EURASIA DRILLING COMPANY LIMITED

Interim Consolidated Financial Statements

(prepared in accordance with US GAAP)

As of and for the six-month period ended June 30, 2018

(unaudited)

These interim consolidated financial statements were prepared by Eurasia Drilling Company Limited in accordance with US GAAP and have not been audited by our independent auditor. If these interim consolidated financial statements are audited in the future, the audit could reveal differences in our consolidated financial results and we can not assure that any such differences would not be material.

Contents

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Independent Auditors' Review Report

The Board of Directors

Eurasia Drilling Company Limited:

Report on the Financial Statements

We have reviewed the accompanying interim consolidated balance sheet of Eurasia Drilling Company Limited and its subsidiaries ("the Company") as of June 30, 2018, and the related interim consolidated statements of comprehensive income, stockholders' equity and cash flows for the six-month periods ended June 30, 2018 and 2017.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with U.S. generally accepted accounting principles.

JSC KPMG

JSC "KPMG"

August 30, 2018

Eurasia Drilling Company Limited
Interim Consolidated Balance Sheets
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	As of June 30, 2018 (unaudited)	As of December 31, 2017
Assets			
Current assets			
Cash and cash equivalents	4	299,599	318,762
Accounts receivable, net	5	345,041	416,788
Inventories		113,882	137,382
Taxes receivable		7,314	1,218
Other current assets		7,994	3,159
Total current assets		**773,830**	**877,309**
Property, plant and equipment	6	1,483,428	1,589,446
Advances given for property, plant and equipment		18,134	19,295
Goodwill	7	22,200	24,188
Deferred income tax assets		1,315	1,041
Other non-current assets		9,904	9,213
Total assets		**2,308,811**	**2,520,492**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		214,308	291,889
Advances received		546	396
Short-term debt and current portion of long-term debt	8	263,006	226,667
Taxes payable		65,029	66,055
Total current liabilities		**542,889**	**585,007**
Long-term debt	9	620,000	716,805
Accrued pension liability	10	11,172	11,333
Deferred income tax liabilities		124,451	138,277
Total liabilities		**1,298,512**	**1,451,422**
Stockholder's equity	13		
Common stock		1,042	1,042
Additional paid-in capital		83,757	83,757
Retained earnings		2,128,448	2,038,204
Accumulated other comprehensive loss		(1,202,948)	(1,053,933)
Total Stockholder's equity		**1,010,299**	**1,069,070**
Total liabilities and Stockholder's equity		**2,308,811**	**2,520,492**

Taleh M. Aleskerov
CFO of Eurasia Drilling Company Limited

LIABILITY COMPANY LIMITED EURASIA DRILLING COMPANY LIMITED CAYMAN ISLANDS

August 30, 2018

Eurasia Drilling Company Limited
Interim Consolidated Statements of Comprehensive Income
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	For the six months ended June 30, 2018 (unaudited)	For the six months ended June 30, 2017 (unaudited)
Revenues			
Drilling and related services		919,703	962,889
Other sales and services		1,754	3,737
Total revenues		**921,457**	**966,626**
Cost of services	12	(769,863)	(765,705)
Selling, general and administrative expenses		(52,662)	(60,634)
Gain on disposal of property, plant and equipment		2,437	2,263
Gain on disposal of materials		705	1,644
Other expense		(509)	(58)
Income from operating activities		**101,565**	**144,136**
Interest expense		(25,960)	(29,268)
Interest income		7,055	8,889
Foreign currency exchange rate gain (loss)		48,406	(5,142)
Income before income taxes		**131,066**	**118,615**
Current income taxes		(44,520)	(26,115)
Deferred income taxes		3,698	(11,181)
Total income tax expense	3	**(40,822)**	**(37,296)**
Net income		**90,244**	**81,319**
Basic and diluted earnings per share of common stock (US dollars)	13	0.87	0.78
Other comprehensive income:			
Foreign currency translation (loss) gain		(149,015)	36,788
Total comprehensive income		**(58,771)**	**118,107**

(All amounts in thousands of US dollars, unless otherwise noted)

