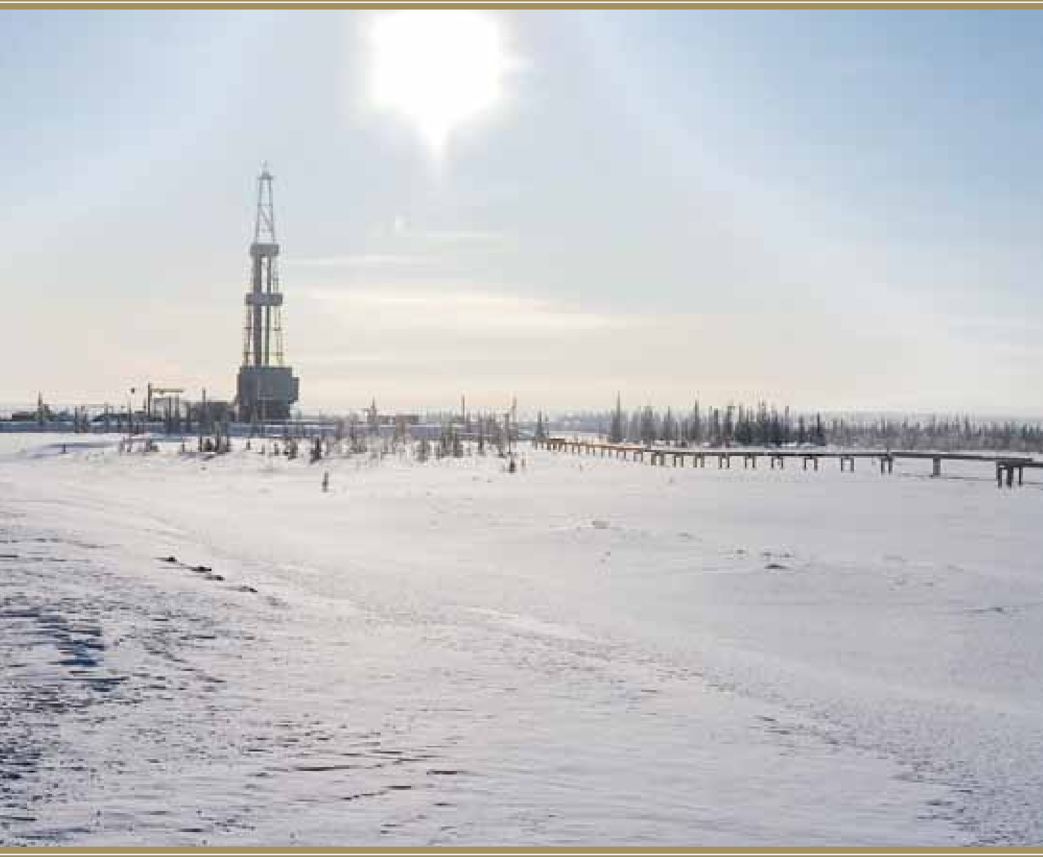


Resilient performance in changing markets

Eurasia Drilling Interim Report 2009

EDC
EURASIA DRILLING COMPANY LIMITED

Eurasia Drilling Company Limited (EDC) is the largest provider of onshore drilling services in Russia, providing onshore integrated well construction services and workover services. In addition, we provide offshore drilling services in the Caspian Sea.

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.

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 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.

Overview

673m

Revenue (US $)

147m

EBITDA (US $)

78m

Net income (US $)

Operational highlights

- Achieved drilling output of 1,927,411 meters for the first six months of 2009, less than 3% below the output achieved in the same period of 2008 (1,985,609 meters)
- Expanded land drilling fleet to 205 rigs at June 30, 2009 from 201 at the beginning of 2009
- Began a new drilling campaign with the *ASTRA* jack-up rig from March, 2009, with contracts covering over one year of continuous work in Kazakhstan, Russia and Turkmenistan
- Further diversified our client base, with our largest client now comprising less than 64%of our total drilling volume
- Improved market share (based on meters drilled) to 26.4% of the market at the end of the period versus 26.0% for 2008

Financial highlights

- EBITDA margin of 21.9% (EBITDA US $147.5 million)
- Revenue for the first six months of 2009 of US $673.2 million
- Net income of US $78.4 million
- Free Cash Flow of US $104.6 million
- Basic earnings per share US $0.58
- Repurchased approximately 1.88 million shares of our outstanding common stock

Management's discussion and analysis of financial condition and results of operations

The following report represents management's discussion and analysis of financial condition and results of operations for the six month period ended June 30, 2009 (the Interim Period) 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 2009 Interim Consolidated Financial Statements and the accompanying notes, prepared in accordance with US GAAP. As used in this report, "Company", "we," "us," "our" and "EDC" means Eurasia Drilling Company Limited and, where the context requires, includes our subsidiaries.

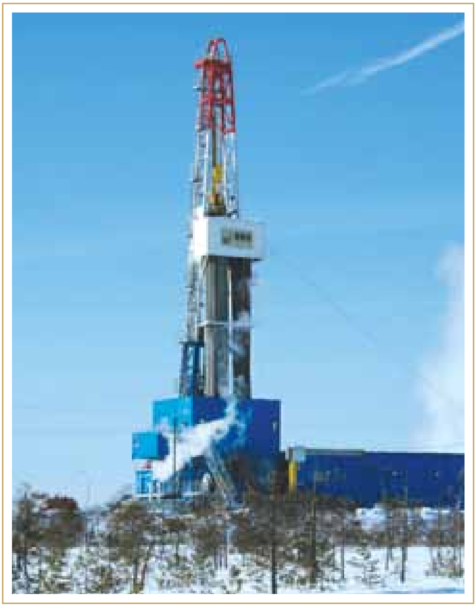
This report contains forward-looking statements that involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking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

Nature of operations

Eurasia Drilling Company Limited is the largest provider of onshore drilling services in Russia, as measured by the number of metres drilled, providing onshore integrated well construction services and workover services. In addition, we provide offshore drilling services in the Caspian Sea. We offer our onshore integrated well construction 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.

The Company remains committed to technology leadership and will continue to focus its investments, complemented with strategic acquisitions, on high-value, high-growth opportunities.

We entered the onshore drilling and workover services business in December 2004 by acquiring substantially all of the onshore drilling and certain related assets of OAO LUKOIL. In December 2006, we entered the offshore drilling business by acquiring the offshore drilling business of OAO LUKOIL, which included *ASTRA*, a floating jack-up drilling rig located in the Caspian Sea. According to data published by CDU TEK, a service that reports Russian oil field information, we estimate that our share of the onshore drilling market in Russia was 22.4% as of December 31, 2007. During 2008 our share of the onshore drilling market increased to 26.0% as measured by the number of metres drilled and by June 30, 2009 we estimate that it amounted to 26.4% based on the number of metres drilled. EDC also operates one of only three jack-up drilling rigs capable of drilling in the Caspian Sea, and as such we have the capacity to serve approximately one-third of that market.



Our business is currently organised within two main business segments, onshore and offshore drilling services. Our onshore drilling services include the construction of production, exploration and appraisal oil and gas wells and certain other types of wells, including vertical, deviated and horizontal wells, ranging from a depth of approximately 1,200 to more than 5,000 metres. Through the onshore division we also provide a wide range of workover services, including sidetracking. We provide our onshore drilling services in several major oil & gas regions of the Russian Federation, including Western and Eastern Siberia, Timan-Pechora and the Volga-Urals. Beginning late 2007 we began providing onshore drilling services in Kazakhstan.

The productivity of our crews was improved through the continuous implementation and utilisation during 2009 of more advanced drilling technologies and the application of new standards to our drilling operations.

Management's discussion and analysis of financial condition and results of operations continued

Advanced crew training and application of innovative technologies allowed us to both improve Rates of Penetration (ROP) and reduce Non-Productive Time (NPT).

Our offshore division constructs oil and gas exploration and production wells in waters with depths of up to 45 metres. We provide our offshore drilling services with our jack-up rig, the *ASTRA*. In addition to LUKOIL, our customers include a number of the major Russian and international oil and gas companies operating in Russia and the Caspian Sea, such as Rosneft, Gazpromneft, TNK-BP, Total, Shell, KazMunaiGaz affiliates, PetroResource, Samara-Nafta and Naryanmarneftegaz, a joint venture between LUKOIL and ConocoPhillips.

Overview

Our Interim Period 2009 operating results include:

- Market share (based on metres drilled) grew from 26.0% at the end of 2008 to 26.4% of the market at the end of the Interim Period;
- During a period of marked uncertainty in the business climate our metres drilled decreased only slightly by 2.9% from 1,985,609 for the first six months of 2008 to 1,927,411 for the 2009 Interim Period;
- Increased our total number of land drilling rigs to 205 from 201 at the beginning of the period; and
- Repurchased approximately 1.88 million shares of our outstanding common stock during the period.

Demand for drilling services depends on a variety of factors, including worldwide demand for oil and gas, the ability of OPEC to set and maintain production levels and pricing, the level of production of non-OPEC countries and the policies of the 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 countries of the Caspian Sea, and the prices of crude oil and natural gas in Russia. While world prices for crude oil are characterised by significant fluctuations, primarily due to the global balance of supply and demand, Russian natural gas prices 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. To date most of our drilling activities have been in oil provinces rather than gas provinces. This business mix may slowly change over time if we obtain new clients whose activities are more heavily weighted to drilling natural gas wells. The results of our workover operations tend to be less sensitive to the fluctuations in crude oil and natural gas prices, as our clients require such services both during periods of high and low oil prices.

During the Interim Period our business reflected the general decline in the market price of oil and the overall economic markets. The decline in the current markets did not impact the Company as severely as the general market. This is due to both longer term contracts that the Company has in place and the fact that long term forecasts for oil prices are at levels above the bottom of the decline in current market price. As the market price of oil has stabilised, business has also stabilised. The substantial drop in the exchange rate of the Russian ruble has improved the competitive position of the Company since most of our clients budget for their capital expenditures in US dollars.

