EURASIA DRILLING COMPANY LIMITED

MANAGEMENT'S REPORT ON 2011 INTERIM PERIOD RESULTS

For the six months ended June 30, 2011

Select financial and operating information

	1H 2011	1H 2010	Change	%
in thousand US$, unless otherwise stated				
Revenue	**1,265,282**	862,013	403,269	46.8%
EBITDA	**267,021**	206,343	60,678	29.4%
EBITDA margin	**21.1%**	23.9%	(2.8)pp	-
Net income	**150,601**	104,810	45,791	43.7%
Operating cash flow	**125,010**	109,599	15,411	14.1%
Capital Expeditures	**214,736**	119,312	95,424	80.0%
Diluted EPS (US$)	**$1.03**	$0.75	0.28	37.3%
Average exchange rate for the period (RUB/US$)	**28.6**	30.1	(1.5)	(4.8%)
Meters drilled onshore (th. meters)	**2,325**	1,975	350	17.7%

MANAGEMENT'S DISCUSSION & 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, 2011 ("2011 Interim period" or "1H11") 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 2011 Interim Consolidated Financial Statements and the accompanying notes, prepared in accordance with US GAAP. This discussion should not be considered all inclusive as it does not necessarily include all changes regarding general economic, political, governmental and environmental events. As used in this report, "Company", "we," "us," "our" and "EDC" means Eurasia Drilling Company Limited and, where the context requires, includes our subsidiaries.

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

Nature of operations

Eurasia Drilling Company Limited is the leading onshore & offshore provider of oil & gas development and exploration well drilling services in the CIS. We offer onshore integrated well construction and workover services to local and international oil and gas companies primarily in Russia, and offshore drilling services to Russian and international oil and gas companies in the Russian, Kazakh and Turkmen sectors of the Caspian Sea.

Our land operations range mainly over the vast territories of the Russian Federation, currently the largest oil producer in the world. Our customers include a number of the major Russian integrated oil and gas companies such as LUKOIL, Rosneft, Gazpromneft and TNK-BP that together accounted for over 60% of Russia's total crude oil production for the first half of 2011. Among other of our customers are KazMunaiGaz affiliates, Samara-Nafta, Naryanmarneftegaz (a joint venture between LUKOIL and ConocoPhillips) and Rusvietpetro. Offshore our client base includes LUKOIL, Dragon Oil, CMOC (a joint venture between Shell, KazMunayTeniz and the Oman Pearls Company Ltd) and others. Petronas Carigali became a new client to us starting in early 2011, post the purchase of the *Trident XX* jack-up drilling rig from Transocean.

Our operational objective is to deliver value added services to our clients while continuously improving the quality of our asset base. We have established a strong presence within our served markets. Our total land fleet of 554 rigs, the largest in Russia, includes 224 land drilling rigs and 330 workover rigs, and we employ over twenty thousand personnel (as of 30 June 2011). We continue to adopt new drilling technologies and techniques in order to be in a position to satisfy our customers' demands for more technologically advanced and complex services.

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. Until recently we had not relied on acquisitions to increase our share of the onshore drilling market. We were able to transform the Company from an in-house cost center to an independent oilfield service provider with sound finances and materially improved operational efficiency. Late in 2010 we entered the next phase of our development by signing a Letter of Intent with Schlumberger to sell and purchase each other's drilling and service assets and to enter into a strategic alliance in the CIS. On 28 April, 2011 we completed the transaction and commenced consolidation of the acquired businesses. Earlier in the year, we signed a Letter of Intent to purchase the in-house development and exploration drilling assets of Slavneft.

In December 2006, we entered the offshore drilling business by acquiring the offshore drilling business of OAO LUKOIL, which primarily consisted of the *ASTRA,* a floating jack-up drilling rig located in the Caspian Sea. We continue to build momentum in the Caspian Sea. In November 2010 we contracted Lamprell to build a new hi-spec jack-up rig, the completion of which is expected late in 2012. Early in 2011 we expanded our current offshore rig fleet to two jack-up rigs by acquiring the *Trident XX* from Transocean. As such, in 2011

we have the capacity to serve approximately two-thirds the jack-up market in the Russian, Kazakh and Turkmen waters of the Caspian Sea. We continue to provide platform drilling services in the Northern Caspian Sea to LUKOIL for its Yuri Korchagin development, which we commenced near the end of 2009.

Overview

Demand for drilling services depends on a variety of factors, including worldwide demand for oil and gas, the ability of OPEC to set and maintain production levels and pricing, the level of production of non-OPEC countries and the policies of 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. To date most of our drilling activities have been in oil provinces rather than gas provinces. This business mix may slowly change over time if we obtain new clients whose activities are more heavily weighted to drilling natural gas wells.

The oilfield services market in Russia is robust, and it is arguably the most stable land market of any size in the world. Onshore drilling activity (as measured by wells or meters drilled) fell in 2009 as compared to 2008 by only around 6%, which was substantially less than the reductions in drilling activity experienced in the world's other large markets. In 2010 the Russian drilling market grew by 18% (as measured by meters drilled), exceeding the previous record high achieved in 2008. Following the global recession oil prices stabilised in 2010 and grew further in 2011, ranging from US $115 to US $120/bbl, giving oil and gas companies confidence to increase their CAPEX budgets. Russia's oil production and drilling volumes have continued to grow in 2011; in the first half of 2011, average oil production grew to 10.22 mln bpd (an increase of 1.3%) and drilling volumes expanded to 9.2 million meters (an increase of 11%), respectively, as compared to first half of 2010 according to CDU TEK.

The major contributor to Russian oil production growth was increased output from certain Eastern Siberian fields which compensated for the continued decline in output from the mature fields. In contrast, growth in drilling volumes was mainly achieved through increased drilling in mature fields which account for about 80% of Russia's total oil production.

During the first half of 2011 our business continued to benefit from favorable market conditions resulting primarily from fairly stable commodity prices and a resulting increase in demand for our services. Along with our growing core business we have completed two high-quality acquisitions that were consolidated into our 2011 Interim results.

