jack-up drilled 3 wells in the LAM field for Dragon oil in the Turkmen waters of the Caspian Sea. *NEPTUNE* will continue to drill for Dragon Oil throughout the rest of 2015.

Non-US GAAP Measure

Reconciliation of Net Income to EBITDA

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), a non-GAAP financial measure, is computed with reference to the Company's net income for the six-month periods ended June 30, 2015 and 2014 as follows (in thousands of US dollars):

	Six-month period ended June 30,	
	2015 (unaudited)	**2014 (unaudited)**
Net Income	**90,558**	**201,115**
Income tax expense	30,765	59,006
Gain on disposal of PP&E	(163)	(249)
Foreign currency exchange rate loss	419	696
Other income	(1,183)	(325)
Interest income	(12,338)	(13,515)
Interest expense	18,808	27,709
Depreciation	97,833	127,323

EBITDA	**224,699**	**401,760**

Our EBITDA in dollar terms decreased by US$ 177.1 million during the 2015 Interim Period as compared to the coresponding period in 2014. This dollar decrease is mostly attributable to a 39% ruble depreciation in 2015 (average exchange rate in 1H 2015 was 57.40 compared to 34.98 in 1H 2014). EBITDA margin decreased to 24.4% from 25.9% achieved during 1H 2014. Lower EBIDTA margin was attributable to a number of factors including decrease in Lukoil's activity resulting in rig and crew redeployment, increase in fuel and transportation prices, largely unchanged pricing for our services, unfavorable weather conditions and increase in unproductive time as well as increase in one-off expenses related to the potential merger with Schlumberger. Among the factors that had a positive impact were increased higher-value horizontal drilling and sustained cost controls by our management team.

OUTLOOK

The fundamentals of the Russian OFS market remain 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. This has been demonstrated by the continued increase in both total and horizontal metres drilled by most oil and gas companies in H1 2015. We would also expect these trends to continue for the remainder of 2015.

However, due to the current oil price of approximately $50 per barrel, coupled to the increased cost of financing due to sanctions, we believe oil & gas companies will carefully consider their capital expenditures in future years 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. Lukoil has done exactly that in H1 2015 and as a result their drilling activity has actually been reduced. However, there is a balance between production levels and drilling intensity that needs to be actively managed.

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 9 new rigs, upgrade 4 and plan to retire up to 20 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 to evolve with GAZPROMNEFT displacing ROSNEFT as our #2 client and we have been awarded work with new clients, the largest of which is BASHNEFT. We have recently been awarded a contract for 6 rigs by Rosneft.

Our offshore business now has four jack-ups in the Caspian Sea. The smallest of these, *ASTRA,* will continue to move between Russian and Kazakh waters to drill wells for various clients. We are seeing an increase in standby time between countries & customers which is negatively impacting rig utilisation. *SATURN* & *NEPTUNE* will continue to drill in the Turkmen waters for Petronas & Dragon oil for the remainder of 2015. For reasons explained above, our new build fourth jack-up *MERCURY* could be on standby (due to customs clearance, certifications, permits & license to drill) for the rest of the year.

We have negotiated some minor price increases in rubles for our land operations in 2015. However, our absolute revenue in US$ will be significantly lower based on the expected weaker ruble versus 2014. All customers continue to request pricing concessions as the oil price remains low in the worldwide market. Our capital expenditures denominated in US$ are also expected to decrease due to the weaker ruble and prudent investment decisions. This will be partially 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, sidetracking 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 1H 2015 we drilled 743,341 metres utilizing horizontal drilling techniques, representing 31% of our total drilling volumes, while in 1H 2014 our horizontal drilling operations were 604,146 metres, or approximately 22% 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 bring new techniques to mature fields and 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 & 2015, we experienced a further decrease in pass-through services and materials as we decreased the 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. We installed new drilling simulators in two of our training centres in 2014 and 2015.

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 5% during 1H 2015 as compared to the corresponding period 2014 on the back of a 23% increase in horizontal drilling, changes in customer mix and reduction in drilling activity by Lukoil. 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 experienced in the past, and are expected to 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 periodically 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. 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 June 30, 2015, approximately 20% 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 June 30, 2015, approximately 31% 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. Devaluation of the Russian ruble against the US dollar means a lower US dollar carrying amount of the Group's rig fleet and vice versa. At the same time, as of June 30, 2015, 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.

Revenue

We generate our revenue 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 revenue by type of services provided and as a percentage of total revenue for the period indicated.