Over the Interim Period we decreased the number of drilling crews to 107, as compared to 124 at the end of June 2008, and increased the number of drilling rigs to 205, as compared to 198 at the end of June 2008. Despite reducing our drilling crew numbers, we improved overall drilling efficiency and for the six month period and the number of metres drilled remained relatively level, decreasing by less than 3% to 1,927,411 metres versus 1,985,609 metres for the equivalent 2008 period. In addition, EDC drilled its first million metres in 102 days, i.e. the same time as in 2008.

The productivity of our crews was improved through the continuous implementation and utilisation during 2009 of more advanced drilling technologies and the application of new standards to our drilling operations. Advanced crew training and application of innovative technologies allowed us to both improve Rates of Penetration (ROP) and reduce Non-Productive Time (NPT). Examples of technological advancements included wider usage of Polycrystalline Diamond Compact (PDC) drill bits, introduction of new generation drilling motors, optimisation of bottom-hole-assemblies (BHAs) 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 improved ROP and efficiency in the increasingly more challenging wells we are drilling.

Our success depends on our ability to charge clients market prices for our onshore and offshore drilling and other services. The LUKOIL Framework Agreement, which remains in effect through the end of 2009, established a pricing adjustment formula applicable to the onshore drilling services we provide to LUKOIL. Such pricing formula effectively limits our ability to adjust the prices related to our onshore drilling services for LUKOIL in order to reflect fluctuations in the market prices occurring prior to the following annual price adjustment. However, we consider that the prices at which we provide services pursuant to the LUKOIL Framework Agreement are acceptable given the volume of services provided over the course of each year. In addition, we believe that the contracts we enter into with our other customers provide us with greater flexibility to adjust their contract prices to better conform to current market levels. During the past six month period, we continued to diversify our customer base, with

Management's discussion and analysis of financial condition and results of operations continued

non-LUKOIL metres drilled significantly increasing from 24.3% during the 2008 interim period to 36.7% during the 2009 Interim Period (in revenue terms, non-LUKOIL business grew from 26.5% during the 2008 interim period to 31.8% during the 2009 Interim Period).

Many of the costs for the Company are Russian ruble based. These include labour, many of our subcontracted services and materials. The result of the decline in the value of the Russian ruble materially reduced our costs as measured in dollars. Cost of services decreased by US $265 million, or 37.2%, to US $449 million for 2009 Interim Period (US $714 million for the comparable 2008 period). Cost of services as a percentage of total revenue decreased from 69.4% during the 2008 interim period to 66.7% in the 2009 Interim Period.

Reconciliation of Net Income to EBITDA

Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) is computed with reference to the Company's net income for the six month period ended June 30, 2009 and the six month period ended June 30, 2008 as follows (in thousands of US dollars, unaudited):

	2009	2008
Net Income	**78,392**	132,671
Income Tax Expense	**21,440**	42,766
Gain on Disposal of PP&E	**(688)**	(91)
Currency Transaction Gains	**(5,328)**	(10,292)
Interest Income	**(3,655)**	(5,105)
Interest Expense	**7,530**	13,730
Depreciation	**49,791**	38,636
EBITDA	**147,482**	212,315

Free cash flow

Free cash flow is computed with reference to the Company's net income for the six month period ended June 30, 2009 and the six month period ended June 30, 2008 as follows (in thousands of US dollars, unaudited):

	2009	2008
Net Income	**78,392**	132,671
Adjustments for non-cash items[1]	**48,024**	45,888
Changes in operating assets and liabilities[1]	**42,515**	(59,383)
Net cash from Operating Activities	**168,931**	119,176
Less net cash used in investing activities[1]	**(64,283)**	(138,217)
Free cash flow	**104,648**	(19,041)

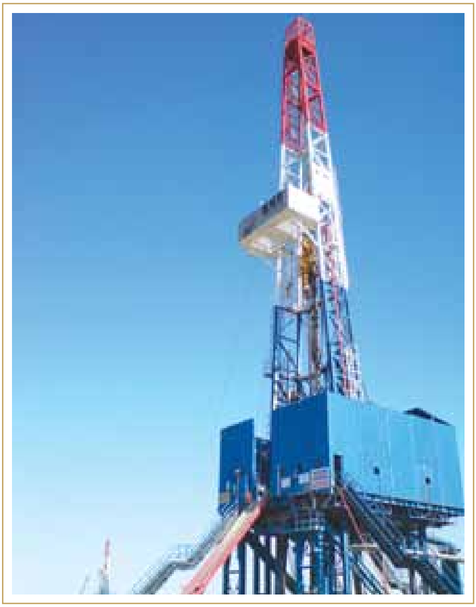
(1) See Interim Consolidated Statements of Cash Flow, included elsewhere herein, for the details of this amount.

In October 2008, we announced a stock buy-back program in response to the unprecedented reduction in the market price for our shares caused by the virtual collapse of the world-wide credit and equity markets and wholesale rotation out of Russian equities. Between the start of the program and the end of the Interim Period we repurchased approximately 11.4 million shares, a wholly owned subsidiary of the Company, representing approximately 8.5% of our shares outstanding before the commencement of the program. It is our intention at this time to retain the bulk of these repurchased shares in treasury.

Outlook

During the first half of 2008 the price of oil reached world record levels in nominal terms. However, during the second half of the year oil prices fell precipitously but then recovered and essentially stabilised during the 2009 Interim Period. Whether the price will remain stable is unknown, but it is useful to note that the NYMEX futures prices for crude oil indicate that the price is expected to increase through the middle of the next decade.

For 2009 we expect our drilling volumes to decrease modestly versus 2008. In response to this expected reduction in drilling volumes we have substantially reduced our capital expenditure budget for 2009 as compared to prior years, instituted a plan to reduce our payroll costs through both staff reductions and acceptance by our employees of voluntary unpaid furloughs, refocused our efforts on inventory cost control, obtained cost reductions from our suppliers and vendors and reorganised our regional general and administrative functions to better control their costs. We also decided, temporarily, to limit the scope of our previously announced agreement with LeTourneau Technologies to assemble drilling rigs in Kaliningrad to a single drilling rig which was substantially complete at the end of the Interim Period.

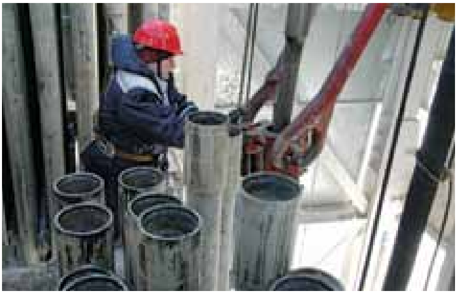


Against this background the company will remain focused on identifying growth opportunities and will follow a disciplined investment policy to capitalise on any such opportunities that may arise. The Company remains committed to technology leadership and will continue to focus its investments, complemented with strategic acquisitions, on high-value, high-growth opportunities.

Cost of services as a percentage of total revenue decreased from 69.4% during the 2008 interim period to 66.7% in the 2009 Interim Period.

Many commentators believe Russian drilling volumes will increase in 2010 and later years as Russian production declines as a result of expected reductions in drilling volumes in 2009. The actual reduction in drilling volumes for the whole country through June 30, 2009 was 4.8% compared to the equivalent period of 2008. In addition, the recent depreciation of the Russian ruble with respect to the US dollar has made our services less expensive for our clients when measured in dollars. We are typically a ruble cost to our clients, most of who sell their oil and gas products by reference to the world dollar price and budget their capital expenditures primarily in US dollars. It is reasonable to expect that our clients will be more inclined to utilise more

Management's discussion and analysis of financial condition and results of operations continued



We intend to preserve our ability to expand our business in the future as the expected client demand for our services grows in 2010 and later years.

of our services since they now cost less in US dollar terms. In light of these trends, we intend to preserve our ability to expand our business in the future as the expected client demand for our services grows in 2010 and later years.

During 2008 we invested in a number of recruitment, retention and personnel development initiatives in connection with the expansion of the number of our crews and our efforts to mitigate personnel attrition. While we have reduced the number of our crews and resulting head-count in 2009, we have done so in a way that maximises our ability to re-deploy crews if our business expands in 2010 and later years. This was done by encouraging employees to take unpaid, voluntary furloughs and limiting lay-offs to those regions where we expect more prolonged downturns in drilling demand.

We anticipate a continuation of challenging market conditions for the rest of 2009. As a result, we expect our results from operations in 2009, when translated into dollars, to decline compared to 2008.

Results of operations

The 2009 Interim Period was marked initially by great uncertainty which made business planning difficult both for our clients and for ourselves. Nevertheless, we managed to maintain reasonable margins although our results suffered from the devaluation of the Russian ruble versus the US dollar. Our financial position remains very strong.

Revenues

The following table sets forth a summary of our operating results for the first six months of 2009 and for the first six months of 2008 (for additional information, please see the accompanying 2009 Interim Consolidated Financial Statements):

Consolidated statements of income for the six months ended June 30, 2009 and 2008 (All figures in thousands of US dollars, unless otherwise noted, unaudited):

	2009	2008
Revenues		
Drilling and related services	**666,086**	1,016,842
Other sales and services	**7,102**	13,434
Total revenues	**673,188**	1,030,276
Cost of services	**(449,022)**	(714,492)
Selling, general and administrative expenses	**(43,944)**	(56,861)
Taxes other than income taxes	**(32,376)**	(45,753)
Depreciation	**(49,791)**	(38,636)
(Loss)/gain on disposal of property, plant and equipment	**688**	91
Income from operating activities	**98,743**	174,625
Interest expense	**(7,530)**	(13,730)
Interest income	**3,655**	5,105
Currency transaction gain	**5,328**	10,292
Other expenses	**(364)**	(855)
Income before income taxes	**99,832**	175,437
Income tax expense	**(21,440)**	(42,766)
Net income	**78,392**	132,671
Basic earnings per share of common stock (US dollars)	**0.58**	0.90
Diluted earnings per share of common stock (US dollars)	**0.57**	0.90

Total revenues decreased by US $357 million, or 34.7%, to US $673 million for the 2009 Interim Period from US $1,030 million in comparable 2008 period. The financial results of operations in US dollars for the 2009 Interim Period were primarily influenced by ruble devaluation: the six months 2009 average US dollar exchange rate was slightly over 33 rubles as compared to slightly under 24 rubles in the respective period of 2008, a percentage reduction of approximately 38.1%. For the six month period, our number of metres drilled remained in the same relative range with a slight decrease of 2.9% to 1,927,411 metres as compared to 1,985,609 million metres for the 2008 period.

