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 twelve month period ended December 31, 2009 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 2009 audited 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 independent provider of onshore drilling services in Russia, as measured by the number of meters 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.

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 primarily consists of the *ASTRA*, a floating jack-up drilling rig located in the Caspian Sea. Based on 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% for December 31, 2007, 26% for 2008 and 25.8% for 2009 as measured by the number of meters 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 the jack-up market.

Our business is currently organized 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 meters to more than 5,000 meters. Through the onshore division we also provide a wide range of workover services, including sidetracking. We provide our onshore drilling services in several major onshore oil and gas regions of the Russian Federation, including Western and Eastern Siberia, Timan-Pechora and the Volga-Urals. During 2008 and 2009 we also provided onshore drilling services in Kazakhstan. Our offshore division constructs oil and gas exploration and production wells in waters with depths of up to 45 meters. We provide our offshore drilling services with our jack-up rig, the *ASTRA* and, near the end of 2009 began to provide platform drilling services in the Northern Caspian Sea to LUKOIL for its Yuri Korchagin development. 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 2009 financial and operating results include:

- EBITDA margin improved from 21.5% in 2008 to 23.1% in 2009;
- net income margin increased from 10.5% to 12.0%;
- net cash provided by operating activities increased to a record US $409.1 million for the year;
- market share (based on meters drilled) maintained at approximately 26% despite our largest client cutting its drilling by 21% over 2008;
- meters drilled decreased by only 7.1% from 4,041,032 for 2008 to 3,752,612 for 2009;
- increased our total number of land drilling rigs to 207 from 201 at the beginning of 2009;
- diversified our client base such that our largest client accounted for only 63% of our meters drilled in 2009 versus 73% in 2008;
- repurchased another 3.0 million shares (in addition to approximately 9.6 million shares repurchased in 2008) of our outstanding common stock;
- successfully completed two acquisitions late in the year; and
- began platform drilling work for LUKOIL in its Yuri Korchagin field.

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 characterized by significant fluctuations, determined by 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.

The first half of 2009 was marked by great uncertainty which made business planning rather difficult both for our clients and for us. While we managed to maintain healthy margins our reported results suffered mostly due to the devaluation of the Russian ruble versus the US dollar and from a decrease in the meters drilled in 2009 compared to 2008. Nonetheless, our financial position remained very strong throughout the period.

In response to the drilling market downturn, we reduced the number of land drilling crews to 109, as compared to 115 at the beginning of 2009. We also took delivery of new drilling rigs in 2009 which were ordered in prior periods and mostly paid for in 2008, so that the number of land drilling rigs increased to 207, as compared to 201 at the beginning of 2009.

The productivity of our crews was improved through the continuous implementation and utilization 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, optimization 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. A significant proportion of our revenues are currently derived from services provided to the LUKOIL Group. The original LUKOIL Framework Agreement, which was in effect from 2005 through 2009, established a pricing adjustment formula applicable to the onshore drilling services we provide 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. However, we consider that the prices at which we provided services pursuant to the LUKOIL Framework Agreement were acceptable given the volume of services provided over the course of each year. In January 2010 we signed a new Framework Agreement with LUKOIL covering the succeeding three years and requiring us to drill a minimum of 6.7 million meters for LUKOIL during the period covered by the Agreement. 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 2009 we continued to diversify our customer base, with non-LUKOIL business increasing from approximately 27% in 2008 to approximately 37% of our meters drilled.

In late 2008, when it became apparent our business would face unprecedented challenges in 2009, we instituted a multi-phase crisis plan to control costs and reduce capital expenditures. These measures bore fruit in 2009 as our margins improved and our cash flow reached new heights.

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% 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 719 thousand of these shares to our officers under our Incentive Plan. In April 2010 we placed the balance of the shares held in treasury in an accelerated book build transaction.