Transaction with Schlumberger

In the end of April 2011, we completed a transaction with Schlumberger, the world's leading oilfield services company, to exchange assets and to enter into a Strategic Alliance in the CIS. Schlumberger agreed to sell all its drilling (19 drilling rigs), sidetrack (23 sidetracking rigs) and workover rigs (34 workover rigs) currently operating mainly in West Siberia to EDC. The acquired companies from Schlumberger are OOO Sibirskaya Geophisicheskaya Company (SGK) that provides drilling and sidetracking services and ZAO Samatlorsky KRS (SKRS) which provides workover services. As part of the sale, the rigs' crews (12 drilling crews, 20 sidetracking crews and 25 workover crews) transferred to EDC. Schlumberger purchased the Company's drilling services businesses, which include the directional drilling, measurement while drilling, cementing and drilling fluids services to support 80 rigs. The field crews to support delivery of these services were transferred to Schlumberger. In addition, Schlumberger and EDC entered into a strategic alliance upon completion of the transaction whereby Schlumberger became the preferred supplier of drilling services to Eurasia Drilling Company for a 5-year period.

We see this transaction as a foundation of a long-term relationship between two industry leaders. Importantly, we will have guaranteed access to the latest technologies from Schlumberger to offer more complex onshore and offshore drilling solutions. The businesses that we are acquiring from Schlumberger are well managed and have established sound reputations as efficient and reliable service providers. Rosneft and TNK-BP are the largest customers for drilling and workovers, respectively. The rigs the Company

has added through this transaction are in excellent condition and are compatiblewith our rig fleet, which is one of the most modern in Russia.

Acquisition of TRIDENT XX jack-up drilling rig from Transocean

In February 2011 we completed the acquisition of the *Trident XX* jack-up drilling rig from Transocean for a total consideration of US$ 260 million, excluding working capital adjustments. The *Trident XX* is a Keppel FELS CS Mod V cantilever jack-up capable of operating in water depths to 350 feet and capable of drilling to 26,000 feet. The rig is presently operating in the Turkmen waters of the Caspian Sea on a long-term contract with Petronas Carigali (Turkmenistan) Sdn Bhd, which runs through 2012. During the 2011 Interim period one well was drilled and one sidetrack operation were performed. The acquisition of the *Trident XX* is a milestone on our path to become the market leader in the Caspian offshore drilling market.

Operations' review

Our first half 2011 operating results include:

- Drilling output of 2.325 million meters, 18% above the output achieved in the corresponding period of 2010 (1.975 million meters);
- Drilling assets acquired from Schlumberger in April 2011 contributed 8% to the growth of our drilling volumes during the 2011 Interim period;
- Horizontal meters drilled during the first six months of 2011 more than doubled compared to the corresponding period of 2010 and amounted to 365 thousand meters;
- Exploration drilling volumes were up 9% during the Interim period of 2011 compared to the corresponding period of 2010;
- Reduced our reliance on our largest customer during the first six months of 2011 with its' share comprising 54% of our total drilling volumes compared to 60% in the corresponding period of 2010;
- Construction of new jack-up drilling rig by Lamprell to be used in our Caspian Sea operations continues on schedule;
- Our *ASTRA* jack-up rig was fully employed in Kazakh and Russian waters of the Caspian Sea; two wells were drilled;
- Continued operations on LUKOIL's Yu. Korchagin field platform in the Caspian Sea, drilling three horizontal development wells;
- Remained active with two drilling rigs in Kazakhstan; two wells were drilled and completed;
- Signed a Letter of Intent to purchase the development and exploration drilling assets of OAO NGK Slavneft.

Our Russian onshore drilling volumes increased 18% compared to volumes achieved in 2010, 8 percentage points of which was attributable to the drilling assets acquired from Schlumberger (SGK). Our cooperation with our main customer, LUKOIL, continues to be strong as we fulfill our commitments based on a long-term Framework Agreement that we have signed at the end of 2009 for a period of three years. For the 2011 Interim period LUKOIL has increased its drilling volumes by 6% over the corresponding period of 2010. LUKOIL's share in our total drilling volumes decreased to 54% compared to 60% during the first six months of 2010. It's our strategic goal to diversify our customer base while building long-term relationships with our clients. As such, the share of Rosneft in our total drilling volumes increased to 20% in 1H11 from 11% during the first six months of 2010. The increase is attributable to two reasons. Firstly, we were able to win more tenders with Rosneft including integrated project management type contracts. Secondly, Rosneft is a major client of SGK and accounts for about 61% of its drilling volumes.

TNK-BP accounted for 3% in our total drilling volumes during the 2011 Interim period, as the number of drilling rigs employed increased to four total. Though the share of TNK-BP in our total drilling volume is not yet significant, we are determined to increase the scope of work for TNK-BP by providing best-in class equipment and a high standard of performance. The share of Gazpromneft in our drilling volumes decreased to 19% during the 2011 Interim period compared to 27% in the corresponding period of 2010. Our client portfolio includes the four largest E&P companies in Russia which, together, accounted for about 56% of the

total drilling volumes in Russia in 2010 based on CDU TEK data. We also continue to work for Pechoraneft, Samaranafta and Rusvietpetro.

During the 2011 Interim period our market share in the Russian onshore drilling market increased to 25% or one percentage point above our market share in 2010. The increase resulted primarily through consolidation of the Schlumberger drilling assets into our operations starting from May 2011, while our core drilling volumes grew at a slightly slower pace than the market. All our main customers increased their drilling volumes during the 2011 Interim period with the exception of Gazpromneft.