Cost of services

Cost of services includes the following (in thousands of US dollars, unaudited):

	2009	2008
Services of subcontractors	**158,697**	212,296
Materials	**112,137**	236,668
Wages and salaries	**110,985**	160,355
Fuel and energy	**32,940**	54,445
Transportation of employees to drilling fields	**11,553**	19,478
Leasing and rent	**4,729**	7,339
Other	**17,981**	23,911
Total cost of services	**449,022**	714,492

Cost of services decreased by US $265 million, or 37.2%, to US $449 million for the 2009 Interim Period from US $714 million for the comparable 2008 period. Cost of services as a percentage of total revenue decreased from 69.3% for the first six months of 2008 to 66.7% for the 2009 Interim Period. We believe the stabilisation of the margin was primarily attributable to a concerted effort by management to improve the cost efficiency associated with our overall drilling process.

We generally subcontract with third parties to provide us with certain services in our onshore division in instances where we do not perform these services ourselves. In our onshore division, services contracted from third parties include the cost of subcontracting for technological transportation services; preparatory services; well facility services; construction of well pads and access roads; petrophysical services; well services; drilling motor and drilling navigation services; cementing services; and drilling bit services. Services of subcontractors were the largest component of our cost of services for the first six months of 2009.

Management's discussion and analysis of financial condition and results of operations continued

For the 2009 Interim Period, services of subcontractors were US $159 million, or 35.3% of total cost of services, as compared to US $212 million, or 29.7% of total cost of services, for the equivalent 2008 period. The decrease in total dollars expended is primarily a function of the decrease in the dollar/ruble exchange rate. The percentage increase was primarily a result of a decrease of costs of materials in percentage of total cost of services (see explanation below).

Expenditures for materials have been primarily influenced by our customers' particular drilling programs and projects. Materials for our onshore and offshore drilling divisions primarily include tubular goods, chemicals and cement and drilling tools. Materials costs for the 2009 Interim Period were US $112 million, or 25.0% of total cost of services as compared to US $237 million, or 33.1% of total cost of services for the 2008 period. The significant decrease in total dollars is caused principally by the decrease in the dollar/ruble exchange rate and by a change to a different scheme of casing pipe financing instituted by some of our major customers beginning in 2009. Prior to 2009 casing pipe was included in the price of well construction and in cost of sales. In 2009 certain of our major customers chose to finance a portion of their casing pipe and provide it to their contractors.

Employee wages and salaries 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. Such expenses do not include contributions which we make to a private pension fund or social taxes we pay to the Russian government. Wages and salaries for the 2009 Interim Period were US $111 million, or 24.7% of total cost of services as compared to US $160 million, or 22.4% of total cost of services for the equivalent 2008 period. The decrease in total dollars expended is in line with the overall decrease in the dollar/ruble exchange rate. The increase in the percentage of total cost of services was due primarily to the overall reduction in the total cost of services caused by the change in treatment of casing pipe costs by some of our major clients, as discussed above.

Fuel and energy costs consist primarily of oil and lubricants. Fuel and energy costs for the 2009 Interim Period were US $33 million, or 7.3% of total cost of services as compared to US $54 million, or 7.6% of total cost of services for the 2008 period. The percentage change is not material. Costs relating to the transportation of employees to drilling fields primarily include transportation services related to the mobilisation and rotation of rig crews. Expenses relating to the transportation of employees to drilling fields for the 2009 Interim Period were US $12 million, or 2.6% of total cost of services as compared to US $19 million, or 2.7% of total cost of services for the comparable 2008 period. The decrease in total dollars expended is in line with overall decrease of the volume of business in dollar terms. The percentage change is not considered material.

Leasing and rent costs consist primarily of the cost of renting drilling equipment. Leasing and rent costs for the 2009 Interim Period were US $5 million, or 1.1% of total cost of services as compared to US $7 million, or 1.0% of total cost of services for the 2008 period. The decrease in total dollars expended is in line with overall decrease of the volume of business in dollar terms. The percentage change is not considered material.

The remaining portion of our cost of services, which we categorise as "other", includes current repair expenses for fixed assets; license fees; insurance expenses; safety and environmental expenses; and maintenance expenses. Other expenses amounted to US $18 million or 4.0% of our total cost of services for the 2009 Interim Period, as compared to US $24 million or 3.3% of our total cost of services for the 2008 comparable period. The decrease in total dollars expended is primarily a function of the lower costs expressed in dollar terms.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by US $13 million to US $44 million for the 2009 Interim Period, as compared to US $57 million for the 2008 period. As a percentage of total revenues, selling, general and administrative expenses amounted to 6.5% and 5.5% for 2009 Interim Period and 2008 interim period respectively. The percentage increase is due to a bad debt incurred in 2009 and to a change in the treatment of casing pipe by our clients, as discussed above.

Taxes other than income taxes

Taxes other than income taxes decreased by US $13 million to US $32 million for the 2009 period as compared to US $46 million for 2008 comparable period. The decrease in taxes other than income taxes was primarily attributable to the change in the dollar/ruble exchange rate and to a reduction in our labour force in 2009. Taxes other than income tax include various local taxes, such as property tax, education tax, police tax, animal protection tax and small nation's tax. As a percentage of revenue, taxes other than income taxes increased to 4.8% during the Interim Period from 4.4% for the comparable 2008 period. This difference is not considered material and is mostly attributable to the change in the treatment of casing pipe by our clients, as discussed above.

Depreciation

Depreciation increased by US $11 million to US $50 million as compared to US $39 million for the 2008 interim period. As a percentage of revenues, the depreciation increased to 7.4% from 3.8% for the 2009 Interim Period. Both of these increases in depreciation were primarily the result of the significant capital expenditures in PP&E in 2007 and 2008, particularly the acquisition of additional drilling equipment and new drilling rigs that were placed into service in late 2008 and early 2009.

Disposal of property, plant and equipment

Gain on the disposal of property, plant and equipment increased by US $0.6 million to US $0.7 million for the 2009 Interim Period. This increase was primarily due to the sale of certain assets in the Naryan-Mar Region during the 2009 period.

Income from operating activities

Income from operating activities decreased by US $76 million to US $99 million for the 2009 Interim Period, as compared to US $175 million for the 2008 comparable period. The decrease in total dollars is in line with overall decrease of the volume of business in dollar terms. As a percentage of revenues, income from operating activities decreased from 16.9% for the 2008 period to 14.7% for the 2009 Interim Period. This decrease is primarily due to an increase in depreciation expense as described above.

Interest expense

Interest expense decreased by US $6 million to US $8 million for the 2009 Interim Period, as compared to US $14 million for the equivalent 2008 period. The decrease is primarily attributable to a reduction in our short-term debt.

Management's discussion and analysis of financial condition and results of operations continued

Income before income taxes

Income before income taxes decreased by US $75 million to US $100 million for 2009, as compared to US $175 million for 2008 comparable period. The decrease in income before income taxes was primarily attributable to the devaluation of the ruble against the dollar and to an increase in depreciation expense, as discussed above.

Income tax expense

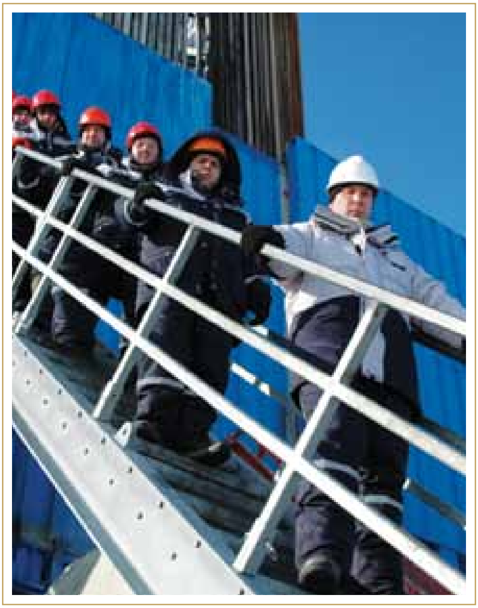
Income tax expense decreased by US $22 million to US $21 million for the 2009 Interim Period, as compared to US $43 million for 2008 period. The decrease in income tax expense was primarily attributable to the decrease in our income as well as the reduction of the Russian income tax rate from 24% to 20% effective January 1, 2009. Consequently, our effective tax rate decreased from 24.4% in the 2008 period to 21.5% in the 2009 Interim Period due to the tax rate change. Based on current tax laws, we expect our effective corporate income tax rate to be approximately 22% in the future.

Net income

As a result of the foregoing factors, net income decreased by US $54 million to US $78 million for the 2009 Interim Period, as compared to US $133 million for comparable 2008 period.

Accounts receivable

Trade accounts receivable decreased by US $13 million to US $218 million as of June 30, 2009, from US $231 million at the beginning of the Interim Period. The decrease is primarily due to the change in the dollar/ruble exchange rate. In ruble terms the balance was approximately 1% higher at the end of the Interim Period than at the beginning of the period. Expressed as the number of days outstanding, our receivable balance increased from approximately 47.5 days at the beginning of the period to approximately 55.9 days at the end of the period, when expressed in ruble terms. This difference is due to normal fluctuations in the billing cycle for the two periods at issue.