	Common stock	Additional paid-in capital	Retained earnings	Accumu-lated other comprehen-sive loss, net of tax	Total Stock-holders' equity
Balances as of December 31, 2016	**1,042**	**118,486**	**1,856,247**	**(1,133,644)**	**842,131**
Net income (unaudited)	-	-	81,319	-	**81,319**
Other comprehensive income (unaudited)	-	-	-	36,788	**36,788**
Total comprehensive income (unaudited)					**118,107**
Adjustment in relation to litigation (unaudited)	-	(34,729)	-	-	**(34,729)**
Balances as of June 30, 2017 (unaudited)	**1,042**	**83,757**	**1,937,566**	**(1,096,856)**	**925,509**
Balances as of December 31, 2017	**1,042**	**83,757**	**2,038,204**	**(1,053,933)**	**1,069,070**
Net income (unaudited)	-	-	90,244	-	**90,244**
Other comprehensive loss (unaudited)	-	-	-	(149,015)	**(149,015)**
Total comprehensive loss (unaudited)					**(58,771)**
Balances as of June 30, 2018 (unaudited)	**1,042**	**83,757**	**2,128,448**	**(1,202,948)**	**1,010,299**

Eurasia Drilling Company Limited
Interim Consolidated Statements of Cash Flows
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	For the six months ended June 30, 2018 (unaudited)	For the six months ended June 30, 2017 (unaudited)
Cash flows from operating activities			
Net income		**90,244**	**81,319**
Adjustments for non-cash items:			
Depreciation		109,183	109,560
Deferred income taxes		(3,698)	11,181
Gain on disposal of property, plant and equipment		(2,437)	(2,263)
Allowance for doubtful accounts receivable		11,066	(2,395)
Foreign currency exchange rate (gain) loss		(48,406)	5,142
All other items – net		(1,459)	(232)
Changes in operating assets and liabilities:			
Accounts receivable		27,595	(140,262)
Inventories		14,515	(30,935)
Taxes receivable and payable		(3,342)	3,416
Other current assets and liabilities		(7,284)	(5,370)
Accounts payable and accrued liabilities		(50,938)	22,416
Advances received		217	574
Net cash provided by operating activities		**135,256**	**52,151**
Cash flows from investing activities			
Purchases of property, plant and equipment		(80,020)	(61,053)
Proceeds from sale of property, plant and equipment		2,512	754
Loan principal collections		-	276
Net cash used in investing activities		**(77,508)**	**(60,023)**
Cash flows from financing activities			
Principal repayments of short-term debt		(10,000)	-
Principal repayments of long-term debt		(43,333)	(93,778)
Payments for property, plant and equipment by installments		-	(8,620)
Payments in connection with litigation with dissenting shareholders	14	-	(60,607)
Net cash used in financing activities		**(53,333)**	**(163,005)**
Effect of exchange rate changes on cash		(23,578)	10,551
Net decrease in cash and cash equivalents		**(19,163)**	**(160,325)**
Cash and cash equivalents at the beginning of period		318,762	402,748
Cash and cash equivalents at the end of period	**4**	**299,599**	**242,422**
Supplemental disclosures of cash flow information			
Interest paid (net of amount capitalized)		25,370	28,735
Income tax paid		40,352	17,850

Note 1. Basis of Financial Statement presentation

The accompanying interim consolidated financial statements and notes thereto of Eurasia Drilling Company Limited (the “Company) and its subsidiaries (together, the “Group) have not been audited by independent auditors, except for the balance sheet as of December 31, 2017. In the opinion of the Company’s management, the interim consolidated financial statements include all adjustments and disclosures necessary to present fairly the Group’s financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature.

These interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) applicable to interim financial reporting. These interim consolidated financial statements should be read in conjunction with the Group’s December 31, 2017 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2017 consolidated financial statements.

The results for the six-month period ended June 30, 2018 are not necessarily indicative of the results expected for the full year.

Functional and reporting currency

The functional currency of the Company and its subsidiaries, except for OOO Burovaya Kompaniya Eurasia and other Russian subsidiaries from the Group’s on-shore segment is the US dollar. The functional currency of OOO Burovaya Kompaniya Eurasia and other Russian subsidiaries from the Group’s on-shore segment is the Russian ruble because this is the currency of the primary economic environment in which they operate and in which cash is generated and expended. The Company’s reporting currency is the US dollar.

The closing exchange rate as of June 30, 2018 and December 31, 2017 was 62.7565 and 57.6002 Russian rubles to one US dollar, respectively.