The drilling pattern in the first half of 2011 has been characterised by less seasonality than that witnessed in 2010. The winter was fairly mild and development project start-ups at the beginning of the year were fairly rapid. EDC's exploration activity was also higher during the Interim period of 2011, increasing by 9% compared to the corresponding period of 2010, with the majority volumes drilled during the first quarter. Exploration drilling is normally concentrated during periods of ice-road availability, and consequently exploration drilling tends to tie up rigs by isolating them in remote areas. Overall in Russia exploration drilling volumes decreased by 10% compared to the Interim period of 2010, as reported by CDU TEK.

EDC's horizontal drilling volumes more than doubled during the 2011 Interim period, reaching 16% of total meters drilled. This growth was driven by our major customer, LUKOIL. In horizontal drilling the component of high value third party services, such as directional drilling and telemetry services, are much more significant compared to conventional vertical or deviated well drilling.

Our rig fleet as of June 30, 2011 totaled 224 onshore drilling rigs compared to 211 as of 31 December 2010. The increase in our rig count is primarily due to the 19 rigs added from those acquired from SGK. Management believes that the effective age of our rig fleet is much less than Russia's average of 18-19 years as per Douglas Westwood data. In Russia, as in the rest of the world, unexploited oil and gas reserves increasingly occur in more challenging environments, both geographically and geologically. The services market in Russia is evolving toward higher technological content and advanced techniques. As technology applications advance, so do the costs of bringing a barrel of hydrocarbons to market. To justify the higher costs, technologies must deliver greater efficiencies and production potential to the oil and gas producers. To satisfy this requirement and to ensure the stability and further growth of oil production in Russia, we expect a strong requirement for new modern rigs. To meet this requirement the Company has developed a five year rig fleet upgrade and modernisation plan according to which 13 rigs were ordered in 2010 with the delivery times during 2011. The drilling rigs that we are ordering are produced by Russian and Chinese manufacturers at prices significantly lower than in 2008 and with shorter lead times.

Our offshore operations remained strong during the 2011 Interim period. Our jack-up rig, *ASTRA*, after a period of paid stand-by at the start of the year, was employed first in Kazakh waters, and then starting from May was employed in Russian waters of the Caspian Sea. Two wells were drilled in the period.

The construction of our new jack-up drilling rig by Lamprell Plc commenced at the end of 2010. In February 2011 the "strike steel" ceremony took place, and construction continues as per schedule. The new jack-up rig is a LeTourneau designed Super 116E self-elevating Mobile Offshore Drilling Platform, designed to operate in water depths of up to 350 feet and will have a rated drilling depth of 30,000 feet. The hull and related components are to be pre-fabricated by Lamprell in its Sharjah facility, while the remaining component fabrication, final assembly and commissioning will be performed at a shipyard in the Caspian Sea. Construction is expected to be completed at the end of 2012. The demand for jack-up rigs in the Caspian Sea has reached a level where we are confident that this new high-spec rig will be fully contracted for several years at favorable operating rates, when it is commissioned.

We continue our operations on LUKOIL's Yuri Korchagin field platform, where we drilled three horizontal development wells during the 2011 Interim period. Starting from July, 2011 the LSP-1 platform is undergoing a scheduled two month upgrade in preparation for more extended reach drilling.

The *Trident XX* jack-up drilling rig continues to work for Petronas Carigali in the Turkmen waters of the Caspian Sea. One exploration well was drilled and one sidetrack operation performed during the 2011 Interim period.

Outlook

Global oil prices continued to be strong in the first half of 2011, averaging over US $108/barrel for Urals 32° crude. Oil prices have become more volatile and have trended downward in the 3rd Quarter of 2011 due to global economic uncertainties, but supply and demand fundamentals remain solid.

Total Russian drilling volumes grew at a 11% pace in the first half of 2011 versus the same period in 2010 according to CDU TEK. A relatively mild winter in northern Russia and Siberia contributed to strong production and exploration drilling activity in Q-1, while robust commodity prices throughout the first half of the year have led to sustained drilling demand growth. We expect drilling volumes to remain high for the remainder of 2011, with typical seasonality effects in the 4th quarter.

Total spending for oilfield services in Russia, including drilling, is expanding at a faster pace than drilling volume growth, as production enhancement programs are being actively pursued. The most notable trend in 2011 has been the rapid increase in horizontal drilling, with our largest customer LUKOIL more than doubling their horizontal drilling volumes in the first half. Meanwhile, we perceive a tightening in the supply of suitable drilling rigs, particularly in the higher specification and heavier rig classes. Pricing for drilling services has not been significantly impacted by supply constraints YTD, but we believe pricing power may begin to favour contractors for incremental 2nd half work scopes and going forward into 2012.

EDC's onshore drilling volumes for 2011 are expected to exceed 2010 volumes by 17%, reaching the level of approximately 4.8 million meters drilled. This estimate includes both improvements in legacy output and contributions from acquisitions. The closing date of the Slavneft acquisition, which we anticipate to be late Q-3 2011, may slightly affect total volumes achieved this year. EDC's market share in drilling volume terms is expected to increase from 24% achieved in 2010, to the level of 30-32% by Q-4 2011 on an annualised basis.

The Company's revenue growth is anticipated to continue tracking the market, outstripping volume growth in 2011 as our customers increasingly drill more horizontal wells, extend lateral reach and expand complexity. The Company's client mix is projected to diversify further in 2011, with gains in drilling volumes for both TNK-BP and Rosneft and the addition of Slavneft as a customer later in the year. LUKOIL volumes are also expected to increase slightly in 2011 v. 2010, but due to gains with other clients, LUKOIL drilling is projected to account for less than 50% of EDC's total drilling volume for the calendar year.

Offshore, our *ASTRA* jack-up drilling rig has been on-hire throughout the first half and is currently committed well into 2012 in the Russian and Kazakh sectors of the Caspian Sea. The *ASTRA* is currently deployed in Russian waters for an extended appraisal well program with LUKOIL, following which it will return to Kazakhstan in early 2012. EDC added a second jack-up rig in February 2011. Since we acquired the rig from Transocean, the *Trident XX* has been active in Turkmen waters, performing development drilling and workovers for Petronas Carigali under a long term contract which is valid into 2013. Operations on LUKOIL's Yuri Korchagin field ice-resistant platform, where EDC has served as General Contractor for drilling services since 2009, continued throughout the first half of 2011. Beginning in July, we entered a short standby period as the platform's drilling package is being upgraded for the Extended Reach Development (ERD) phase. The Company will further expand our Caspian fleet when the Super 116E jack-up being constructed by Lamprell enters service in 2013, and we continue to evaluate opportunities for further expansion in this growing market.