Materials for drilling and workover

The balance for materials for drilling and workover, a component of our inventory balance, decreased by US $37 million from US $144 million at the beginning of the Interim Period to US $108 million at the end of the period. Expressed as the number of days for the total inventory to turnover, the turnover rate at the end of the Interim Period was approximately 175.8 days compared to 139.6 days at the beginning of the period, when expressed in ruble terms. This increase in turnover days is primarily attributable to the reduction in the balance of high-turnover casing pipe, much of which was supplied by the client in 2009. The decrease in the balance at June 30, 2009 is due to the reduction in the dollar/ruble exchange rate, offset by an increase in lower turnover items necessary for the summer drilling campaign.

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 current credit facilities, as well as by utilising cash on hand.

Cash flows

The table below shows our net cash flows from operating, investing and financing activities for the six month periods ended June 30, 2009 and 2008 (in thousands of US dollars, unaudited):

	2009	2008
Net cash provided by operating activities	**168,931**	119,176
Net cash used in investing activities	**(64,283)**	(138,217)
Net cash used in financing activities	**(103,410)**	(11,783)

Performance

Management's discussion and analysis of financial condition and results of operations continued

Operating activities

Net cash provided by operating activities amounted to US $169 million for the period ended June 30, 2009, as compared to US $119 million for the six months ended June 30, 2008. This increase in cash flows provided by operating activities is principally due to a net positive change in the components of operating assets and liabilities for the 2009 Interim Period compared to the equivalent 2008 period.

Investing activities

Net cash used in investing activities amounted to US $47 million for the period ended June 30, 2009, as compared to US $138 million for the comparable six month period of 2008. The reduction is due to a substantial reduction in the Company's capital expenditure program for 2009 as compared to 2008.

Financing activities

Net cash used in financing activities amounted to US $103 million for the 2009 Interim Period, as compared to net cash used of US $12 million for the 2008 comparable period. These differences are the result of principal repayments of both short-term and long-term debt and dividends paid during the Interim Period as opposed to a much more modest decrease in debt during the 2008 comparable period.

Liquidity

The table below shows our cash and cash equivalents for the period ended June 30, 2009 and year ended 2008 (in thousands of US dollars, unaudited):

	2009	2008
Short-term deposit – US dollars	**115,673**	180,328
Short-term deposit – Russian rubles	**92,223**	50,696
Cash held in banks – US dollars	**63,128**	32,424
Cash held in banks – Russian rubles	**7,481**	15,982
Total cash and cash equivalents	**278,505**	279,430

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 quarter of each year to mobilise 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 modernise the technical characteristics of our existing drilling rigs and equipment. For the period ended June 30, 2009 and for the year ended December 31, 2008 advances outstanding for property, plant and equipment amounted to the following (in thousands of US dollars, unaudited):

	2009	2008
Advances given for property, plant and equipment	**24,523**	22,637

This amount represents cash advances for property, plant and equipment not yet received. The table below presents the amounts invested in construction, which is still in progress for the above described periods (in thousands of US dollars, unaudited):

	2009	2008
Construction in progress	**118,966**	70,433

In addition, at June 30, 2009 and December 31, 2008, the Company had on deposit restricted cash of approximately US $15 million and US $72 million, respectively, to secure letters of credit opened for the purpose of purchasing new drilling rigs to be delivered in 2009.

Capital resources

For the period ended June 30, 2009 and for the year ended December 31, 2008 our short-term and long-term debt amounted to the following (in thousands of US dollars, unaudited) (please see our 2009 Interim Consolidated Financial Statements and the accompanying notes for more detail):

	2009	2008
Short-term debt and current portion of long-term debt	**29,308**	91,721
Long-term debt	**156,267**	171,138

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 with cash flows from our operations and other financing arrangements.

Other

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, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Related party transactions

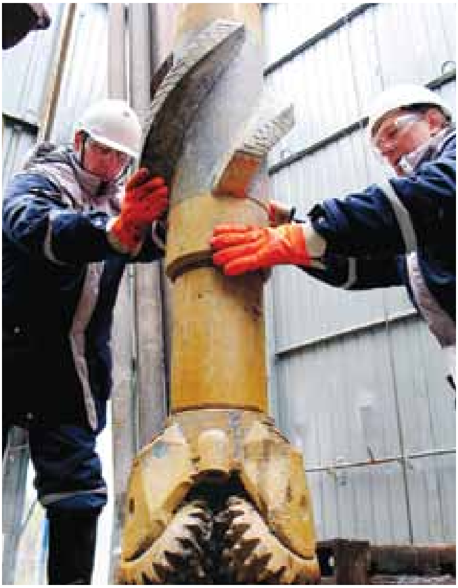
Shareholder loans

In the period from November 2006 through March 2007, the Company entered into loan agreements with its shareholders to partially fund the investment program of our onshore drilling services division and the purchase of our offshore drilling services business. The aggregate principal amount of such loans was US $70.0 million. The loans mature on December 31, 2011 and incur interest at the rate of 8.6% per annum. Interest expense of USD 3 million and USD 3 million was recognised and paid on these loans during the 6 months ended June 30, 2009 and 2008, respectively. The loans are denominated in US dollars. Management believes the terms of these loans are no less onerous than those which would have been negotiated in an arms-length negotiation.

Capital lease obligations

Capital lease obligations for property, plant and equipment under capital lease as of June 30, 2009, and December 31, 2008, from an associated company, OAO LK Leasing were US $1.4 million and US $3.1 million, respectively.

Management's discussion and analysis of financial condition and results of operations continued



Legal services

The Company's General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm. During the first six months of 2008 and 2009 the Company paid the Stinemetz Law Firm US $0.7 million and US $0.5 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 less onerous than those which would have been negotiated in an arms-length negotiation for a similar level of service and expertise.

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. Diluted Earnings per Share reflect shares that may be issued contingent upon stock price performance under the terms of the Incentive Share Plan.

The calculation of earnings per share for the first six months of 2008 and 2009 was as follows:

	2009	2008
Net income available for common stockholders	**78,392**	132,671
Weighted average number of outstanding shares	**135,814,029**	146,865,243
Basic earnings per share of common stock (US dollars)	**0.58**	0.90
Contingent shares of stock incentive program	**983,494**	–
Weighted average number of outstanding shares, after dilution	**136,797,523**	146,865,243
Diluted earnings per share of common stock (US dollars)	**0.57**	0.90

Dividend policy and year-end 2008 dividend declaration

The level of our income and our ability to pay dividends depend primarily upon our cash on hand and 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. Consistent with this policy, on December 16, 2008, we declared a dividend of US $0.25 per share, which was paid on January 30, 2009, to shareholders of record as of January 15, 2009.

Certain factors affecting our Results of Operations

Changes in crude oil and natural gas prices

The prices of crude oil and natural gas in Russia can have a significant impact on our results of operations. World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand. However, Russian natural gas prices 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. A substantial or an extended decline in crude oil and natural gas prices could result in lower capital expenditures by our customers, and consequently, a reduction in the number of wells to be drilled by oil and gas companies. Such a pattern of sequential downward and upward changes of our customers' capital expenditures has caused the results of our drilling operations to vary significantly from year to year during the life of the Company.

The results of our workover operations tend to be less sensitive to the fluctuations in crude oil and natural gas prices, as our clients require such services to be performed with respect to their existing wells, which may require workovers both during periods of high and low oil prices.

Productivity

Our results of operations are affected by the productivity of our crews, as measured by the number of metres drilled per active drilling crew. For the period ended June 30, 2009, each of our active drilling crews drilled on average approximately 39,537 metres (compared to 35,950 metres for the period ended June 30, 2008), computed on an annualised basis. Over the medium-term to long-term we expect this measure of our efficiency to continue to improve due to the ongoing implementation and utilisation of more advanced drilling technologies and the application of new standards to our drilling operations. Advanced crew training and application of innovative technologies allowed us to both improve Rates of Penetration (ROP) and reduce Non-Productive Time (NPT). Examples of technological advancements included wider usage of Polycrystalline Diamond Compact (PDC) drill bits, introduction of new generation drilling motors, optimisation of BHAs 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 improved ROP and efficiency in the increasingly more challenging wells we are drilling.

Management's discussion and analysis of financial condition and results of operations continued

Operating capacity

Our revenue growth can be negatively affected by the number of drilling rigs and drilling crews available to us. During 2008 our ability to increase our onshore business depended on our ability to procure sufficient numbers of new drilling rigs and modernise our existing drilling rigs. As such, during 2008 we purchased six drilling rigs and in the second half of 2008 committed to purchase nine new drilling rigs, (including one to be fabricated at our Kaliningrad facility) of which six were delivered during the first half of 2009. During the first half of 2008, the global demand for new drilling rigs and rig modernisation services substantially exceeded their supply. However, during the second half of 2008 the demand for new drilling rigs and modernisation services was substantially reduced as the demand for drilling services in most areas of the world, including in Russia, was reduced. Our drilling fleet as of June 30, 2009 consisted of 205 land drilling rigs and one offshore jack-up drilling rig in the Caspian Sea, as described above. During 2009 we have warm-stacked 12 of our land drilling rigs and retired two of our older drilling rigs. The warm-stacked drilling rigs will be available for use by us in later years when demand for our services is expected to increase.