Note 2. Recent accounting pronouncements

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815), which changes the recognition and presentation requirements of hedge accounting. This ASU eliminates the requirement to separately measure and report hedge ineffectiveness and requires companies to present all items that affect earnings in the same income statement line item as the hedged item. The ASU is effective for private companies for annual reporting periods after December 15, 2019 and for interim periods after December 15, 2020. The Group is evaluating the effect of the adoption of ASU 2017-12 on its results of operations, financial position and cash flows.

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU requires companies to present the service cost component of net benefit cost in the same line items in which they report compensation cost. Companies will present all other components of net benefit cost outside operating income, if this subtotal is presented. The ASU is effective for private companies for annual reporting periods after December 15, 2018 and for interim periods after December 15, 2019. The Group is evaluating the effect of the adoption of ASU 2017-07 on its results of operations, financial position and cash flows.

Note 2. Recent accounting pronouncements (continued)

In February 2017, the FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The ASU clarifies the guidance in Subtopic 610-20 on accounting for derecognition of a nonfinancial asset. The ASU also defines in-substance nonfinancial assets and includes guidance on partial sales of nonfinancial assets. An entity is required to apply the amendments in this ASU at the same time that it applies ASU 2014-09. The Group is evaluating the effect of the adoption of ASU 2017-05 on its results of operations, financial position and cash flows.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. The ASU is effective for private companies for annual reporting periods after December 15, 2021 and for interim periods within those annual periods. The Group is evaluating the effect of the adoption of ASU 2017-04 on its results of operations, financial position and cash flows.

Note 3. Income taxes

The Group is taxable in a number of jurisdictions within and outside of the Russian Federation and, as a result, is subject to a variety of taxes as established under the statutory provisions of each jurisdiction.

Operations in the Russian Federation are subject to a Federal income tax rate of 2.0% and a regional income tax rate that varied from 17.5% to 18.0% at the discretion of the individual regional administration. The Group’s foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

The majority of the Group’s earnings for the periods ended June 30, 2018 and 2017 were taxed in the Russian Federation.

Based on the Company’s intercompany dividend policy the Company recognized deferred income taxes on 30% and 20% of the undistributed earnings of its Russian subsidiary OOO Burovaya Kompaniya Eurasia and of its other Russian subsidiaries from its on-shore segment earned during the reporting period, respectively, and on 65% of the undistributed earnings of its Russian subsidiaries from its off-shore segment earned during the reporting period. The remaining balances of retained earnings of these companies is considered to be reinvested indefinitely. Management of the Company has the intention and the ability not to distribute these retained earnings.

(All amounts in thousands of US dollars, unless otherwise noted)

Note 3. Income taxes (continued)

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate to income before income taxes to total income taxes:

	For the six months ended June 30, 2018 (unaudited)	For the six months ended June 30, 2017 (unaudited)
Income before income taxes	131,066	118,615
Notional income tax at Russian statutory rate 20%	26,213	23,723
Increase in income tax due to:		
Other non-taxable and non-deductible items, net	2,620	(479)
Valuation allowance	(251)	(942)
Regional rate differences	-	(13)
Withholding tax	2,788	6,216
Foreign rate differential	9,452	8,791
Total income tax expense	**40,822**	**37,296**

Note 4. Cash and cash equivalents

Cash and cash equivalents include the following:

	As of June 30, 2018 (unaudited)	As of December 31, 2017
Cash held in banks - Russian rubles	108,715	148,900
Cash held in banks - US dollars	41,332	24,503
Short-term deposit - Russian rubles	133,036	112,266
Short-term deposit - US dollars	16,516	33,093
Total cash and cash equivalents	**299,599**	**318,762**

Note 5. Accounts receivable, net

Accounts receivable include the following:

	As of June 30, 2018 (unaudited)	As of December 31, 2017
Trade accounts receivable	235,165	301,373
Unbilled revenue	122,738	120,784
Other accounts receivable	11,259	9,461
Advances given	9,968	10,908
	379,130	442,526
Allowance for doubtful accounts	(34,089)	(25,738)
Total accounts receivable, net	**345,041**	**416,788**

(All amounts in thousands of US dollars, unless otherwise noted)

Note 5. Accounts receivable, net (continued)

During the reporting period, the Group recognized allowance for doubtful unbilled revenue in the amount of USD 11.1 million for the works performed and completed during 2017 for Bashneft-Polyus LLC, which as of the reporting date remain unpaid.