Reconciliation of Net Income to EBITDA

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is computed with reference to the Company's net income for 2009 and 2008 as follows (in thousands of US dollars, audited):

	2009	**2008**
Net Income	**165,490**	**220,933**
Income Tax Expense	43,857	75,271
(Gains)/Losses on Disposal of PP&E	(382)	4,722
Currency Transaction Losses	4,414	33,017
Net gain on acquisitions of businesses	2,849	
Interest Income	(10,631)	(9,553)
Interest Expense	13,524	26,553
Depreciation	106,390	101,777
EBITDA	**319,813**	**452,720**

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 stabilized during the first six months of 2009. 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 this decade.

For 2010 we expect our drilling volumes to increase by at least 5% versus 2009 and have given guidance to this effect. In response to this expected increase in drilling volumes we are modestly increasing our capital expenditure budget for 2010 as compared to 2009, and are continuing our focus on our payroll costs, inventory costs and the cost of third party services.

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.

Many commentators believe Russian drilling volumes will increase in 2010 and later years as Russian production declines as a result of reductions in drilling volumes experienced in 2009, especially in Western Siberia. The actual reduction in drilling volumes for the whole country through December 31, 2009 was 5.8% compared to the equivalent period of 2008.

Recent appreciation in the Russian ruble with respect to the US dollar is expected to improve our reported results and cash flows for 2010 over 2009 as most commentators are confident the ruble will stay relatively strong in 2010 as compared to 2009.

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 reduced the number of our crews and resulting head-count in 2009, we did so in a ways that we believe maximize our ability to re-deploy crews as our business expands in 2010 and later years.

Late in 2009 we purchased two workover companies from LUKOIL situated in Western Siberia. As we integrate these businesses into the rest of our workover fleet we are confident that we can create meaningful value for our shareholders in this, newly expanded, service line. Also late in the year, we purchased a telemetry and directional drilling company which will allow us greater control over the delivery of this service to our clients and will also provide us with slightly improved margins.

Lastly, in the fourth quarter of 2009 we began drilling for LUKOIL on its Yuri Korchagin development located in the Northern Caspian Sea. This is expected to be a multi-year development utilizing cutting-edge drilling techniques and technologies. We believe development of this field will further showcase EDC as the premier drilling company in our areas of operation.

We anticipate 2010 will be a solid year of performance as we expect to increase sales and improve margins in most areas of our business.

Results of operations

During 2009 we had solid financial performance with strong and balanced contribution across all geographies and business lines. The strong performance during 2009 reflected the extensive modernization and upgrade of our equipment made in prior years, investment in training and development of our crews, continued improvement of our cost control initiatives and a disciplined approach to developing new business from existing customers.

Revenues

The following table sets forth a summary of our operating results for 2009 and 2008 (for additional information, please see the accompanying 2009 audited consolidated financial statements).

Consolidated statements of income for the periods ended December 31, 2009 and 2008 (All figures in thousands of US dollars, unless otherwise noted, audited):

	2009	**2008**
Revenues		
Drilling and related services	1,362,222	2,071,683
Other sales and services	19,981	30,096
Total revenues	**1,382,203**	**2,101,779**
Cost of services	(912,050)	(1,453,718)
Selling, general and administrative expenses	(94,861)	(122,011)
Taxes other than income taxes	(55,061)	(72,571)
Depreciation	(106,390)	(101,777)
Gain (loss) on disposal of property, plant and equipment	382	(4,722)
Income from operating activities	**214,223**	**346,980**
Interest expense	(13,524)	(26,553)
Interest income	10,631	9,553
Currency transaction (loss)	(4,414)	(33,017)
Net gain on acquisitions of businesses	2,849	
Other expenses	(418)	(759)
Income before income taxes	**209,347**	**296,204**
Income tax expense	(43,857)	(75,271)
Net income	**165,490**	**220,933**
Basic earnings per share of common stock (US dollars)	**1.22**	**1.51**
Diluted earnings per share of common stock (US dollars)	**1.22**	**1.51**

Our total dollar-expressed revenues decreased by US $719.6 million, or 34.2%, to US $1,382.2 million for 2009 from US $2,101.8 million in 2008. The financial results of operations in US dollars for the 2009 were primarily influenced by ruble devaluation (the annual average US dollar exchange rate was slightly under 32 rubles as compared to slightly under 25 rubles in the respective period of 2008, a percentage change of 27.6%) and by a reduction in our number of meters drilled which decreased by 7.1% to 3.753 million meters for 2009, as compared to 4.041 million meters for 2008. The following sections provide more in-depth analysis.