Seasonality

Our revenue from onshore and offshore drilling services can be negatively affected by severe winter weather conditions in certain regions of Russia that make oil and gas operations difficult to non-operational during that season. For example, during January and February 2006, Russia experienced severely cold temperatures of approximately -45 degrees C in certain regions where we operate and the lost drilling time during such period amounted to approximately 90 days, which was equivalent to the loss of use of three drilling crews for one calendar month, and which contributed to delays in the mobilisation of our equipment and service commencement dates. Our revenue from onshore drilling services may also be negatively affected by winter 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 quarter of each year is devoted to transportation of drilling rigs, equipment and materials and we experience a decrease in revenues 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 timely commence drilling 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, materials and crews that are required for such services are mobilised 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 utilised by us, which involves drilling multiple wells from a single drilling pad. With respect to such drilling method, our operations may be temporarily disrupted by adverse weather conditions in the event we are unable to operate our rigs or mobilise required supplies to rig sites. With respect to our offshore division, we are generally unable to perform drilling services in the Russian and Kazakh sectors of the Caspian Sea during winter months due to the presence of ice.

Market trends

Since EDC acquired the onshore drilling assets from OAO LUKOIL in December 2004, drilling volumes in Russia had grown at a fairly steady pace until 2009. According to data published by CDU TEK, during the 2005 through 2007 period total metres drilled onshore Russia grew by a Compound Annual Growth Rate (CAGR) of 17.6%. Drilling volume growth slowed in 2008, however, to 5.7% above 2007 levels. CDU TEK crude oil production figures for Russia show a similar trend, with 2.3% CAGR in total Russian oil production over the 2005 through 2007 period, and a 0.6% production decline in 2008 v. 2007.

In the first six months of 2009, CDU TEK data indicates that overall Russian drilling volumes declined by 4.8% as compared to same period in 2008, or 6.6% below volumes drilled in the second half of 2008. Russian oil production increased slightly comparing 1H 2009 to 1H 2008 (up 0.1%), but production decreased by 1.5% sequentially (1H 2009 versus 2H 2008). As discussed above, seasonality affects drilling operations in Russia, with drilling volumes achieved in the 2nd and 3rd quarters of each year being substantially higher than 1st and 4th quarter levels in a typical year. During 2008, drilling volumes surged more than is typical in the middle portion of the year due to both seasonality effects and the run up in oil prices. In 2009, we do not expect a similarly atypical warm-weather or oil-price-driven surge in drilling levels, and we estimate that 2009 drilling volumes will decline as compared to 2008, despite the promising start to 2009. Considering the maturity of Russia's major oil producing fields, the drilling volume to oil production results of recent years as discussed above suggest that drilling volumes must continue to grow in order to stem future production declines.

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 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 higher margin drilling and workover services, including sidetracking and horizontal drilling.

For example, for the year ended December 31, 2005, we drilled 46,208 metres utilising the horizontal drilling technique, while for the year ended December 31, 2008, our horizontal drilling operations had increased more than six-fold to 297,612 metres. For the six month period ended June 30, 2008 we drilled 157,167 metres utilising the horizontal technique, while for the six month period ended June 30, 2009 we drilled 166,112 metres utilising the horizontal technique.

In 2007 we drilled 95 horizontal wells, while in 2008 our horizontal drilling operations increased to 106 wells. During the first six months of 2009 we drilled 55 horizontal wells, which was comparable to the 57 horizontal wells drilled in the same period in 2008. We expect the scope of our horizontal drilling to decline modestly for the full year 2009 as the overall demand for our services is expected to decline, but in subsequent years we believe demand for horizontal drilling will expand over that provided by us in 2008.

Management's discussion and analysis of financial condition and results of operations continued

Also by way of example, the number of side-tracks we performed in the past has fluctuated. For the year ended December 31, 2005, we drilled 37 side-tracks, while for the year ended December 31, 2008, we drilled 67 sidetracks. For the six month period ended June 30, 2008 we drilled 31 side-tracks, while for the six month period ended June 30, 2009 we drilled 25 side-tracks. Although we currently have incurred minimal capital expenditures with respect to sidetracking, we expect to increase these expenditures in future as customer demand for sidetracking dictates, and we expect these services to give us a larger margin than our more traditional drilling services.

Price optimisation

Our success depends on our ability to charge clients market prices for our onshore and offshore drilling and other services. The LUKOIL Framework Agreement established a pricing adjustment formula applicable to the onshore drilling services we provide to LUKOIL. Such pricing formula effectively limits our ability to adjust the prices related to our onshore drilling services for LUKOIL in order to reflect fluctuations in the market prices occurring prior to the following annual price adjustment. However, we consider that the current prices at which we provide services pursuant to the LUKOIL Framework Agreement are acceptable given the volume of services provided. In addition, we believe that the contracts we enter into with our other customers provide us with greater flexibility to adjust such contract prices to better conform to current market levels.

Quantitative and qualitative disclosure about market risk

Interest rate risk

Please see our reviewed 2009 Interim Consolidated Financial Statements, which are attached, for a description of our short term and long term debt and the associated interest rates and maturities.

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 for each of the 6-month periods ended June 30 relating to debt obligations as of June 30, 2009 (in millions, except interest rate percentages, unaudited):

	Scheduled Maturity Date							Fair Value
	2010	2011	2012	2013	2015 and 2014	Thereafter	Total	Jun. 30, 2009
Total long term debt	**27.6**	**100.6**	**25.4**	**17.8**	**5.0**	**6.9**	**183.4**	**180.9**
Fixed rate	27.6	82.9	7.8	0.8	0.7	6.9	126.8	124.3
Average interest rate	8.3%	8.2%	6.1%	3.9%	3.8%	3.7%		
Variable rate(1)		17.6	17.6	17.1	4.3		56.6	56.6
Average interest rate		5.3%	5.3%	5.3%	5.3%			

(1) Based on the LIBOR rate at the end of the Interim Period, which rate may fluctuate in later periods.

As is further described in Note 10 of our 2009 Interim Consolidated Financial Statements, certain debt was originally contracted at below market interest rates. The schedule above assumes a market rate for such debt in the computation of its fair market value.

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 December 31, 2008, we had US $186.1 million of a total of US $256.1 million of our long and short-term debt, including lease obligations, denominated in the Russian ruble. As of June 30, 2009 we had US $115.6 million of a total of US $185.6 million of our long and short term debt, including lease obligations, 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 exchange rates will result in a change in the recognised revenues and expenses associated with such transactions. Furthermore, while the majority of our revenues are denominated in the Russian ruble, some of our costs, including those associated with purchases of foreign manufactured land rigs, are denominated in the US dollar and other currencies. Any 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.

Concentration of credit risk

We have a concentration of credit risk since one customer made up approximately 68.2% of our sales during the Interim Period (73.5% for the comparable 2008 period). In order to reduce exposure to this credit risk we have been increasing our business with other, unrelated, clients and monitoring our account receivable balances closely. We perform periodic credit checks on our customers and, as a result, suffered only one, immaterial, bad debt of note during the 2009 Interim Period. Our allowance for doubtful accounts stood at US $14.1 million at the end of the Interim Period (US $6.8 million at the end of 2008), which amount was considered adequate. Our cash and cash equivalents are placed with major banks within Russia, Switzerland and the United Kingdom.

Legal proceedings

We are involved in or threatened with various legal proceedings from time to time arising in the ordinary course of business. We do not believe that any liabilities with respect to these proceedings will have a material adverse effect on our operations or financial position.

Significant accounting policies

Our consolidated financial statements are affected by the accounting policies used by management during their preparation. The detailed discussion of our significant accounting policies is provided in Note 2 of our December 31, 2008 audited Consolidated Financial Statements.

Independent accountants’ review report

The Board of Directors of Eurasia Drilling Company Limited:

We have reviewed the accompanying consolidated balance sheet of Eurasia Drilling Company Limited and its subsidiaries (“the Company”) as of June 30, 2009, and the related consolidated statements of income and cash flows for the six-month periods ended June 30, 2009 and 2008. This interim financial information is the responsibility of the Company’s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. 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, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally in the United States of America.

ZAO KPMG
August 28, 2009

Interim consolidated balance sheets

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

	Note	**As of June 30, 2009 (unaudited)**	As of December 31, 2008
Assets			
Current assets			
Cash and cash equivalents	5	**278,505**	279,430
Accounts receivable, net	6	**207,036**	230,147
Inventories	7	**133,078**	183,448
Taxes receivable		**27,874**	37,701
Deferred income tax assets		**6,831**	2,379
Other current assets		**17,564**	21,279
Total current assets		**670,888**	754,384
Property, plant and equipment	8	**634,167**	608,684
Long-term accounts receivable		**3,776**	4,675
Deferred income tax assets		**220**	78
Other non-current assets		**20,230**	77,714
Total assets		**1,329,281**	1,445,535
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		**146,086**	236,343
Advances received		**14,155**	7,863
Short-term debt and current portion of long-term debt	9	**29,308**	91,721
Taxes payable		**51,580**	45,792
Total current liabilities		**241,129**	381,719
Long-term debt	10	**156,267**	171,138
Accrued pension liability		**4,302**	4,187
Long-term VAT payable		**–**	106
Deferred income tax liabilities		**10,240**	7,842
Total liabilities		**411,938**	564,992
Stockholders' equity	14		
Common stock		**1,469**	1,469
Treasury stock, at cost		**(46,736)**	(40,100)
Additional paid-in capital		**526,063**	519,763
Retained earnings		**542,853**	464,461
Accumulated other comprehensive expense		**(106,306)**	(65,050)
Total stockholders' equity		**917,343**	880,543
Total liabilities and stockholders' equity		**1,329,281**	1,445,535