	Six-month period ended June 30,			
	2015 (unaudited)		2014 (unaudited)	
	(in thousands of US$, except percentages)			
Drilling and related services	917,502	99.4%	1,548,230	100.0%
Other sales and services	5,201	0.6%	478	0.0%
Total Revenue	**922,703**	**100.0%**	**1,548,708**	**100.0%**

Our revenue from drilling and related services represented approximately 99.4% and 100.0% of our total revenue during the six-month period ended June 30, 2015 and 2014, respectively. Related services include our workover and sidetracking operations.

A significant portion of our revenue from drilling and related services is derived from LUKOIL, which, for the six-month period ended June 30, 2015, accounted for approximately 63.0% of our total revenue (72.1% during 1H 2014). 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 through the end of 2015. 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.

We are currently negotiating a rollover of the Framework Agreement with LUKOIL for the next three years commencing January 2016.

In 2014 we signed a 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. We signed a new contract with Bashneft (drilling & workover) and were awarded a new contract with Rosneft (drilling) in 2015.

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, excluding depreciation and taxes, for the periods indicated.

	Six-month period ended June 30,			
	2015 (unaudited)		2014 (unaudited)	
	(in thousands of US$, except percentages)			
Cost of services	**726,322**	**100%**	**1,186,352**	**100%**
Services of subcontractors	290,374	40.0%	479,190	40.4%
Staff cost, including social contributions	201,722	27.8%	322,015	27.2%
Materials	116,439	16.0%	222,222	18.7%
Depreciation	97,833	13.5%	127,323	10.7%
Other	19,954	2.7%	35,602	3.0%

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 six-month periods ended June 30, 2015 and 2014. 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. Employee costs 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 revenue for the periods indicated. In absolute terms, all of our first half 2015 operating results set forth below were affected by the 39.1% depreciation of the Russian ruble against the US dollar during the six-month period ended June 30, 2015 as compared to 1H 2014.

	Six-month period ended June 30,			
	2015 (unaudited)		2014 (unaudited)	
	(in thousands of US$, except percentages)			
Total revenues	**922,703**	**100.0%**	**1,548,708**	**100.0%**
Cost of services	(726,322)	(78.7%)	(1,186,352)	(76.6%)
Selling, general and administrative expenses	(70,593)	(7.7%)	(88,405)	(5.7%)
Gain on disposal of property, plant and equipment	163	0.0%	249	0.0%
Gain on disposal of materials	1,078	0.1%	486	0.0%
Other income	1,183	0.1%	325	0.0%
Income from operating activities	**128,212**	**13.9%**	**275,011**	**17.8%**
Interest expense	(18,808)	(2.0%)	(27,709)	(1.8%)
Interest income	12,338	1.3%	13,515	0.9%
Foreign currency exchange rate loss	(419)	0.0%	(696)	0.0%
Income before income taxes	**121,323**	**13.1%**	**260,121**	**16.8%**
Income tax expense	(30,765)	(3.3%)	(59,006)	(3.8)
Net income	**90,558**	**9.8%**	**201,115**	**13.0%**

Revenue

Revenue decreased by US$626.0 million, or 40.4%, to US$922.7 million for the six-month period ended June 30, 2015 from US$1,548.7 million in the comparable 2014 period. The depreciation of the Russian ruble against the US dollar as of 1H 2015 as compared to 1H 2014 accounted for 39.1% decrease in revenue. The decrease in overall metres drilled and sidetracking jobs due to lower client activity was mitigated by the increase in high-value complex horizontal drilling and higher revenue from our offshore segment (*NEPTUNE* commenced operations only in second half of March 2014).

Cost of Services

Cost of services decreased by US$460.0 million, or 38.8%, to US$726.3 million for the 2015 Interim Period from US$1,186.4 million for the comparable 2014 period. Cost of services as a percentage of total revenue increased from 76.6% for H1 2014 to 78.7% for H1 2015. The decrease in absolute terms was due to devaluation of the Russian ruble. The increase as a percentage of total revenue was primarily attributable to a higher depreciation as more new land drilling rigs were put in service.

For the six-month period ended June 30, 2015, services of subcontractors were US$290.4 million, or 40.0% of total cost of services as compared to US$479.2 million, or 40.4% of total cost of services for 1H 2014. The decrease in absolute terms was due to ruble depreciation. The decrease in a percentage of total cost of services was due to lower reimbursable services which was partially netted off by the increase in transportation services.