Cost of services

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

	2009	**2008**
Services of subcontractors	320,379	482,366
Wages and salaries	222,603	294,042
Materials	218,718	463,679
Fuel and energy	63,581	93,305
Transportation of employees to field locations	28,143	43,307
Leasing and rent	10,857	17,350
Other	47,769	59,669
Total cost of services	**912,050**	**1,453,718**

Cost of services decreased by US $541.7 million, or 37.3%, to US $912.1 million for 2009 from US $1,453.7 million for 2008. As described more fully below, our cost of services for 2009 was primarily affected by the change in the dollar/ruble exchange rate and to a lesser extent by a decrease in the volume of drilling services provided by us. Our cost of services as a percentage of total revenue decreased to 66.0% in 2009 from 69.2% for 2008. We believe this reduction is a reflection of our cost control efforts in 2009, which we believe are sustainable going forward, and by improvements in our drilling efficiency.

We generally subcontract with third parties to provide us with certain services in our onshore division 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 2009 and 2008. Services of subcontractors for 2009 were US $320.4 million, or 35.1% of total cost of services, as compared to US $482.4 million, or 33.2% of total cost of services, for 2008. The decrease in total dollars expended is primarily a function of the decrease in the dollar/ruble exchange rate and the decrease in our drilling volumes during 2009. The change as a percentage of total cost of services is caused by a minor change in the mix of services and is not considered material.

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, chemicals and cement and drilling tools. Materials costs for 2009 were US $218.7 million, or 24.0% of total cost of services as compared to US $463.7 million, or 31.9% of total cost of services for 2008. The decrease in total dollars expended is primarily a function of the decrease in the dollar/ruble exchange rate and by the decrease in our drilling volumes as compared to 2008. Another affecting factor is the changed 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 us.

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 2009 were US $222.6 million, or 24.4% of total cost of services as compared to US $294.0 million, or 20.2% of total cost of services for 2008. The significant decrease in total dollars expended is caused principally by the 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, as described above, and by the fact that we elected in the latter part of the year to forego planned layoffs as we saw our business improving in 2010.

Fuel and energy costs consist primarily of oil, lubricants and electricity. Fuel and energy costs for 2009 were US $63.6 million, or 7.0% of total cost of services for 2009 as compared to US $93.3 million, or 6.4% of total cost of services for 2008. The decrease in total dollars expended is primarily a function of the decrease in the dollar/ruble exchange rate. The change as a percentage of total cost of services is not material.

Costs relating to the transportation of employees to field locations primarily include transportation services related to the mobilization and rotation of rig crews. Expenses relating to the transportation of employees to field locations for 2009 were US $28.1 million, or 3.1% of total cost of services as compared to US $43.3 million, or 3.0% of total cost of services for 2008. The decrease in total dollars expended is primarily a function of the decrease in the dollar/ruble exchange rate and by the lower volume of drilling we did in 2009. 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 2009 were US $10.9 million, or 1.2% of total cost of services as compared to US $17.4 million, or 1.2% of total cost of services for 2008. The percentage of total cost of services remained constant.

The remaining portion of our cost of services, which we categorize 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 $47.8 million or 5.2% of our total cost of services for 2009, as compared to US $59.7 million or 4.1% of our total cost of services for 2008. The decrease in the total amount is primarily caused by the change in the dollar/ruble exchange rate and by the lower volume of drilling we did in 2009. The increase in the percentage of total cost of service for 2009 is not considered material and is mostly due to fixed nature of most of insurance expenses (the major component of this cost element).

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by US $27.1 million to US $94.9 million for 2009, as compared to US $122.0 million for 2008. As a percentage of total revenues, selling, general and administrative expenses increased to 6.9% compared to 5.8% for 2009 and 2008 respectively. The percentage increase is due to a bad debt recorded in 2009 on work done in prior periods which was determined to be uncollectable in 2009.