W. Richard Anderson
CFO of Eurasia Drilling Company Limited
August 28, 2009

Interim consolidated statements of income

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

	Note	For the six months ended June 30, 2009 (unaudited)	For the six months ended June 30, 2008 (unaudited)
Revenues			
Drilling and related services		**666,086**	1,016,842
Other sales and services		**7,102**	13,434
Total revenues		**673,188**	1,030,276
Cost of services	13	**(449,022)**	(714,492)
Selling, general and administrative expenses		**(43,944)**	(56,861)
Taxes other than income taxes		**(32,376)**	(45,753)
Depreciation		**(49,791)**	(38,636)
Gain on disposal of property, plant and equipment		**688**	91
Income from operating activities		**98,743**	174,625
Interest expense		**(7,530)**	(13,730)
Interest income		**3,655**	5,105
Currency transaction gain		**5,328**	10,292
Other expenses		**(364)**	(855)
Income before income taxes		**99,832**	175,437
Current income taxes		**(23,083)**	(38,187)
Deferred income taxes		**1,643**	(4,579)
Total income tax expense	3	**(21,440)**	(42,766)
Net income	15	**78,392**	132,671
Basic earnings per share of common stock (US dollars)	14	**0.58**	0.90
Diluted earnings per share of common stock (US dollars)	14	**0.57**	0.90

Interim consolidated statements of cash flows

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

	Note	For the six months ended June 30, 2009 (unaudited)	For the six months ended June 30, 2008 (unaudited)
Cash flows from operating activities			
Net income		**78,392**	132,671
Adjustments for non-cash items:			
Depreciation		**49,791**	38,636
Accrued interest expense		**538**	2,416
Deferred income taxes		**(1,643)**	4,579
Gain on disposal of property, plant and equipment		**(688)**	(91)
Increase/(decrease) in allowance for doubtful accounts receivable		**7,305**	(27)
Foreign currency exchange rate difference (unrealized)		**(7,285)**	–
All other items - net		**6**	375
Changes in operating assets and liabilities:			
Accounts receivable		**502**	(37,073)
Inventories		**36,393**	(70,926)
Taxes receivable		**7,064**	16,315
Other current assets		**2,302**	(9,251)
Accounts payable and accrued liabilities		**(18,146)**	6,073
Advances received		**6,635**	16,253
Taxes payable		**8,072**	18,999
Other liabilities		**(307)**	227
Net cash from operating activities		**168,931**	119,176
Cash flows from investing activities			
Purchases of property, plant and equipment		**(123,550)**	(140,379)
Change in restricted cash		**57,394**	–
Proceeds from sale of property, plant and equipment		**1,873**	2,162
Net cash used in investing activities		**(64,283)**	(138,217)
Cash flows from financing activities			
Proceeds from issuance of short-term debt		**–**	215,372
Principal repayments of short-term debt		**(45,366)**	(198,626)
Principal repayments of long-term debt		**(15,166)**	(20,425)
Repayment of capital lease obligations		**(1,915)**	(8,104)
Dividends paid		**(34,327)**	–
Purchase of treasury stock		**(6,636)**	–
Net cash used in financing activities		**(103,410)**	(11,783)
Effect of Exchange Rate Changes on Cash		**(2,163)**	4,441
Net decrease in cash and cash equivalents		**(925)**	(26,383)
Cash and cash equivalents at beginning of period		**279,430**	343,089
Cash and cash equivalents at end of period	5	**278,505**	316,706
Supplemental disclosures of cash flow information			
Interest paid		**7,851**	11,201
Income tax paid		**9,418**	18,869

Notes to the interim consolidated financial statements (unaudited)

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

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 accountants, except for the balance sheet as of December 31, 2008. 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"). These financial statements should be read in conjunction with the Group's December 31, 2008 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2008 consolidated financial statements.

The results for the six-month period ended June 30, 2009 are not necessarily indicative of the results expected for the full year.

Functional and reporting currency

The functional currency of the Company and subsidiaries, except for OOO Burovaya Kompaniya Eurasia (formerly referred to as OOO Eurasia Drilling Company), OOO Kliver and TOO BKE Kazakhstan Burenie, is the US dollar. The functional currency of OOO Burovaya Kompaniya Eurasia (formerly referred to as OOO Eurasia Drilling Company) and OOO Kliver is the Russian ruble and the functional currency of TOO BKE Kazakhstan Burenie is Kazakhstan Tenge as these are the currencies of the primary economic environments in which they operate and in which cash is generated and expended. The Group's reporting currency is the US dollar.

The closing exchange rate as of June 30, 2009 and December 31, 2008 was 31.2904 and 29.3804 Russian rubles to one US dollar, respectively. The closing exchange rate as of June 30, 2009 and December 31, 2008 was 150.41 and 120.77 Kazakhstan tenge to one US dollar, respectively.

Note 2. Recent accounting pronouncements

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. The FASB Accounting Standards Codification will become the exclusive authoritative reference for US GAAP recognized by the FASB to be applied by nongovernmental entities, except for SEC rules and interpretive releases, which are also authoritative US GAAP for SEC registrants. The change established by SFAS No. 168 divides nongovernmental US GAAP into authoritative Codification and guidance that is not authoritative. The contents of the Codification will carry the same level of the authority, eliminating the four-level US GAAP hierarchy previously set forth in SFAS No. 162, which has been superseded by SFAS No. 168. The Codification will supersede all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification become nonauthoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS 168 will not have an impact on the financial statements.

Note 2. Recent accounting pronouncements continued

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" SFAS No. 165 addresses accounting and disclosure requirements related to subsequent events and requires management to evaluate subsequent events through the date the financial statements are either issued or available to be issued. Companies are required to disclosure the date through which subsequent events have been evaluated. SFAS 165 is effective for interim or annual periods ending after June 15, 2009 and should be applied prospectively. The Group implemented SFAS 165 during the six months ended June 30, 2009. The Group evaluated for subsequent events through August 28, 2009, the issuance date of the Company's financial statements.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, "Disclosures about Transfers of Financial Assets and Interest in Variable Interest Entities". This FSP amends FASB Statement No. 140, "Accounting for transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and requires additional disclosures about transfers of financial assets. It also amends FASB Interpretation No. 46 (R), "Consolidation of Variable Interest Entities," and requires public entities, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. The Group adopted provisions of FSP FAS 140-4 and FIN 46(R)-8 starting from the fourth quarter of 2008. The adoption of the provisions of FSP FAS 140-4 and FIN 46(R)-8 did not have any impact on the Group's results of operations, financial position or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities". This Statement improves financial reporting about derivative instruments and hedging activities by enhanced disclosures of their effects on entity's financial position, financial performance and cash flows. The Group adopted these provisions of SFAS 161 starting from the first quarter of 2009. The adoption of the provisions of SFAS No. 161 did not have any material impact on the Group's results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 141 (Revised), "Business combinations". This Statement applies to all transactions in which an entity obtains control of one or more businesses. In April 2009, this statement was amended by FASB Staff Position FAS 141(R)-1. This requires an entity to recognize the fair value of assets acquired and liabilities assumed in a business combination; to recognize and measure the goodwill acquired in the business combination or gain from a bargain purchase and modifies the disclosure requirements. The Group adopted the provisions of SFAS No. 141 (Revised) for business combinations for which the acquisition date is after December 31, 2008. The adoption of SFAS No. 141 (Revised) did not have any impact on the Groups results of operations, financial position or cash flow.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51". This Statement applies to all entities that prepare consolidated financial statements (except not-for-profit organizations) and affects those which have an outstanding noncontrolling interest (or minority interest) in their subsidiaries or which have to deconsolidate a subsidiary. This Statement changes the classification of a non-controlling interest; establishing a single method of accounting for changes in the parent company's ownership interest that does not result in deconsolidation and requires a parent company to recognize a gain or loss when a

Notes to the interim consolidated financial statements (unaudited) continued

Note 2. Recent accounting pronouncements continued
subsidiary is deconsolidated. The Group prospectively adopted the provisions of SFAS No. 160 in the first quarter of 2009. Therefore the adoption of SFAS No. 160 did not have any impact on the Group results of operations, financial position or cash flow.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This Statement expands the possibility of using fair value measurements and permits enterprises to choose to measure certain financial assets and financial liabilities at fair value. Enterprises shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent period. The Group adopted the provisions of SFAS No. 159 in the first quarter of 2008. The Group elected not to use the fair value option for its financial assets and financial liabilities not already carried at fair value in accordance with other standards. Therefore the adoption of SFAS No. 159 did not have any impact on the Group's results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The Group elected to adopt SFAS No. 157 with one-year deferral permitted by FSP No. 157-2, "Effective date of FASB Statement No. 157". The deferral applies to non-financial assets and liabilities measured at fair value in a business combination and impaired property, plant and equipment for which we use fair value. Effective January 1, 2009, the Group fully adopted SFAS No. 157. Because there is a lack of quoted market prices for long-lived assets, the Group determines fair value using the present value of estimated future net cash flows from using these assets or by using historical data of market transactions with similar assets where possible. The adoption of the provisions of SFAS No. 157 did not have a material impact on the Group's results of operations, financial position or cash flows.

Note 3. Income taxes
Before January 1, 2009, operations in the Russian Federation were subject to a Federal income tax rate of 6.5% and a regional income tax rate that varied from 13.5% to 17.5% at the discretion of the individual regional administration. Starting on January 1, 2009, the Federal income tax rate is 2.0% and regional income tax rate varies from 13.5% to 18.0%.

The Groups' operations outside the Russian Federation are subject to the following rates of income tax:

Kazakhstan	30%-40%
Turkmenistan	20%
Cyprus	10%
Cayman Islands, British Virgin Islands and the Netherlands	0%

The majority of the Group's earnings for the periods ended June 30, 2009 and 2008 were taxed in the Russian Federation.

Note 3. Income taxes continued

The Group's effective income tax rates for the periods ended June 30, 2009 and 2008 differ from the statutory income tax rate primarily due to the incurrence of costs that are either not tax deductible or only deductible to a certain limit.

The Group's accounting policy is to record penalties and interest related to unrecognized tax benefit as components of income tax expense.

Note 4. Comparative amounts

During 2008 the Group reclassified drilling pipe from inventories to property, plant and equipment in the consolidated balance sheet of the Group.