Later in the year the Company expects to commence incorporation of the Slavneft drilling assets into our business, expanding both our client base and our geographic footprint. By the end of 2011, EDC will be not only be the largest well construction contractor, but also the largest provider of workover, well servicing and sidetracking services in Russia.

We continue to evaluate other opportunities both within and outside Russia and the CIS. Meanwhile, our historical businesses continue to perform well and grow with their markets. We expect 2011 to be an outstanding year for our stakeholders.

Financial Review

During the six months period ended June 30, 2011 we achieved solid financial results across all lines and geographies of our business that met our initial expectations. We continue to concentrate on execution backed by our ongoing investment in drilling rig fleet modernisation and upgrade. Our 2011 Interim Period results reflect our success in achieving growth both organically and through strategic acquisitions with both EBITDA and PAT increasing in dollar terms while our margins are slightly lower due to changes in the service mix.

Our Interim Period 2011 financial results include:

- Revenue for the six months ended June 30, 2011 was US $1,265 million, which is US $403 million or 46.8% above Revenue reported for 1H10;
- EBITDA for the six months period ended June 30, 2011 was US $267 million which is US $61 million or 29.4% above EBITDA reported in 1H10;
- EBITDA margin dropped to 21.1% for 1H11, which is 2.8 percentage points below 23.9% EBITDA margin reported for the corresponding period of 2010;
- 2011 Interim period Net Income was US $151 million which is US $46 million or 43.7% above Net Income reported for the corresponding period of 2010;
- Diluted earnings per share for the six months period ended June 30, 2011 were US $1.03 (1H10 diluted earnings per share were US $0.75);
- The six months 2011 average US dollar exchange rate was 28.6 rubles per US dollar as compared to 30.1 rubles per US dollar in the respective period of 2010, a percentage change of 4.8%.

Reconciliation of Net Income to EBITDA

Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA), a non-GAAP financial measure, is computed with reference to the Company's net income for the six months period ended June 30, 2011 and the six months period ended June 30, 2010 as follows (in thousands of US dollars, unaudited):

	2011	2010
Net Income	**150,601**	**104,810**
Income tax expense	36,842	37,228
Loss /(gain) on disposal of PP&E	3,392	(5,790)
Currency transaction (gain)/loss	(1,745)	1,870
Gain on business exchange transaction	(32,861)	-
Interest income	(3,753)	(6,531)
Interest expense	21,133	7,629
Depreciation	93,412	67,127
EBITDA	**267,021**	**206,343**

Our EBITDA in dollar terms increased by US$ 61 million during 2011 interim period as compared to the corresponding period of 2010. The EBITDA margin dropped to 21.1% from 23.9% achieved during 1H11. Our business is undergoing certain important changes that affect our EBITDA margin. Among them are changes in the mix of services in our core business leading to a higher component of third party services which are largely pass through costs. In addition we have incurred several identifiable one-off charges during the period, including costs related to the integration of recent acquisitions.

Revenues

The following table sets forth a summary of our operating results for the first six months of 2011 and for the first six months of 2010 (for additional information, please see the accompanying 2011 Interim Consolidated Financial Statements).

Consolidated statements of income for the six months ended June 30, 2011 and 2010 (All figures in thousands of US dollars, unless otherwise noted, unaudited):

	2011	2010
Revenues		
Drilling and related services	1,254,715	853,572
Other sales and services	10,567	8,441
Total revenues	**1,265,282**	**862,013**
Cost of services	(864,732)	(555,368)
Selling, general and administrative expenses	(63,142)	(54,659)
Taxes other than income taxes	(70,536)	(45,698)
Depreciation	(93,412)	(67,127)
(Loss)/gain on disposal of property, plant and equipment	(3,392)	5,790
Income from operating activities	**170,068**	**144,951**
Interest expense	(21,133)	(7,629)
Interest income	3,753	6,531
Currency transaction gain/(loss)	1,745	(1,870)
Gain on business exchange transaction	32,861	-
Other income (expenses)	149	55
Income before income taxes	**187,443**	**142,038**
Income tax expense	(36,842)	(37,228)
Net income	**150,601**	**104,810**
Basic earnings per share of common stock (US dollars)	**1.03**	**0.75**
Diluted earnings per share of common stock (US dollars)	**1.03**	**0.75**

Our total dollar-expressed revenues increased by US $403.3 million, or 46.8%, to US $1,265.3 million for the 2011 Interim Period from US $862.0 million in the comparable 2010 period.

The financial results of operations in US dollars for the 2011 Interim Period were influenced by several factors including an increase in our number of meters drilled (including projects with significant amount of reimbursable services & products that have negative impact on our EBITDA margin), changes in the mix of services (drilling deeper wells and higher levels of horizontal drilling), our asset swap with Schlumberger (disposal of service assets and addition of SGK's drilling business), integration of the new jack-up rig *TRIDENT XX* as well as ruble appreciation (the six months 2011 average US dollar exchange rate was 28.6 rubles per US dollar as compared to 30.1 rubles per US dollar in the respective 2010 period, a percentage change of 4.8%).