Taxes other than income taxes

Taxes other than income taxes include various local taxes, such as property tax, education tax, police tax, animal protection tax and small nation's tax. Taxes other than income taxes decreased by US $17.5 million to US $55.1 million for 2009 as compared to US $72.6 million for 2008. The decrease in taxes other than income taxes was primarily attributable to the change in the dollar/ruble exchange rate. As a percentage of revenue, taxes other than income taxes increased to 4.0% during 2009 from 3.5% for 2008. This difference is not considered material.

Depreciation

Depreciation increased by US $4.6 million to US $106.4 million for 2009 as compared to US $101.8 million for 2008. As a percentage of revenues, depreciation increased to 7.7% for 2009 from 4.8% for 2008. These increases 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 during 2009.

Disposal of property, plant and equipment

Gain on the disposal of property, plant and equipment for 2009 amounted to $0.4 million as compared to a US $4.7 million loss on the disposal of property, plant and equipment for 2008. This difference was primarily due to the disposal of scrap drill pipe, reclassified to fixed assets in 2008.

Income from operating activities

Income from operating activities decreased by US $132.8 million to US $214.0 million for 2009, as compared to US $347.0 million for 2008. The decrease in income from operating activities was primarily attributable to the decrease in total volume of services we provided and to the change in the dollar/ruble exchange rate. As a percentage of revenues, income from operating activities decreased from 16.5% for 2008 to 15.5% for 2009. This percentage decrease is primarily due to percentages of total revenues increases in depreciation expense and an increase in selling, general and administrative expenses as described above.

Interest expense

Interest expense decreased by US $13.0 million to US $13.5 million for 2009, as compared to US $26.6 million for 2008. The decrease is primarily attributable to a reduction in our short-term debt.

Income before income taxes

Income before income taxes decreased by US $86.9 million to US $209.3 million for 2009, as compared to US $296.2 million for 2008. The decrease in income before income taxes was attributable to the factors described in more detail above.

Income tax expense

Income tax expense decreased by US $31.4 million to US $43.9 million for 2009, as compared to US $75.3 million for 2008. 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. Our effective tax rate decreased significantly from 25.4% in 2008 to 20.9% in 2009. 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 $55.4 million to US $165.5 million for 2009, as compared to US $220.9 million for 2008.

Accounts receivable

Trade accounts receivable decreased by US $39.0 million to US $191.1 million as of December 31, 2009, from US $230.1 million at the beginning of the year. The decrease in total dollars is primarily a function of the decrease in the dollar/ruble exchange rate. Expressed as the number of days outstanding, our receivable balance increased from approximately 47.4 days at the beginning of the year to approximately 48.1 days at the end of the year (both ratios are expressed in ruble terms). This increase is due to normal fluctuations in our collection cycle.

Materials for drilling and workover

The balance for materials for drilling and workover, a component of our inventory balance, decreased by US $39.3 million from US $144.2 at the beginning of 2009 to US $104.9 at the end of 2009. Expressed as the number of days for the total inventory to turn over, the turnover rate at the end of 2009 was approximately 175 days, up from 139.6 days at the beginning of 2009, 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.

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, as well as by utilizing a portion of the proceeds from the offering of its shares which occurred in November 2007.

Cash flows

The table below shows our net cash flows from operating, investing and financing activities for the twelve month periods ended December 31, 2009 and 2008 (in thousands of US dollars, audited):

	2009	**2008**
Net cash provided by operating activities	409,118	309,851
Net cash used in investing activities	(125,840)	(323,890)
Net cash used in financing activities	(137,059)	(22,645)

Operating activities

Net cash provided by operating activities amounted to US $409.1 million for the 2009, as compared to US $309.9 million for 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 2009 compared to 2008.

Investing activities

Net cash used in investing activities amounted to US $125.8 million for 2009, as compared to US $323.9 million for 2008. The decrease is mostly attributable to contracted investment policy and restrained investments in new property, plant and equipment for 2009 as compared to 2008.

Financing activities

Net cash used in financing activities amounted to US $137.1 million for 2009, as compared to net cash used of US $22.6 million for 2008. During both periods, dividends were paid and treasury stock was purchased. The primary difference between the periods is the result of principal repayments of both short-term and long-term of debt during 2009 as opposed to both proceeds and net issuance of debt during 2008.