In prior periods drilling pipe was expensed into cost of services using the unit-of-production method based upon meters drilled. Depreciation is calculated on the reclassified pipe using the straight-line method over the estimated useful life of 2 – 4 years. This period is consistent with the period during which the drilling pipe was previously expensed using unit-of-production method.

The following prior period amounts have been reclassified to conform to the current period presentation.

Consolidated statement of income

The following are captions of the statement of income for the period ended June 30, 2008 as previously reported and reclassified:

	As previously reported	Reclassification	As reclassified
Cost of services	(720,553)	6,061	(714,492)
Depreciation	(32,575)	(6,061)	(38,636)

Consolidated statement of cash flows

The following are captions of the statement of cash flows for the period ended June 30, 2008 as previously reported and reclassified:

	As previously reported	Reclassification	As reclassified
Depreciation	32,575	6,061	38,636
Inventories	(90,062)	19,136	(70,926)
Purchases of property, plant and equipment	(115,182)	(25,197)	(140,379)

Notes to the interim consolidated financial statements (unaudited) continued

Note 5. Cash and cash equivalents

Cash and cash equivalents include the following:

	As of June 30, 2009	As of December 31, 2008
Short-term deposit - US dollars	**115,673**	180,328
Short-term deposit - Russian rubles	**92,223**	50,696
Cash held in banks - US dollars	**63,128**	32,424
Cash held in banks - Russian rubles	**7,481**	15,982
Total cash and cash equivalents	**278,505**	279,430

Note 6. Accounts receivable, net

Accounts receivable include the following:

	As of June 30, 2009	As of December 31, 2008
Trade accounts receivable	**217,798**	230,534
Advances given	**3,373**	6,443
	221,171	236,977
Allowance for doubtful accounts	**(14,135)**	(6,830)
Total accounts receivable, net	**207,036**	230,147

Note 7. Inventories

Inventories include the following:

	As of June 30, 2009	As of December 31, 2008
Materials for drilling and workover	**107,713**	144,248
Work in progress	**18,903**	33,826
Other consumables	**6,462**	5,374
Total inventories	**133,078**	183,448

Note 8. Property, plant and equipment

Property, plant and equipment include the following:

	As of June 30, 2009	As of December 31, 2008
Machinery and equipment	**653,997**	633,223
Buildings	**22,380**	23,893
Vehicles	**12,342**	11,553
	688,719	668,669
Less: accumulated depreciation	**(198,041)**	(153,055)
Construction in progress	**118,966**	70,433
Advances given for property, plant and equipment	**24,523**	22,637
Total property, plant and equipment	**634,167**	608,684

Note 9. 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, 2009	As of December 31, 2008
Short-term debt	**–**	51,059
Current portion of long-term debt (note 10)	**27,438**	37,634
Short-term capital lease obligations	**1,870**	3,028
Total short-term debt and current portion of long-term debt	**29,308**	91,721

Notes to the interim consolidated financial statements (unaudited) continued

Note 10. Long-term debt

Long-term debt includes the following:

Lender	Final maturity date	**As of June 30, 2009**	As of December 31, 2008
Debt of the Company			
Loans from stockholders	2011	**70,000**	70,000
Debt of the Company's subsidiaries			
OAO AKB Sberegatelny Bank	2013	**56,615**	60,295
ZAO UniCredit Bank	2012	**26,419**	31,654
ZAO UniCredit Bank	2009	**9,284**	18,363
Loans from LUKOIL Group companies			
OAO LUKOIL	2018	**16,215**	21,690
OOO LUKOIL-Perm	2041	**1,055**	1,115
OOO Lukoil Nizhnevolzhskneft	2010	**587**	1,001
OAO Tebukneft	2014	**349**	394
OAO Komineft	2010	**302**	441
OAO Uhtaneft	2015	**96**	108
OOO LUKOIL-Komi	2010	**3**	5
Total long-term debt		**180,925**	205,066
Current portion of long-term debt (note 9)		**(27,438)**	(37,634)
Long-term capital lease obligation		**2,780**	3,706
Total non-current long-term debt		**156,267**	171,138

Stockholders

Long-term loans from stockholders represent loans denominated in US dollars which bear interest at 8.60% and mature on December 31, 2011. These loans were received for the purpose of financing the purchases of property, plant and equipment.

Debt of the Company's subsidiaries

OAO AKB Sberegatelny Bank

Long-term debts with OAO AKB Sberegatelny Bank with outstanding balance of USD 56.6 million as of June 30, 2009 are denominated in Russian rubles. These debts were given for the issuance of commercial letters of credit with OAO AKB Sberegatelny Bank. Under the terms of debt agreements, these debts bear interest at 3% per annum on unpaid amount of the letters of credit and at LIBOR plus 4.1% per annum on the remaining amount.

ZAO UniCredit Bank (formerly ZAO International Moscow Bank)

Long-term debts with ZAO UniCredit Bank with outstanding balances of USD 9.3 million and USD 26.4 million are denominated in Russian rubles and bear interest at 8.75% and 8.95% per annum, respectively.

Note 10. Long-term debt continued

LUKOIL Group companies

Long-term debt of subsidiaries, denominated in Russian rubles, represent various borrowings from LUKOIL Group Companies. This long-term debt has been recorded at fair value based on effective interest rates estimated by management to be applicable to the Company at the acquisition date, which on average was 12.66% per annum.

Long-term debt of subsidiaries is secured by property, plant and equipment with a carrying amount of USD 98.7 million.

Maturities of long-term debts outstanding at June 30, 2009 are as follows:

July 1, 2009 to June 30, 2010	July 1, 2010 to December 31, 2010	2011	2012	2013	2014 and thereafter
27,438	15,456	99,244	20,004	13,163	5,620

Note 11. Pension benefits

Components of net periodic benefit cost were as follows:

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Service cost	**233**	361
Interest cost	**455**	372
Less expected return on plan assets	**(336)**	(330)
Total net periodic benefit cost	**352**	403

Note 12. Fair value of financial instruments

The fair values of all financial instruments are approximately equal to their carrying values as disclosed in the interim consolidated financial statements. Fair values were determined based on discounted cash flows using estimated market interest rates for similar financial arrangements.

Notes to the interim consolidated financial statements (unaudited) continued

Note 13. Cost of services

Cost of services includes the following:

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Services of subcontractors	**158,697**	212,296
Materials	**112,137**	236,668
Wages and salaries	**110,985**	160,355
Fuel and energy	**32,940**	54,445
Transportation of employees to drilling fields	**11,553**	19,478
Leasing and rent	**4,729**	7,339
Other	**17,981**	23,911
Total cost of services	**449,022**	714,492

Note 14. Stockholders' equity

Common stock

	As of June 30, 2009	As of December 31, 2008
Authorized and issued common stock, par value 0.01 US dollar each	**146,865,243**	146,865,243
Treasury stock	**(11,442,254)**	(9,557,245)
Issued and outstanding common stock, par value 0.01 US dollar each	**135,422,989**	137,307,998

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 RUR 16.9 billion and RUR 14.3 billion, respectively as of June 30, 2009 and December 31, 2008, pursuant to the statutory financial statements, which at the US dollar exchange rates as of June 30, 2009 and December 31 2008 amount to USD 539 million and USD 487 million, respectively.

Note 14. Stockholders' equity continued

At the Board of Directors meeting on December 16, 2008, dividends were declared for 2008, in the amount of USD 0.25 per common share. Dividends payable by the Company of USD 34 million are included in "Accounts payable and accrued liabilities" in the consolidated balance sheet as of December 31, 2008. During the reporting period the dividends were fully paid.

Earnings per share

The calculation of earnings per share was as follows:

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Net income available for common stockholders	**78,392**	132,671
Weighted average number of outstanding shares	**135,814,029**	146,865,243
Basic earnings per share of common stock (US dollars)	**0.58**	0.90
Contingent shares of stock incentive program (Note 20)	**983,494**	–
Weighted average number of outstanding shares, after dilution	**136,797,523**	146,865,243
Diluted earnings per share of common stock (US dollars)	**0.57**	0.90

Note 15. Comprehensive income

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Net income	**78,392**	132,671
Other comprehensive income:		
Foreign currency translation (loss)/gain	**(41,229)**	19,913
Comprehensive income	**37,163**	152,584

Note 16. Commitments and contingencies

Commitments

Commitments for provision of drilling services

Under the terms of sale and purchase agreement between Eurasia Drilling Company Limited and OAO LUKOIL, the Group has committed to rendering future drilling services to LUKOIL Group Companies.

Under this agreement the Group will provide drilling services to the LUKOIL Group and precise terms of rendering of such services will be set by signing annual well construction contracts with the LUKOIL Group starting from January 1, 2005 through December 31, 2009. The estimated level of drilling to be performed by the Group during this five-year period was agreed at a minimum of 6.5 million meters. The estimated revenues for the developmental drilling services set out in the contract at the date of acquisition were RUR 73.19 billion (USD 2.3 billion). The prices for drilling services under these contracts are reviewed on an annual basis based on market prices.

Under the terms of the contract, drilling services of USD 295 million will be provided by the Group during the remaining 6 months of 2009.

Notes to the interim consolidated financial statements (unaudited) continued

Note 16. Commitments and contingencies continued

Commitments continued

Commitments for provision of drilling services continued

In the event of any agreed change in the scope of work or any failure to provide or fulfill the agreed scope of work by either party, Eurasia Drilling Company Limited or OAO LUKOIL, during the years 2005 to 2009, as well as in the event of any consequences arising out of such party's failure to fulfill its obligations, the defaulting party shall compensate to the other party any reasonable losses. Such compensation may be equal to the share of the reduced revenues, in the form of the provision or fulfillment of other types of contracted work, as well as any penalties applicable under the contract.

Contingencies

Insurance

The insurance industry in the Russian Federation, Kazakhstan and Turkmenistan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. 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 of the risks, which could have a material effect on the Group's operations and financial position.