Staff cost, including social contributions for 1H 2015 were US$201.7 million, or 27.8% of total cost of services as compared to US$322.0 million, or 27.2% of total cost of services for comparable period in 2014. The decrease in absolute terms was driven by ruble depreciation which was partially netted off by annual salary indexation and full six months operations of *NEPTUNE* in 1H 2015 as compared to 1H 2014 when it commenced operations in mid-March. The increase in Staff cost, including social contributions as a percentage of total cost of services resulted from a decrease in the share of reimbursable materials in total cost of services, causing the relative share of other constituents of our cost of services to increase.

During the first half of 2015, cost of materials was US$116.4 million, or 16.0% of total cost of services as compared to US$222.2 million, or 18.7% of total cost of services for the six-month period ended June 30, 2014. The decrease in both absolute terms and a percentage of total cost of services despite higher prices for fuel was primarily caused by decrease in reimbursable pass-through materials (incl. 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 1H 2015 was US$97.8 million, or 13.5% of total cost of services as compared to US$127.3 million, or 10.7% of total cost of services for corresponding period in 2014. The decrease in absolute terms was driven by ruble devaluation. The increase in a percentage of total cost of services was caused by more new land drilling rigs and equipment being put in service, additional depreciation from full six months operations of *NEPTUNE* in 1H 2015 and also by a decrease in the share of reimbursable materials.

Other expenses amounted to US$20.0 million, or 2.7% of total cost of services for 1H 2015, as compared to US$35.6 million, or 3.0% of total cost of services for the six-month period ended June 30, 2014. The decrease in both absolute terms and as a percentage of total cost of services was due to the decrease in property and other small regional taxes which was partially netted off by the increase in certain leases and rent in respect of drilling equipment. 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$17.8 million, or 20.1%, to US$70.6 million for the six month-period ended June 30, 2015, as compared to US$88.4 million for 1H 2014. 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 to 7.7% for 1H 2015 from 5.7% for 1H 2014. This increase was primarily attributable to some of the expenses being US dollar denominated, annual salary indexation as well as some nonrecurring one-off legal and consulting expenses related to the transaction with Schlumberger.

Gain on Disposal of Property, Plant and Equipment

Gain on the disposal of property, plant and equipment amounted to US$0.2 million for both 1H 2015 and 1H 2014.

Gain on Disposal of Materials

Gain on the disposal of materials amounted to US$1.1 million for 1H 2015, as compared to US$0.5 million for the corresponding period in 2014. This difference was primarily due to the timing of opportunistic sales of unneeded or obsolete materials.

Other Income (Expense)

Amounts in this category represent unusual income or expense not resulting from our ordinary course of business activities. During the six-month period ended June 30, 2015 we recognized income in the amount of US$1.2 million as compared to income of US$0.3 million during 1H 2014.

Income from Operating Activities

Income from operating activities decreased by US$146.8 million, or 53.4%, to US$128.2 million for 1H 2015, as compared to US$275.0 million for 1H 2014. As a percentage of total revenue, income from operating activities decreased from 17.8% for 1H 2014 to 13.9% in 1H 2015. Results were negatively affected by devaluation of the Russian ruble, higher depreciation due to arrival of new land drilling rigs and equipment, decrease in Lukoil's activity, increase in fuel and transportation prices, little or no price increases for our services, and an increase in nonrecurring one-off legal and consulting expenses related to the transaction with Schlumberger. This was partially netted-off by increased higher-value horizontal drilling, positive impacts from our offshore business and sustained cost controls by our management team. The decrease in absolute terms was also significantly affected by the ruble depreciation.

Interest Expense

Interest expense decreased by US$8.9 million, or 32.1%, to US$18.8 million for the six-month period ended June 30, 2015, compared to US$27.7 million for 1H 2014. The decrease in interest expense was primarily attributable to the higher amount of capitalized interest and ruble depreciation.

Interest Income

Interest income decreased by US$1.2 million, or by 8.7%, to US$12.3 million for 1H 2015 from US$13.5 million in 1H 2014. Increase from improvements in our cash management practices and better terms of overnight deposits were mitigated by ruble depreciation.

Foreign Currency Exchange Rate Loss

Foreign currency exchange rate loss amounted to US$0.4 million for the six-month period ended June 30, 2015, as compared to a loss of US$0.7 million in 1H 2014.