Liquidity

The table below shows our cash and cash equivalents as of December 31, 2009 and 2008 (in thousands of US dollars, audited):

	2009	**2008**
Short-term deposit – Russian rubles	212,485	50,696
Short-term deposit – US dollars	115,789	180,328
Cash held in banks – Russian rubles	44,110	15,915
Cash held in banks – other currencies	60,000	32,424
Other	1,340	67
Total cash and cash equivalents	**433,724**	**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 mobilize our rigs, crews and equipment to drilling sites.

Capital expenditures

Our business is capital intensive and expenditures are primarily required to (i) purchase new drilling rigs and other equipment and (ii) upgrade and modernize the technical characteristics of our existing drilling rigs and equipment. As of December 31, 2009 and 2008 advances given for property, plant and equipment amounted to the following (in thousands of US dollars, audited):

	2009	**2008**
Advances given for property, plant and equipment	15,779	22,637

The amounts represent cash advances for property, plant and equipment not yet received.

The table below presents the amounts invested in construction, which is still in progress as of the above described dates (in thousands of US dollars, audited):

	2009	**2008**
Construction in progress	73,997	70,433

Advances for property, plant and equipment decreased in 2009 as compared to 2008. This decrease reflects a reduction in our capital expenditures, due to declining oil prices in the second half of 2008 and the subsequent decrease in demand from our customers for new capacity.

In addition, at December 31, 2009, the Company had on deposit restricted cash of approximately US $2.6 million to secure letters of credit opened for the purpose of purchasing new drilling rigs to be delivered in 2010.

Capital resources

As of December 31, 2009 and 2008 our short-term and long-term debt amounted to the following (in thousands of US dollars, audited) (please see our 2009 audited consolidated financial statements and the accompanying notes for more detail):

	2009	**2008**
Short-term debt and current portion of long-term debt	31,796	91,721
Long-term debt	150,379	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 obligations for at least the next 12 months 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 US $6.0 million and US $6.0 million was recognized and paid on these loans during 2009 and 2008, respectively. The loans 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.

Capital lease obligations

Capital lease obligations for property, plant and equipment under capital lease as of December 31, 2009 and 2008 from an associated company, OAO LK Leasing – a company in which a substantial stockholder of EDC has a controlling interest, were nil and US $3.1 million, respectively. Management believes the terms of these leases 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 2008 and 2009 the firm billed EDC for costs and expenses of US $1.6 million and US $1.3 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.

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 these periods was as follows:

	2009	2008
Net income available for common stockholders ('000 US dollars)	165,490	220,933
Weighted-average number of outstanding shares (post split)	135,121,647	146,126,927
Basic earnings per share of common stock (US dollars)	1.22	1.51
Contingent shares of stock incentive program	718.868	-
Weighted-average number of outstanding shares, after dilution	135,840,515	146,126,927
Diluted earnings per share of common stock (US dollars)	1.22	1.51

Dividend policy and year-end 2009 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. Consistent with this policy, on December 15, 2009, we declared a dividend of US $0.25 per share, which was included in "Accounts payable and accrued liabilities" in the consolidated balance sheet as of December 31, 2009 and was paid in January 2010.

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 characterized 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.

Productivity

Our results of operations are affected by the productivity of our crews, as measured by the number of meters drilled per active drilling crew. For the year ended December 31, 2009, each of our active drilling crews drilled on average approximately 38,400 meters as compared to 36,340 meters in 2008. Over the medium-term to long-term we expect this measure of our efficiency to improve due to the recent implementation and utilization of more advanced drilling technologies and the application of new standards to our drilling operations. Advanced crew training and application of innovative technologies 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, optimization 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.