Cost of services

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

	2011	2010
Services of subcontractors	389,936	208,961
Wages and salaries	202,360	159,310
Materials	155,098	102,482
Fuel and energy	62,500	42,221
Transportation of employees to drilling fields	14,864	11,764
Leasing and rent	7,739	4,247
Other	32,235	26,383
Total cost of services	**864,732**	**555,368**

Cost of services increased by US $309.4 million, or 55.7%, to US $864.7 million for the 2011 Interim Period from US $555.4 million for the equivalent 2010 period. Cost of services as a percentage of total revenue increased from 64.4% in the first six months of 2010 to 68.3% for 1H11. This increase is mostly due to significant changes in the mix of services. Drilling deeper wells and a higher level of horizontal drilling resulted in increases in revenue related to reimbursable services & products sold to our client with no mark-up. In addition, we are experiencing some cost inflation in 2011, particularly related to social taxes, fuel, energy and transportation.

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 subcontracting for technological services; transportation services; preparatory services; well facility services; 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 both 2011 and 2010. For the 2011 Interim Period, services of subcontractors were US $389.9 million, or 45.1% of total cost of services, as compared to US $209.0 million, or 37.6% of total cost of services for the respective 2010 period. The key driving forces of the increase in both total dollars expended and the change as a percentage of total cost of services are a) increase in revenue related to reimbursable services which are sold to client with no mark-up (e.g. telemetry for horizontal wells, casing and pad construction), b) asset swap with Schlumberger which resulted in a disposal of internal services assets and acquisition of drilling assets, and c) cost inflation in transportation.

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 spare parts, tubular goods, mud chemicals, cement and drilling tools. Materials costs for the 2011 Interim Period were US $155.1 million, or 17.9% of total cost of services as compared to US $102.5 million, or 18.5% of total cost of services for the respective 2010 period. Increase in total dollars spent on materials is in line with the growth in drilling volumes.

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 2011 Interim Period were US $202.4 million, or 23.4% of total cost of services as compared to US $159.3 million, or 28.7% of total cost of services for the comparable 2010 period. The significant decrease in the percentage of total cost of services was mostly caused by an increase in the share of subcontractors.

Fuel and energy costs consist primarily of oil, lubricants and electricity. Fuel and energy costs for the six months ended June 30, 2011 were US $62.5 million, or 7.2% of total cost of services as compared to US $42.2 million, or 7.6% of total cost of services for the respective 2010 period. The change as a percentage of total cost of services is not material while the change in dollars spent on fuel and energy is significantly affected by the price inflation in 2011 for energy and fuel expenses.

Costs relating to the transportation of employees to field locations primarily include transportation services related to the mobilisation and rotation of rig crews. Expenses relating to the transportation of employees to field locations for the first half of 2011 were US $14.9 million, or 1.7% of total cost of services as compared to US $11.8 million, or 2.1% of total cost of services for the comparable 2010 period. The change as a percentage of total cost of services is not material.

Leasing and rent costs consist primarily of the cost of renting drilling equipment. Leasing and rent costs for the 2011 Interim Period were US $7.7 million, or 0.9% of total cost of services as compared to US $4.2 million, or 0.8% of total cost of services for the equivalent 2010 period. The percentage of total cost of services change is not considered material. The increase in total dollars expended is primarily a function of an increase in amount of drilling equipment we have under lease as well as integration of rented equipment in SGK (newly acquired drilling asset from Schlumberger).

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 $32.2 million or 3.7% of our total cost of services for the 2011 Interim Period, as compared to US $26.4 million or 4.8% of our total cost of services for the comparable 2010 period. The increase in the total amount is primarily caused by an increase in insurance costs. The decrease in the percentage of total cost of services is considered immaterial and mostly caused by increase in the share of services of subcontractors.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by US $8.5 million to US $63.1 million for the 2011 Interim Period, as compared to US $54.7 million for the 2010 period. As a percentage of total revenues, selling, general and administrative expenses decreased to 5.0% in the 2011 Interim Period from 6.3% in the equivalent 2010 period due to the fixed nature of such expenses. The increase in dollar terms is partially attributable to the write off of the costs incurred with our participation in the tender for drilling in Iraq.

Taxes other than income taxes

Taxes other than income tax include various local taxes, such as property tax, social tax, education tax, police tax, animal protection tax and small nation’s tax. Taxes other than income taxes increased by US $24.8 million to US $70.5 million for the six months ended June 30, 2011 as compared to US $45.7 million for the respective 2010 period. This increase is mostly attributable to the change in the Russian tax law and continuous adjustments in the formula for social contributions.

Depreciation

Depreciation increased by US $26.3 million to US $93.4 million for the 2011 Interim Period as compared to US $67.1 million for the 2010 period. As a percentage of revenues, the depreciation decreased to 7.4% from the 7.8% in 2010 Interim Period. The total dollar increase was mostly caused by our ongoing modernisation program and significant capital expenditures in PP&E and by the depreciation of the equipment and machinery acquired with the purchase of both onshore (SGK & SKRS) and offshore (*Trident XX*) drilling assets.

Disposal of property, plant and equipment

Gain/(loss) on the disposal of property, plant and equipment decreased by US $9.2 million to a loss of US $3.4 million for the 2011 Interim Period as compared to a gain of US $5.8 million for the comparable 2010 period. This change is explained by normal disposal of PPE and by the fact that no significant assets were

sold in 2011 compared to 1H10 when gain was contributed by the sale of our transportation assets in the Perm branch.

Income from operating activities

Income from operating activities increased by US $25.1 million to US $170.1 million for the 2011 Interim Period, as compared to US $145.0 million for the equivalent 2010 period. The increase in total dollars is primarily due to the higher number of meters drilled and integration of the new businesses. As a percentage of revenues, income from operating activities decreased to 13.4% in 2011 Interim Period from 16.8% in the 2010 period. This percentage decrease is primarily due to an increase in services of subcontractors (particularly reimbursable services sold to client with no mark up) and price inflation for social taxes, energy, fuel and transportation expenses as described above.

Interest expense

Interest expense increased by US $13.5 million to US $21.1 million for the first six months ended June 30, 2011 as compared to US $7.6 million for the comparable 2010 period. This increase is caused by interest incurred on the newly raised debt in December 2010 (US $254 million from Alfa-Bank) and April 2011 (US $220 million from Raiffeisenbank). This debt was raised at attractive terms for developing our business both onshore and offshore through acquisitions of strategic assets and modernisation of our drilling fleet.