Income Before Income Taxes

Income before income taxes decreased by US$138.8 million, or 53.4%, to US$121.3 million for the six-month period ended June 30, 2015, compared to US$260.1 million for 1H 2014. 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 expenses decreased by US$28.2 million, or 47.9%, to US$30.8 million for 1H 2015, compared to US$59.0 million for 1H 2014. The decrease was due primarily to a lower tax base. Our effective tax rate increased to 25.4% in 1H 2015 from 22.7% in 1H 2014. The increase in effective tax rate is attributable to more non-deductible expenses in 1H 2015 compared to 1H 2014.

Net Income

As a result of the foregoing factors, net income decreased by US$110.6 million, or 55.0%, to US$90.6 million for 1H 2015, compared to US$201.1 million for 1H 2014.

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 six-month periods ended June 30, 2015 and 2014.

	Six-month period ended June 30,	
	2015 (unaudited)	2014 (unaudited)
	(in thousands of US$)	
Net cash provided by operating activities	201,810	254,837
Net cash used in investing activities	(121,007)	(222,380)
Net cash used in financing activities	(38,312)	(196,196)

Operating Activities

Net cash provided by operating activities amounted to US$201.8 million for the six-month period ended June 30, 2015, as compared to US$254.8 million for 1H 2014. This decrease is attributable to the Russian ruble devaluation which was partially netted-off by the positive impact from changes in the net working capital.

Investing Activities

Net cash used in investing activities amounted to US$121.0 million for 1H 2015, as compared to US$222.4 million for 1H 2014. Investing activities during 1H 2014 were positively impacted by ruble depreciation and lower capital expenditures spent on offshore jack-ups. Capital expenditures during the six-month period ended June 30, 2015 amounted to US$124.9 (including US$16.3 million offshore capital expenditures) as compared to US$222.0 (including US$52.7 million offshore capital expenditures) in 1H 2014. There were no strategic acquisitions in either of the six-month periods ending June 30, 2015 and 2014.

Financing Activities

Net cash used by financing activities amounted to US$38.3 million for the six-month period ended June 30, 2015, compared to US$196.2 million used during 1H 2014. This decrease is due to the fact that dividends for 2013 were paid in January 2014 while dividends for 2014 were paid in December 2014, so no dividend payment occurred during 1H 2015. Also, during 1H 2014 treasury shares were purchased in the amount of US$47.7 million while no shares were purchased during 1H 2015. During both periods certain debt was redeemed in accordance with its terms. During 1H 2014 US$22.0 million of new debt was raised (remaining US$ 16.2 million through UniCredit Bank facility and US$ 5.8 million through a new facility with BNP Paribas) while no new debt was raised during 1H 2015.

Liquidity

As of June 30, 2015 we had cash and cash equivalents of US$370.2 million compared to US327.1 million on December 31, 2014.

	At June 30, 2015 (unaudited)	At December 31, 2014
	(in thousands of US$)	
Cash held in banks – Russian rubles	137,697	119,440
Cash held in banks – US dollars	108,307	107,080
Short term deposit – Russian rubles	64,343	98,791
Short term deposit – US dollars	59,859	1,699
Other	35	45
Total cash and cash equivalents	**370,241**	**327,055**

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 period ended June 30, 2015 and for the year ended December 31, 2014 advances given for property, plant and equipment amounted to the following:

	At June 30, 2015 (unaudited)	At December 31, 2014
	(in thousands of US$)	
Advances given for property, plant and equipment	40,412	36,820

The amounts represent cash advances for property, plant and equipment purchased but for which we have not yet taken delivery. The increase in advances given for property, plant, and equipment in the six-month period ended June 30, 2015 was attributable to the additional advances given for the new land drilling rigs and equipment.

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

	At June 30, 2015 (unaudited)	At December 31, 2014
	(in thousands of US$)	
Construction in progress	400,370	405,591

The slight decrease in construction in progress in the six-month period ended June 30, 2015 was due to putting into service some of the new land drilling rigs and equipment.

Capital Resources

For the six-month period ended June 30, 2015 and for the year ended December 31, 2014 our short-term and long-term debt amounted to the following:

	At June 30, 2015 (unaudited)	At December 31, 2014
	(in thousands of US$)	
Current portion of long-term debt	209,714	69,219
Non-current long-term debt	765,322	906,640

As of June 30, 2015 (unaudited), our loans and borrowings were 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%	17,985	None
Eurobonds	2020	USD	4.875%	600,000	None
Russian ruble bonds	2018	RUB	8.4%	90,051	None
Total long-term debt				**975,036**	
Total non-current long-term debt				**765,322**	

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 one or three years. As of June 30, 2015 long-term liability for PP&E amounted to US$ 150.2 million compared to US$ 143.5 million as of December 31, 2014.