Litigation

The Group is involved in 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 over the estimated remaining lives of the related assets or recognized immediately depending on their nature. 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 or financial position of the Group.

Taxation

The taxation system in the Russian Federation, Kazakhstan and Turkmenistan is relatively new and is 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 for review by the tax authorities during the

Note 16. Commitments and contingencies continued

Contingencies continued

Taxation continued

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.

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 legislations, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these interim consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Note 17. 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 considers 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.

Long-term loans from stockholders were USD 70 million as of June 30, 2009 and December 31, 2008 (refer note 10). Interest expense of USD 3 million and USD 3 million was recognized and paid on these loans during the 6 months ended June 30, 2009 and 2008, respectively.

Capital lease obligations for property, plant and equipment under capital lease as of June 30, 2009 and December 31, 2008 from an associated company OAO LK Leasing were USD 1.4 million and USD 3.1 million, respectively.

Note 18. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended June 30, 2009 and 2008, in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

The Group has two operating and geographical segments: on-shore drilling conducted in the CIS and off-shore drilling conducted in the Caspian Sea. 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, assess the performance of these operating segments. The operations of the off-shore drilling services segment commenced on December 20, 2006 upon the acquisition of EDC Shelf Limited (formerly LUKOIL Shelf Limited) and AstraOrient Limited (formerly LUKOIL Overseas Orient Limited). In 2007, the Company established a Russian subsidiary, OOO BKE Shelf, to operate its off-shore drilling services segment. It is planned to transfer all operations from EDC Shelf Limited to OOO BKE Shelf.

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

Notes to the interim consolidated financial statements (unaudited) continued

Note 18. Segment information continued

Segment detailed information is summarized as follows:

For the six month period ended June 30, 2009

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	**637,978**	**35,210**	**673,188**
Net income	**66,794**	**11,598**	**78,392**
Total assets	**1,254,724**	**74,557**	**1,329,281**

For the six month period ended June 30, 2008

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	1,002,852	27,424	1,030,276
Net income	129,564	3,107	132,671
Total assets	1,508,422	69,836	1,578,258

Note 19. Concentration of credit risk and sales

A significant proportion of the Group's operations are with LUKOIL Group companies and as such the Group has significant concentrations of credit risk with the LUKOIL Group.

Included in the Group's sales and accounts receivables are the following transactions and balances with LUKOIL Group companies.

	2009	2008
Sales for the six months ended June 30	**458,795**	757,474
Accounts receivable as of June 30, 2009 and December 31, 2008	**121,147**	100,855

Note 20. Compensation plan

In March 2008, the Company introduced an incentive plan for certain members of management ("participants") for a five year period from January 1, 2008. Compensation under this plan is based on a multiple of the participants' annual salary and adjusted for:

- a percentage determined by the increase in the quoted price of the Company's stock from a pre-determined Starting Price to the closing price of the stock in the particular year ("Factor"), and
- the year of compensation under the plan.

The Factor ranges from 0% (where the increase in the stock price is less than 5%) to 100% (where the increase in the stock price is greater than 20%) for any given year during the five year period.

Note 20. Compensation plan continued

The percentages applied to each of the years under the plan are equal to 12% for 2008, 15% for 2009, 18% for 2010, 25% for 2011 and 30% for 2012.

The Starting Price for the 2008 year is USD 27.09 and has been determined with reference to the quoted market price of the Company's shares on the London Stock Exchange ("LSE"). The Starting Price is determined at the beginning of each year based on an average quoted stock price for the last 20 trading days of the preceding year.

The rights to compensation under this plan vest yearly, immediately after the final trading day of the compensation year if the participants are still employed or otherwise in good standing with the Company.

The fair value of the plan was estimated using the Monte Carlo simulation method for the years 2008 to 2012, assuming a risk-free interest rates of 0.37% and 1.55% that are based on the yield of one and five year US Treasury securities as of the valuation date, respectively, expected term of five years and a volatility factor of 48%.

The expected volatility factor was estimated based on the average historical volatility of comparable companies' shares for up to previous 5 year period ranged from 40 to 86%. The average and median of these were 56% and 48%, respectively. A portion of the award vests upon completion of each plan year and no restrictions apply thereafter. Therefore, no post vesting discount has been applied.

The grant date fair value of the plan was estimated at USD 21 million by an independent consulting firm. The Company has approximately USD 14.7 million of unrecognized compensation expense as of June 30, 2009 that will be accrued up to 2012.

During 2008, there were no awards of cash or stock in regard to the stock incentive plan. The Group recognized USD 4.2 million of compensation expense during the year ended December 31, 2008 based upon projections for the entire five year period. Related liability of USD 4.2 million is included in "Accounts payable and accrued liabilities" of the consolidated balance sheet as of December 31, 2008.

Effective January 1, 2009 the Company has modified the incentive plan and cancelled participants' right to elect to receive cash in lieu of GDRs upon the vesting of such performance award. This modification converts the plan from liability to equity classified. The Group recognized USD 2.1 million of compensation expense during six months ended June 30, 2009. As of June 30, 2009 USD 6.3 million are recognized as an increase in additional paid-in capital. The number of contingent shares of stock incentive program is estimated based on the stock price as of June 30, 2009 and is approximately 983 thousand shares.

Corporate information

Directors

Lord Patrick James Gillford
Chairman of the Board of Directors,
Eurasia Drilling Company Ltd.
Principal, Policy Partnership Ltd.

Alexander Yu. Djaparidze
Chief Executive Officer,
Eurasia Drilling Company Ltd.

L. Todd Gremillion
Former Partner, Akin, Gump, Strauss, Hauer & Feld

Martin E. Hansen
Former Chief Financial Officer,
Eurasia Drilling Company Ltd.

Rene Huck
Former Vice-President, Schlumberger

Albert I. Vladimirov
Professor and Rector, Gubkin Russian State
University of Oil and Gas

Alexander Shokhin
Member, Board of Directors, LUKOIL

Officers

Alexander Yu. Djaparidze
Chief Executive Officer

W. Richard Anderson
Chief Financial Officer

Murray L. Vasilev
Senior Vice President Business Development

S. Douglas Stinemetz
General Counsel and Secretary

Kim L. Kruschwitz
Vice President, Marketing and
Investor Relations

Subsidiary Officers

Alexander N. Bogachev
President, OOO Burovaya
Kompaniya Eurasia

Taleh M. Aleskerov
Senior VP Finance and CFO,
OOO Burovaya Kompaniya Eurasia

Medjid M. Zulpukarov
General Director, BKE Shelf Ltd.

Registered Address

Boundary Hall
Cricket Square
PO Box 1111
Grand Cayman KY1-1102
Cayman Islands

Principle Administrative Offices

No. 53, Mykonos Court
Aristide Charalambous 2
1077 Nicosia
Cyprus

Investor Relations Contact

Kim L. Kruschwitz
Vice President, Investor Relations
T: +44 (0) 207 717 9707
E: investors.relations@eurasiadrilling.com or
through our website at:
www.eurasiadrilling.com

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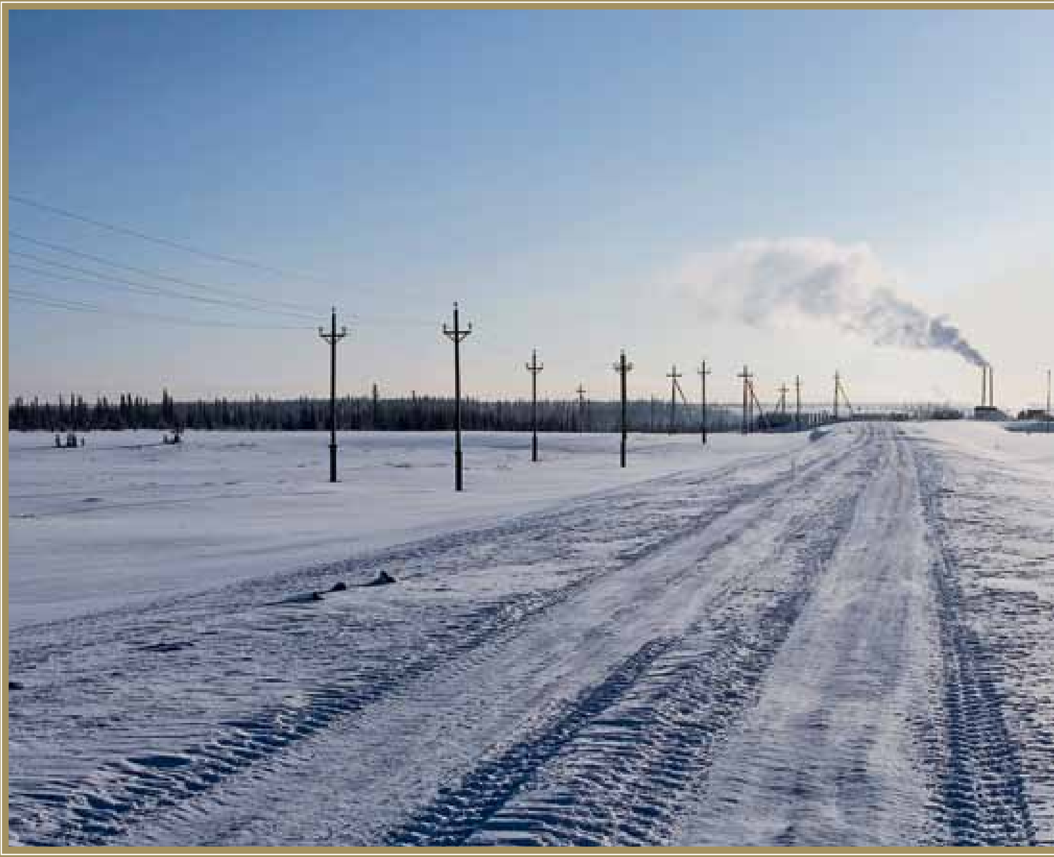

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