Income before income taxes

Income before income taxes increased by US $45.4 million to US $187.4 million for the 2011 Interim Period, as compared to US $142.0 million for the respective 2010 period. The increase in income before income taxes is attributable to the net gain realised from selling directional drilling, cementing and drilling fluid assets to Schlumberger (US $32.9 million gain) and to the factors described in more detail above.

Income tax expense

Income tax expense decreased by US $0.4 million to US $36.8 million for the 2011 Interim Period, as compared to US $37.2 million for the 2010 period. Our effective tax rate decreased to 19.7% in the 2011 Interim period from 26.2% in 2010 period primarily due to the fact that in the first half of 2010 a 5% foreign withholding tax was applied on intercompany dividends declared and paid in the amount of RUR 5.0 billion. Additionally, in the current period, no tax was due on the US $32.9 million gain realised on the sale of the above described assets to Schlumberger. Based on current tax laws, we expect our effective corporate income tax rate to be approximately 23.8% in the future.

Net income

As a result of the foregoing factors, net income increased by US $45.8 million to US $150.6 million for the 2011 Interim Period, as compared to US $104.8 million for the comparable 2010 period.

Overview of financial situation as of June 30, 2011 and liquidity

After lengthening the maturity profile of our debt our balance sheet and cash flows remain strong. Our Interim Period 2011 financial situation highlights include:

- Cash and cash equivalents as of June 30, 2011 was US $534 million, a decrease of US $95 million as compared to cash and cash equivalent balance of US $629 million as of December 31, 2010;
- Our debt as of June 30, 2011 increased to US $899 million as compared to US $404 million debt balance as of December 31, 2010;
- During the Interim Period of 2011 we paid dividends in the amount of US $45 million resulting from our successful 2010 operations;
- Capital expenditures for the six months ended June 30, 2011 were US $215 million including changes in restricted cash as compared to US $119 million incurred during the corresponding period of 2010.

Accounts receivable

Accounts receivable increased by US $182.0 million to US $417.4 million as of June 30, 2011, from US $235.4 million at the beginning of the year. The increase in total dollars is primarily due to increase in revenue, especially over the past few months. Expressed as the number of days outstanding, our trade receivable balance increased from approximately 49.3 days at the beginning of the year to approximately 60.3 days at the end of the period (both ratios are expressed in ruble terms). Part of the explanation for such increase is normal fluctuations in our collection cycles. However, it is also important to mention that in 1H11 our monthly revenue was constantly rising and that $417.4 million incorporates receivables in SGK and SKRS revenue for which we started consolidating in May after the acquisition. Thus, due to these factors a more indicative measure would be not annualised days outstanding but rather days outstanding based on the last two months (May-June) which are 46.0 and 46.7 for 2011 and 2010 respectively.

Materials for drilling and workover

The balance for materials for drilling and workover, a component of our inventory balance, increased by US $58.4 million from US $127.9 million at the beginning of the year to US $186.3 million at the end of the period. Expressed as the number of days for the total inventory to turn over, the turnover rate at the end of first six months ended June 30, 2011 was approximately 215.0 days, up only by one day as compared to 214.0 at the beginning of 2010, when expressed in ruble terms. For the same reason as above, if we calculate number of days for inventory to turn over based just on May and June, we would get 169.4 days and 216.0 days for corresponding 2011 and 2010 periods, respectively. The increase in the dollar balance as of June 30, 2011 is primarily attributable to the growth of drilling volumes and acquisition of new drilling assets.

Liquidity and capital resources

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

Cash flows

The table below shows our net cash flows from operating, investing and financing activities for the six months period ended June 30, 2011 and 2010 (in thousands of US dollars):

	2011	**2010**
Net cash provided by operating activities	125,010	109,599
Net cash used in investing activities	(662,599)	(134,199)
Net cash provided/(used) in financing activities	421,034	(18,673)

Operating activities

Net cash provided by operating activities amounted to US $125.0 million for the period ended June 30, 2011, as compared to US $109.6 million for the six months period ended June 30, 2010. This increase in cash flows provided by operating activities is principally due to higher drilling volumes in the 2011 Interim Period than during the corresponding 2010 period.

Investing activities

Net cash used in investing activities amounted to US $662.6 million for the 2011 Interim Period, as compared to US $134.2 million for the respective 2010 period. The increase is mostly attributable to strategic acquisitions that took place in 2011 including purchase of the jack-up rig *Trident XX* from Transocean in and the assets swap with Schlumberger. In addition we continue to capitalise on the growth opportunities in our

markets by significantly increasing our investments in new property, plant and equipment (in the 2011 Interim Period our capital expenditures were US $214.7 million, as compared to US $119.3 million in 1H10).

Financing activities

Net cash provided by financing activities amounted to US $421.0 million for the 2011 Interim Period, as compared to net cash of US $18.7 million used in financing activities during the respective 2010 period. During both periods, dividends were paid. The major difference is that in order to finance all our acquisitions and modernise our rig fleet in the six months period ended June 30, 2011 we raised US $488.5 million through both Ruble bond offering and new credit line facilities of which only US $90 million are short term; no new credit facilities were opened during the comparable period in 2010.

Significant non-cash items

During the 2011 Interim Period, in the result of the transaction with Schlumberger, the gain on disposal of our drilling services business was recognised in the amount of US $32.9 million.