Note 6. Property, plant and equipment

Property, plant and equipment include the following:

	As of June 30, 2018 (unaudited)	As of December 31, 2017
Machinery and equipment	2,571,095	2,668,099
Buildings	24,296	24,465
Vehicles	53,309	54,154
	2,648,700	2,746,718
Less: accumulated depreciation	(1,211,700)	(1,205,891)
Construction in progress	46,428	48,619
Total property, plant and equipment	**1,483,428**	**1,589,446**

Note 7. Goodwill

The movement in goodwill was as following:

Goodwill as of December 31, 2017	**24,188**
Cumulative translation adjustment	(1,988)
Goodwill as of June 30, 2018 (unaudited)	**22,200**

Note 8. Short-term debt and current portion of long-term debt

Short-term debt and current portion of long-term debt includes the following:

	As of June 30, 2018 (unaudited)	As of December 31, 2017
Short-term loan from stockholders	-	10,000
Current portion of long-term debt (Note 9)	263,006	216,667
Total short-term debt and current portion of long-term debt	**263,006**	**226,667**

(All amounts in thousands of US dollars, unless otherwise noted)

Note 9. Long-term debt

Long-term debt includes the following:

Lender	**Final maturity date**	**As of June 30, 2018 (unaudited)**	**As of December 31, 2017**
Debt of the Company			
Loans from stockholders	2019	20,000	30,000
Debt of the Company's subsidiaries			
4.875% Eurobonds, maturing 2020	2020	600,000	600,000
10.25% Russian ruble bonds, maturing 2019	2019	79,673	86,805
PJSC Rosbank	2018	33,333	66,667
LUKOIL Investments Cyprus Ltd.	2018	150,000	150,000
Total long-term debt		**883,006**	**933,472**
Current portion of long-term debt		(263,006)	(216,667)
Total non-current long-term debt		**620,000**	**716,805**

Stockholders

Long-term loans from stockholders as of June 30, 2018 represent loans denominated in US dollars, which bear interest at 5.8% and mature on December 31, 2019.

Debt of the Company's subsidiaries

Eurobonds

In April 2013, the Group issued non-convertible bonds totaling USD 600 million. The bonds were placed at face value with a maturity of 7 years. The bonds have a half-year coupon period with a coupon yield of 4.875% per annum.

Russian ruble bonds

In June 2016, the Group issued 5 million non-convertible bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 1,095 days. The bonds have a 182 days' coupon period and bear interest at 10.25% per annum. In July 2018, the Group paid back its' 3.3 million bonds before the maturity.

PJSC Rosbank

Long-term debt with PJSC Rosbank with an outstanding balance of USD 33.3 million as of June 30, 2018 is denominated in USD and bears interest at LIBOR + 3.6% per annum.

The long-term loan with PJSC Rosbank is secured by property, plant and equipment with a carrying amount of USD 41.3 million and USD 55.7 million as of June 30, 2018 and December 31, 2017, respectively.

LUKOIL Investments Cyprus Ltd.

Long-term convertible debt with LUKOIL Investments Cyprus Ltd. with an outstanding balance of USD 150.0 million as of June 30, 2018 is denominated in USD and bears interest at LIBOR + 3.8% per annum. The lender can convert this debt at any time to an equity stake in OOO BKE at a fair conversion price determined by a valuation from a reputable independent expert. This loan is secured by an equity stake in OOO BKE.

(All amounts in thousands of US dollars, unless otherwise noted)

Note 9. Long-term debt (continued)

Unused credit lines

As of June 30, 2018, the Group had a revolving multi-currency overdraft line with PJSC Sberbank of Russia denominated in Russian rubles. The total undrawn remaining amount of the line at the currency exchange rate as of June 30, 2018, equaled to USD 47.8 million and is available until June 2019. The line is solely intended for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs.

As of June 30, 2018 the Group had a revolving multi-currency credit line with UniCredit bank denominated in USD. The total undrawn remaining amount of the line as of June 30, 2018 is USD 30.6 million and is available until March 2019. The line is solely intended for issuing bank guarantees.

Maturities of long-term debt outstanding at June 30, 2018 are as follows:

Jul 1, 2018 to Jun 30, 2019	Jul 1, 2019 to Dec 31, 2019	2020	2021	2022	2023 and thereafter	Total
263,006	20,000	600,000	-	-	-	883,006

Note 10. Pension benefits

Components of net periodic benefit cost were as follows:

	For the six months ended June 30, 2018 (unaudited)	For the six months ended June 30, 2017 (unaudited)
Service cost	402	412
Interest cost	464	475
Less expected return on plan assets	(78)	(80)
Amortisation of prior service benefit	53	54
Total net periodic benefit cost	**841**	**861**

Note 11. Fair value of financial instruments

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the interim consolidated financial statements.