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 June 30, 2015 (unaudited). We expect to meet our debt payment requirements with cash flows from our operations and other financing arrangements.

	Payments due by period						
	Total	July 1, 2015 to June 30, 2016	July 1, 2016 to December 31, 2016	2017	2018	2019	2020 and thereafter
	(in thousands of US$)						
Contractual Obligations							
Long-term debt	975,036	209,714	52,443	104,885	3,997	3,997	600,000
Long-term liabilities for PP&E	150,181	112,897	15,782	21,502			

Our long-term debt and one overdraft line from ZAO UniCredit are secured by certain property, plant and equipment with a carrying amount of US$56.1 million as of June 30, 2015. 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 2014 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 1H 2015 11,651 shares were transferred to Directors in lieu of cash for their services. As of June 30, 2015 there were 2,052,386 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 first six months of 2015 and 2014 was as follows:

	Six-month period ended June 30,	
	2015 (unaudited)	**2014 (unaudited)**
Net income available for common stockholders	90,558	201,115
Weighted average number of outstanding shares	144,812,085	146,454,798
Basic earnings per share of common stock (US dollars)	0.63	1.37

Basic and diluted earnings per share were US$0.63 in the first six months of 2015, compared to US$1.37 in 1H 2013. This decrease in earnings per share was attributable to the decrease in net income by 55.0% in 1H 2015 compared to 1H 2014.

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 as of June 30, 2015 and December 31, 2014 respectively. These loans are denominated in US dollars and bear interest at 5.8% per annum with the maturity date on December 31, 2015.

Interest expense of USD 1.2 million and USD 1.4 million was recognized and paid on these loans during the six month period ended June 30, 2015 and 2014, respectively. 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 six-month period ended June 30, 2015 and 2014 the Firm billed EDC for costs and expenses of US$1.7 million and US$1.4 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 1H 2014 the Group 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 June 30, 2014. Additionally during 1H 2014 the Group acquired equipment from OOO Kliver in the total amount of US$15.0 million. As of June 30, 2014 accounts payable to OOO Kliver amounted to US$1.0 million.

During 1H 2015 EDC acquired equipment from OOO Kliver in the total amount of US$1.0 million. As of June 30, 2015 advances paid to OOO Kliver amounted to US$24.6 million due to the construction of 2 new rigs.

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 GAZPROMNEFT 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:

	2015 (unaudited)	2014
	(in thousands of US$)	
LUKOIL revenue for the six-month period ended June 30	581,262	1,116,375
GAZPROMNEFT revenue for the six-month period ended June 30	125,791	113,979
LUKOIL accounts receivable as of June 30, 2015 and December 31, 2014	164,386	229,170
GAZPROMNEFT accounts receivable as of June 30, 2015 and December 31, 2014	46,914	16,667

The LUKOIL Group made up approximately 63.0% and 72.1% of our sales for the periods ended June 30, 2015 and 2014, respectively. The GAZPROMNEFT Group made up approximately 13.6% and 7.4% of our sales for the periods ended June 30, 2015 and 2014, 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, 2015 and 2014. Our allowance for doubtful accounts stood at US$6.5 million at June 30, 2015, 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 June 30, 2014:

	Scheduled Maturity (in millions of US$, except percentages)							Fair Value
	July 1, 2015 to June 30, 2016	July 1, 2016 to December 31, 2016	2017	2018	2019	2020 and Thereafter	Total	June 30, 2015
Total long term debt	209.7	52.4	104.9	4.0	4.0	600.0	975.0	899.4
Fixed rate	130.0					600.0	730.0	663.3
Average interest rate	5.4%	4.9%	4.9%	4.9%	4.9%	4.9%		
Variable rate*	79.7	52.4	104.9	4.0	4.0		245.0	236.1
Average interest rate	3.6%	3.7%	3.7%	4.4%	4.4%			

* Based on the LIBOR rate at the end of 2015 Interim Period, 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 non-monetary 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 June 30, 2015 we had US$90.1 million of a total of US$975.0 million of our long and short-term debt denominated in the Russian ruble. 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. 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.