Liquidity

The table below shows our cash and cash equivalents for the period ended June 30, 2011 (unaudited) and the year ended 2010 (in thousands of US dollars):

	2011	**2010**
Cash held in banks - Russian rubles	316,903	76,451
Short-term deposit - Russian rubles	116,330	154,730
Cash held in banks - mostly in US dollars	100,161	357,911
Short-term deposit - US dollars	45	40,033
Other	168	341
Total cash and cash equivalents	**533,607**	**629,466**

Our cash flow in the short term can be negatively affected by the level of expenditures we are required to make in the fourth and first quarters of each year to 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, 2011(unaudited) and for the year ended December 31, 2010 advances given for property, plant and equipment amounted to the following (in thousands of US dollars):

	2011	**2010**
Advances given for property, plant and equipment	139,571	67,557

The amounts represent cash advances for property, plant and equipment not yet received. The increase in advances given for property, plant and equipment is attributable to a US $42 million advance paid for the construction of the new jack up rig to Lamprell and advances paid for the construction of the new onshore drilling rigs.

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):

	2011	2010
Construction in progress	21,624	40,146

The decrease in construction in progress in the 2011 Interim Period compared to the 2010 period is due to putting into operations drilling rigs earlier.

Additionally, as of June 30, 2011, the Company had on deposit restricted cash of approximately US $64.1 million to secure letters of credit opened for the purpose of purchasing new drilling rigs to be delivered in 2011-2012 and to secure a bank guarantee issued for a subcontractor.

Capital resources

For the period ended June 30, 2011 (unaudited) and for the year ended December 31, 2010 our short-term and long-term debt amounted to the following (in thousands of US dollars) (please see our 2011 Consolidated Financial Statements and the accompanying notes for more detail):

	2011	2010
Short-term debt and current portion of long-term debt	270,640	117,550
Long-term debt	627,900	286,367

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

Overview of other matters

Dividend policy and year-end 2010 dividend declaration

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

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

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

For the year ended December 31, 2010 dividend was declared by the Board of Directors on December 14, 2010 in the amount of 31 cents per share or US $45 million which was included in "Accounts payable and accrued liabilities" and paid on January 18, 2011. In 2009 a dividend of 25 cents per share or US $35 million was declared and paid early in 2010.

In addition, on April 15, 2010 the Company announced a one-time special Interim dividend of US $1.22 per share which reflected the approximate gain realised by the Group during its buy-back program. Refer to next section for further details.

Treasury shares

In March 2008, the Company introduced an incentive plan for certain members of management for a five year period beginning January 1, 2008. In accordance with its Incentive Compensation Plan (the Plan), 522,060 GDRs were awarded early in 2011 to participants of the Plan for their performance in 2010.

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 2008 we repurchased approximately 9.6 million shares, representing approximately 6.5% of our shares outstanding before the commencement of the program. The repurchase program continued on into the first seven months of 2009 such that by the end of July 2009 we had repurchased a cumulative total of approximately 12.5 million shares of our stock, representing approximately 8.5% of our shares outstanding before the commencement of the program.

Early in 2010 we awarded approximately 718,868 of these GDR's to our officers under the Plan for their performance in 2009.

In April 2010 the remaining treasury shares, net of the award under the Plan and those given to Directors in lieu of cash for their Board service, were successfully placed back in the market using an accelerated book build process. EDC decided to pay a Special Interim Dividend in order for shareholders to benefit from the gain generated on the Company's repurchased GDRs. The size of the Special Interim Dividend was approximately equal to the gain realised by EDC during share buy-back program. On April 15 the Special Dividend was announced to be US $1.22 per share or US $179 million. The dividend was paid on May 19, 2010.

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 Plan.

The calculation of earnings per share for the first six months of 2011 and 2010 was as follows:

	2011	**2010**
Net income available for common stockholders	150,601	104,810
Weighted average number of outstanding shares	146,728,649	139,395,511
Basic earnings per share of common stock (US dollars)	1.03	0.75
Contingent shares of stock incentive program	-	588,585
Weighted average number of outstanding shares, after dilution	146,728,649	139,984,096
Diluted earnings per share of common stock (US dollars)	1.03	0.75

Earnings per share calculated on a diluted basis of 146,728,649 shares amounted to US $1.03 in the Interim Period 2011, compared to US $0.75 in the equivalent 2010 period. The improvement in earnings per share was attributable mainly to the increase in net income by 44% in 1H11 compared to 1H10. The weighted average number of shares outstanding increased in the first half of 2011 by 5%.

Basic earnings per share were US $1.03 in the first six months of 2011, as compared to US $0.75 in 2010.

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. In 2011 Interim Period, as well as in 1H10, US $3 million dollars was recognised and paid on these loans which are denominated in US dollars. Management believes the terms of these loans are no more onerous than those which would have been negotiated in an arms-length negotiation.

Legal services

The Company's General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm (the Firm). During the first six months of 2011 and corresponding period of 2010 the Firm billed EDC for costs and expenses of US $1.6 million and US $0.7 million, respectively. All services were billed at a discount to the Firm's normal billing rates while expenses were billed at their actual cost. In addition the amounts paid to The Stinemetz Law Firm include considerable third party expenses and charges for the services of other lawyers. Mr. Stinemetz is not otherwise paid for his services as the Company's general counsel. Management believes the amounts paid for these legal services are no more onerous than those which would have been negotiated in an arms-length negotiation for a similar level of service and expertise.

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.

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 both during periods of high and low oil prices.

Change in mix of services

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

For example, during the Interim period of 2011, we drilled 365 thousand meters utilising the horizontal drilling technique, representing 16% of our total drilling volumes, while in the corresponding period of 2010 our horizontal drilling operations were 172 thousand meters, or about 9% of total drilling volumes. "Easy to access" reservoirs that were intensively developed during past decades are no longer capable of delivering

appropriate flow rates using conventional drilling techniques, though the recovery rate could be further increased. Looking forward we see the increase in horizontal drilling as our customers already enjoyed higher flow rates from the wells drilled horizontally, which if drilled vertically were not economically feasible due too low flow rates. The horizontal drilling technique is especially beneficial when used to drill reservoirs with a greater horizontal dimension rather than vertical thickness. It is estimated that horizontal drilling could improve initial well flow rates by two to seven times in some reservoirs.