The fair values of long-term debt differ from the amounts disclosed in the interim consolidated financial statements as of June 30, 2018. The estimated fair value of long-term debt, other than Eurobonds, Russian ruble bonds, as of June 30, 2018 and December 31, 2017 was USD 202 million and USD 252 million, respectively, as a result of discounting using estimated market interest rates for similar financing arrangements (Level 3). The estimated fair value of Eurobonds and Russian ruble bonds as of June 30, 2018 and December 31, 2017 was USD 682 million and USD 705 million, respectively, which was measured using the market prices for quoted Group bonds (Level 1 inputs). These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar maturities, repayment schedules and similar other main terms. During the six-month period ended June 30, 2018, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

(All amounts in thousands of US dollars, unless otherwise noted)

Note 12. Cost of services

Cost of services includes the following:

	For the six months ended June 30, 2018 (unaudited)	For the six months ended June 30, 2017 (unaudited)
Third party services	274,574	301,419
Staff cost, including social contributions	205,025	203,943
Materials	146,789	138,981
Depreciation	109,183	109,560
Other	34,292	11,802
Total cost of services	**769,863**	**765,705**

Note 13. Stockholders' equity

Common stock

Number of shares	As of June 30, 2018 (unaudited)	As of December 31, 2017
Authorized and issued common stock, par value 0.01 US dollar each	104,210,589	104,210,589
Issued and outstanding common stock, par value 0.01 US dollar each	**104,210,589**	**104,210,589**

Note 13. Stockholders' equity (continued)

Dividends and dividends limitations

Profits available for distribution from the Company's Russian subsidiaries to the Company in respect of any reporting period are primarily determined by reference to the statutory financial statements of these subsidiaries prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the retained earnings as set out in the statutory financial statements of the Company's Russian subsidiaries. These laws and other legislative acts governing the rights of stockholders to receive dividends are subject to various interpretations.

Retained earnings of the Company's Russian subsidiaries were RUB 106.2 billion and RUB 95.5 billion, respectively as of June 30, 2018 and December 31, 2017, pursuant to the statutory financial statements, which at the US dollar exchange rates as of June 30, 2018 and December 31, 2017 amount to USD 1,691 million and USD 1,659 million, respectively.

No dividends were declared as of June 30, 2018.

Earnings per share

The calculation of earnings per share was as follows:

	For the six months ended June 30, 2018 (unaudited)	For the six months ended June 30, 2017 (unaudited)
Net income available for common stockholders	90,244	81,319
Weighted average number of outstanding shares	104,210,589	104,210,589
Basic and diluted earnings per share of common stock (US dollars)	0.87	0.78

Note 14. Commitments and contingencies

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage for the risks, which could have a material effect on the Group's operations and financial position.

Litigation and claims

On October 12, 2015, the Group announced the intent to merge the Company with a separate company formed by members of the Company's management team. On November 13, 2015 at an extraordinary general meeting of the Company the merger was approved by the requisite majority of the shareholders. As a result of the merger, on November 18, 2015 the Company was delisted from the London Stock Exchange by paying a merger consideration of USD 11.75 per share to the GDRs holders who accepted the merger consideration. All of the GDRs and treasury stock were cancelled. Some of the shareholders (the dissenting shareholders) did not approve the merger. The Company petitioned the Grand Court of the Cayman Islands to determine the fair value of the shares held by the dissenting shareholders. The proceedings were terminated on July 20, 2017. During six-month period ended June 30, 2017 the Company paid USD 60.6 million and as of December 31, 2017 there was no liability in relation to this litigation.

The Group is involved in other various claims and legal actions arising in the normal course of business. It is the opinion of management that the ultimate disposition of these matters will not have a material adverse effect on the Group's consolidated financial position, results of operations, or liquidity.

Environmental obligations

Group companies have operated in the Russian Federation, Kazakhstan and Turkmenistan for several years. Environmental regulations are currently under consideration in these countries. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

As liabilities in respect of the Group's environmental obligations are able to be determined, they are charged against income. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results, cash flows or financial position of the Group.