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 modernize our existing drilling rigs. As such, during 2008 we purchased six drilling rigs and committed to purchase a further nine drilling rigs for delivery in 2009/10 (including one to be fabricated at our Kaliningrad facility.) During the first half of 2008, the global demand for new drilling rigs and rig modernization services substantially exceeded their supply. However, as 2008 progressed, the demand for new drilling rigs and modernization services was substantially reduced as the demand for drilling services in most areas of the world, including in Russia, declined rapidly. Our drilling fleet as of December 31, 2009 consisted of 207 land drilling rigs and one offshore jack-up drilling rig in the Caspian Sea, as described above. At the end of 2009 we believed we had sufficient capacity with the addition of the new rigs to our drilling fleet and our increased drilling efficiency to drill close to 4.5 million meters on an annual basis.

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. F or example, during January and February 2006, Russia experienced severely cold temperatures of approximately -45° Celsius 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 mobilization of our equipment and service commencement dates. 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 mobilized to remote locations accessible only by winter roads or helicopters. On the other hand, onshore production drilling services tend to be less affected by adverse weather conditions due to the cluster drilling method utilized 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 mobilize 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 will allow us to drill there year-round.

Market trends

After EDC acquired the onshore drilling assets from LUKOIL in December 2004, drilling volumes in Russia grew at a fairly steady pace through the end of 2007. According to data published by CDU TEK, during the 2005 through 2007 period total meters 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. 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.

During 2009, CDU TEK data indicated that overall Russian drilling volumes declined by 5.8% as compared to 2008, while oil production increased by 1.2% in 2009 versus 2008. This increase in production was primarily attributable to new Greenfield production that came on-stream in 2009. 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. During 2009 the seasonal pattern was more modest, but still in evidence.

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, in calendar year 2008 we drilled 297,612 meters (106 wells) using horizontal drilling techniques, while in 2009 our horizontal drilling operations increased to 336,736 meters (112 wells), despite the fact that our overall meters were down by about 7.1%.

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. However, we considered 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. In January 2010 we signed a new Framework Agreement with LUKOIL as described in more detail above.

Quantitative and qualitative disclosure about market risk

Interest rate risk

Please see our audited consolidated financial statements for 2009 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 12-month periods ending December 31 relating to debt obligations as of December 31, 2009 (in millions, except interest rate percentages):

	Scheduled Maturity Date							Fair Value
	2010	**2011**	**2012**	**2013**	**2014**	**2015 and Thereafter**	**Total**	**Jun. 30, 2009**
Total long term debt	**33.1**	**108.2**	**20.8**	**13.9**	**0.7**	**6.8**	**183.5**	**178.8**
Fixed rate	24.0	90 .0	2.6	0.8	0.7	6.8	124.9	120.2
Average interest rate	7.8%	8.0%	8.3%	8.1%	8.0%	8.0%		
Variable rate [1]	9.1	18.2	18.2	13.1			58.6	58.6
Average interest rate	4.4%	4.4%	4.4%	4.4%				

[1] Based on the LIBOR rate at the end of 2009, which rate may fluctuate in later periods.

As is further described in Note 11 of our December 31, 2009 audited 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 $192.9 million of a total of US $262.9 million of our long and short-term debt denominated in the Russian ruble. As of December 31, 2009, we had US $112.2 million of a total of US $182.2 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 recognized 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 2008 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.) During 2008 we recognized a loss of US $48.6 million on such intercompany obligations as a currency transaction loss in the consolidated statement of income. In 2009 the Company extended the term of such intercompany debt, thereby prospectively modifying the accounting treatment so that the comparable affect on the income statement was not material.

Concentration of credit risk

We have a concentration of credit risk since one customer made up approximately 68.6% of our sales during 2009 (74.0% for 2008). In order to reduce exposure to this credit risk we have been increasing our business with other, unrelated, clients and continue to monitor our account receivable balances closely. We perform periodic credit checks on our customers and, as a result, did not have any material bad debt expense from our operations during 2008 but did have a bad debt of approximately $11.2 million recognized in 2009 for work performed in prior periods and determined to be uncollectible in 2009. Our allowance for doubtful accounts stood at US $18.4 million at the end of 2009 (US $6.8 million for 2008), which amount was considered adequate. Our cash and cash equivalents are placed with major banks within Russia, Switzerland and the United Kingdom.

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, 2009 audited consolidated financial statements.