Productivity

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

Overall, we believe our core productivity per crew was better in 2010 when compared to the same period of 2009. Over the medium-term to long-term we expect 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 have 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.

Starting from 2010 and further in 2011 we witnessed a number of factors that could moderate the rate of productivity improvement when measured on a per meter basis. All these factors can be broadly described as changing the mix of services that we provide to our customers. During the 2011 Interim period we drilled twice as many horizontal wells and nine percent more exploration wells compared to the corresponding period of 2010. Exploration and horizontal wells are inherently more time consuming to drill than comparable production wells. The average depth of the wells drilled by EDC in Western Siberia increased in aggregate about 7% over the period of a little over two years. Deeper wells require disproportionally more time to drill and heavier drilling rigs. We've also expanded our client base and plan to continue this in the future which, as a general rule, requires rig mobilisations to distant locations. Another factor that affects our crew productivity is seasonality described in more details in the paragraph below.

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. Our revenue from onshore drilling services may also be negatively affected by spring thawing because drilling rigs, equipment and materials situated in certain regions can only be transported during winter when the ground is sufficiently frozen to create access roads. As a result, a portion of our business activity in the fourth and first 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. However, the Yuri Korchagin platform is ice-resistant, which allows us to drill there year-round.

Operating capacity

Our revenue growth can be negatively affected by the number of drilling rigs and drilling crews available to us. Our ability to grow our onshore business or maintain its current level depends on our ability to procure a sufficient number of new drilling rigs and modernise our existing ones. Following the stabilisation of the global economy, we witnessed the recovery of the demand for drilling services in Russia. Importantly, since the wells we drill are getting deeper we see the demand coming for heavier rigs; 320 tons or greater. We've developed a five year Plan according to which 13 rigs were ordered in 2010 with delivery times during 2011. The rigs that we are ordering are produced by Russian and Chinese manufactures at prices significantly lower than in 2008 and with much shorter lead times.

At the end of 2010 we believed we had sufficient capacity with the addition of the new rigs added to our drilling fleet and our increased drilling efficiency to drill well over 4.5 million meters on an annual basis. The transaction with Schlumberger and Slavneft have and further expand our capacity and strengthen our presence in Russia.

Market trends

One noticeable recent market trend is a movement by the Russian oil and gas majors to divest themselves of their in-house service divisions. The process of divestment was initiated in 2004 when we acquired substantially all of the onshore drilling and certain related assets of LUKOIL. In 2009 TNK-BP continued the trend by selling its oilfield services assets to Weatherford. In 2010 both Gazpromneft and Slavneft publicly stated their intention to divest their in-house services divisions. Early in 2011, we signed a Letter of Intent to acquire 100% of Slavneft's drilling and exploration assets. It's quite possible that other oil and gas companies will follow this trend in the near future which will change the structure of the oil field services market by shifting activity towards independent providers.

The Russian onshore drilling market is growing rapidly, while the drilling is getting more complex. The obvious evidences are the dramatic increase in horizontal drilling and deepening average well depths in Russia. During the past 10 years a "typical" well drilled in Russia increased by 40% approaching three kilometres in measured depths. As reservoirs mature, more sophisticated drilling techniques are becoming more vital to support the country's long-term production profile.

Price optimisation

Our revenue growth depends on our ability to charge clients market prices for our onshore and offshore drilling and other services. The original LUKOIL Framework Agreement, valid from 2005 through 2009, established a pricing adjustment formula applicable to the onshore drilling services we provided to LUKOIL. Such pricing formula effectively limited 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. In January 2010 we signed a new Framework Agreement with LUKOIL. More than 50% (excluding additional volumes we will get once we complete transactions with Schlumberger and Slavneft) of our drilling volumes each year is guaranteed on the basis of the Framework Agreement with LUKOIL requiring us to drill a minimum of 6.7 million meters for the period from 2010 to 2012. The pricing formula is similar to the one in the previous Framework Agreement. We consider that the prices at which we provided services pursuant to the LUKOIL Framework Agreement were 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 2011 Interim Consolidated Financial Statements 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 U.S. dollars and related weighted-average interest rates for each of the 12-month periods ending June 30 relating to debt obligations as of June 30, 2011 (in millions, except interest rate percentages):

	Scheduled Maturity Date							Fair Value
	2012	2013	2014	2015	2016	2017 and Thereafter	Total	June 30, 2011
Total long term debt	181.2	167.9	143.3	67.9	67.8	179.9	808.0	805.8
Fixed rate	163.0	149.7	134.2	67.9	67.8	179.9	762.5	760.3
Average interest	7.5%	7.4%	7.1%	7.2%	7.6%	8.3%		
Variable rate[1]	18.2	18.2	9.1				45.5	45.5
Average interest	4.9%	4.9%	4.9%					

[1] Based on the LIBOR rate at the end of 2011 Interim Period, which rate may fluctuate in later periods.

As is further described in Note 11 of our reviewed 2011 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 June 30, 2011, we had US $515.8 million of a total of US $898.5 million of our long and short-term debt denominated in the Russian ruble. As of December 31, 2010, we had US $327.5 million of a total of US $403.9 million of our long and short term debt denominated in the Russian ruble. In addition, the results of our operations are impacted by transactions entered into in currencies other than the Russian ruble, and a fluctuation in the Russian ruble/US dollar 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 some of 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. In addition, in 2011 certain of our intercompany debt was denominated in a currency other than the functional currency of the debtor company (in all cases the debtor companies are and were 100% owned members of our consolidated group).

Concentration of Credit Risk

We have a concentration of credit risk since one customer made up approximately 60.2% of our sales during the 2011 Interim Period (68.9% for the comparable 2010 period). In order to reduce the 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, did not have any material bad debt expense from our operations during 1H11. Our Allowance for doubtful accounts stood at US $18.7 million at the end of six months period ended June 30, 2011 (US $17.3 million at the end of 2010), which amount was considered adequate. Our cash and cash equivalents are placed with major banks within Russia, Switzerland and the United Kingdom.