Note 14. Commitments and contingencies (continued)

Taxation

The taxation systems in the Russian Federation, Kazakhstan and Turkmenistan are relatively new and are characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open in the Russian Federation for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

The tax authorities in each region may have a different interpretation of similar taxation issues, which may result in taxation issues successfully defended by the Group in one region being unsuccessful in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues.

These circumstances may create tax risks that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Note 15. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant.

Loans from stockholders were USD 20 million as of June 30, 2018 and USD 40 million as of December 31, 2017 (refer to Notes 8, 9). Interest expense of USD 0.9 million and USD 1.1 million was recognized and paid on these loans during the six-month periods ended June 30, 2018 and 2017, respectively.

During the reporting period, the Group acquired equipment from OOO Kliver. The total amount of purchased equipment during the reporting period was USD 7.8 million (during 6 months 2017: USD 16.6 million). Advances given for equipment amounted to USD 9.4 million and USD 7.6 million as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018 and December 31, 2017 there was a loan given to OOO Kliver in the amount of USD 1.0 million.

An immediate family of one of the Company’s managers holds an interest in OOO Private Security Company Eurasia (PSC Eurasia), which provides security services to the Group. During the reporting period PSC Eurasia billed the Company for costs and expenses of USD 2.6 million (during 6 months 2017: USD 2.5 million).

(All amounts in thousands of US dollars, unless otherwise noted)

Note 16. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended June 30, 2018 and 2017, in accordance with ASC 280, *"Disclosures about Segments of an Enterprise and Related Information"*.

The Group has two segments: on-shore drilling conducted in the CIS and off-shore drilling conducted in the Caspian Sea that qualify as both operating and geographical. These segments are based upon the Group's organizational structure, the way in which these operations are managed, the availability of separate financial results, and materiality considerations. Management, on a regular basis, assesses the performance of these operating segments.

Geographical segments have been determined based on the area of operations and include two segments. They are the Caspian Sea and the CIS other than the Caspian Sea.

Detailed segment information is summarized as follows:

As of and for the six-month period ended June 30, 2018 (unaudited)

	On-shore drilling services (CIS other than the Caspian Sea)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	842,432	79,025	921,457
Net income	70,706	19,538	90,244
Total assets	1,526,567	782,244	2,308,811
Goodwill	22,200	-	22,200

As of December 31, 2017 and for the six-month period ended June 30, 2017 (unaudited)

	On-shore drilling services (CIS other than the Caspian Sea)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	889,726	76,900	966,626
Net income (loss)	58,755	22,564	81,319
Total assets	1,741,658	778,834	2,520,492
Goodwill	24,188	-	24,188

Note 17. Concentration of credit risk and sales

A significant proportion of the Group's operations (exceeding 10 percent of the Group's revenue) are with LUKOIL Group companies, Rosneft Group companies (including Bashneft) and Gazprom Neft Group companies. As such, the Company has significant concentrations of credit risk with these Groups.

(All amounts in thousands of US dollars, unless otherwise noted)

Note 17. Concentration of credit risk and sales (continued)

Included in the Group's revenues and accounts receivable are the following transactions and balances with the major customers:

	2018	**2017**
Revenues from LUKOIL Group for the six months ended June 30 (unaudited)	611,930	626,101
Revenues from Rosneft Group for the six months ended June 30 (unaudited)	142,471	166,517
Revenues from Gazprom Neft Group for the six months ended June 30 (unaudited)	72,656	93,097
Accounts receivable from LUKOIL Group as of June 30, 2018 (unaudited) and December 31, 2017	185,815	210,520
Accounts receivable from Rosneft Group as of June 30, 2018 (unaudited) and December 31, 2017	87,195	111,722
Accounts receivable from Gazprom Neft Group as of June 30, 2018 (unaudited) and December 31, 2017	25,336	30,042

Note 18. Subsequent events

On July 13, 2018, the Registar of Companies of the Republic of Cyprus has issued the Temporary Certificate of Continuation of the Company. On July 23, 2018, the Registar of Companies of the Cayman Islands has issued the Certificate of De-Registration of the Company. The Company is temporarily registered in Cyprus and has applied to the Registar of Companies of the Republic of Cyprus for the Final Certificate of Continuation.

The Company has evaluated subsequent events from the balance sheet date through August 30, 2018, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.